The Standard Bank of South Africa
Annual report 2016

Standard Bank Moving Forward™

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All our reports are available online at **www.standardbank.com/reporting**. Financial and other definitions, as well as a list of acronyms and abbreviations used in this report are also available online.

For the latest financial information, including the latest financial results presentations, booklets, Securities Exchange News Service (SENS) and results announcements, refer to our investor relations page at **www.standardbank.com/reporting** or scan the QR code to be taken there directly.

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.

Our reports

We produce a full suite of reporting publications to cater for the diverse needs of our broad stakeholder base. The following reports and sources of information, which support the Standard Bank Group's annual integrated report, are tailored to meet our readers' specific information requirements.

OUR REPORT SUITE

Annual integrated report (AIR)

As SBG's primary report, the annual integrated report provides a holistic assessment of SBG's ability to create value over time. It considers the issues that are material to maintaining the commercial viability and social relevance required to achieve our strategy in the medium to long term, including the macroeconomic and socio-political conditions within which we operate. Where applicable, information has been extracted from the reports listed below.

Intended readers: principally ***providers of financial capital*** *but also considered to be of interest to our other stakeholders.*

Governance and remuneration report (GOV/REM)

Provides a detailed review of SBG's governance and remuneration practices, including SBG's remuneration policy. The report also provides shareholders with the notice of the annual general meeting, together with the associated proxy forms.

Intended readers: ***providers of financial capital*** *and* ***regulators***.

Report to society (RTS)

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

Intended readers: ***the group's broad base of stakeholders***, *particularly clients, employees, business partners, regulators, government and civil society organisations.*

Risk and capital management report and annual financial statements (RCM/AFS)

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, including the report of the group audit committee.

Intended readers: ***providers of financial capital*** *and* ***regulators***.

This icon refers readers to information elsewhere in this report.

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

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. SBG's other subsidiaries also produce their own annual reports, which include 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 (the group) unless otherwise indicated as relating to SBSA.

These icons refer readers to information in other reports that form part of the SBG's suite of reporting publications:

Frameworks applied

- International Framework of the International Integrated Reporting Council (IIRC)
- South African Companies Act 71 of 2008 (Companies Act)
- Johannesburg Stock Exchange Limited (JSE) Listings Requirements
- King Code of Governance Principles (King Code)
- South African Banks Act 94 of 1990 (Banks Act)

Assurance

While the annual integrated report is not audited, it contains certain information that has been extracted from the audited consolidated annual financial statements, on which an unmodified audit opinion has been expressed, and from SBG's report to society on which assurance has been provided on selected information.

AIR

Frameworks applied

- Companies Act
- JSE Listings Requirements
- King Code
- Banks Act

Assurance

Certain information in the governance and remuneration report has been extracted from SBG's audited annual financial statements.

GOV/REM

Frameworks applied

- Sustainable Development Goals – A United Nations initiative with a set of 17 aspirational "Global Goals"
- An African Union strategic framework for the socioeconomic transformation of the African continent
- The National Development Plan of South Africa that aims to eliminate poverty and reduce inequality by 2030.
- IIRC

Assurance

SBG has a series of internal policies, procedures and controls in place to ensure that accurate data is provided. The SBG social and ethics committee provided oversight of this report. KPMG Inc. provided limited external assurance on selected performance data in this report. In accordance with the International Standard on Assurance Engagements (ISAE 3000).

RTS

Frameworks applied

- Various regulations relating to financial services, including Basel Capital Accord (Basel) III
- International Financial Reporting Standards (IFRS)
- Companies Act
- JSE Listings Requirements
- King Code
- Banks Act

Assurance

KPMG Inc. and PricewaterhouseCoopers Inc. have audited selected information in the risk and capital management report and have audited the annual financial statements for the year ended 31 December 2016, on which they have expressed an unmodified audit opinion.

RCM/AFS

Background to SBSA and this report

Our strategy

Our strategy is centred on our commitment to Africa and directs our growth and evolution to the shared benefit of our clients, our people and all our stakeholders. It allows us to lead with purpose, to build a better business, and to position our footprint and platform for the future.

We serve the full value chain of customers in our domestic operation – from the basic to the most sophisticated financial services' needs. We place our customers at the centre of everything we do – this provides us with the required focus on maintaining high standards of customer service and cost-effective delivery channels in line with SBG's strategic value drivers.

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

Our purpose

Africa is our home, we drive her growth.

Spectrum of our financial services

SBSA's Personal & Business Banking division offers banking and other financial services to individuals and small to medium enterprises with its product offering, including transactional services, lending products, mortgage lending, card products, vehicle and asset finance and wealth. SBSA's Corporate & Investment Banking division serves a wide range of requirements for banking, finance, trading, investment, risk management and advisory services and delivers this comprehensive range of products and services relating to investment banking; global markets; and global transactional products and service offerings.

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

- SBG's largest operating subsidiary
- Wholly owned by SBG which is listed on the JSE since 1970
- Continues to be the main booking entity for SBG – as a result, SBSA cannot be viewed as a purely South African operation
- 154-year history in South Africa
- Primary issuer of senior bonds that are listed on the JSE and borrower of senior funds, making it the largest borrowing entity in SBG

Key financial data is available in the financial review on **page 10**.

Key human capital data is available on **page 6**.

SBSA group's contribution to SBG

- **69%** of SBG's net interest income[2]
- **67%** of SBG's total income[2]
- **69%** of SBG's headline earnings[2]
- **66%** of SBG's headline earnings
- **86%** of SBG's loans and advances[1,2]
- **64%** of SBG's assets[1]
- **60%** of SBG's employees

1 Excludes balances with SBG companies, associates and joint ventures – banking activities.
2 Based on SBG's banking activities.

About this report

This annual report includes SBSA group and company's audited annual financial statements, risk and capital management report (which contains certain risk information that forms part of the audited annual financial statements), a financial review of SBSA's financial performance during 2016 and SBSA's corporate governance report. Given that SBSA is SBG's largest operating subsidiary, this annual report should be read together with SBG's reports as set out on page 2, in particular that of SBG's annual integrated report and SBG's governance and remuneration report.

Our people

KEY WORKFORCE INDICATORS

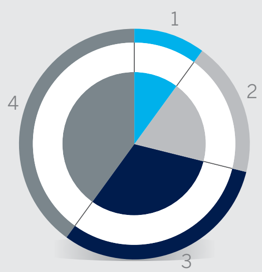
Employee headcount

Overall staff turnover
8.6%
2015: 9.5%

Voluntary staff turnover
5.6%
2015: 6.4%

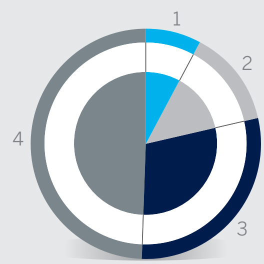
Permanent employees
32 805
2015: 32 442[1]

Non-permanent employees
2 343
2015: 3 735



Percentage black representation at all management levels

		2016	2015[2]
1	Top management	22.2	20.9
2	Senior management	40.7	39.5
3	Middle management	68.0	67.0
4	Junior management	86.6	85.3



Percentage black women representation at all management levels

		2016	2015[2]
1	Top management	9.4	10.7
2	Senior management	16.5	16.1
3	Middle management	35.5	33.2
4	Junior management	59.4	58.6

1 This number has been restated as the previous year included Liberty employees.
2 These figures have been restated as they were previously measured as at 30 September.
3 This number denotes new intakes to the graduate development programme.
4 72% of whom were subsequently employed by SBSA.

All information pertains to SBSA group as at 31 December 2016 and 2015, unless otherwise stated.

SKILLS DEVELOPMENT INVESTMENT

Training spend	R688 million	R617 million
	2016	2015
Training spend as a percentage of staff costs (%)	**3.3**	3.5
Number of employees trained	**33 613**	31 216[1]
Number of women employees trained	**21 173**	21 601
Number of black employees trained	**27 554**	27 860

Leadership development programme participation

	2016	2015
Total number of participants	**2 460**	1 718
Number of black participants	**1 768**	1 201

YOUNG TALENT DEVELOPMENT INVESTMENT

Graduate programme participants

Total graduate development programme participants[3]	**174**	**154**
	2016	2015
% black graduate participants	**81%**	71%

Bursary spend

Total bursary spend on employees

2016: R14.1 million

2015: R10.3 million

Total number of employees assisted

2016: 724

2015: 581

Black economic empowerment (BEE) score

2016: 94.56

2015: 93.42

Level 2 BEE contributor

Learnership programmes

Successfully completed learnerships

2016: 660[4]

2015: 400

Number of learnerships started

2016: 856

2015: 571

SUMMARY OF EMPLOYMENT EQUITY PROGRESS REPORT (ALL EMPLOYEES)

	MALE			
Occupation levels	**A**	**C**	**I**	**W**
Top management	6	0	2	26
Senior management	240	118	338	1 028
Professionally qualified and experienced specialists and mid-management	1 515	492	845	1 364
Skilled technical and academically qualified workers, junior management, supervisors, foremen and superintendents	2 980	970	685	449
Semi-skilled and discretionary decision-making	1 488	361	195	63
Unskilled and defined decision-making	0	0	0	0
Total permanent[1]	6 229	1 941	2 065	2 930
Temporary employees	80	7	8	7
Grand total	6 309	1 948	2 073	2 937

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

	MALE			
Occupation levels	**A**	**C**	**I**	**W**
Top management	0	0	1	0
Senior management	2	0	0	10
Professionally qualified and experienced specialists and mid-management	3	3	6	19
Skilled technical and academically qualified workers, junior management, supervisors, foremen and superintendents	37	4	8	11
Semi-skilled and discretionary decision-making	8	1	2	2
Unskilled and defined decision-making	0	0	0	0
Total permanent[1]	50	8	17	42
Temporary employees	0	0	0	0
Grand total	50	8	17	42

A African **C** Coloured **I** Indian **W** White

[1] The employment equity progress is measured as at 30 September 2016. "Permanent employees" are as defined in the Labour Relations Act, which includes temporary staff that have been employed by SBSA group for more than three months.

FEMALE				FOREIGN NATIONALS		TOTAL
A	C	I	W	MALE	FEMALE	
3	1	2	13	9	2	64
174	84	221	532	143	64	2 942
1 451	656	952	1 267	187	113	8 842
6 126	2 449	1 381	1 648	43	104	16 835
3 471	840	337	262	27	38	7 082
0	0	0	0	0	0	0
11 225	4 030	2 893	3 722	409	321	35 765
93	11	9	7	2	1	225
11 318	4 041	2 902	3 729	411	322	35 990

FEMALE				FOREIGN NATIONALS		TOTAL
A	C	I	W	MALE	FEMALE	
0	0	0	0	0	0	1
1	0	3	2	0	1	19
4	3	5	11	0	0	54
27	22	13	37	0	2	161
23	4	2	11	0	0	53
0	0	0	0	0	0	0
55	29	23	61	0	3	288
0	0	0	0	0	0	0
55	29	23	61	0	3	288

Financial review

"Despite the macro-economic headwinds, political and policy uncertainty experienced in 2016, the group delivered a strong set of results, demonstrating our resilience and ability to continue growing our businesses."

Libby King, Chief financial officer

Highlights

9% ↑ **R14 599 million**
HEADLINE EARNINGS
2015: R13 376 million

6% ↑ **160 483 cents**
NET ASSET VALUE PER SHARE
2015: 151 197 cents

Results overview

2016 presented an environment with limited growth opportunities as a result of market volatility, which included significant foreign exchange volatility, as well as the constant demand for digital enhancements and innovation. This, coupled with a highly competitive banking environment brought about challenges for the group and the necessity for a continued focus on revenue generation and cost efficiency. Local and international socio-political factors, such as the UK's "Brexit" vote and the US election, and, in particular, the ambiguity in the run-up to these events, as well as the contrarian outcomes, drove uncertainty and volatility.

The threat of a sovereign downgrade by rating agencies to sub-investment grade persisted throughout the year. This in turn negatively impacted the already weak business and consumer confidence and further delayed much needed domestic investment and job creation opportunities. Idiosyncratic politically driven actions further added to uncertainty and heightened international investor caution. Inflationary pressures brought about by the drought and the weak exchange rate placed additional pressure on already constrained consumers. Demand for credit was weaker year-on-year and displayed a decelerating trend over the year, with household demand broadly flat. Overall gross domestic product growth for 2016 is expected to have been 0.4%, a marginal improvement on the 0% forecast at the start of the year. In certain sectors, such as manufacturing, agriculture and mining, growth oscillated between expansion and contraction over the year, while others, such as business services and consumer and real estate based finance continued to report growth quarter-on-quarter despite the difficult conditions. In the second half of 2016, on the back of positive global sentiment, firmer commodity prices and some recovery in the currency, South Africa's economic outlook improved. This momentum, combined with the fiscal rectitude shown by the Treasury, the fortitude shown by our key institutions, and the progress made on certain of the other areas of concern raised by the rating agencies, aided the country in maintaining an investment grade rating in December. There remains a broad recognition that there is still considerable work to be done, not only to avoid a downgrade in June 2017, but more importantly, to deliver the inclusive growth required to tackle poverty and unemployment and transform the economy into one in which everyone can share in its benefits.

This review provides

- An overview of the key features of the group's 2016 financial results
- An analysis of the group's financial performance and financial position.

KEY FINANCIAL RESULTS AND RATIOS

	Change %	2016	2015
Headline earnings (Rm)	9	**14 599**	13 376
Headline earnings per ordinary share (cents)	9	**24 332**	22 294
Return on equity (ROE) (%)		**15.8**	15.5
Tier I capital adequacy ratio[1] (%)		**13.7**	12.1
Total capital adequacy ratio (%)		**16.8**	15.3
Net asset value per share (cents)	6	**160 483**	151 197
Non-interest revenue to total income (%)		**41.0**	43.0
Credit loss ratio (%)		**0.75**	0.84
Cost-to-income ratio (%)		**59.0**	57.6

1 Tier I capital adequacy for SBSA company, including unappropriated profits.

BUSINESS UNIT PERFORMANCE[1]

		Headline earnings		ROE	
	Change %	2016 Rm	2015 Rm	2016 Rm	2015 Rm
Personal & Business Banking	8	**11 034**	10 181	**21.6**	22.1
Corporate & Investment Banking	30	**5 748**	4 429	**14.2**	11.7
Other services	(77)	**(2 183)**	(1 234)	**(>100)**	(45.5)
Total	9	**14 599**	13 376	**15.8**	15.5

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

Personal & Business Banking's (PBB's) headline earnings of R11 034 million was up 8% on 2015. This growth was driven by an increase in net interest income of 10% to R30.4 billion which benefited from the positive endowment effect of higher average interest rates, continued pricing concession management and low growth in average asset balances. In addition to this, the mortgage loan business grew as the group continue to expand its market share. Net fee and commission revenue increased by 6% to R17.6 billion as a result of higher service fees and improved transactional volumes. Contributing to this increase were higher foreign currency service fees as a result of improved pricing, a higher fleet management customer base, an increase in home loan registration fees due to an increase in the customer base, as well as an increase in card transactional volumes. Other revenue increased 5% to R1.1 billion as a result of insurance-related dividends received from Standard Bank Insurance Brokers. Growth in PBB's loans and advances of 4% was assisted by new business registrations, higher average balances per account, as well as improved assessment of impairment risk and a more efficient collection strategy. This positive performance was partly offset by increased amortisation of computer software assets as the core banking systems go live. The business generated an ROE of 21.6%, marginally down from the 22.1% reported in the previous year. While headline earnings grew over the year, PBB's ROE decreased marginally as a result of elevated levels of capital as a result of increases in capital requirements that are being phased in under Basel III rules combined with increased capital requirements relating to higher intangible asset balances.

Corporate & Investment Banking (CIB) recorded headline earnings of R5 748 million, up 30% on the prior year. This growth was primarily driven by increased net interest income of 25% to R10 036 million as a result of increased focus on deposit gathering strategy, coupled with an increase in the prime lending rate. Non-interest revenue increased 10% to R9.7 billion on the back of an increase in trading income as a result of market volatility which increased clients' trading activities and volumes. Fee income was further boosted by new landmark deals the franchise participated in during 2016 together with winning new mandates which culminated to increased revenues. Other revenue decreased 43% primarily as a result of non-recurring revenue realised in the prior year related to disposal of real estate property, which is a segment that is being wound down in terms of our business strategy, together with much lower positive fair value adjustments in the strategic investments portfolio in 2016.

CIB's increase in headline earnings was offset by an increase in credit impairment charges largely within the consumer and mining & metals sectors as some of the clients in these sectors have experienced negative headwinds as the economy delivered slow growth. While total expenses have grown by 6%, this has indicated management's ability to contain growth in line with inflation targets, while continuing to invest in operations to better serve our clients.

CIB's ROE increased to 14.2% from 11.7% as a result of the growth in headline earnings offset by elevated levels of capital as a result of increases in capital requirements that are being phased in under Basel III rules.

Other services' loss of R2 183 million (2015: loss of R1 234 million) was mainly as a result of a decrease in non-interest revenue due to lower franchise fee and cost recoveries from SBG's Africa Regions and the impact of the increase in the SBK share price on the share-based payment scheme.

Income statement analysis

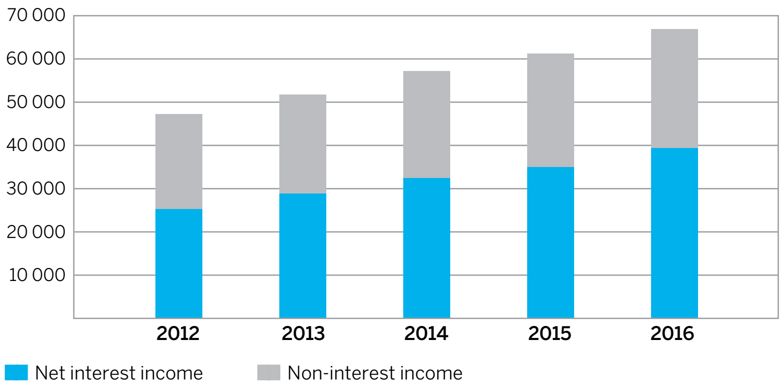
The income statement reflects the revenue generation by the group and costs incurred in generating that revenue for the year ended 31 December 2016.

Income statement

for the year ended 31 December 2016

	Change %	2016 Rm	2015 Rm
Net interest income	13	**39 445**	34 958
Interest income	17	**86 301**	74 035
Interest expense	20	**(46 856)**	(39 077)
Non-interest revenue	4	**27 429**	26 347
Net fee and commission revenue	5	**20 142**	19 094
Trading revenue	18	**4 944**	4 188
Other revenue	(24)	**2 343**	3 065
Total income	9	**66 874**	61 305
Credit impairment charges	(5)	**(7 024)**	(7 385)
Revenue sharing agreements	(10)	**(1 015)**	(1 125)
Income after credit impairment charges and revenue sharing agreements	11	**58 835**	52 795
Operating expenses	12	**(38 824)**	(34 693)
Net income before non-trading and capital related items and equity accounted earnings	11	**20 011**	18 102
Non-trading and capital related items	(58)	**(524)**	(1 234)
Share of (loss)/profits from associates and joint ventures	(>100)	**(21)**	65
Profit before indirect taxation	15	**19 466**	16 933
Indirect taxation	(11)	**(1 381)**	(1 550)
Profit before direct taxation	18	**18 085**	15 383
Direct taxation	33	**(3 849)**	(2 904)
Profit for the year	14	**14 236**	12 479
Attributable to non-controlling interest		**(1)**	(1)
Attributable to the ordinary shareholder	14	**14 235**	12 478
Headline earnings adjustable items added	(59)	**364**	898
Impairment of intangible assets – IAS 38		**410**	879
Impairment of associates – IAS 28/IAS 36		**10**	
Loss on disposal of associate – IAS 28			(4)
Loss on disposal of business – IAS 27/IAS 28		**3**	
Realised foreign currency profit on foreign operations – IAS 21		**(62)**	
Profit on sale of intangible assets – IAS 38		**(36)**	
Loss on sale of property and equipment – IAS 16		**39**	23
Headline earnings	9	**14 599**	13 376

Income contribution (Rm)
CAGR[1] (2012 – 2016): 9%



[1] Compound annual growth rate (CAGR).

Net interest income

Net interest income is the difference between interest received on lending products and financial investments, and the interest paid on deposits and debt funding and subordinated debt. This can be expressed as a ratio, the net interest margin, which expresses our net interest income as a percentage of average total assets, excluding derivative assets. The movement in benchmark lending rates, most notably the prime lending rate in South Africa, is a key factor that causes the net interest income to vary.

The group's net interest income increased by 13% to R39.4 billion during the year. The growth in net interest income benefited from the positive endowment effect which arises as a result of higher average interest rates from assets re-pricing faster than the group's liabilities. Further contributing to the growth was the group's improved market share in mortgage loans, vehicle and asset finance (VAF) and the unsecured lending portfolios. Albeit muted, growth in the group's loans and advances also contributed to the increase in net interest income.

Non-interest revenue

Non-interest revenue comprises net fee and commission revenue, trading and other revenue. The net fee and commission revenue is closely linked to 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 which 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 R1.1 billion to R27.4 billion with net fee and commission revenue up 5% to R20.1 billion, trading revenue up 18% to R4.9 billion while other revenue decreased by 24% to R2.3 billion.

Net fee and commission revenue growth was attributable to higher transactional volumes in PBB, coupled with revised pricing, as well as higher service fees as a result of an amendment to the National Credit Act. In CIB, a number of high-value and landmark deals were completed during the year largely driven by CIB's South African customers seeking funding for growth outside of South Africa. Fee and commission revenue also benefited from increased revenue from guarantees, arrangements and trade commitment facilities.

The significant growth in trading revenue was primarily due to improved fixed income and currencies (FIC) income on the back of new deals, increased client activity and a strong performance in the equities trading business which was driven by improved risk positioning but offset by lower commodities income as a result of a lower volume of commodity-based leasing transactions.

Other revenue decreased from the previous year as a result of the non-recurrence of certain gains on real estate investment-related disposals, but offset by an improvement in property-related income.

Credit impairment charges

Credit impairments represent the losses incurred as a result of the inability of our 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 is incurred in credit impairments during the year.

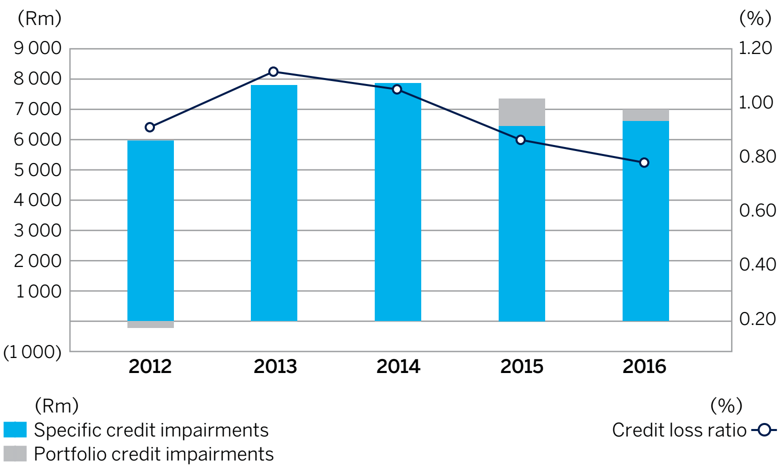
Credit impairments decreased by R361 million or 5% from 2015. The reduction is largely as a result of improvements in pricing for credit risk, as well as the optimisation of early stage collection strategies together with enhanced payment capabilities.

In PBB, portfolio impairments on mortgage loans decreased by 83% to R47 million as a result of lower non-performing loan balances, enhancements made to provisioning models during 2015 and the stabilisation of loss given defaults. Contributing to the lower impairments was PBB's single view of the customer and enhanced data analytics. This decrease was partly offset by an increase in impairment charges for card debtors and personal unsecured lending impacted by lower post write-off recoveries.

CIB recorded an increase in total impairments of R24 million or 5% as a result of specific impairments, particularly in the consumer and mining & metals sectors. Further contributing to the increase in impairment losses were additional portfolio impairment provisions which reflect the economic stress some clients are experiencing in this environment.

As a result of the above, the group's credit loss ratio improved to 0.75% from 0.84% in the previous year and non-performing loans as a percentage of total loans decreased to 3.0% from 3.1% in the previous year.

Credit impairment charges
CAGR (2012 – 2016): 5%



A detailed analysis of performing and non-performing loans is provided in the risk and capital management report on **page 51**.

Revenue sharing agreements

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

Revenue sharing agreements decreased by 10% or R110 million, from the previous year. The decrease is in line with the changes to CIB's global operating model in the previous year with costs now reflected within operating expenses.

Operating expenses

Operating expenses represent the costs that the group incurs to generate current and future revenues. Inflation and foreign exchange rates are key external variables that impact operating expenses, as well as the impact of changes in the SBK share price on the share-based payment schemes. Many internal factors also affect the growth in operating expenses, such as staffing levels and investments in infrastructure.

The group continues to invest in both its staff and infrastructure to drive improved customer service and deliver on strategic priorities while maintaining control of costs and investing for long-term growth. Cost growth of 12% disappointingly exceeded income growth of 9% with one of the key drivers being the Japan fraud (discussed further below), contributing to this.

	Change %	2016 Rm	2015 Rm
Staff costs	18	**20 913**	17 795
Other operating expenses	6	**17 911**	16 898
Total operating expenses	12	**38 824**	34 693
Cost-to-income ratio (%)		**59.0**	57.6

Staff costs

Staff costs grew by 18% to R20.9 billion in 2016 due to the full year impact of staff converted from temporary to permanent during the second quarter of 2015, the impact of annual salary increases and an increase in the cost of the group's cash-settled share incentive schemes due to a substantial increase in the SBK share price.

Other operating expenses

The increase in other operating expenses of 6% in 2016 to R17.9 billion was a result of the amortisation of intangible assets as a result of significant enhancements made to core banking systems over the past few years, operational risk losses and other time value of money adjustments linked to the recoverability of amounts owing by several SBG subsidiaries, materially that of Nigeria, Ghana and Tanzania.

Included in the operational risk losses is the Japan fraud – this arose as a result of a sophisticated, coordinated fraud incident that involved the withdrawal of cash using a number of fictitious cards at various automated teller machines (ATMs) in Japan. The group was the target of the fraud and there has been no financial loss for its customers. Swift action was taken to contain the matter and the gross loss (prior to any potential recoveries) is R300 million. The internal investigation has been concluded and remediation is underway to strengthen current controls.

The low growth in costs overall was largely driven by savings in professional fees and well-contained IT costs.

Non-trading and capital related items

This line item comprises gains and losses on the disposal of businesses, disposal-related gains and losses on property, plant and equipment and intangible assets and other items of a capital-related nature.

A loss of R524 million was recognised in 2016 as compared to a loss of R1 234 million in the previous year. Included in the current year loss was the recognition of an impairment of intangible assets of R570 million relating to the group's core banking systems. The impairment was partly offset by profit on disposal of property and equipment and the realised foreign currency profit on foreign operations. These non-trading and capital related items were all excluded from headline earnings.

Balance sheet analysis

The balance sheet or statement of financial position reflects what the group owns, owes and the equity that is attributable to the shareholder at 31 December 2016.

Statement of financial position

as at 31 December 2016

	Change %	2016 Rm	2015 Rm
Assets			
Cash and balances with central banks	12	33 947	30 252
Derivative assets	(40)	60 074	100 356
Trading assets	70	107 442	63 282
Pledged assets	(74)	2 081	7 879
Financial investments	(7)	91 551	98 944
Current tax asset	9	264	242
Loans and advances	3	920 406	897 344
Other assets	(17)	7 493	9 003
Interest in SBG companies, associates and joint ventures – banking activities	(16)	34 807	41 347
Property and equipment	(3)	8 637	8 931
Goodwill and other intangible assets	(5)	18 354	19 315
Deferred tax asset	>100	565	58
Total assets	1	1 285 621	1 276 953
Equity and liabilities			
Equity	6	96 290	90 714
Equity attributable to the ordinary shareholder	6	96 285	90 714
Ordinary share capital		60	60
Ordinary share premium	2	41 138	40 138
Reserves	9	55 087	50 516
Non-controlling interest	>100	5	
Liabilities		1 189 331	1 186 239
Derivative liabilities	(44)	67 104	120 857
Trading liabilities	10	26 976	24 625
Current tax liability	35	3 987	2 945
Deposits and debt funding	7	937 038	874 372
Liabilities to SBG companies	(7)	117 983	127 185
Subordinated debt	(5)	20 340	21 309
Provisions and other liabilities	10	15 885	14 403
Deferred tax liability	(97)	18	543
Total equity and liabilities	1	1 285 621	1 276 953

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 decreased during the year by 40% and 44% respectively; the decrease was due to decreased exposures with other financial institutions.

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 7% or R7.4 billion as a result of a decrease in government stock due to deals which matured during December 2016.

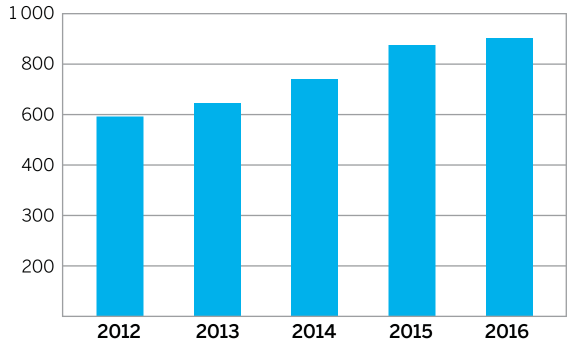
Trading assets increased 70% or R44 billion primarily as a result of an increase in government bond-based reverse repo transactions driven by positive sentiment from South Africa's credit rating remaining unchanged in November 2016.

Pledged assets decreased 74% or R5.8 billion as a result of reductions in corporate bond holdings and commodity leases.

Loans and advances

Loans and advances represent both the largest asset class on the group's balance sheet and the largest source of revenue in the form of interest income. The group's lending business also 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. Growing loans and advances in the personal market in particular depends on the customers' ability to repay debt.

Loans and advances (Rbn)
CAGR (2012 – 2016): 9%



ANALYSIS OF LOANS AND ADVANCES

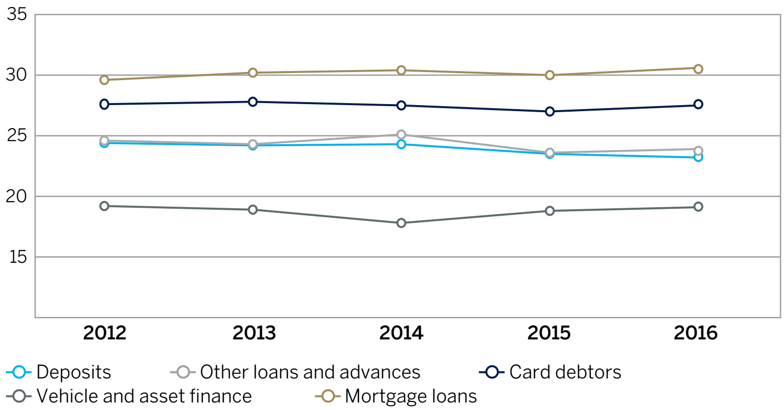
	%	2016 Rm	2015 Rm
Personal & Business Banking	4	**520 599**	498 482
Mortgage loans	4	**321 445**	310 330
Vehicle and asset finance	2	**71 297**	69 574
Card debtors	1	**30 668**	30 389
Other loans and advances	10	**97 189**	88 189
Personal loans (including access loans)	5	**39 705**	37 741
Corporate, business and other	14	**57 484**	50 448
Corporate & Investment Banking	(2)	**396 149**	402 608
Loans to banks	(10)	**117 660**	130 620
Loans to customers	2	**278 489**	271 988
Other services	54	**21 754**	14 117
Gross loans and advances	3	**938 502**	915 207
Credit impairments for loans and advances	1	**(18 096)**	(17 863)
Credit impairments for non-performing loans		**(12 762)**	(12 738)
Credit impairments for performing loans	4	**(5 334)**	(5 125)
Net loans and advances	3	**920 406**	897 344

Net loans and advances increased by 3% to R920 billion in 2016, with PBB reporting growth of 4% while CIB's net loans and advances declined by 2%.

In PBB, mortgage loans and advances grew 4% as a result of new business registrations driven by an increasing market share. VAF loans and advances increased by 2% with more efficient application processes and relationships with vehicle dealerships resulting in more deals being concluded. Corporate, business and other term loans grew by 14% through growth and utilisation of revolving credit plans, as well as growth in the small enterprise segment where the loans and advances were positively impacted by our efforts to support our clients in the agricultural sector, through loan restructures. Card debtors grew by 1% through limit increases in the existing customer base and supported through a marginal increase in market share to 27.4% in 2016 from 26.9% in 2015.

CIB's loans and advances decreased by 2% in 2016. This decline was largely attributable to loans to banks which reduced by 10% mainly due to lower interbank lending. This decrease was offset by an increase in loans to customers of 2% resulting from an increase in commercial property finance lending and was assisted by higher call loans and overdraft facilities during the year.

SBSA's market share movements (%)



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

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

Interest in SBG companies, associates and joint ventures decreased by 16% over the course of 2016. The decrease is primarily due to a decline in loans and advances to fellow SBG banking subsidiaries, offset by an increase in trading assets.

Goodwill and other intangible assets

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

Goodwill and other intangible assets decreased by 5% during the year, mainly due to amortisation of new core banking IT systems and the disposal of approximately R2.4 billion of core banking intangible assets to SBG's subsidiaries in the Africa Regions. In addition, impairment charges of R570 million were recognised against certain components of the group's core banking systems.

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 equity increased by 6% to R96.3 billion during the year, primarily as a result of the profit for the year attributable to the ordinary shareholder of R14.2 billion offset by a dividend of R9.3 billion paid to the group's shareholder.

The group maintained strong Basel III capital ratios during the year, attributable to a lower risk-weighted assets balance and increased internal capital generation. At 31 December 2016, SBSA's tier I capital adequacy ratio and total capital adequacy ratios were 13.7% and 16.8% respectively, 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 clients. This fulfils the group's role in connecting providers of capital with those that require additional capital and thereby contributes to the functioning of the broader financial system. The group pays interest on the funds borrowed and also derives fee income from transactional activity with respect to its client deposits. The group's subordinated debt provides further funding for the group's growth requirements and importantly, qualifies as tier II capital.

During 2016 deposits and debt funding increased by 7% to R937 billion. The growth in our deposits was higher than the growth in our loans and advances of 3% and we focused on increasing the level of retail priced deposits as opposed to more expensive wholesale funding.

PBB's deposits and current accounts increased by 6% in 2016 to R344 billion driven mainly by call and cash management deposits which grew by 9% and 16% respectively. The reduction in the money market call accounts' minimum balance qualifying criteria coupled with an increase in the rate paid to customers for these balances drove this growth. This growth was also supported by successful sector and segment based marketing campaigns to drive higher deposits. Further contributing to this growth was an increase in fixed term deposits resulting from higher balances in the mining, real estate and education sectors.

CIB's deposits and debt funding increased by 8% from the previous year to R594 billion. Deposits from customers increased by 13% to R489 billion – this was largely driven by higher cash management and call deposits from key clients. Negotiable certificates of deposits increased as a result of additional deposits from money market funds. These increases were offset by a decline in deposits from banks as a result of withdrawals by foreign banks.

During 2016, SBSA maintained an average liquidity coverage ratio (LCR) of 96.4% which was comfortably in excess of the minimum regulatory requirement of 70%. From January 2018, the group will be required to comply with the Basel III net stable funding ratio (NSFR). The group supports the proposed amended framework issued by the South African Reserve Bank (SARB) in August 2016. The group, together with the local banking industry, continues to engage, through the Banking Association South Africa with the SARB on the remaining items requiring clarification and to explore market-based solutions to ensure that the NSFR framework aligns to local industry conditions and requirements.

For further explanation of the group's LCR and NSFR, including further detailed disclosures, refer to our risk and capital management report starting on **page 66**.

Subordinated debt decreased by 5% in 2016 mainly as a result of the redemptions of notes in May and November 2016 of R2 750 million – this was offset by new debt issues in April 2016 with a notional value of R1 700 million. The terms of the subordinated debt include a regulatory requirement which provides for the write-off, in whole or in part, on the earlier of a decision by 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 32**.

Closing

South Africa's forecast growth at 1.5% is an improvement on the 2016 year, but remains subject to idiosyncratic event risk, such as rating agency decisions and key political decision points during the year. Lastly, SARB has indicated that it expects rates to remain on hold, subject to inflation and exchange rate developments, which is likely to continue to constrain household consumption and fixed investment.

With these dynamics in mind, we look to our clients, to the challenges and opportunities they may face, and seek ways to partner with them on their journeys in 2017 and beyond. As we focus on delivering market-leading client experiences, we continue to invest in our digital capabilities to enable our clients to transact independently and safely anytime anywhere. We recognise and value the trust that our clients place in us and remain vigilant in our efforts to protect our clients' resources and data. Accordingly, we continue to monitor developments and potential threats, engage with industry bodies and invest in our defences to preserve our resilience.

As we look to the year ahead, we remain steadfast in our commitment to doing the right business, the right way. In this context, we continue to embed a culture of responsible business practices. We remain committed to delivering through-the-cycle headline earnings growth. In order to do so, we recognise the need to balance prudent capital management with appropriate return-based resource allocation and leverage.

In April 2015, the South African Competition Commission announced that it had initiated a complaint against Standard New York Securities Inc. (SNYS) and 21 other institutions concerning possible contravention of the Competition Act in relation to USD/ZAR trading between 2007 and 2013. No mention was made of SBSA. On 15 February 2017, the Competition Commission lodged five complaints with the Competition Tribunal against 18 institutions, including SBSA and SNYS, in which it alleges unlawful collusion between those institutions in the trading of USD/ZAR. SBSA only learned of the complaints at this time and is engaging with the Competition Commission to better understand the basis for the complaints and the appropriate response. The group considers these allegations in an extremely serious light and remains committed to maintaining the highest levels of control and compliance with all relevant regulations. The allegations are confined to USD/ZAR trading activities within SBSA and do not relate to the conduct of SBG more broadly.

While the macro-economic headwinds, political and policy uncertainty experienced in 2016 is expected to continue into 2017, the group's balance sheet remains strong and resilient to meet these challenges.

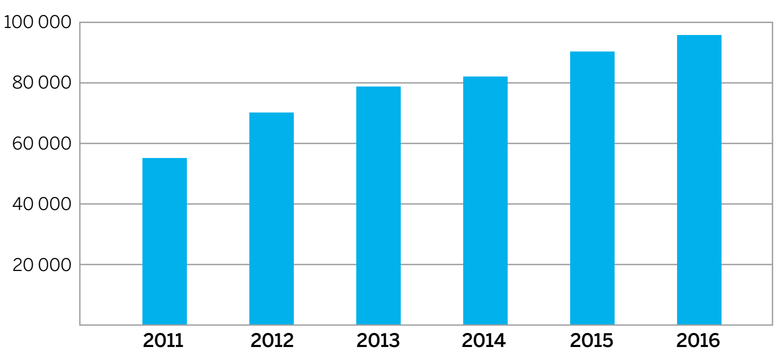
Six-year review

Statement of financial position

	CAGR[1] %	2016 Rm	2015 Rm	2014 Rm	2013 Rm	2012 Rm	2011 Rm
Group							
Assets							
Cash and balances with central banks	10	**33 947**	30 252	32 218	29 934	25 926	20 865
Derivative assets	(8)	**60 074**	100 356	54 062	59 974	78 844	93 422
Trading assets	34	**107 442**	63 282	51 436	35 574	35 685	24 626
Pledged assets	(11)	**2 081**	7 879	5 281	4 394	5 706	3 737
Financial investments	3	**91 551**	98 944	101 856	73 604	76 679	79 809
Current tax asset	9	**264**	242	313	286	191	170
Loans and advances	9	**920 406**	897 344	785 483	704 919	659 500	611 165
Other assets	(8)	**7 493**	9 003	7 470	11 623	18 960	11 507
Non-current assets held for sale						960	
Interest in SBG companies, associates and joint ventures – banking activities	(11)	**34 807**	41 347	66 907	72 757	58 430	62 099
Property and equipment		**8 637**	8 931	9 085	8 989	8 895	8 430
Goodwill and other intangible assets	23	**18 354**	19 315	16 999	13 785	10 350	6 469
Deferred tax asset	33	**565**	58	40	38	26	138
Total assets	7	**1 285 621**	1 276 953	1 131 150	1 015 877	980 152	922 437
Equity and liabilities							
Equity	12	**96 290**	90 714	82 418	79 204	70 625	55 385
Equity attributable to the ordinary shareholder	12	**96 285**	90 714	82 412	79 201	70 562	55 333
Ordinary share capital		**60**	60	60	60	60	60
Ordinary share premium	9	**41 138**	40 138	36 296	36 296	35 196	27 230
Reserves	14	**55 087**	50 516	46 056	42 845	35 306	28 043
Non-controlling interest	(37)	**5**		6	3	63	52
Liabilities	7	**1 189 331**	1 186 239	1 048 732	936 673	909 527	867 052
Derivative liabilities	(7)	**67 104**	120 857	66 298	65 813	81 744	98 730
Trading liabilities	6	**26 976**	24 625	22 709	20 424	21 221	20 600
Current tax liability	33	**3 987**	2 945	3 338	3 361	2 940	972
Deposits and debt funding	7	**937 038**	874 372	799 936	721 350	712 676	681 043
Liabilities to SBG companies	28	**117 983**	127 185	123 794	90 688	50 201	35 007
Subordinated debt	5	**20 340**	21 309	20 734	20 815	22 400	16 095
Provisions and other liabilities	3	**15 885**	14 403	11 691	14 084	17 573	13 693
Deferred tax liability	(54)	**18**	543	232	138	772	912
Total equity and liabilities	7	**1 285 621**	1 276 953	1 131 150	1 015 877	980 152	922 437

[1] CAGR refers to compound annual growth rate for the period 2011 to 2016.

Ordinary shareholder's equity – group (Rm)

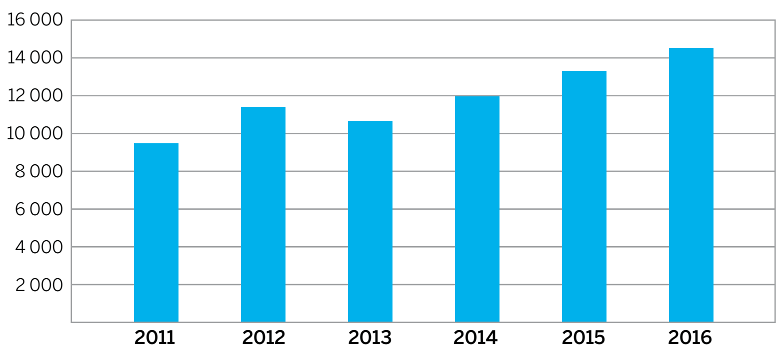


Income statement

	CAGR[1] %	2016 Rm	2015 Rm	2014 Rm	2013 Rm	2012 Rm	2011 Rm
Group							
Net interest income	13	**39 445**	34 958	32 492	28 888	25 249	21 348
Interest income	12	**86 301**	74 035	66 749	58 069	55 677	49 714
Interest expense	11	**(46 856)**	(39 077)	(34 257)	(29 181)	(30 428)	(28 366)
Non-interest revenue	8	**27 429**	26 347	24 725	22 848	22 032	18 804
Net fee and commission revenue	7	**20 142**	19 094	18 815	16 976	16 364	14 582
Fee and commission revenue	7	**24 447**	23 095	22 770	20 508	19 483	17 355
Fee and commission expense	9	**(4 305)**	(4 001)	(3 955)	(3 532)	(3 119)	(2 773)
Trading revenue	9	**4 944**	4 188	3 453	3 521	3 147	3 220
Other revenue	19	**2 343**	3 065	2 457	2 351	2 521	1 002
Total income	11	**66 874**	61 305	57 217	51 736	47 281	40 152
Credit impairment charges	9	**(7 024)**	(7 385)	(7 876)	(7 815)	(5 785)	(4 623)
Revenue sharing agreements	35	**(1 015)**	(1 125)	(1 759)	(1 646)	(1 642)	(230)
Income after credit impairment charges and revenue sharing agreements	11	**58 835**	52 795	47 582	42 275	39 854	35 299
Operating expenses	12	**(38 824)**	(34 693)	(31 211)	(27 956)	(25 496)	(21 899)
Net income before non-trading and capital related items and equity accounted earnings	8	**20 011**	18 102	16 371	14 319	14 358	13 400
Non-trading and capital related items	34	**(524)**	(1 234)	(475)	(287)	182	(123)
Share of (loss)/profits from associates and joint ventures	(>100)	**(21)**	65	121	303	676	155
Profit before indirect taxation	8	**19 466**	16 933	16 017	14 335	15 216	13 432
Indirect taxation	13	**(1 381)**	(1 550)	(1 398)	(1 211)	(974)	(745)
Profit before direct taxation	7	**18 085**	15 383	14 619	13 124	14 242	12 687
Direct taxation	4	**(3 849)**	(2 904)	(2 942)	(2 608)	(2 347)	(3 167)
Profit for the year	8	**14 236**	12 479	11 677	10 516	11 895	9 520
Attributable to non-controlling interest	(>100)	**1**	1	3	(21)	11	10
Attributable to the ordinary shareholder	8	**14 235**	12 478	11 674	10 537	11 884	9 510

[1] CAGR refers to compound annual growth rate for the period 2011 to 2016.

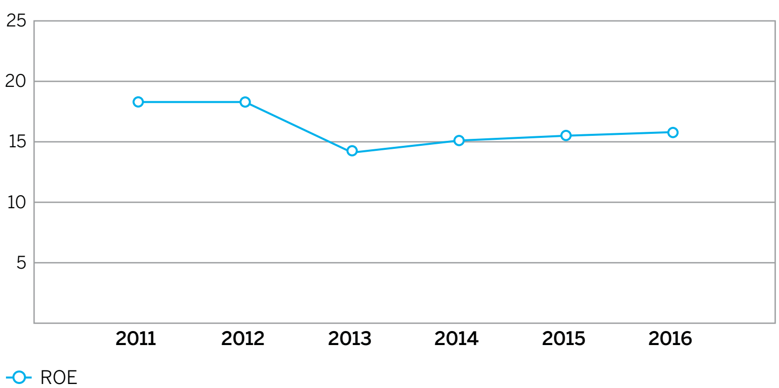
Headline earnings – group (Rm)



Statistics, returns and capital adequacy

	CAGR[1] %	2016	2015	2014	2013	2012	2011
Group							
Headline earnings (Rm)	9	**14 599**	13 376	12 024	10 709	11 461	9 530
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	8	**23 726**	20 798	19 458	17 563	19 808	15 851
Headline earnings per share	9	**24 332**	22 294	20 041	17 849	19 103	15 884
Dividends	10	**19 668**	15 834	14 334	10 667	4 163	12 335
Net asset value	12	**160 483**	151 198	137 360	132 008	117 609	92 227
Selected returns and ratios							
ROE (%)		**15.8**	15.5	15.1	14.4	18.3	18.3
Non-interest revenue to total income (%)		**41.0**	43.0	43.2	44.2	46.6	46.8
Average ordinary shareholder's equity to average total assets (%)		**7.2**	7.2	7.4	7.5	6.6	6.0
Loans-to-deposits ratio (%)		**98.2**	102.6	98.2	97.7	92.5	89.7
Cost-to-income ratio (%)		**59.0**	57.6	57.0	56.0	54.5	54.8
Credit loss ratio (%)		**0.75**	0.84	1.04	1.11	0.89	0.80
Effective tax rate (%)		**26.9**	26.3	27.1	26.6	21.8	29.1
Headline earnings per employee (rand)	6	**445 008**	412 305	442 808	392 242	406 880	335 304
Number of employees	3	**32 805**	32 442	27 154	27 302	28 168	28 422

Financial performance – group (%)

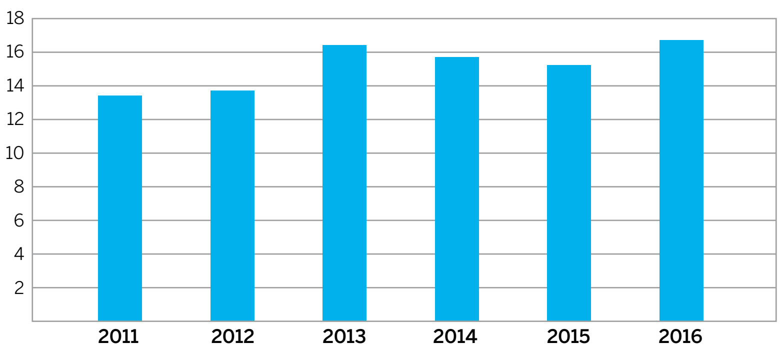


Statistics, returns and capital adequacy continued

	CAGR[1] %	2016	2015	2014	2013	2012	2011
Company							
Capital adequacy[2]							
Risk-weighted assets (Rm)	5	**560 735**	580 944	513 856	489 045	528 266	430 484
Tier I capital (Rm)	11	**76 866**	70 550	63 312	62 379	55 988	46 214
Total capital (Rm)	10	**94 359**	88 943	81 027	80 680	72 694	58 284
Tier I capital adequacy ratio (%)		**13.7**	12.1	12.3	12.8	10.6	10.7
Total capital adequacy ratio (%)		**16.8**	15.3	15.8	16.5	13.8	13.5
Headline earnings (Rm)	8	**14 061**	12 721	11 738	10 279	11 140	9 489
Return on average risk-weighted assets (%)		**2.5**	2.2	2.3	2.0	2.3	2.4
Rand exchange rates at 31 December							
US dollar		**13.85**	15.50	11.57	10.49	8.48	8.09
Sterling		**17.28**	22.93	18.02	17.36	13.71	12.48
Euro		**14.59**	16.86	14.01	14.44	11.18	10.46
Market indicators at 31 December							
SA prime overdraft rate (%)		**10.5**	9.75	9.1	8.5	8.5	9.0
JSE[3] All Share Index	10	**50 654**	50 694	49 771	46 256	39 250	31 986
JSE[3] Banks Index	13	**77 545**	61 072	72 998	57 745	53 362	41 178

1 CAGR refers to compound annual growth rate for the period 2011 to 2016.
2 Capital adequacy for 2011 is based 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 (%)



Risk and capital management report

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REPORT OVERSIGHT

Board responsibility

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

As at 31 December 2016, 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 regulators, the board is satisfied that management has taken appropriate remedial action.

Assurance

All disclosures in this report are unaudited, unless marked as audited.

RISK GOVERNANCE

Governance framework

The group's approach to managing risk and capital is set out in the group's risk, compliance and capital management (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 GRCMC, the group audit committee (GAC), the group information technology (IT) committee and the group 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 group IT committee

The group 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.

In order to ensure the independence of the second line of defence functions, the chairman of the GAC meets individually with the group chief compliance officer (GCCO), the group financial director, the group chief audit officer and the head of operational risk management, who is also responsible for financial crime control, without management being present, on a quarterly basis and as required.

The group model approval committee

The group 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 the Personal & Business Banking and Corporate & Investment Banking 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 committee

The group risk oversight committee

Executive management responsibility for all material risk types has been delegated by the group management committee to the group 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 the effective management of capital.

Governance standards and frameworks are approved by the relevant board committee.

Relevant 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.

RISK MANAGEMENT LANDSCAPE

Risk types

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

RISK TYPES

- CREDIT RISK
- COMPLIANCE RISK
- COUNTRY RISK
- FUNDING AND LIQUIDITY RISK
- MARKET RISK
- OPERATIONAL RISK
- BUSINESS RISK
- REPUTATIONAL RISK

Each risk is defined within the relevant section, together with:

- an explanation of the application of the group's RCCM governance framework to the specific risk
- the approved regulatory treatment for capital requirements to be held against the specific risk in terms of Basel
- a description of the relevant portfolio characteristics both in terms of prescribed disclosure and the group's business model.

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 consists of the management of business lines and legal entities. It is the responsibility of first line management to identify and manage risks. This includes, at an operational level, the day-to-day effective management of risk in accordance with agreed risk policies, appetite and controls. Effective first line management includes:

- the proactive self-identification of issues and risks, including emerging risks
- the design, implementation and ownership of appropriate controls
- the associated operational control remediation
- 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 also develop, implement and integrate governance standards, frameworks and policies for each material risk type to which the group is exposed. This ensures consistency and an enterprise-wide approach across the group's business lines and legal entities. Compliance with the standards and frameworks is ensured through annual self-assessments by the second line of defence and reviews by GIA.

The third line of defence provides independent and objective assurance to the board and senior management on the effectiveness of the first and second lines of defence. This responsibility lies with the GIA function.

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

Emerging risks

In an ever-evolving world that is interconnected through technology, it is becoming increasingly important for the group to remain forward-looking in its management of the risk environment. Through the continuous assessment of current and emerging risks, the group is better equipped to identify these potential risks and manage and mitigate them effectively. The group is focusing on the development of a more structured assessment process to ensure consideration and consolidation of all potential risks as part of the combined assurance approach.

Enterprise risk management

Through the three lines of defence framework, the group continues to monitor, manage and mitigate its material risks on a groupwide basis. With an increasing focus on consistency and transparency, the group regularly assesses and enhances its risk management framework to ensure it is fit-for-purpose. Risk management efforts are focused on the groupwide alignment of risk reporting and underlying data, governance and monitoring thereof, education and awareness initiatives, as well as systems capabilities, providing the ability to more easily identify and leverage opportunities between the various risk types.

Risk culture

The group leverages off the three lines of defence model to build and maintain a strong risk culture, where resilience is a priority for the effective management of risk across the group. The group focuses on multiple drivers to enhance risk culture, with emphasis on doing the right business, the right way. Through the embedding of its values and ethics, policies, compliance training programmes and a whistle-blowing programme, the group empowers its employees to act with confidence, driving meaningful behavioural changes and placing the customer at the centre of everything it does.

In 2017, increasing emphasis will be placed on the critical values-based behaviours that are required from all group employees.

Reporting

The group's risk appetite, risk profile and risk exposures are reported on a regular basis to the board and senior management through various governance committees. Risk management reports originate in the business units and are then escalated through a formalised governance structure as mandated, based on materiality. A group risk management report is tabled at both board and senior management risk committees. These include the group executive committee, the group management committee, GROC and the GRCMC.

Reports to board committees comply with the group's internal risk reporting standards, which are set out in the group's risk data aggregation and risk reporting (RDARR) policy.

Risk data aggregation and risk reporting

In January 2013, the BCBS published principles for effective RDARR, with the aim to improve the quality of information that banks use in decision making, particularly as it pertains to risk management. Global systemically important banks (G-SIBs) were required to comply by 1 January 2016 and domestic systemically important banks (D-SIBs) by 1 January 2017. Given the complexity, scope and scale of the requirement, it was broadly accepted by SA regulators that full compliance was not possible by the deadline, although banks had to demonstrate material compliance, in terms of the scope agreed with the SARB, by 1 January 2017.

Given the group's material compliance and its planned journey to full compliance beyond 1 January 2017, condonation for not being fully compliant at 1 January 2017 was applied for and granted by the SARB in December 2016. The SARB has indicated that a certification process will be initiated in the latter half of 2017 to validate the group's material compliance status.

Capital management

32	Overview and objectives
32	Regulatory update
33	Regulatory capital
38	Economic capital
38	Risk-adjusted performance measurement

A

OVERVIEW AND 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.

It further aims to facilitate the allocation and use of capital, such that it generates a return that appropriately compensates shareholders for the risks incurred. Capital adequacy is actively managed and forms a key component of the group's budget and forecasting process. The capital plan is tested under a range of stress scenarios as part of the group's annual internal capital adequacy assessment process (ICAAP) and recovery plan.

The capital management function is governed primarily by management level subcommittees that oversee the risks associated with capital management, namely the asset and liability committee (ALCO) and one of its subcommittees, the group capital management committee. The principal governance documents are the capital management governance framework and the model risk governance framework.

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.

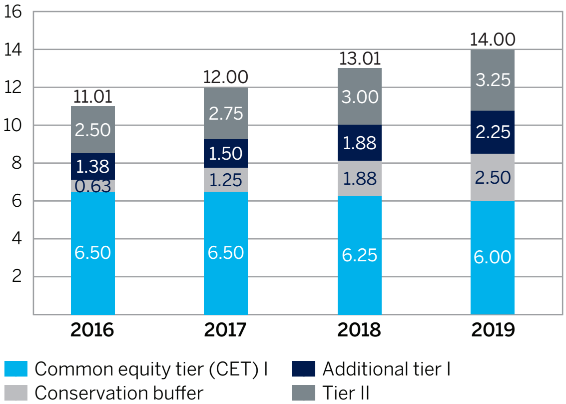
REGULATORY UPDATE

The SARB adopted the Basel III framework introduced by the Basel Committee on Banking Supervision (BCBS) from 1 January 2013. The group has complied with the minimum requirements from that date. The Basel III capital adequacy requirements are subject to phase-in rules and the group is well-positioned to comply with the requirements when they become effective. The South African D-SIB framework and the Basel III capital conservation buffer requirements came into effect from 1 January 2016 and will be phased in over a three-year period with full implementation from 1 January 2019. In addition, from 1 January 2016, a countercyclical buffer (CCyB) framework came into effect in terms of which regulators may impose buffer requirements when there is deemed to be a risk of excess aggregate credit growth associated with a build-up of system-wide risk. CCyB requirements have not been announced for South Africa, but the group is subject to CCyB requirements on exposures in other jurisdictions where these buffers apply from time to time. Currently the group has private sector credit exposure to three jurisdictions that have announced CCyBs greater than zero, namely Hong Kong, Sweden and Norway. These exposures result in risk-weighted assets (RWA) of R33 million, R31 million, and R0.1 million respectively, resulting in a buffer requirement of 0.0002%.

The graph on the following page reflects the Basel III capital requirements and phase-in periods applicable to South Africa.

Finalisation of the Basel III regulatory reform proposals post the global financial crisis is expected in 2017. In particular, the proposals on revised standardised approaches for credit and operational risk, a capital floor based on the standardised approaches for internal ratings-based accredited banks, proposals for the fundamental review of the trading book and the loss absorbing and recapitalisation capacity of systemically important banks may impact capital levels going forward. These proposals and implementation timelines are at different stages of finalisation.

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



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

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.

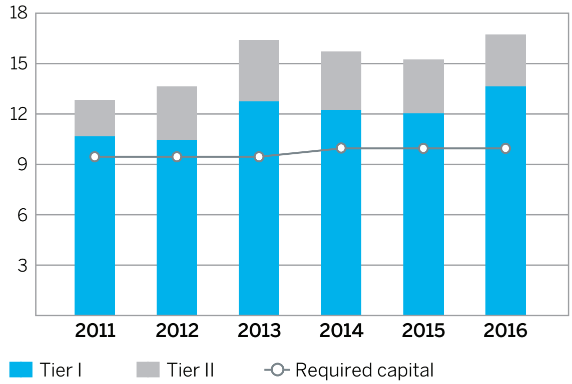
The main regulatory requirements to be complied with are those specified in the Banks Act and related regulations, which are aligned with Basel III.

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

- **CET I:** ordinary share capital, share premium, retained earnings, other reserves and qualifying non-controlling interest less impairments divided by total RWA
- **tier I:** CET I and other qualifying non-controlling interest plus perpetual, non-cumulative instruments with either contractual or statutory principal loss absorption features that comply with the Basel III rules divided by total RWA. Perpetual non-cumulative preference shares that comply with Basel I and Basel II rules are included in tier I capital but are currently subject to regulatory phase-out requirements over a ten-year period, which commenced on 1 January 2013
- **total capital adequacy:** tier I plus other items such as general credit impairments and subordinated debt with either contractual or statutory principal loss absorption features that comply with the Basel III rules divided by total RWA. Subordinated debt that complies with Basel I and Basel II rules is included in total capital but is currently subject to regulatory phase-out requirements, over a ten-year period, which commenced on 1 January 2013.

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

Capital adequacy[1] (%)



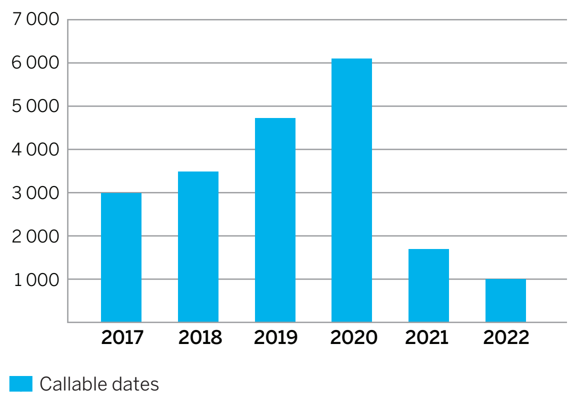
1 2011 is based on a Basel II basis. Basel III was implemented on 1 January 2013. RWA and capital adequacy for 2012 are on a *pro forma* Basel III basis.

RWA are calculated in terms of the Banks Act and related regulations, which are aligned with Basel III.

The group's tier I capital, including unappropriated profit, was R76.8 billion as at 31 December 2016 (2015: R70.6 billion) and total capital, including unappropriated profit was R94.4 billion as at 31 December 2016 (2015: R88.9 billion).

The group has a balanced tier II subordinated debt maturity profile. During 2016, the group issued R1.7 billion Basel III compliant tier II instruments (2015: R3.6 billion).

Maturity profile of the group's tier II instruments (Rm)



A BASEL QUALIFYING CAPITAL, EXCLUDING UNAPPROPRIATED PROFITS

	2016 Rm	2015 Rm
Share capital and premium	**41 198**	40 198
Retained earnings	**54 140**	49 304
Other reserves	**947**	1 212
Less: regulatory adjustments	**(19 419)**	(20 164)
Goodwill	**(42)**	(36)
Other intangible assets	**(16 634)**	(17 494)
Deferred tax asset	**(20)**	(4)
Shortfall of credit provisions to expected losses	**(2 126)**	(2 188)
Other adjustments	**(597)**	(442)
Less: regulatory exclusions	**(8 769)**	(3 833)
Tier I capital	**68 097**	66 717
Qualifying tier II subordinated debt	**20 080**	20 965
General allowance for credit impairments	**314**	351
Less: regulatory adjustments – investment in tier II instruments in other banks	**(2 901)**	(2 923)
Tier II capital	**17 493**	18 393
Total regulatory capital	**85 590**	85 110
Total capital requirement	**58 178**	58 094
Total RWA	**560 735**	580 944

BASEL RWA AND ASSOCIATED CAPITAL REQUIREMENTS

	RWA Rm T[3]	RWA Rm T-1[4]	Minimum capital requirements[1] Rm T
2016			
Credit risk (excluding counterparty credit risk)	**412 628**	444 065	**42 811**
Of which standardised approach[2]	**38 711**	40 710	**4 016**
Of which internal ratings-based (IRB) approach	**373 917**	403 355	**38 795**
Counterparty credit risk	**19 323**	19 682	**2 005**
Of which standardised approach for counterparty risk	**779**	2 320	**81**
Of which IRB approach	**18 544**	17 362	**1 924**
Equity positions in banking book under market-based approach	**3 942**	3 995	**409**
Securitisation exposures in banking book	**678**	758	**71**
Of which IRB approach	**228**	100	**24**
Of which IRB supervisory formula approach	**450**	376	**47**
Of which standardised approach		282	
Market risk	**29 771**	27 724	**3 089**
Of which standardised approach	**11 738**	12 715	**1 218**
Of which internal model approach	**18 033**	15 009	**1 871**
Operational risk	**87 177**	79 908	**9 044**
Of which standardised approach	**27 985**	28 019	**2 903**
Of which advanced measurement approach (AMA)	**59 192**	51 889	**6 141**
Amounts below the thresholds for deduction (subject to 250% risk weight)	**7 216**	4 812	**749**
Total	**560 735**	580 944	**58 178**

1 Capital requirement at 10.38% (December 2015: 10%) excludes the confidential bank-specific add-ons.
2 Portfolios on the standardised approach relate to the portfolios for which application to adopt the internal model approach has not been submitted, or for which an application has been submitted but approval has not been granted.
3 2016.
4 2015.

CAPITAL ADEQUACY RATIOS

	2016 SARB minimum regulatory requirement[1] %	Internal target ratios %	Including unappropriated profits		Excluding unappropriated profits	
			2016 %	2015 %	**2016 %**	2015 %
Total capital adequacy ratio	10.4	15.0 – 16.0	**16.8**	15.3	**15.3**	14.7
Tier I capital adequacy ratio	8.1	12.0 – 13.0	**13.7**	12.1	**12.1**	11.5
CET I capital adequacy ratio	6.9	11.0 – 12.5	**13.7**	12.1	**12.1**	11.5

[1] Excludes confidential bank-specific add-ons.

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 5.6% as at 31 December 2016 (2015: 5.3%), in excess of the SARB minimum requirement of 4%.

TOTAL ASSETS VS LEVERAGE RATIO

	2016 Rm	2015 Rm
Total consolidated assets as per published financial statements	**1 285 621**	1 276 953
Adjustment for derivative financial instruments	**(12 059)**	(49 447)
Adjustments for securities financing transactions (i.e. repos and similar securities lending)	**2 449**	1 806
Adjustment for off-balance sheet items	**85 959**	74 132
Other adjustments	**17 177**	20 604
Leverage ratio exposure	**1 379 147**	1 324 048

LEVERAGE RATIO COMMON DISCLOSURE TABLE

	2016 Rm	2015 Rm
On-balance sheet exposures (excluding derivatives and securities financing transactions (SFT))	**1 115 759**	1 103 670
On-balance sheet items (excluding derivatives and SFTs, but including collateral)	**1 135 178**	1 123 655
Assets amount deducted in determining Basel III tier I capital	**(19 419)**	(19 985)
Derivatives exposures	**48 820**	52 694
Replacement cost associated with all derivatives transactions	**11 034**	13 741
Add-on amounts for potential future exposures (PFE) associated with all derivatives transactions	**39 797**	41 176
Deductions receivables assets for cash variation margin provided in derivatives transactions	**(12 118)**	(17 513)
Exempted central counterparties leg of client-cleared trade exposures	**(12 047)**	(8 614)
Adjusted effective notional amount of written credit derivatives	**22 154**	23 904
SFT exposures	**128 609**	93 552
Gross SFT assets (with no recognition of netting), after adjusting for sales accounting transactions	**126 160**	91 745
Counterparty credit risk exposure for SFT assets	**2 449**	1 807
Other off-balance sheet exposures	**85 959**	74 132
Off-balance sheet exposure at gross notional amount	**271 785**	255 179
Adjusted for conversion to credit equivalent amounts	**(185 826)**	(181 047)
Capital and total exposures		
Tier I capital	**68 097**	66 717
Total exposures	**1 379 147**	1 324 048
Leverage ratio		
Basel III leverage ratio (%)	**4.9**	5.0
Basel III leverage ratio (%) (including unappropriated profits)	**5.6**	5.3

RECONCILIATION WITH ANNUAL FINANCIAL STATEMENTS

	2016 Rm	2015 Rm
Total consolidated assets per published financial statements	**1 285 621**	1 276 953
Derivative assets as per statement of financial position	**(60 879)**	(100 356)
Security financing transactions as per the statement of financial position	**(126 160)**	(93 530)
Total consolidated assets excluding derivative and SFT assets	**1 098 582**	1 083 067
Gross-up for cash management schemes	**36 596**	40 588
Adjustment for share of consolidated insurance assets		
Total on-balance sheet items as per line 1 of common disclosure table	**1 135 178**	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 that 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

	2016 Rm	2015 Rm
Credit risk	**42 444**	44 484
Equity risk	**2 828**	2 602
Market risk	**1 897**	1 030
Operational risk	**5 656**	4 800
Business risk	**2 637**	2 585
Interest rate risk in the banking book (IRRBB)	**1 332**	1 774
Banking activities – economic capital	**56 794**	57 275
Available financial resources	**93 978**	89 287
Capital coverage ratio (times)	**1.65**	1.56

Economic capital of R56.8 billion in 2016 (2015: R57.3 billion) is the internal assessment of the amount of capital that is required to support the group's economic risk profile. For statistically quantifiable potential losses arising from risk types, 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

Risk-adjusted performance measurement (RAPM) maximises 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

39	Governance
39	Risk appetite
39	– *Risk appetite governance framework*
40	– *Risk appetite statement*
41	Stress testing
41	– *Stress testing governance framework*
41	– *Stress testing programme*

Key to the group's long-term sustainable growth and profitability lies in ensuring there is a strong link between the group's risk appetite and its strategy. Risk appetite is set, and stress testing activities are undertaken, at a group level, in business units, in risk types and at a legal entity level within the risk appetite and stress testing governance frameworks.

GOVERNANCE

The primary management level governance committee overseeing risk appetite and stress testing is the group stress testing and risk appetite committee. It is chaired by the group chief risk officer (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 ONE

Risk appetite dimensions

- Regulatory capital
- Economic capital
- Stressed earnings
- Liquidity.

LEVEL TWO

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 THREE

Portfolio limits by risk type

Credit and equity risk
- Credit loss ratio
- Non-performing loan (NPL) %
- concentrations.

Operational risk
- operational losses % to total income.

Market risk
- normal and stressed value-at-risk (SVaR) limits.

Interest rate risk
- interest rate sensitivity.

Business risk
- cost-to-income ratio
- ROE
- Headline earnings per share.

Liquidity risk
- NSFR
- LCR.

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).

The group's qualitative RAS, set out below, serves as a guide for embedding the risk appetite framework to guide strategic and operational decision making across the group.

- **Capital position:** The group aims to have a strong capital adequacy position measured by regulatory and economic capital adequacy ratios. The group manages its capital levels to support business growth, maintain depositor and creditor confidence, create value for shareholders and ensure regulatory compliance. Each banking subsidiary must further comply with regulatory requirements in the countries in which they operate

- **Funding and liquidity management:** The group's approach to liquidity risk management is governed by prudence and is in accordance with the applicable laws and regulations and takes into account the competitive environment in which each banking subsidiary operates. Each banking subsidiary must manage liquidity risk on a self-sufficient basis
- **Earnings volatility:** The group aims to have sustainable and well-diversified earnings streams in order to minimise earnings volatility through business cycles
- **Reputation:** The group has no appetite for compromising its legitimacy or for knowingly engaging in any business, activity or relationship which could result in foreseeable reputational risk or damage to the group
- **Conduct:** The group has no appetite for wilful conduct failures, inappropriate market conduct or knowingly causing a breach of regulatory requirements. The group strives to meet customers' expectations for efficient and fair engagements by doing the right business, the right way, thereby upholding the trust of its customers.

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 planning
- 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 industry-wide 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. 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.

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 and strategy.

The results of the macroeconomic stress testing are presented at a board level in order to consider whether the group's risk profile is consistent with its risk appetite 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.

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.

The group participated in a common scenario stress test conducted by the Financial Stability Department of the SARB in the first quarter of 2016 to evaluate the soundness of the South African domestic banking sector.

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.

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

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DEFINITION

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

It is composed of obligor risk (including borrowers and trading counterparties), concentration risk, and country risk.

APPROACH TO MANAGING AND MEASURING CREDIT RISK

The group's credit risk is a function of its business model and arises from wholesale and retail loans and advances, underwriting and guarantee commitments, as well as from the counterparty credit risk arising from derivatives and securities financing contracts entered into with our customers and trading counterparties. To the extent equity risk is held on the banking book, it is also managed under the credit risk governance framework.

The management of credit risk is aligned to the group's three lines of defence framework. The business function owns the credit risk assumed by the group and as the first line of defence is primarily responsible for its management, control and optimisation in the course of business generation.

The credit function acts as the second line of defence and is responsible for providing independent and objective approval and oversight for the credit risk-taking activities of business, to ensure the process of procuring revenue, while assuming optimal risk, is undertaken with integrity.

Further second line oversight is provided by the group risk function through independent credit risk assurance.

The third line of defence is provided by GIA, under its mandate from GAC.

Credit risk is managed through:

- maintaining a culture of responsible lending and a robust risk policy and control framework
- identifying, assessing and measuring credit risk across the group, from an individual facility level through to an aggregate portfolio level
- defining, implementing and continually re-evaluating risk appetite under actual and stressed conditions

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- monitoring the group's credit risk exposure relative to approved limits
- ensuring that there is expert scrutiny and approval of credit risks and its mitigation independently of the business functions.

A credit portfolio limit framework has been defined to monitor and control the credit risk profile within the group's approved risk appetite. All primary lending credit limits are set and exposures measured on the basis of risk weighting in order to best estimate exposure at default (EAD). Pre-settlement counterparty credit risk inherent in trading book exposures is measured on a PFE basis, modelled at a defined level of confidence, using approved methodologies and models, and controlled within explicit approved limits for the counterparties concerned.

GOVERNANCE

Credit risk is governed in accordance with the group's comprehensive risk, compliance and capital management framework as defined and detailed in the group credit risk governance standard and the model risk governance framework.

The purpose of the group credit risk governance standard is to establish and define the principles under which the group is prepared to assume credit risk and the overall framework for the consistent and unified governance, identification, measurement, management and reporting of credit risk in the group. The standard is supported by underlying policies and procedures within the business units.

The group's credit governance process relies on both individual responsibility and collective oversight, supported by comprehensive and independent reporting. This approach balances strong corporate oversight at a group level, with participation by the group's senior executives, in all significant risk matters.

The GRCMC is the principal board subcommittee ultimately responsible for the oversight of credit risk.

GROC is responsible for credit risk management governance, effected through its subcommittees, which include the CIB and PBB credit governance committees, the group equity risk committee (ERC) and the intragroup exposure committee. These governance committees are key components of the credit risk management framework. They have clearly defined mandates and delegated authorities, which are reviewed regularly. Their mandates include responsibility for credit concentration risk decision making and delegation thereof to credit officers and subcommittees within defined parameters.

Key aspects of rating systems and credit risk models are approved by the PBB, CIB and group model approval committees, all of which are mandated by the board as designated committees. Regular model validation and reporting to these committees is undertaken by the independent central validation function.

APPROVED REGULATORY CAPITAL APPROACHES

The group has approval from the SARB to adopt the advanced internal ratings-based (AIRB) approach for most credit portfolios. The group has approval from the SARB to adopt either the market-based or the probability of defaults (PD)/loss given defaults (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.

For bank and certain corporate asset class credit exposures on the standardised approach the group makes use of the ratings of two regulatory-approved external credit assessment institutions, Fitch and Moody's. With respect to mainly sovereign credit exposures subject to the standardised approach reference is also made to the export credit ratings issued by the Organisation for Economic Cooperation and Development. The group applies issuer ratings to calculate risk weights and will only apply an issuer-specific rating in the event that it invests in a particular issue that has an issue-specific assessment.

Regulatory capital for the credit risk arising on the owner-occupied sub-portfolio of the commercial property finance portfolio in South Africa is calculated on the standardised approach.

Application has, however, been made to and approval has been granted by the regulator for this portfolio to be managed on the AIRB approach. Once the model recalibration, as requested by the regulator, has been completed the change will be effected.

The credit rating scale in the next section is used for the alignment with the group's master rating scale. In the case of obligors 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 IRB regulatory capital approaches, the calculation of regulatory capital is based on an estimate of EAD and a risk weighting. The risk weighting is based on asset class, and estimates of PD, LGD, and maturity. Under the AIRB approach all the parameters need to be estimated internally, while only PD is estimated internally under the foundation IRB approach (FIRB). EAD, LGD and maturity are regulatory-prescribed under the FIRB approach.

Model development is governed by a group model risk governance framework, which applies to all models used in the assessment of credit risk, including but not limited to models used for the IRB approaches.

Credit risk model development is conducted within the independent risk function, while validation is independently undertaken by a quantitative analytics function.

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 subjected to validation to demonstrate the reliability of the model's output.

Model validation takes place when a model is first designed, when there are material changes to the model or when rating systems are replaced or enhanced. Models are thus assessed frequently to ensure ongoing appropriateness as business environments and strategic objectives change, and are recalibrated annually using the most recent internal data. Any changes to models or to model outputs are controlled through access rights and are subject to approval at the relevant business unit or group governance committee.

Ongoing overall South African supervisory approval of the approach taken by the group to model its exposure to credit risk on the IRB approach, as well as for all credit risk models used for regulatory capital purposes, is obtained primarily by way of an annual self-assessment. The assessment addresses all aspects of model design, the rating structure and criteria for ratings, the assessment horizon, integrity of the ratings process, governance around rating overrides, maintenance of data, stress tests for capital adequacy, integrity of estimates used and validation of the models.

The technical aspects of model usage, model development, model monitoring and model validation are reviewed by a technical committee. The outcomes of model technical discussions are reported to the relevant model approval committee.

GIA is responsible, within its regular audits, for expressing an opinion on the extent of compliance with the model risk governance framework and for reviewing model inputs.

IRB risk components

Probability of default

Probability of default is calculated using actual historical default rates and, in the case of retail exposures, is calibrated to a specific behaviour scorecard using a monotonic calibration technique that ensures a clear ranking of risk by mapping higher scores to lower PDs and vice versa. The estimates are adjusted to the long-run average default rate (through-the-cycle) to cater for potential downturn economic conditions.

The group uses a 25-point master rating scale to quantify the credit risk for each borrower (corporate asset classes) or facility (specialised lending and retail asset classes), as illustrated in the table on the next page. 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 on the next page describes the internally defined relationship between the group master rating scale, generally accepted defined investment grades, 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]
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

[1] During 2015, Fitch withdrew the Financial Services Board registration of their South African subsidiary. Their grades are retained in this table to cater for exposures that still reference Fitch.

Loss given default

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

LGD is calculated using the workout method (discounted cash flows). Forecasting is performed for accounts that are still in default at the end of the outcome period. 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 calculated as: PD x EAD x LGD.

Credit conversion factors

The group applies regulatory-approved credit conversion factors (CCF) to convert undrawn limits and other non-derivative off-balance sheet exposures to an equivalent EAD. The CCF are used to estimate the exposure at default for non-defaulted accounts. A downturn adjustment is made to cater for potential downturn economic conditions.

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

KEY PORTFOLIO MODELS

The group makes use of the following key models for its credit risk regulatory capital purposes:

- credit rating models for corporate exposures
- banking portfolio, distinct credit rating models are used for exposures to banks, sovereigns, local government, brokers, hedge funds, pension funds, asset managers, long- and short-term insurers, property finance (both developer and investor cash flow) and project finance respectively
- in the retail and personal lending segments, behavioural scorecard models are used for retail cheque portfolio, retail small and medium enterprises (SME), card, personal loans, home loans, retail and corporate SMEs, vehicle and asset finance, Blue Banner, pension-backed lending, Diners Club card and access loans
- PD, EAD and LGD modelling is integral to all of the models and portfolios detailed above.

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 R12 million. Corporate exposures also include specialised lending (project, object and commodity finance, as well as income-producing real estate), public sector entities and derivative trading counterparties.

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 borrower together with expert judgement and external rating agency ratings, leads to an assignment of an internal rating to the borrower.

Specialised lending's creditworthiness is assessed on a transactional level, rather than on the financial strength of the borrower, in so far 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.

Qualifying retail revolving exposure relates to cheque accounts, credit cards and revolving personal loans and products, and includes 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 in so far as it is approved and overseen under the mandate of the ERC rather than under the normal credit risk delegated authority structures.

Refer to **page 81** for more information regarding equity risk on the banking book.

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

Wherever warranted, the group will attempt to mitigate credit risk, including counterparty credit risk to any counterparty, transaction, sector, or geographic region, so as to achieve the optimal balance between risk, cost, capital utilisation and reward. Risk mitigation may include the use of collateral, the imposition of financial or behavioural covenants, the acceptance of guarantees from parents or third parties, the recognition of parental support, and the distribution of risk.

Collateral, parental guarantees, credit derivatives and on- and off-balance sheet netting are widely used to mitigate credit risk. Credit risk mitigation policies and procedures ensure that risk mitigation techniques are acceptable, used consistently, valued appropriately and regularly, and meet the risk requirements of operational management for legal, practical and timely enforcement. Detailed processes and procedures are in place to guide each type of mitigation used.

In the case of collateral where the group has an unassailable legal title, the group's policy is such that collateral is required to meet certain criteria for recognition in LGD modelling, including:

- being readily marketable and liquid
- being legally perfected and enforceable
- having a low valuation volatility
- being readily realisable at minimum expense
- having no material correlation to the obligor's credit quality
- having an active secondary market for resale.

The main types of collateral obtained by the group for its banking book exposures include:

- mortgage bonds over residential, commercial and industrial properties
- cession of book debts
- pledge and cession of financial assets
- bonds over plant and equipment
- the underlying movable assets financed under leases 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 obligors. Guarantors include banks, parent companies, shareholders and associated obligors. Creditworthiness is established for the guarantor as for other obligor credit approvals.

For trading and derivatives transactions where collateral support is considered necessary, the group typically uses internationally recognised and enforceable International Swaps and Derivatives Association (ISDA) agreements, with a credit support annexure (CSA). Netting agreements, such as collateral under the CSA of an ISDA agreement, are only obtained where the group has firstly a legally enforceable right to offset credit risk by way of such an agreement, and secondly where the group has the intention of utilising such agreement to settle on a net basis.

Other credit protection terms may be stipulated, such as limitations on the amount of unsecured credit exposure acceptable, collateralisation if the mark-to-market credit exposure exceeds acceptable limits, and termination of the contract if certain credit events occur, for example, downgrade of the counterparty's public credit rating.

Wrong-way risk arises in transactions where the likelihood of default (i.e. the PD) by a counterparty and the size of credit exposure (as measured by EAD) to that counterparty tend to increase at the same time. This risk is managed both at an individual counterparty level and at an aggregate portfolio level by limiting exposure to such transactions, taking adverse correlation into account in the measurement and mitigation of credit exposure and increasing oversight and approval levels. The group has no appetite for wrong-way risk arising where the correlation between EAD and PD is due to a legal, economic, strategic or similar relationship (i.e. specific wrong-way risk). General wrong-way risk, which arises when the correlation between EAD and PD for the counterparty, is due mainly to macro factors, is closely managed within existing risk frameworks.

To manage actual or potential portfolio risk concentrations in areas of higher credit risk and credit portfolio growth, the group implements hedging and other strategies from time-to-time. This is done at individual counterparty, sub-portfolio and portfolio levels through the use of syndication, distribution and sale of assets, asset and portfolio limit management, credit derivatives and credit protection.

Counterparty credit risk

The group is exposed to counterparty credit risk through movements in the fair value of securities financing and derivatives 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 PFE 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 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 underlying 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 (BG 1)
- Blue Granite Investments No. 2 (RF) Limited (BG 2)
- Blue Granite Investments No. 3 (RF) Limited (BG 3)
- Blue Granite Investments No. 4 (RF) Limited (BG 4)
- Siyakha Fund (RF) Limited (Siyakha)
- Blue Titanium Conduit (RF) Limited (BTC).

Securitisation achieves the following objectives for clients:

- facilitating non-bank access to global markets in a disintermediated fashion generating fee income and generally minimising the requirement for bank capital
- providing ancillary facilities, such as settlement and liquidity support, typically at the most senior positions in the SPE's capital structure with minimal credit risk exposures
- participating in the securitisation issuances, again in the most senior positions with minimal credit risk exposure
- providing asset-related services such as back-up servicing in asset classes where the group has a significant skill base.

Securitisation achieves the following objectives for the group:

- the group has originated a number of securitisations of its own home loan and auto loan assets. All of these transactions do comply with the securitisation regulation risk transfer requirements
- while at an SBSA company level the securitised assets are derecognised, the group has always retained the subordinated loans, consequently, has never derecognised the full credit risk associated with the securitised assets (i.e. the transactions have not resulted in a reduction of the RWA associated with the loans)
- the securitisation transactions are all aimed at raising funding from diversified sources beyond the bank's normal wholesale deposit base
- since 2014, the group also makes use of securitisation structures to provide collateral for the SARB CLF facility aimed at meeting the new LCR requirements.

BASEL: ROLES FULFILLED IN SECURITISING ASSETS

Securitisation transactions	Originator	Investor	Servicer	Liquidity provider	Credit enhancement provider	Swap counter-party
Traditional securitisations						
BG 1	✓	✓	✓		✓	
BG 2[1]	✓		✓		✓	
BG 3[1]	✓		✓		✓	
BG 4[1]	✓		✓		✓	
Siyakha	✓	✓	✓		✓	✓
Asset-backed commercial paper programme						
BTC		✓	✓	✓	✓	✓
Third-party transactions		✓		✓	✓	✓

[1] During 2016, SBSA received approval from SARB for the repurchase of the SE's underlying securitised asset.

BASEL: SECURITISATION TRANSACTIONS

	Asset type	Year initiated	Expected close	Assets securitised Rbn	Assets outstanding 2016 Rbn	Assets outstanding 2015 Rbn	Notes outstanding[1] 2016 Rbn	Notes outstanding[1] 2015 Rbn	Retained exposure[1,2] 2016 Rbn	Retained exposure[1,2] 2015 Rbn
Traditional securitisations				17.9	**2.5**	7.8	**2**	8.5	**1.72**	4.3
BG 1[3]	Retail mortgages	2005	2032	4.6	**0.7**	0.8	**0.7**	0.9	**0.6**	0.6
BG 2[3]	Retail mortgages	2006	2041	2.8		1.8		2	**0.01**	1
BG 3[3]	Retail mortgages	2006	2032	3	**0.2**	1.4		1.6	**0.2**	0.9
BG 4[3]	Retail mortgages	2007	2037	5.1	**0.3**	2.3		2.5	**0.01**	0.9
Siyakha[4]	Retail mortgages	2007	2043	2.4	**1.3**	1.5	**1.3**	1.5	**0.9**	0.9
Asset-backed commercial paper programme										
BTC[4]	Various	2002	N/A	N/A	**2.8**	3.2	**2.7**	3.2	**0.4**	0.2
Total				17.9	**5.3**	11	**4.7**	11.7	**2.12**	4.5

1 Capital plus accrued interest.
2 Includes notes, first and second loss subordinated loans and notes held by BTC.
3 Rating agency: Moody's.
4 Rating agency: Global Credit Rating Co.

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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.

Default

The group defines a default as occurring at the earlier of:

- when either, based on objective evidence, the counterparty is considered to be unlikely to pay amounts due on due date or shortly thereafter without recourse to actions such as realisation of security; or
- when the counterparty is past due for more than 90 days. The overdue period may be measured using a "days past due" or a "number of missed payments or part thereof" approach.

Performing loans

Performing loans are classified into two categories, namely:

- **neither past due nor specifically impaired loans:** these loans are current and fully compliant with all contractual terms and conditions. Normal monitoring loans within this category are generally rated 1 to 21, and close monitoring loans are generally rated 22 to 25 using the group's master rating scale

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- **early arrears but not specifically impaired loans:** early arrears but not specifically impaired loans include those loans where the counterparty has failed to make contractual payments and payments are less than 90 days past due, but it is expected that the full carrying value will be recovered when considering future cash flows, including collateral. Ultimate loss is unlikely but could occur if the adverse conditions persist.

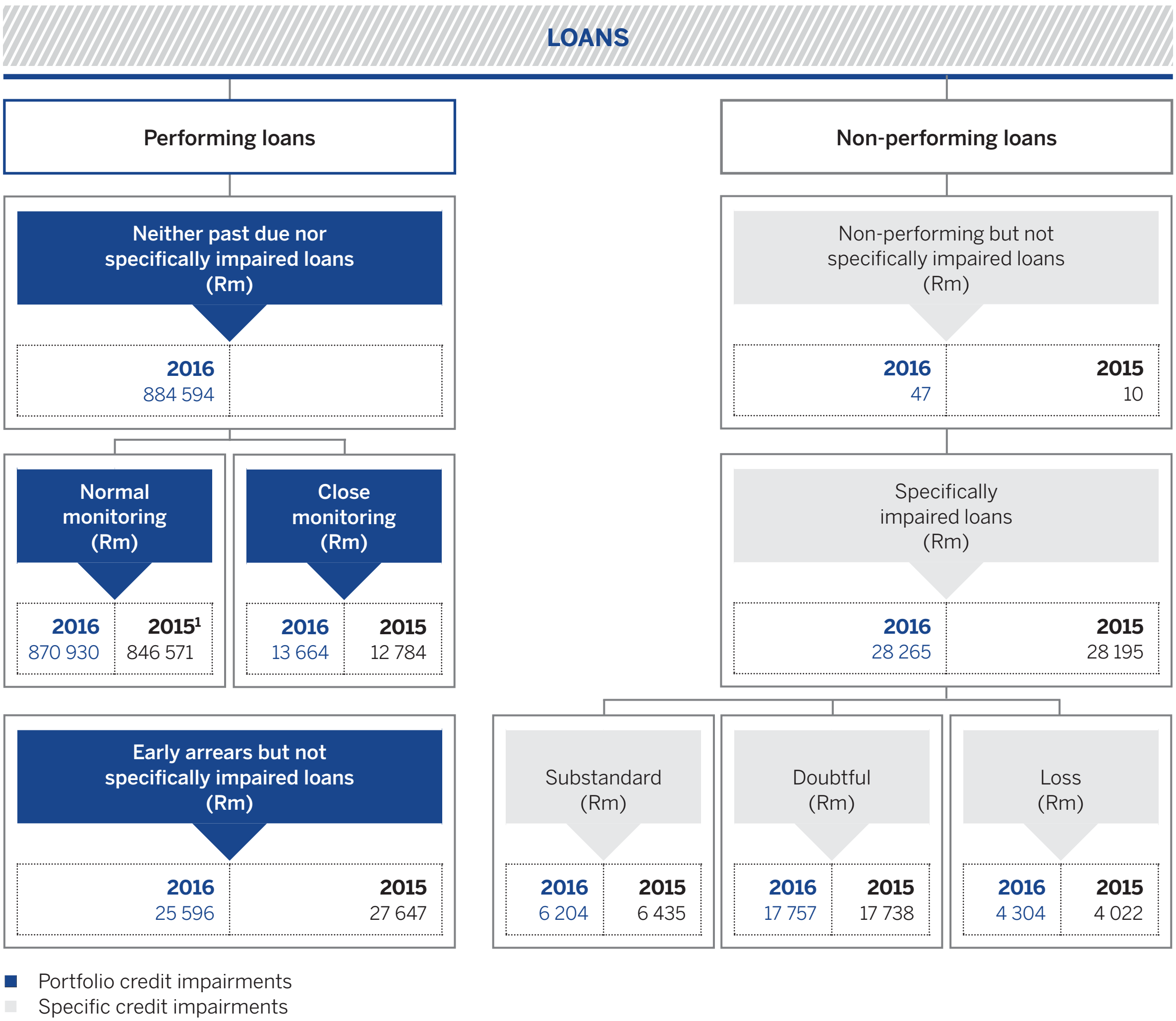
Non-performing loans

Non-performing loans are those loans for which the group has identified objective evidence of default, such as a breach of a material loan covenant or condition, or instalments are due and unpaid for 90 days or more.

Non-performing but not specifically impaired loans are not specifically impaired due to the expected recoverability of the full carrying value when considering the recoverability of future cash flows, including collateral.

Non-performing specifically impaired loans are those loans that are regarded as non-performing and for which there has been a measurable decrease in estimated future cash flows. Specifically impaired loans are further analysed into the following categories:

- **substandard:** items that show underlying well-defined weaknesses and are considered to be specifically impaired
- **doubtful:** items that are not yet considered final losses due to some pending factors that may strengthen the quality of the items
- **loss:** items that are considered to be uncollectible in whole or in part. The group provides fully for its anticipated loss, after taking collateral into account.



Credit impairment losses on loans and advances

Loans and advances are assessed for possible impairment at each reporting date. Before impairments are allocated to individual loans, consideration is first given to whether there is evidence of a decrease in expected cash flows from a portfolio of loans and advances. This will include estimations of the emergence period between the date of the occurrence of the loss event and the identification of that loss. Portfolio impairments are calculated for both performing and non-performing but not specifically impaired loans. Factors such as national- and industry-specific economic conditions, the extent of early arrears and any legislation that could affect recovery are all considered when calculating the portfolio impairment charge.

For those non-performing loans where there is objective evidence of default (such as a breach of a material loan covenant or instalments are due and unpaid for more than 90 days), specific impairments are calculated using methodologies that include inputs such as segmentation, modelled expected losses and probability of default. Estimates of future cash flows on individually impaired loans are based on historical loss experience for similar loans.

Ⓐ IFRS: MAXIMUM EXPOSURE TO CREDIT RISK BY CREDIT QUALITY

	Performing loans				
		Neither past due nor specifically impaired		Not specifically impaired	
	Loans and advances Rm	Normal monitoring Rm	Close monitoring Rm	Early arrears Rm	Non-performing[1] Rm
2016					
Personal & Business Banking	520 599	457 384	13 008	25 570	
Mortgage loans	321 445	282 102	7 547	18 092	
Vehicle and asset finance	71 297	64 105	1 340	3 300	
Card debtors	30 668	25 611	1 228	1 643	
Other loans and advances	97 189	85 566	2 893	2 535	
– Personal unsecured lending	37 637	31 367	925	1 393	
– Business lending and other	59 552	54 199	1 968	1 142	
Corporate & Investment Banking	396 149	391 794	656	26	47
Corporate loans	331 112	327 068	656		45
Commercial property finance	65 037	64 726		26	2
Other services	21 754	21 752			
Gross loans and advances	938 502	870 930	13 664	25 596	47
Less: impairments for loans and advances	(18 096)				
Net loans and advances	920 406				
Add the following other banking activities exposures:					
Cash and balances with central banks	33 947				
Derivatives	60 074				
Financial investments[1]	91 551				
Trading assets[1]	107 442				
Pledged assets[1]	2 081				
Other financial assets	5 524				
Interest in financial instruments of group companies	33 573				
Total on-balance sheet exposure	1 254 598				
Letters of credit and bankers' acceptances	9 580				
Financial guarantees	45 051				
Irrevocable unutilised facilities	107 120				
Total exposure to credit risk	1 416 350				

[1] Includes exposures 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 NPL Rm	NPL %
5 166	15 328	4 143	24 637	14 287	10 350	10 350	42	24 637	4.7
3 433	10 195	76	13 704	10 257	3 447	3 447	25	13 704	4.3
252	1 232	1 068	2 552	1 429	1 123	1 123	44	2 552	3.6
596	471	1 119	2 186	619	1 567	1 567	72	2 186	7.1
885	3 430	1 880	6 195	1 982	4 213	4 213	68	6 195	6.4
259	3 173	520	3 952	1 127	2 825	2 825	71	3 952	10.5
626	257	1 360	2 243	855	1 388	1 388	62	2 243	3.8
1 038	2 429	159	3 626	1 216	2 410	2 410	66	3 673	0.9
942	2 242	159	3 343	1 089	2 254	2 254	67	3 388	1.0
96	187		283	127	156	156	55	285	0.4
		2	2		2	2	100	2	
6 204	17 757	4 304	28 265	15 503	12 762	12 762	45	28 312	3.0

		Performing loans			
		Neither past due nor specifically impaired		Not specifically impaired	
	Loans and advances Rm	Normal monitoring Rm	Close monitoring Rm	Early arrears Rm	Non-performing[1] 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
Other services	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 group companies	39 557				
Total on-balance sheet exposure	1 244 090				
Letters of credit and bankers' acceptances	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 exposures 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 NPL Rm	NPL %
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	68	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

A IFRS: AGEING OF LOANS AND ADVANCES PAST DUE BUT NOT SPECIFICALLY IMPAIRED

	Less than 31 days Rm	31 – 60 days Rm	61 – 90 days Rm	Total Rm
2016				
Personal & Business Banking	**14 705**	**6 772**	**4 093**	**25 570**
Mortgage loans	**9 969**	**5 036**	**3 087**	**18 092**
Vehicle and asset finance	**2 110**	**834**	**356**	**3 300**
Card debtors	**970**	**392**	**281**	**1 643**
Other loans and advances	**1 656**	**510**	**369**	**2 535**
Personal unsecured lending	**992**	**339**	**322**	**1 653**
Business lending	**664**	**171**	**47**	**882**
Corporate & Investment Banking		**6**	**20**	**26**
Commercial property finance		**6**	**20**	**26**
Total	**14 705**	**6 778**	**4 113**	**25 596**
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 lending	696	126	74	896
Total	16 787	6 857	4 003	27 647

IFRS: INDUSTRY SEGMENTAL ANALYSIS OF GROSS LOANS AND ADVANCES

	2016 Rm	2015 Rm
Agriculture	**8 450**	18 176
Construction	**16 746**	15 860
Electricity	**12 771**	10 833
Finance, real estate and other business services	**299 346**	297 001
Individuals	**414 913**	402 050
Manufacturing	**44 200**	34 267
Mining	**24 683**	34 822
Transport	**80 082**	73 199
Wholesale	**19 910**	15 242
Other services	**17 401**	13 757
Gross loans and advances	**938 502**	915 207

IFRS: GEOGRAPHIC SEGMENTAL ANALYSIS OF GROSS LOANS AND ADVANCES

	2016 Rm	2015 Rm
Segmental analysis – geographic area		
South Africa	**752 701**	698 612
Sub-Saharan Africa	**53 410**	59 720
Other countries	**132 391**	156 875
Gross loans and advances	**938 502**	915 207

IFRS: INDUSTRY SEGMENTAL ANALYSIS OF SPECIFIC CREDIT IMPAIRMENTS

	2016 Rm	2015 Rm
Agriculture	**67**	238
Construction	**233**	393
Electricity	**139**	3
Finance, real estate and other business services	**1 041**	900
Individuals	**8 410**	8 084
Manufacturing	**300**	219
Mining	**592**	1 195
Transport	**39**	35
Wholesale	**270**	1 457
Other services	**1 671**	214
Gross loans and advances	**12 762**	12 738

Restructured (or renegotiated) loans and advances

Restructured loans and advances are exposures that, on meeting certain eligibility criteria, have been rescheduled, rolled over or otherwise modified following weaknesses in the counterparty's financial position, and where it has been judged that contractual repayment under the revised conditions will likely continue after the restructure. All restructured exposures are assessed for impairment at the time of the restructure and continue to be assessed for impairment thereafter in accordance with the group's accounting policies.

The adherence by renegotiated (or restructured) exposures to the revised terms and conditions is closely monitored. The minimum monitoring period for the group's South African banking operations is six months as stipulated by the SARB directive 7 of 2015.

Exposures are required to perform against the revised terms and conditions for the minimum performance monitoring period prior to reclassification from an arrears to a performing status.

Subsequently, these exposures, together with all other exposures, continue to be monitored to assess whether they are either past due or impaired, with impairments recognised in accordance with the group's accounting policies. In addition, the group monitors the effectiveness of its restructure policies through, for example, monitoring the re-default rates of restructured exposure.

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, 60% (2015: 62%) is fully collateralised. The R417 million (2015: R514 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 95% (2015: 94%).

Of the group's total exposure, 46% (2015: 47%) is unsecured and mainly reflects exposures to well-rated corporate counterparties, bank counterparties and sovereign entities.

The group does not currently trade commodities that could give rise to physical commodity inventory or collateral exposure with the exception of precious metals. In the normal course of its precious metal trading operations the group does not hold allocated physical metal; however, this may occur from time-to-time. Where this does occur, appropriate risk and business approval is required to ensure that the minimum requirements are satisfied, including but not limited to approval of risk limits and insurance cover.

IFRS: COLLATERAL

	Total exposure (a+b) Rm	Unsecured (a) Rm	Secured (b) Rm	Netting agreements (c) Rm	Secured exposure after netting (b-c) Rm	Total collateral coverage		
						<= 50% Rm	51% – 100% Rm	> 100% Rm
2016								
Corporate	562 596	369 950	192 646	16 216	176 430	5 511	127 813	43 106
Sovereign	98 583	84 224	14 359	4 037	10 322		5 172	5 150
Bank	208 145	76 098	132 047	39 093	92 954	1 157	18 797	73 000
Retail	488 548	91 782	396 766		396 766	417	102 314	294 035
Retail mortgage	322 571		322 571		322 571	417	32 277	289 877
Other retail	165 977	91 782	74 195		74 195		70 037	4 158
Total	1 357 872	622 054	735 818	59 346	676 472	7 085	254 096	415 291

	Total exposure (a+b) Rm
Add: financial assets not exposed to credit risk	43 000
Add: interest in financial instruments of group companies	33 573
Less: impairments for loans and advances	(18 096)
Less: unrecognised off-balance sheet items	(161 751)
Total exposure	1 254 598
Reconciliation to SOFP	
Cash and balances with central banks	33 947
Derivative assets	60 074
Financial investments	107 442
Trading assets	2 081
Pledged assets	91 551
Loans and advances	920 406
Other financial assets	5 524
Interest in financial instruments of group companies	33 573
Total exposure	1 254 598

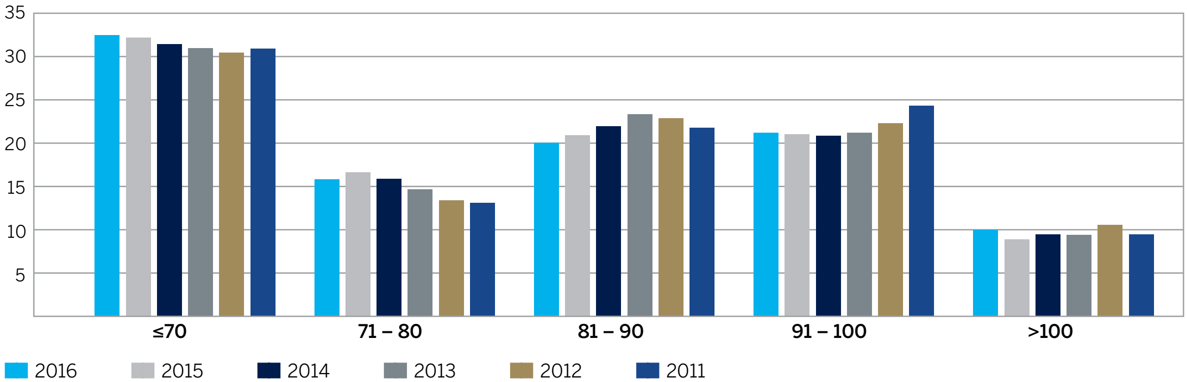
	Total exposure (a+b) Rm	Unsecured (a) Rm	Secured (b) Rm	Netting agreements (c) Rm	Secured exposure after netting (b-c) Rm	Total collateral coverage <= 50% Rm	51% – 100% Rm	> 100% Rm
2015								
Corporate	534 924	337 667	197 257	34 746	162 511	8 653	109 315	44 543
Sovereign	137 532	132 953	4 579	900	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 mortgage	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 group 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 group companies	39 557
Total exposure	1 244 090

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 2016)



The BTV is based on original property valuation estimate as at initial origination and does not consider the latest property valuation. The 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

61 Definition
61 Approach to managing compliance risk
61 – *General approach*
62 – *Approach to conduct risk*
62 – *Approach to managing money laundering and terrorist financing*
62 – *Approach to sanctions management*
62 – *Approach to managing regulatory change*
62 – *Approach to safety, health and environmental risk management*
62 Governance

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

In terms of its mandate, the compliance function operates independently of business as a second line of defence function. 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 for financial service providers and supervisory expectations.

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

A comprehensive risk management reporting and escalation procedure requires business unit and functional area compliance executives 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.

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

The group seeks to create long-term sustainable returns for all stakeholders. This value depends substantially on the way in which the group conducts its business with both clients and supervisors, and has a key co-dependency on third-party relationships. The group aspires to the highest standards of conduct, and has implemented a culture and conduct strategy of continued focus on client outcomes and market integrity.

As part of this strategy, the group has expanded culture and conduct governance at group and business unit level, and is further embedding the group values and code of ethics through a structured programme of training, communication, and personal commitment. This process of embedding conduct in strategy, decision making, and operational processes (including remuneration) will support mitigating future conduct risk.

Approach to managing money laundering and terrorist financing

Legislation pertaining to money laundering and terrorist financing control imposes significant requirements in terms of client due diligence, record keeping, staff training and the obligation to detect, prevent and report suspected money laundering and terrorist financing. Additional requirements are anticipated with the implementation of the Financial Intelligence Centre Amendment Bill.

These obligations will include the requirement to be able to quantify, understand and mitigate the anti-money laundering and combating the financing of terrorism risks inherent to the group's customer base. The group subscribes to the principles of the Financial Action Task Force, an international standards setting body that develops and promotes recommendations and guidance in relation to measures to combat money laundering and terrorist financing. An integrated systems approach is key to our approach in meeting our surveillance and reporting responsibilities.

Approach to sanctions management

The group actively manages the legal, regulatory and reputational risk presented by persons and entities subject to embargoes or sanctions imposed by competent authorities. The sanctions surveillance capability continues to be enhanced to meet supervisory expectations. The group sanctions review committee, supported by the group sanctions desk, is responsible for providing advice and decisions on 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 group's strategic intent 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 and our stakeholder relationships. 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.

Approach to safety, health and environmental risk management

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 safety, health and environmental risk management 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, and submits reports to, various group management and board committees, all of which facilitate awareness of compliance risk-related matters. The principal governance document is the group compliance risk governance standard, supported by the compliance risk management framework which underpins accountability and control frameworks.

Country risk

63 Definition
63 Approach to managing country risk
63 Governance
63 Approved regulatory capital approaches
64 Country risk portfolio characteristics and metrics

DEFINITION

Country risk, also referred to as cross-border country risk, is the uncertainty whether obligors (including the relevant sovereign, and the group's branches and subsidiaries in a country) will be able to fulfil obligations due 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 ratings models are employed to determine ratings for jurisdiction, sovereign and transfer and convertibility risk. In determining the ratings, extensive use is made of the group's network of operations, country visits and external information sources. These ratings are also a key input into the group's credit rating models.

The model inputs are continuously updated to reflect economic and political changes in countries. The model outputs are internal risk grades that are calibrated to a jurisdiction risk grade from aaa to d, as well as sovereign risk grade and transfer and convertibility risk grade (SB) from SB01 to SB25. Countries with sovereign/jurisdiction risk ratings of SB07/a and weaker, referred to as medium- and high-risk countries, are subject to more detailed analysis and monitoring.

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

- political and commercial risk insurance
- co-financing with multilateral institutions
- structures to mitigate transfer 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 jurisdiction risk and transfer and convertibility risk ratings' impact on credit grades.

COUNTRY RISK PORTFOLIO CHARACTERISTICS AND METRICS

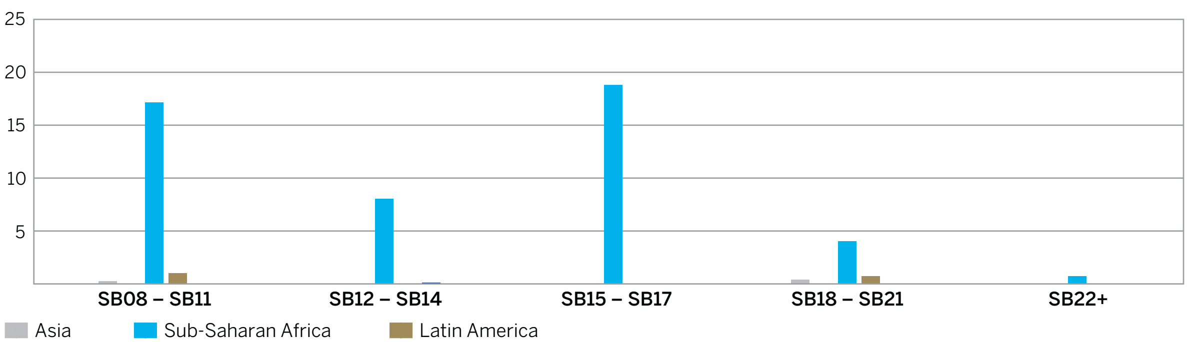
The risk distribution of cross-border country risk exposures is weighted towards European, Asian and North American low-risk countries, as well as sub-Saharan African medium- and high-risk countries.

COUNTRY RISK EXPOSURE BY REGION AND RISK GRADE

	Europe %	Asia %	North America %	Sub-Saharan Africa %	Latin America %	Middle East and North Africa %	Australasia %
2016							
Risk grade							
SB01 – SB07	**17.28**	**23.39**	**4.33**	**0.70**		**1.79**	**0.98**
SB08 – SB11		**0.25**		**17.15**	**1.01**		
SB12 – SB14				**8.05**		**0.10**	
SB15 – SB17				**18.93**			
SB18 – SB21		**0.49**		**4.06**	**0.70**		
SB22+				**0.79**			
2015[1]							
Risk grade							
SB01 – SB07	27.84	11.72	8.67	0.60		0.92	1.61
SB08 – SB11	0.26	0.34		14.18	2.32	0.01	
SB12 – SB14	0.48			7.39		0.50	
SB15 – SB17		0.39		20.72			
SB18 – SB21				0.34			
SB22+				0.69	1.02		

1 Restated. Refer to page 90.

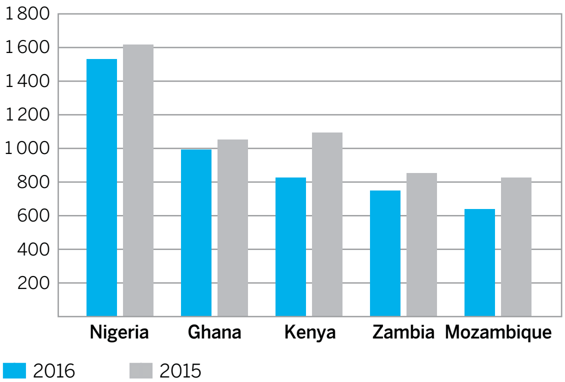
Medium- and high-risk country exposure by region (%)[1]



1 Restated. Refer to page 90.

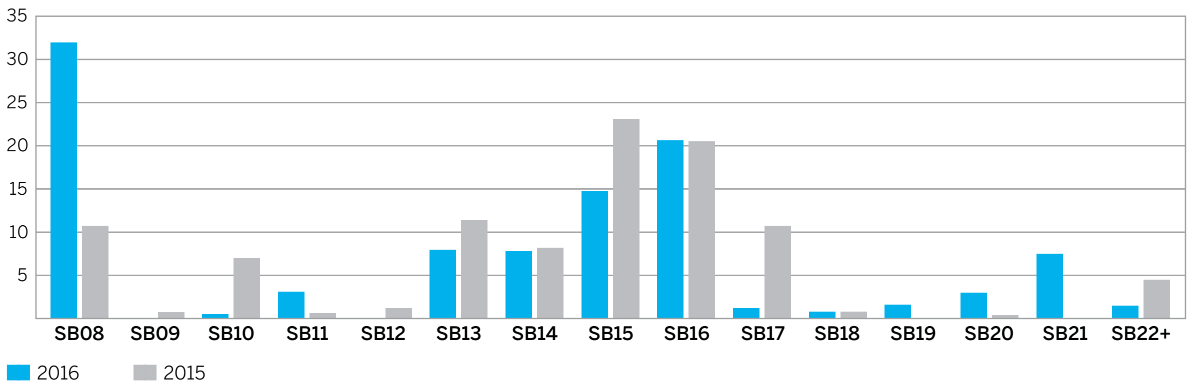
Exposure to the top five medium- and high-risk countries is shown together with comparatives in the graph below. These exposures are in line with the group's growth strategy, which is focused on Africa.

Top five medium- and high-risk country risk EAD (USDm)[1]



[1] Restated. Refer to page 90.

Medium- and high-risk country EAD concentration by country ceiling (%)[1]



[1] Restated. Refer to page 90.

Funding and liquidity risk

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66	Approach to managing liquidity risk
67	Governance
68	Liquidity characteristics and metrics
68	– *Contingency liquidity risk management*
70	– *Structural liquidity mismatch*
74	The group's credit ratings
74	Conduits

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 governance standard is designed to ensure the comprehensive management of liquidity risks within the group in all geographies 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. Liquidity risk is managed on a consistent basis across the group's banking subsidiaries, allowing for local requirements.

Information relating to the year ended 31 December 2016, is based on Basel III principles, including behavioural profiling methods and assumptions, as well as phasing-in requirements where applicable.

A

APPROACH TO MANAGING LIQUIDITY RISK

The nature of the group's banking and trading activities gives rise to continuous exposure to liquidity risk. Liquidity risk may arise where counterparties, who provide the group with short-term funding, withdraw or do not roll over that funding, or normally liquid assets become illiquid as a result of a generalised disruption in asset markets.

The group manages liquidity in accordance with applicable regulations and within the group's risk appetite framework. The group's liquidity risk management governance framework supports the measurement and management of liquidity across both the corporate and retail sectors to ensure that payment obligations can be met by the group's legal entities, under both normal and stressed conditions. Liquidity risk management ensures that the group has the appropriate amount, diversification and tenor of funding and liquidity to support its asset base at all times.

The group manages liquidity risk as three interrelated pillars, which are aligned to the Basel III liquidity requirements.

LIQUIDITY MANAGEMENT CATEGORIES

TACTICAL (SHORT-TERM) LIQUIDITY RISK MANAGEMENT	STRUCTURAL (LONG-TERM) LIQUIDITY RISK MANAGEMENT	CONTINGENCY 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.	• 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 January 2018.	• 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 LCR.

BASEL III IMPLEMENTATION TIMELINE (MINIMUM STANDARD)

		2016	2017	2018	2019
Liquidity	LCR	70%	80%	90%	100%
	NSFR			100%	100%

The LCR is a metric introduced by the BCBS to measure a bank's ability to manage a sustained outflow of customer funds in an acute stress event over a 30-day period. The ratio is calculated by taking the group's high-quality liquid assets (HQLA) and dividing it by net cash outflows. The minimum regulatory LCR requirement for 2016 was 70%, increasing by 10% annually to reach 100% by 1 January 2019.

The group exceeded the 70% minimum phase-in requirement for 2016.

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 focus on balance sheet optimisation and mix in conjunction with Basel III NSFR compliance by January 2018. In August 2016, the SARB issued a final directive confirming that the funding received from financial corporates, excluding banks, maturing within six months receives an available stable funding factor of 35%. The group, together with the local banking industry, continues to engage through the Banking Association South Africa (BASA) with the SARB to explore further market-based solutions to ensure that the NSFR framework aligns to local industry conditions and requirements.

GOVERNANCE

The primary governance committee overseeing liquidity risk is the group ALCO, which is chaired by the group financial director.

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 updating of contingency funding plans while considering budget forecasting continues to be a focus area for the asset liability management teams across the group.

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 for the three months ended 31 December 2016 and 31 December 2015.

LIQUIDITY COVERAGE RATIO

	2016[1]		2015[2]	
	Total unweighted[3] value (average) Rm	**Total weighted[4] value (average) Rm**	Total unweighted[3] value (average) Rm	Total weighted[4] value (average) Rm
HQLA				
Total HQLA		**151 297**		121 150
Cash outflows	**1 070 380**	**312 972**	879 578	301 234
Retail deposits and deposits from small business customers, of which:	**235 471**	**20 241**	225 493	19 572
Stable deposits[5]				
Less-stable deposits	**235 471**	**20 241**	225 493	19 572
Unsecured wholesale funding, of which:	**438 260**	**255 944**	403 746	242 785
Operational deposits (all counterparties) and deposits in networks of cooperative banks	**152 696**	**38 174**	144 786	41 626
Non-operational deposits (all counterparties)	**285 526**	**217 732**	258 924	201 123
Unsecured debt	**38**	**38**	36	36
Secured wholesale funding		**11**		12 789
Additional requirements	**112 835**	**22 328**	87 420	18 288
Outflows related to derivatives exposures and other collateral requirements	**24 414**	**10 687**	7 196	7 150
Outflows related to loss of funding on debt products	**2 995**	**2 995**	2 694	2 694
Credit and liquidity facilities	**85 426**	**8 646**	77 530	8 444
Other contractual funding obligations	**4 228**	**4 228**	3 508	3 508
Other contingent funding obligations	**279 586**	**10 220**	159 411	4 292
Cash inflows	**186 120**	**155 950**	188 891	153 711
Secured lending	**41 428**	**32 444**	27 909	24 314
Inflows from fully performing exposures	**126 263**	**109 374**	140 301	121 206
Other cash inflows	**18 429**	**14 132**	20 681	8 191

	Total adjusted value[6] Rm	Total adjusted value[6] Rm
Total HQLA	**151 297**	121 150
Total net cash outflows	**157 022**	147 523
LCR (%)	**96.4%**	82.1%

1 The simple average of the month-end values at 31 October 2016, 30 November 2016 and 31 December 2016.
2 The simple average of the month-end values at 31 October 2015, 30 November 2015 and 31 December 2015.
3 Unweighted value represents the outstanding balances maturing or callable within 30 days (for inflows and outflows).
4 Total weighted value is calculated after the application of respective haircuts (for HQLA) or inflow and outflow rates (for inflows and outflows).
5 Restated. Refer to page 90.
6 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 instruments 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 instruments at the end of 2016 and 2015. 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 instruments other than eligible Basel III LCR HQLA (excluding trading assets) which would be able to provide significant sources of liquidity in a stress scenario.

TOTAL CONTINGENT LIQUIDITY

	2016 Rbn	2015[1] Rbn
Eligible LCR HQLA comprising:	**166.2**	126.9
Notes and coins	**12.3**	11.7
Cash and deposits with central banks	**21.7**	18.3
Government bonds and bills	**115.5**	80.3
Other eligible assets	**16.7**	16.6
Managed liquidity	**93.8**	95.2
Total contingent liquidity	**260.0**	222.1
Total contingent liquidity as a % of funding-related liabilities	**24.6%**	21.7%

1 Restated. Refer to page 90.

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.

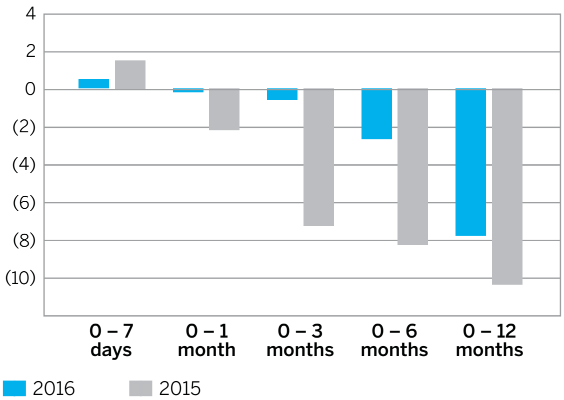
The graph on the following page shows the group's cumulative maturity mismatch between assets and liabilities for the 0 to 12 months maturity bucket, after applying behavioural profiling. The cumulative maturity is expressed as a percentage of the group's total funding-related liabilities.

Expected aggregate cash outflows are subtracted from expected aggregate cash inflows. These mismatches are monitored on a regular basis with active management intervention, if potential breaches outside risk appetite are evidenced. Liquidity transfer restrictions across the group are considered as part of the prudent liquidity risk management assumptions that are followed.

The group's cumulative liquidity mismatch remains within liquidity risk appetite and is well-positioned for NSFR compliance by January 2018.

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 derivatives liabilities, which are presented as redeemable on demand) and will, therefore, not agree directly to the balances disclosed in the consolidated SOFP.

Derivatives liabilities are included in the maturity analysis on a contractual, undiscounted basis when contractual maturities are essential for an understanding of the derivatives' future cash flows. Management considers only contractual maturities to be essential for understanding the future cash flows of derivatives liabilities that are designated as hedging instruments in effective hedge accounting relationships. All other derivatives 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.

A MATURITY ANALYSIS OF FINANCIAL LIABILITIES BY CONTRACTUAL MATURITY

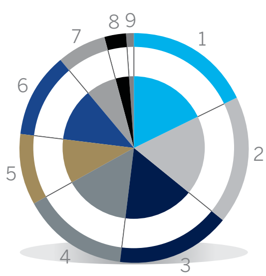
	Redeemable on demand Rm	Maturing within 1 month Rm	Maturing between 1 – 6 months Rm	Maturing between 6 – 12 months Rm	Maturing after 12 months Rm	Total Rm
2016						
Financial liabilities						
Derivative financial instruments	65 399	191	37	222	264	66 113
Instruments settled on a net basis	39 828	191	1	119	2	40 141
Instruments settled on a gross basis	25 571		36	103	262	25 972
Trading liabilities	26 976					26 976
Deposits and debt funding	548 240	85 421	99 085	96 547	117 427	946 720
Subordinated debt		65	534	838	22 161	23 598
Other		10 355				10 355
Total	640 615	96 032	99 656	97 607	139 852	1 073 762
Unrecognised financial instruments						
Letters of credit and bankers' acceptances	9 580					9 580
Guarantees	45 051					45 051
Irrevocable unutilised facilities	107 120					107 120
Total	161 751					161 751
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		9 812				9 812
Total	642 072	85 349	118 652	59 126	159 384	1 064 583
Unrecognised financial instruments						
Letters of credit and bankers' acceptances	9 304					9 304
Guarantees	47 777					47 777
Irrevocable unutilised facilities	93 482					93 482
Total	150 563					150 563

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 R1 021 billion in 2015 to R1 056 billion in 2016.

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



Funding diversification by product (%)

		2016	2015
1	Call deposits	18	18
2	Term deposits	18	17
3	Cash management deposits	16	13
4	Deposits from banks and central banks	15	21
5	Current accounts	10	10
6	Negotiable certificates of deposits	12	10
7	Senior and subordinated debt	7	7
8	Other funding	3	3
9	Savings accounts	1	1

FUNDING-RELATED LIABILITIES COMPOSITION[1]

	2016 Rbn	2015[2] Rbn
Corporate funding	243	240
Deposits from banks	191	239
Institutional funding	284	214
Retail deposits[3]	219	208
Government and parastatals	53	52
Senior debt	46	47
Subordinated debt issued	20	21
Total funding-related liabilities	**1 056**	1 021

1 Composition aligned to Basel III liquidity classifications.
2 Restated. Refer to page 90.
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

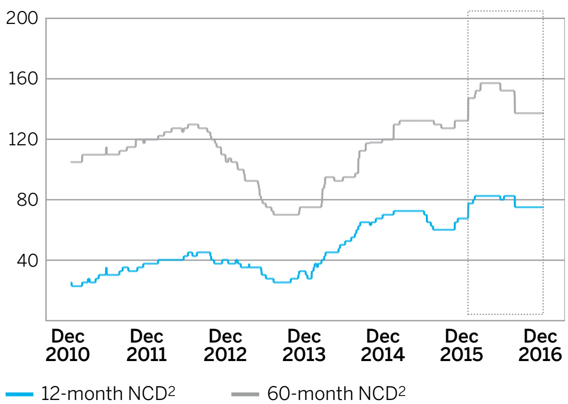
	2016 %	2015 %
Single depositor (limit 10%)	2.9	1.8
Top 10 depositors (limit 20%)	11.3	10.0

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 2016 raising R22.8 billion (2015: R21.6 billion) in the form of senior and subordinated debt, as well as syndicated loans. SBSA issued R1.7 billion Basel III compliant tier II capital instruments in 2016 (2015: R3.6 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 period under review, market cost of liquidity widened further, driven by continued investor uncertainty in the local market. Some stabilisation was seen in the second half of the year as credit conditions improved.

12- and 60-month liquidity spread (bps)[1]



1 Basis points (bps).
2 Negotiable certificates of deposit.

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-
South African sovereign foreign currency issuer default rating	BBB-

	MOODY'S
Group foreign currency deposit rating	Baa2
South African sovereign foreign currency rating	Baa2

Credit ratings for the group 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 and may trigger collateral calls. The group has implemented certain mitigation strategies to address the risks identified. Notwithstanding this mitigation, a ratings downgrade could have an impact on the cost and availability of foreign currency funding for the group.

A rating downgrade would reduce the thresholds above which collateral must be posted with counterparties to cover the group's negative mark-to-market on derivatives contracts. These are managed within the liquidity management pillar.

The potential cumulative impact on additional collateral requirements is as follows.

1, 2 AND 3 NOTCH RATING DOWNGRADES

	2016 Rm	2015 Rm
Impact on the group's liquidity of a collateral call linked to downgrade by:		
1 notch	398	165
2 notch	535	331
3 notch	535	331

CONDUITS

The group provides standby liquidity facilities to two conduits, namely BTC and Thekwini Warehouse Conduit. These facilities, which totalled R5.6 billion in 2016 (2015: R5.7 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 (2015: 3%). The liquidity facilities are included in both the group's structural liquidity mismatch, as well as in liquidity risk stress testing.

Market risk

75	Definition
75	Governance
76	Approved regulatory capital approaches
76	Trading book market risk
76	– *Definition*
76	– *Approach to managing market risk in the trading book*
76	– *Measurement*
76	– *VaR and SVaR*
78	– *Trading book portfolio characteristics*
79	Interest rate risk in the banking book
79	– *Definition*
79	– *Approach to managing IRRBB*
81	Equity risk in the banking book
81	– *Definition*
81	– *Governance*
81	– *Equity banking book price risk sensitivity analysis*
81	Foreign currency risk
81	– *Definition*
82	Own equity-linked transactions
82	– *Definition*
83	– *Approach to managing own equity-linked transactions*
83	Post-employment obligation 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
- IRRBB
- equity risk in the banking book
- foreign currency risk
- own 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 ERC, 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 model approach for most asset classes and across most market variables in SBSA 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 own equity-linked transactions. The group does not apply the incremental risk charge or comprehensive risk capital charge approach.

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 updated at least monthly, a holding period of one day and a confidence level of 95%. The historical VaR results are calculated in four steps:

- calculate 250 daily market price movements based on 251 days' historical data. Absolute movements are used for interest rates and volatility movements; relative for spot, equities, credit spreads, and commodity prices
- calculate hypothetical daily profit or loss for each day using these daily market price movements
- aggregate all hypothetical profits or losses for day one across all positions, giving daily hypothetical profit or loss, and then repeat for all other days
- VaR is the 95th percentile selected from the 250 days of daily hypothetical total profit or loss.

Daily losses exceeding the VaR are likely to occur, on average, 13 times in every 250 days.

SVaR uses a similar methodology to VaR, but is based on a 251-day period of financial stress which is reviewed quarterly and assumes a ten-day holding period and a worst case loss. The ten-day period is based on the average expected time to reduce positions. The period of stress for SBSA is currently the 2008/2009 financial crises while, for other markets, more recent stress periods are used.

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, inter alia, trading in debt securities issued by corporate and government entities, as well as trading derivatives 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 SBSA.

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 prompt to a review or close-out positions.

Stress tests

Stress testing provides an indication of the potential losses that could occur under extreme but plausible market conditions, including where longer holding periods may be required to exit positions. Stress tests comprise individual market risk factor testing, combinations of market factors per trading desk and combinations of trading desks using a range of historical, hypothetical and Monte Carlo simulations. Daily losses experienced during the period ended 31 December 2016, did not exceed the maximum tolerable losses as represented by the group's stress scenario limits.

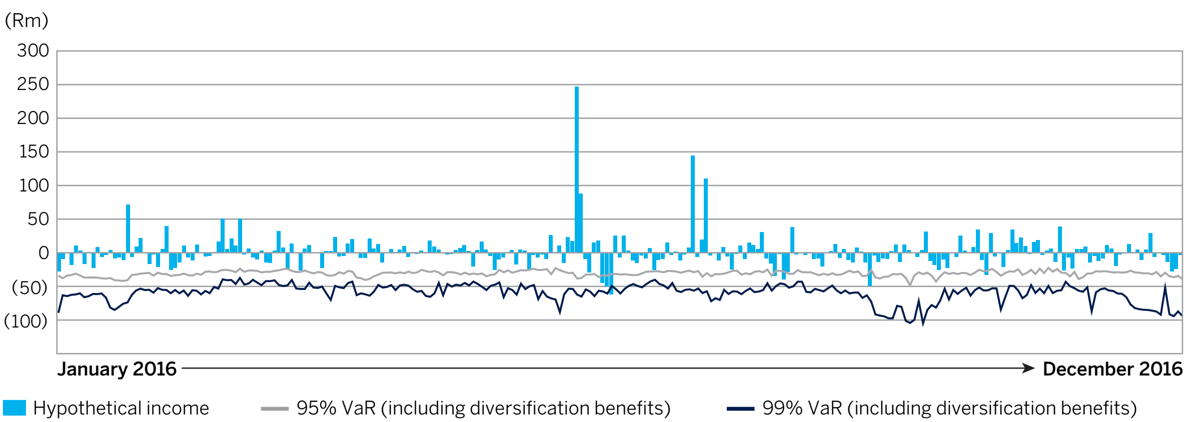
Backtesting

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 period ended 31 December 2016. The volatility in hypothetical profit in June 2016 is largely as a result of the devaluation of the Nigerian naira and Brexit, and in July and August 2016, due to the further devaluation of the Nigerian naira and Zambian kwacha.

Regulators categorise a VaR model as green, amber or red and assign regulatory capital multipliers based on this categorisation. A green model is consistent with a satisfactory VaR model and is achieved for models that have four or less backtesting exceptions in a 12-month period at 99% VaR. All of the group's approved models were assigned green status in 2016 (2015: green). Seven exceptions occurred during 2016 (2015: 3) for 95% VaR and one exception (2015: zero) for 99% VaR.

Comparison of VaR estimates with gains/losses



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 higher levels of market risk throughout the year when compared to 2015 based on aggregated normal VaR measure and reduced levels based on aggregated SVaR measure.

A TRADING BOOK NORMAL VaR ANALYSIS BY MARKET VARIABLE

	Maximum[1] Rm	Minimum[1] Rm	Average Rm	Closing Rm
2016				
Commodities	**0.8**		**0.2**	**0.1**
Forex	**34.8**	**15.5**	**21.0**	**34.8**
Equities	**18.7**	**3.8**	**9.5**	**9.0**
Debt securities	**21.2**	**9.4**	**13.4**	**11.7**
Diversification benefits[2]			**(14.1)**	**(18.9)**
Aggregate	**47.6**	**18.5**	**29.9**	**36.6**
2015				
Commodities	1.6	0.1	0.2	0.1
Forex	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	47.6	18.5	29.8	27.8

1 The maximum and minimum VaR figures reported for each market variable do not necessarily occur on the same day. As a result, the aggregate VaR will not equal the sum of the individual market VaR values, and it is inappropriate to ascribe a diversification effect to VaR when these values may occur on different days.

2 Diversification benefit is the benefit of measuring the VaR of the trading portfolio as a whole, that is, the difference between the sum of the individual VaRs and the VaR of the whole portfolio.

A TRADING BOOK SVaR ANALYSIS BY MARKET VARIABLE

	Maximum Rm	Minimum Rm	Average Rm	Closing Rm
2016				
Commodities	**18.5**	**0.2**	**3.8**	**0.3**
Forex	**241.6**	**84.6**	**147.1**	**179.1**
Equities	**301.3**	**41.7**	**107.5**	**161.7**
Debt securities	**308.4**	**85.3**	**155.5**	**153.2**
Diversification benefits[1]			**(169)**	**(208.4)**
Aggregate	**418.1**	**162.1**	**244.9**	**285.8**
2015				
Commodities	20.8	0.3	3.7	1.8
Forex	269.9	39.8	181.3	143.5
Equities	311.1	21.3	109.4	171
Debt securities	271.2	137.6	197.7	271.2
Diversification benefits[1]			(197.1)	(236.2)
Aggregate	406.2	187.1	295	351.2

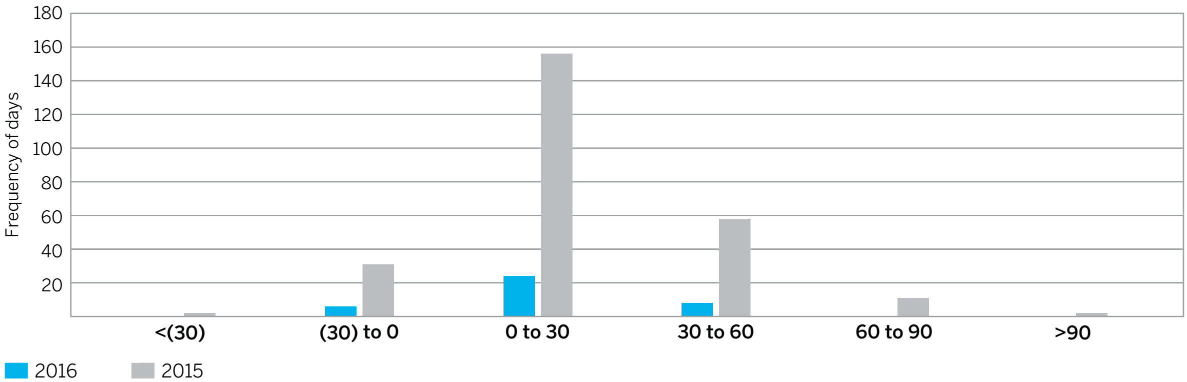
1 Diversification benefit is the benefit of measuring the SVaR of the trading portfolio as a whole, that is, the difference between the sum of the individual SVaRs and the SVaR of the whole trading portfolio.

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 period ended 31 December 2016, trading profit was positive for 227 out of 260 days (2015: 227 out of 260 days) on an aggregated 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-interest 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 derivatives 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-interest rate sensitive liabilities and equity less non-interest rate sensitive assets.

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

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, a downward 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 2016 SOFP, decrease the forecast 12-month net interest income by R2.3 billion (2015: R2.6 billion).

INTEREST RATE SENSITIVITY ANALYSIS[1]

		ZAR	USD	GBP	Euro	Other	Total
2016							
Increase in basis points		**200**	**100**	**100**	**100**	**100**	
Sensitivity of annual net interest income	Rm	**2 202**	**(32)**	**(9)**	**(15)**		**2 146**
Sensitivity of OCI	Rm	**11**	**(2)**	**(5)**		**2**	**6**
Decrease in basis points		**200**	**100**	**100**	**100**	**100**	
Sensitivity of annual net interest income	Rm	**(2 297)**	**32**	**3**			**(2 262)**
Sensitivity of OCI	Rm	**(11)**	**2**	**2**		**(2)**	**(9)**
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)

[1] Before tax.

EQUITY RISK IN THE BANKING BOOK

Definition

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

Though issuer risk in respect of tradable equity instruments constitutes equity risk, such traded issuer risk is managed under the trading book market risk framework.

Approach to managing equity risk in the banking book

Equity risk relates to all transactions and investments subject to approval by the group ERC, in terms of that committee's mandate, and includes debt, quasi-debt and other instruments that are considered to be of an equity nature.

For the avoidance of doubt, equity risk in the banking book excludes strategic investments in the group's subsidiaries, associates and joint ventures deployed in delivering the group's business and service offerings unless the group financial director and group 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 equity governance 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. 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 sensitivity for all non-trading equity investments assuming a 10% shift in the fair value. The analysis is shown before tax. The sensitivity of all trading exposures has been included in the VaR analysis on page 78.

MARKET RISK SENSITIVITY OF NON-TRADING EQUITY INVESTMENTS

	10% reduction Rm	Fair value Rm	10% increase Rm
2016			
Equity securities listed and unlisted	**3 176**	**3 529**	**3 882**
Impact on profit or loss	**(349)**		**349**
Impact on OCI	**(4)**		**4**
2015			
Equity securities listed and unlisted	2 463	2 737	3 011
Impact on profit or loss	(271)		271
Impact on OCI	(3)		3

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.

A 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 cash flow hedging relationships in terms of IFRS, are reported directly in OCI, with all other gains and losses on derivatives being reported in profit or loss.

Foreign currency risk sensitivity analysis

The table that follows reflects the expected financial impact, in rand equivalent, resulting from a 10% shock to foreign currency risk exposures, against ZAR. The sensitivity analysis is based on derivative financial instruments, foreign-denominated cash balances and accruals and intragroup foreign denominated debt. The sensitivity analysis reflects the sensitivity to OCI and profit or loss on the group's foreign-denominated exposures other than those trading positions for which sensitivity has been included in the trading book VaR analysis.

FOREIGN CURRENCY RISK SENSITIVITY

		USD	Euro	GBP	NGN	Other	Total
2016							
Total net long/(short) position	Rm	**638**	**15**	**1**	**0**	**(4)**	**650**
Sensitivity (ZAR depreciation)	%	**10**	**10**	**10**	**10**	**10**	
Impact on profit or loss	Rm	**(64)**	**(2)**			**23**	**(43)**
2015[1]							
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)

1 At the end of 2015 the group applied a 15% sensitivity given the unprecedented volatility in the exchange rate.

OWN EQUITY-LINKED TRANSACTIONS

Definition

The group has exposure to changes in SBG's share price arising from its equity-linked remuneration contractual commitments.

The group is exposed to income statement risk due to increases in the price of SBG's share price above the award grant price.

The following table summarises the group's most material share schemes together with an explanation of which risk (where applicable) the share scheme exposes the group to, and why, and an indication as to whether the share schemes are hedged.

SHARE SCHEME	RISK TO THE GROUP	EXPLANATION	HEDGED
Equity growth scheme (EGS)	Income statement risk	From SBG's perspective, the EGS is an equity-settled share scheme that is settled through the issuance of new shares. Accordingly, SBG does not incur any cash flow in settling the share scheme and hence is not exposed to any risk as a result of changes in its own share price. At an SBSA level, the EGS is a cash-settled share scheme and accordingly increases in SBG's share price result in losses being recognised in the income statement. Given that SBG is not exposed to any risk, the share scheme is not hedged.	No
Quanto stock unit scheme (Quanto)	Income statement risk	At both an SBG and SBSA level the Quanto is a cash-settled share scheme. Increases in SBG's share price result in losses being recognised in the income statement.	Yes
Equity-settled deferred bonus (DBS) and performance reward plan (PRP)	Income statement risk	From SBG's perspective, the DBS and PRP equity-settled share schemes are settled through the purchase of shares from the external market. At an SBSA level, the DBS and PRP are cash-settled share schemes and accordingly increases in SBG's share price result in losses being recognised in the income statement.	Yes
Cash-settled DBS and PRP	Income statement risk	At both an SBG and SBSA level the DBS and PRP are cash-settled share schemes. Increases in SBG's share price result in losses being recognised in the income statement.	No[1]

1 These awards are not hedged as the exposure is deemed insignificant.

Approach to managing own equity-linked transactions

The ALCOs of the respective group entities that issue the equity-linked transactions approve hedges of the group's share price risk with quarterly reporting to group ALCO which is chaired by the group 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 JSE's Listings Requirements, hedges are only permitted to be transacted outside of the group's closed periods which are in effect from 1 January and 1 July to the publication of the group's year end and interim results respectively and 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 40 in the annual financial statements for more detail on the group's post-employment obligation risk.

Operational risk

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86 – *IT risk*
87 – *Information risk (including cyber risk)*
87 – *Financial crime 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
- information risk (including cyber risk)
- compliance risk (more information on page 61)
- financial crime risk.

The following risk types are part of the group's 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 operational risk management function is independent from business line management and is part of the second line of defence reporting to the group CRO.

The core capabilities of operational risk ensures alignment and integration across:

- developing and maintaining the operational risk governance framework

- facilitating the business's adoption of the framework
- regulatory oversight
- monitoring and assurance
- reporting
- challenging the risk profile.

The operational risk management team proactively analyses root causes, trends and emerging threats, advises on the remediation of potential control weaknesses and recommends best-practice solutions. Through the use of self-assessments and risk-focused reviews, an independent monitoring and assurance team provides objective monitoring and assessment of the adequacy and effectiveness encompassing the implementation of the operational risk governance framework. To ensure regulatory compliance, the team also provides an assessment of regulatory requirements which are to be implemented within embedded operational risk management functions.

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 integrated operational risk function provides dedicated teams to corporate 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 corporate 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.

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 use the AMA for SBSA and the standardised approach for all other legal entities.

OPERATIONAL RISK SUBTYPES

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.

Model risk is mitigated through the following principles:
- fit-for-purpose governance
- maintaining a pool of skilled and experienced technical specialists
- robust model-related processes.

To give effect to these principles, model risk is governed by the model risk governance framework. This framework defines model risk, the scope of models, documentation needs, model materiality considerations, high-level model development requirements, validation requirements, usage and monitoring requirements, the governance and approval processes, and the roles and responsibilities across the three lines of defence. Model risk leverages the operational risk framework.

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-related taxes.

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.

Environmental and social risk

Environmental risk is described as a measure of the potential threats to the environment that activities may have. It combines the probability that events will cause or lead to the degradation of the environment and the magnitude of the 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:

- **indirect risk:** the environmental and social risks which occur as a result of our lending or financial service activities
- **direct risk:** these include our direct environmental and social impact, such as our waste management and the use of energy and water within group facilities.

The environmental and social risk team and the finance team are responsible for the identification, management, monitoring and reporting of financing risks. Group policy, advocacy and sustainability is responsible for policy development, sustainability reporting and stakeholder engagement.

The group 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 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.

IT 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. The group IT executive committee provides assurance that management has implemented an effective IT governance framework. The group IT architecture governance committee and a group IT risk and compliance committee assists the group IT executive committee in the fulfilment of its architecture and risk obligations.

IT, as it relates to financial reporting and the going 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 its 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 that its customers are well-protected. Actions to reduce the likelihood of risks materialising are identified and accountabilities for remediation are allocated to management.

Information risk (including cyber risk)

Information risk as part of integrated operational risk is 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 assets and personal information.

The Promotion of Access to Information Act 2 of 2000 (PAIA) gives effect to the constitutional right of access to information that is held by a private or public body. The group privacy office has adopted a process in terms of this act to manage requests for access to information.

The following information was disclosed in terms of applicable regulations:

- During 2016, the group processed 99 (2015: 18) requests for access to information, of which 19 were granted, 67 were denied and 13 are still in progress
- The reasons for the denial of access were:
  - 12 were for information that either did not exist or related to third parties and consent was denied/not obtained to release the information
  - 16 were denied based on no feedback received from the requestors when asked for additional follow-up information
  - 26 were denied as there was no PAIA request or needed no PAIA intervention
  - 13 were denied as the requestors did not submit the request using the prescribed forms in terms of section 53 of the PAIA.

Cyber risk may arise as a result of the disclosure, modification, destruction or theft of information stored, or transmitted on systems or networks, or from the unavailability of the transaction site, systems or networks. The cybersecurity operations centre, within group IT security, continues to manage this risk by proactively identifying malicious activity that poses a risk to the confidentiality, integrity and availability of the group's information assets.

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. Financial crime includes fraud, money laundering, violent crime and misconduct by staff, customers, suppliers, business partners, stakeholders and third parties.

Business risk

Business risk is the risk of earnings variability, resulting in 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 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.

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.

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.

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 a 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 and the group's qualitative RAS includes a statement on reputational risk.

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

Restatements

COUNTRY RISK

The group's previously reported results were prepared by country risk rating. These results have been restated to be disclosed on a country ceiling basis, which is a proxy for transfer and convertibility risk. This aligns with the disclosure in the current year.

Refer to **page 64**.

LCR (AVERAGE)

The previously reported stable deposits and total cash outflows have been restated as the result of an incorrect classification of stable deposits. These deposits have now been included in less stable deposits.

Refer to **page 69**.

TOTAL CONTINGENT LIABILITY

The previously reported results have been restated for an internal stress methodology change, which aligns to the current year's methodology and disclosure.

Refer to **page 70**.

FUNDING-RELATED LIABILITIES COMPOSITION

Certain amounts in the comparative period have been reclassified in order to align with the classification of funding-related liabilities in the current period.

Refer to **page 73**.

Annexure A
Composition of capital[1]

	Basel III Rm	Amounts subject to pre-Basel II treatment Rm
2016		
CET I capital	**68 097**	
Instruments and reserves		
CET I capital before regulatory adjustments	**87 516**	
Directly issued qualifying common share capital plus related stock surplus	**41 198**	
Retained earnings	**45 371**	
Accumulated other comprehensive income (and other reserves)	**947**	
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	**(19 419)**	
Prudential valuation adjustments	**(40)**	
Goodwill (net of related tax liability)	**(42)**	
Other intangibles other than mortgage-servicing rights (net of related tax liability)	**(16 634)**	
Deferred tax assets that rely on future profitability, excluding those arising from temporary differences (net of related tax liability)	**(20)**	
Cash flow hedge reserve	**(58)**	
Shortfall of provisions to expected losses	**(2 126)**	
Securitisation gain on sale		
Gains and losses due to changes in own credit risk on fair valued liabilities	**(38)**	
Defined benefit pension fund net assets	**(461)**	
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 III 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 2016.

	Basel III Rm	Amounts subject to pre-Basel II treatment Rm
2016		
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	**76 867**	
Capital and provisions		
Tier II capital before regulatory adjustments	**20 394**	
Directly issued qualifying tier II instruments plus related stock surplus	**20 080**	
Directly issued capital instruments subject to phase out from tier II	**12 930**	
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	**314**	

		Basel III Rm	Amounts subject to pre-Basel II treatment Rm
2016			
Regulatory adjustments			
Total regulatory adjustments to tier II capital		**(2 901)**	
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)		**(2 901)**	
National-specific regulatory adjustments			
Regulatory adjustments applied to tier II in respect of amounts subject to pre-Basel III treatment			
Total capital		**85 590**	
Total RWA		**560 735**	
RWA in respect of amounts subject to pre-Basel III treatment			
Capital ratios and buffers			
CET I (as a percentage of RWA)	%	**12.1**	
Tier I (as a percentage of RWA)	%	**12.1**	
Total capital (as a percentage of RWA)		**15.3**	
Institution-specific buffer requirement (minimum CET I requirement plus capital conservation buffer plus countercyclical buffer requirements plus G-SIB buffer requirement, expressed as a percentage of RWA)	%	**6.9**	
Capital conservation buffer requirement	%	**0.6**	
Bank-specific countercyclical buffer requirement	%	**0.0**	
G-SIB buffer requirement	%		
Common equity tier I available to meet buffers (as a percentage of RWA)	%	**5.3**	

		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 domestic systemically important banks (D-SIBs)	%	11.8	
National tier I minimum ratio (if different from Basel III minimum) – excluding ICR and D-SIBs	%	11.6	
National total capital minimum ratio (if different from Basel III minimum) – excluding ICR and D-SIBs	%	14.5	
Amounts below the threshold for deductions (before risk weighting)			
Non-significant investments in the capital of other financials		214	
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)		314	
Cap on inclusion of provisions in tier II under standardised approach		314	
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		2 320	
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)			

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
2016		
Assets		
Cash and balances with central banks	33 947	33 947
Derivatives assets	60 074	60 074
Trading assets	107 442	107 442
Pledged assets	2 081	2 081
Financial investments	91 551	91 551
Loans and advances	920 406	920 406
Current tax assets	264	264
Deferred tax assets	565	565
Interest in SBG companies, associates and joint ventures	34 807	34 807
Goodwill and other intangible assets	18 354	18 354
Property and equipment	8 637	8 637
Other assets	7 493	
Total assets	**1 285 621**	
Equity and liabilities		
Equity	96 290	96 285
Equity attributable to the ordinary shareholder	96 285	96 285
Ordinary share capital	60	60
Ordinary share premium	41 138	41 138
Reserves	55 087	55 087
Non-controlling interest	5	
Liabilities	1 189 331	1 189 071
Derivatives liabilities	67 104	67 104
Trading liabilities	26 976	26 976
Deposits and debt funding	937 038	937 038
Other liabilities and taxation	19 890	19 890
Liabilities to SBG companies	117 983	117 983
Subordinated debt	20 340	20 080
Total equity and liabilities	**1 285 621**	

Annexure C
Main features disclosure template

	Ordinary share capital (including share premium)	Subordinated bond – SBK9	Subordinated bond – SBK14	Subordinated bond – SBK15	Subordinated bond – SBK16
2016					
Issuer	SBSA	SBSA	SBSA	SBSA	SBSA
Unique identifier (e.g. CUSIP, ISIN or Bloomberg identifier for private placement)		ZAG000029687	ZAG000091018	ZAG000092339	ZAG000093741
Governing law(s) of the instrument	SA	SA	SA	SA	SA
Regulatory treatment					
Transitional Basel III rules	CET I	Tier II	Tier II	Tier II	Tier II
Post-transitional Basel III rules	CET I	Tier II	Tier II	Tier II	Tier II
Eligible at solo/group/group & solo	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
Amount recognised in regulatory capital (currency in Rm, as of most recent reporting date)	ZAR41 198	ZAR900	ZAR1 068	ZAR732	ZAR1 200
Par value of instrument	ZAR1	ZAR1 500	ZAR1 780	ZAR1 220	ZAR2 000
Accounting classification	Equity attributable to ordinary shareholders	Subordinated debt	Subordinated debt	Subordinated debt	Subordinated debt
Original date of issuance	Ongoing	2006/04/10	2011/12/01	2012/01/23	2012/03/15
Perpetual or dated	Perpetual	Dated	Dated	Dated	Dated
Original maturity date	N/A	2023/04/10	2022/12/01	2022/01/23	2023/03/15
Issuer call subject to prior supervisory approval	No	Yes	Yes	Yes	Yes
Optional call date, contingent call dates and redemption amount (currency in Rm)	N/A	2018/04/10 ZAR1 500	2017/12/01 ZAR1 780	2017/01/23 ZAR1 220	2018/03/15 ZAR2 000
Subsequent call dates, if applicable	N/A	2018/04/10 or any subsequent interest payment date	2017/12/01 or any subsequent interest payment date	2017/01/23 or any subsequent interest payment date	2018/03/15 or any subsequent interest payment date
Coupons/dividends					
Fixed or floating dividend/coupon	N/A	Fixed	Fixed	Floating	Floating
Coupon rate and any related index	N/A	8.40% semi annual	9.66% semi annual	JIBAR + 200	JIBAR + 210
Existence of a dividend stopper	No	No	No	No	No
Fully discretionary, partially discretionary or mandatory	Full discretionary	Mandatory	Mandatory	Mandatory	Mandatory
Existence of step up or other incentive to redeem	No	Yes	No	No	No
Non-cumulative or 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
If convertible, conversion trigger(s)	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
If convertible, conversion rate	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
If convertible, specify instrument type convertible into	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
Write-down feature	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
If write-down, full or partial	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
If temporary write-down, description of write-up mechanism	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
Non-compliant transitioned features	No	Yes	Yes	Yes	Yes
If yes, specify non-compliant features	N/A	Regulation 38(12) (a)(i) Regulation 38(12) (a)(iv)(D) Regulation 38(12) (a)(iv)(H)(ii)	Regulation 38(12) (a)(i) Regulation 38(12) (a)(iv)(H)(ii)	Regulation 38(12) (a)(i) Regulation 38(12) (a)(iv)(H)(ii)	Regulation 38(12) (a)(i) Regulation 38(12) (a)(iv)(H)(ii)

Subordinated bond – SBK17	Subordinated bond – SBK18	Subordinated bond – SBK19	Subordinated bond – SBK20	Subordinated bond – SBK21	Subordinated bond – SBK22	Subordinated bond – SBK23	Subordinated bond – SBK24	Subordinated bond – SBK25	Subordinated bond – SBK26
SBSA	SBSA	SBSA	SBSA	SBSA	SBSA	SBSA	SBSA	SBSA	SBSA
ZAG000097619 SA	ZAG000100827 SA	ZAG000100835 SA	ZAG00121781 SA	ZAG000123258 SA	ZAG000126442 SA	ZAG000126434 SA	ZAG000130584 SA	ZAG000135781 SA	ZAG000135799 SA
Tier II	Tier II	Tier II	N/A	N/A	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	Tier II
Group & solo	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	Subordinated debt
ZAR1 200	ZAR2 100	ZAR300	ZAR2 250	ZAR750	ZAR1 000	ZAR1 000	ZAR880	ZAR1 200	ZAR500
ZAR2 000	ZAR3 500	ZAR500	ZAR2 250	ZAR750	ZAR1 000	ZAR1 000	ZAR880	ZAR1 200	ZAR500
Subordinated debt	Subordinated debt	Subordinated debt	Subordinated debt	Subordinated debt	Subordinated debt	Subordinated debt	Subordinated debt	Subordinated debt	Subordinated debt
2012/07/30	2012/10/24	2012/10/24	2014/12/02	2015/01/28	2015/05/28	2015/05/28	2015/10/19	2016/04/25	2016/04/25
Dated	Dated	Dated	Dated	Dated	Dated	Dated	Dated	Dated	Dated
2024/07/30	2025/10/24	2024/10/24	2024/12/02	2025/01/28	2025/05/28	2027/05/28	2025/10/19	2026/04/25	2026/04/25
Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
2019/07/30	2020/10/24	2019/10/24	2019/12/02	2020/01/28	2020/05/28	2022/05/28	2020/10/19	2021/04/25	2021/04/25
ZAR2 000	ZAR3 500	ZAR500	ZAR2 250	ZAR750	ZAR1 000	ZAR1 000	ZAR880	ZAR1 200	ZAR500
2019/07/30 or any subsequent interest payment date	2020/10/24 or any subsequent interest payment date	2019/10/24 or any subsequent interest payment date	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	2021/04/25 or any interest payment date thereafter	2021/04/25 or any interest payment date thereafter
Floating	Floating	Floating	Floating	Floating	Floating	Fixed	Floating	Floating	Fixed
JIBAR + 220	JIBAR + 235	JIBAR + 220	JIBAR + 350	JIBAR + 330	JIBAR + 350	11.56% semi annual	JIBAR + 350	JIBAR + 400	12.25% semi annual
No	No	No	No	No	No	No	No	No	No
Mandatory	Mandatory	Mandatory	Mandatory	Mandatory	Mandatory	Mandatory	Mandatory	Mandatory	Mandatory
No	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-cumulative
Non-convertible	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	N/A	N/A
N/A	N/A	N/A	Yes	Yes	Yes	Yes	Yes	Yes	Yes
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	Point of non-viability	Point of non-viability
N/A	N/A	N/A	Regulatory discretion	Regulatory discretion	Regulatory discretion	Regulatory discretion	Regulatory discretion	Regulatory discretion	Regulatory discretion
N/A	N/A	N/A	Permanent	Permanent	Permanent	Permanent	Permanent	Permanent	Permanent
N/A	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	Senior unsecured
Yes	Yes	Yes	No	No	No	No	No	No	No
Regulation 38(12) (a)(i) Regulation 38(12) (a)(iv)(H)(ii)	Regulation 38(12) (a)(i) Regulation 38(12) (a)(iv)(H)(ii)	Regulation 38(12) (a)(i) Regulation 38(12) (a)(iv)(H)(ii)	N/A	N/A	N/A	N/A	N/A	N/A	N/A

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Our board of directors

The group has a unitary board structure with:

14 independent non-executive directors | 3 non-executive directors | 3 executive directors | chairman

DAC DIRECTORS' AFFAIRS COMMITTEE | GAC AUDIT COMMITTEE | GRCMC RISK AND CAPITAL MANAGEMENT COMMITTEE

LEC LARGE EXPOSURE CREDIT COMMITTEE | Committee chairman

THULANI GCABASHE/59
Chairman and independent non-executive director, SBG and SBSA
Appointed: 2003
Appointed chairman: 2015
DAC | GRCMC | LEC

SHU GU/49
Deputy chairman SBG and non-executive director, SBG and SBSA
Appointed: 2016
DAC | GRCMC

JACKO MAREE/61
Deputy chairman SBG and non-executive director, SBG and SBSA
Appointed: 2016
LEC

ARNO DAEHNKE/49
Group financial director, SBG and executive director, SBSA
Appointed: 2016
LEC

RICHARD DUNNE/68
Independent non-executive director, SBG and SBSA
Appointed: 2009
GAC | GRCMC

GERALDINE FRASER-MOLEKETI/56
Independent non-executive director, SBG and SBSA
Appointed: 2016
DAC | GRCMC

GESINA (TRIX) KENNEALY/58
Independent non-executive director, SBG and SBSA
Appointed: 2016
GAC | GRCMC

BEN KRUGER/57
Group chief executive, SBG and executive director, SBSA
Appointed: 2013
LEC

NOMGANDO MATYUMZA/54
Independent non-executive director, SBG and SBSA
Appointed: 2016
GRCMC

KGOMOTSO MOROKA/62
Independent non-executive director, SBG and SBSA
Appointed: 2003
DAC | GRCMC

MARTIN ODUOR-OTIENO/60
Independent non-executive director, SBG and SBSA
Appointed: 2016
GAC

ANDRÉ PARKER/65
Independent non-executive director, SBG and SBSA
Appointed: 2014
DAC | LEC

ATEDO PETERSIDE CON/61
Independent non-executive director, SBG and SBSA
Appointed: 2014
GAC

MYLES RUCK/61
Independent non-executive director, SBG and SBSA
Appointed: 2006
DAC | GRCMC | LEC

PETER SULLIVAN/68
Independent non-executive director, SBG and SBSA
Appointed: 2013
GAC | GRCMC

SIM TSHABALALA/49
Group chief executive, SBG and chief executive, SBSA
Appointed: 2008
LEC

SWAZI TSHABALALA/51
Independent non-executive director, SBG and SBSA
Appointed: 2014
GAC | GRCMC

JOHN VICE/64
Independent non-executive director, SBG and SBSA
Appointed: 2016
GAC | GRCMC

WENBIN WANG/41
Non-executive director, SBG and SBSA
Appointed: 2016
DAC | GRCMC

TED WOODS/70
Independent non-executive director, SBG and SBSA
Appointed: 2007
GAC | GRCMC

THULANI GCABASHE/59

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

Skills and experience:
Thulani Gcabashe is a seasoned leader with a breadth of experience gained from roles held in a range of industries. He was the chairman of Imperial Holdings and MTNZakhele. He was chief executive officer (CEO) of Eskom between 2000 and 2007 and a non-executive director of the National Research Foundation.

Committee membership:
- directors' affairs committee (chairman)
- risk and capital management committee
- large exposure credit committee

External appointments:
Built Environmental Africa Capital (chairman) and related entities; African Olive Trading 160

SHU GU/49

Qualifications:
Bachelor's degree in engineering (Shanghai Jiaotong University), Master's degree in economics (Dongbei University of Finance and Economics), Doctorate in economics (Shanghai University of Finance and Economics)

Skills and experience:
Dr Shu Gu has served as Vice Chairman, Executive Director and President of the Industrial and Commercial Bank of China Limited (ICBC) since 2016. He joined ICBC in 1998 and has served as Deputy General Manager of Accounting and Settlement Department, Deputy General Manager of Planning and Finance Department, General Manager of Finance and Accounting Department, Board Secretary and General Manager of Corporate Strategy and Investor Relations Department, Head of Shandong Branch and Senior Executive Vice President of ICBC. He is a senior accountant.

Committee membership:
- directors' affairs committee
- risk and capital management committee

External appointments:
- ICBC (London) Plc (chairman); ICBC (Argentina) (chairman)

JACKO MAREE/61

Qualifications:
BCom (Stellenbosch), BA and MA (Politics and Economics) (Oxford University), PMD (Harvard)

Skills and experience:
Jacko Maree has over 36 years' experience in banking. From November 1999 to March 2013, he served as chief executive of SBG. He retired from his role as a senior banker focusing on key client relationships in August 2015.

Committee membership:
- large exposure credit committee

Other appointments within the group:
Liberty Holdings (chairman), Liberty Group (chairman)

External appointments:
China Investment Corporation; Nelson Mandela Children's Hospital NPC; Phembani Group

ARNO DAEHNKE/49

Qualifications:
BSc, MSc (UCT), PhD (Vienna University of Technology), MBA (Milpark), AMP (Wharton)

Skills and experience:
Dr Arno Daehnke is an executive director of SBG and SBSA. He was previously head of SBG's treasury and capital management function and has extensive experience in key financial aspects such as financial planning under varying macroeconomic scenarios, managing a complex banking group balance sheet in volatile financial markets and a deep understanding of both local and international bank regulatory frameworks.

Committee membership:
- large exposure credit committee

Other appointments within the group:
Stanbic Africa Holdings

RICHARD DUNNE/68

Qualifications:
CTA (Wits), CA (SA)

Skills and experience:
Richard Dunne has both financial and audit experience. He was the chief operating officer of Deloitte & Touche, Southern Africa from 1998 until his retirement in 2006. His auditing background and experience, including that of being an audit partner responsible for several blue chip listed entities, has enabled him to effectively fulfill his role as chairman of the audit committee.

Committee membership:
- audit committee (chairman)
- risk and capital management committee

External appointments:
Anglo American Platinum; AECI

GERALDINE FRASER-MOLEKETI/56

Qualifications:
Master's degree in public administration (Pretoria)

Skills and experience:
Geraldine Fraser-Moleketi has experience in leadership and public policy formulation and implementation. Until December 2016, she was the Special Envoy on gender at the African Development Bank based in Côte d'Ivoire. Previously, she was director of the UN Development Programme's Democratic Governance Group. Between 1994 and 2008, she was a member of the South African parliament and served as the Minister of Public Service and Administration from 1999 to 2008, and as the Minister of Welfare and Population Development from 1996 to 1999.

Committee membership:
- directors' affairs committee
- risk and capital management committee

External appointments:
The Listen Charity; Mapungubwe Institute for Strategic Reflection; ISID Advisory Board McGill University Canada

TRIX KENNEALY/58

Qualifications:
BCom (Pretoria), BCom (Hons) (UJ), CA (SA)

Skills and experience:
Trix Kennealy has extensive business and financial services experience. From 2009 to 2013, she was the chief financial officer of the South African Revenue Service and prior to that, was the chief operating officer of ABSA Corporate and Business Bank between 2006 and 2008.

Committee membership:
- audit committee
- risk and capital management committee

External appointments:
Accounting Standards Board (chairman)
Sasol Ltd

BEN KRUGER/57

Qualifications:
BCom (Hons) (Pretoria), CA (SA), AMP (Harvard)

Skills and experience:
Ben Kruger has over 31 years of experience in banking. He joined the group in 1985, taking up various roles in Standard Corporate Merchant Bank (SCMB). He was appointed chief executive of SCMB in 2001. Between 2006 and 2008, he held the position of chief executive of global Corporate & Investment Banking and assumed the position of deputy group chief executive of SBG in 2009. He has been the SBG chief executive since 2013.

Committee membership:
- large exposure credit committee

Other appointments within the group:
Stanbic Africa Holdings (chairman); ICBC Standard Bank Plc

External appointments:
Institute of International Finance; Leadership for Conservation in Africa

NOMGANDO MATYUMZA/54

Qualifications:
B Compt (Hons) (Transkei), LLB (Natal), CA (SA)

Skills and experience:
Nomgando Matyumza has experience in diverse business and leadership roles. Between 2004 and 2008, she was the general manager of Eskom Distribution (Eastern Region), and prior to that, she was deputy chief executive at Transnet Pipelines. Her previous directorships include serving as a non-executive director on the boards of Cadiz Limited, Transnet SOC Limited and Ithala Development Finance Corporation.

Committee membership:
- risk and capital management committee

External appointments:
KwaZulu Natal Property Development Holdings; WBHO; Hulamin; Sasol Ltd

KGOMOTSO MOROKA/62

Qualifications:
BProc (University of the North), LLB (Wits)

Skills and experience:
Advocate Kgomotso Moroka was a member of the Judicial Services Commission for 15 years. She has played a leadership role across different industries and has served as a non-executive director on boards of blue chip companies. She is currently a trustee of the Nelson Mandela Children's Fund and the Apartheid Museum.

Committee membership:
- directors' affairs committee
- risk and capital management committee

External appointments:
Grinding Power (chairman); Kalagadi Manganese; Royal Bafokeng Platinum (chairman); Temetayo (chairman); South African Breweries; Multichoice South Africa Holdings; Netcare

MARTIN ODUOR-OTIENO/60

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

Skills and experience:
A fellow of the Kenyan Institute of Bankers, Dr Martin Oduor-Otieno has experience in banking and finance. His 15 years of experience in banking includes having served as the CEO of the Kenya Commercial Bank Group between 2007 and 2012. He was previously a partner at Deloitte East Africa and is a fellow at the Institute of Certified Public Accountants of Kenya. He is an independent business advisor in Kenya.

Committee membership:
- audit committee

External appointments:
GA Life Insurance Company; British American Tobacco Kenya; East African Breweries.

ANDRÉ PARKER/65

Qualifications:
BEcon (Hons), MCom (Stellenbosch)

Skills and experience:
André Parker, a businessman, spent most of his working career of 32 years, with the South African Breweries Limited. He spent the last 10 years prior to his retirement in charge of SABMiller Plc's Rest of Africa (excluding South Africa) and Asia business portfolio. Until recently, he was the chairman of Tiger Brands.

Committee membership:
- directors' affairs committee
- large exposure credit committee

External appointments:
Distell; Empresas Carozzi (Chile)

ATEDO PETERSIDE CON/61

Qualifications:
BSc (economics) (The City University, London), MSc (economics) (London School of Economics and Political Science), Owner/President Management Programme (Harvard)

Skills and experience:
Atedo Peterside, a businessman and banker, was the founder and chief executive of the then Investment Bank and Trust Company Limited (IBTC) from 1989 until 2007, and chairman of Stanbic IBTC Bank Plc from 2007 until September 2014. He was the chairman of the committee on Corporate Governance of Public Companies which wrote the first Code of Best Practices for Public Companies operating in Nigeria (published 2003).

Committee membership:
- audit committee

External appointments:
ANAP Holdings Ltd (chairman) and related entities; Cadbury Nigeria Plc (chairman); Flour Mills of Nigeria Plc; Unilever Nigeria Plc; Nigerian Breweries Plc

MYLES RUCK/61

Qualifications:
BBusSc (UCT), PMD (Harvard)

Skills and experience:
Myles Ruck, a banker with extensive background in risk management, spent most of his working career with the Standard Bank Group. He was chief executive of SCMB, deputy chief executive of SBG and chief executive of the Liberty Group until he retired from that position in June 2006. He was chairman of Standard Bank Argentina (now ICBC Argentina) until the group disposed of its majority shareholding.

Committee membership:
- directors' affairs committee
- risk and capital management committee (chairman)
- large exposure credit committee (chairman)

Other appointments within the group:
ICBC (Argentina) (vice chairman)

External appointments:
Mr Price Group

PETER SULLIVAN/68

Qualifications:
BSc (physical education) (University of New South Wales)

Skills and experience:
Peter Sullivan, a seasoned banker with experience in banking across sub-Saharan Africa, prior to his retirement in 2008, held various executive positions, including that of CEO of Standard Chartered Bank Africa and chief executive officer of Standard Chartered Bank (Hong Kong) Limited. Since his retirement, he has been a non-executive director on various boards and has primarily served on audit and remuneration committees.

Committee membership:
- audit committee
- risk and capital management committee

External appointments:
AXA China Region Insurance Company; AXA Asia; Healthcare Locums Plc (chairman); Techtronic Industries; Winton Capital Group

SIM TSHABALALA/49

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

Skills and experience:
Sim Tshabalala, a banker with over 22 years' experience in the financial services industry, joined the group in 2000 in the project finance division of SCMB and was appointed to the group executive committee in 2001. Between 2001 and 2006, he was the managing director of Stanbic Africa, and from 2006 was appointed chief executive of PBB. In June 2008, he was appointed chief executive of SBSA and was appointed SBG chief executive in 2013.

Committee membership:
- large exposure credit committee

Other appointments within the group:
Liberty Holdings; Liberty Group; Stanbic IBTC Bank (chairman); Stanbic Africa Holdings; Tutuwa Community Holdings

External appointments:
Banking Association South Africa (BASA); Business Leadership South Africa (BLSA)

SWAZI TSHABALALA/51

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

Skills and experience:
Swazi Tshabalala has financial and general management experience. She was previously CEO of the Industrial Development Group. She spent 10 years at Transnet state owned company Limited in various management roles including serving as group treasurer until March 2006. She previously served as non-executive director of Liberty Holdings and Liberty Group, as well as the Council for Scientific & Industrial Research. She is currently an executive director of Kupanua Investments.

Committee membership:
- audit committee
- risk and capital management committee

External appointments:
Barbican Engineering Solutions; Barbican Advisory Group; Luxehold; Vivacite Africa Luxury Holdings; XAU Investments; Air Chefs; Contextcom; South African Airways

JOHN VICE/64

Qualifications:
BCom (Natal), CTA (Natal), CA (SA)

Skills and experience:
John Vice has extensive experience in IT and audit, gained during his 39 years at KPMG, where he was a senior partner and held various IT-related roles, including heading the firm's audit practice, IT audit and IT consulting departments. Prior to joining the board, he was an independent advisor to the group IT board committee. He previously served on the board of Zurich Insurance South Africa Limited.

Committee membership:
- audit committee
- risk and capital management committee

External appointments:
Anglo American Platinum

WENBIN WANG/41

Qualifications:
Bachelor's degree in economics (Renmin University of China); Master's degree in business administration (Renmin University of China); PhD (management) (Renmin University of China)

Skills and experience:
Dr Wenbin Wang joined ICBC in 2000. He served as Senior Executive Vice president of ICBC Xi'an Branch from November 2011 to September 2013. He previously served in several positions in ICBC including Division Head of Network Management in the Human Resource Department, Division Head of Strategic Investment and IPO in the Restructuring Office, Division Head of Mergers and Acquisitions in Corporate Strategy and Investor Relations Department and Deputy General Manager of Corporate Strategy and Investor Relations Department. He also served as CEO of ICBC Africa since December 2013.

Committee membership:
- directors' affairs committee
- risk and capital management committee (alternate to Dr Shu Gu)

External appointments:
ICBC Standard Bank Plc

TED WOODS/70

Qualifications:
BCom (Wits), MBA (UCT), CA (SA), CFA

Skills and experience:
Ted Woods has extensive financial services experience spanning over 40 years. He was previously the chairman of Deutsche Securities and CEO of Deutsche Bank's businesses in South Africa between 1999 and 2002.

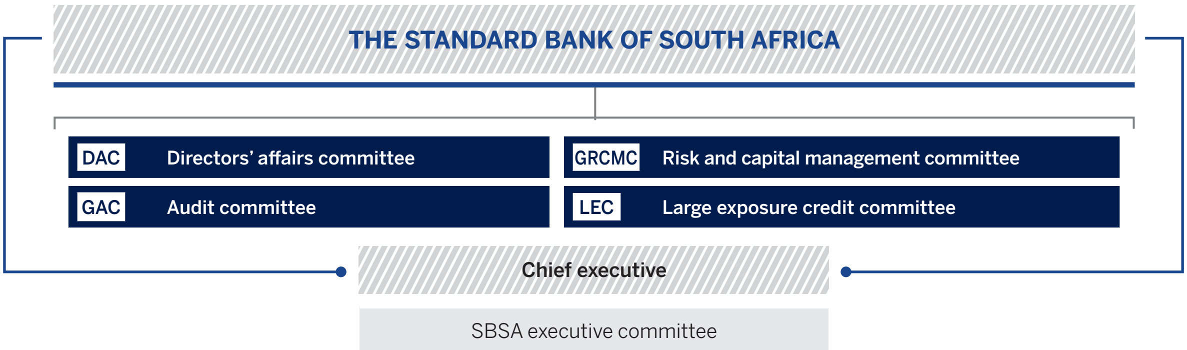
Committee membership:
- audit committee
- risk and capital management committee

External appointments:
African Parks Networks

Leadership

The board

The board is ultimately responsible for the group's corporate governance and for providing effective leadership based on an ethical foundation. It is accountable for the group's success in the interests of all its stakeholders. Its detailed roles and responsibilities are set out in the board mandate. The board mandate incorporates principles of corporate governance and complies with the provisions of the Companies Act, Banks Act and the company's Memorandum of Incorporation (MOI). The mandate, which also specifies matters reserved for board decision, is reviewed at least annually.



The group operates within a clearly defined governance framework which provides for the delegation of authority, in writing, for the day-to-day management of the group to the chief executive without abdicating the board's responsibility.

The delegation of authority framework is reviewed annually in consultation with the group finance function to ensure that the limits remain appropriate, taking into account the size of the group and its specific operational context. The group secretary monitors effective implementation of the delegation of authority.

The executives engage the board on all critical decisions of the group. All such engagements take place in an environment of mutual respect and with candour. All board decisions are consistently based on ethical foundations.

Board committees

The board has delegated certain functions to its committees in line with the corporate governance framework. This enables the board to allocate sufficient time to all matters within its sphere, including execution of strategy and forward-looking agenda items. Matters reviewed 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. Each committee comprises a majority of non-executive directors and an experienced chairman. In determining the composition of committees, the board considers the skills and experience of its members, applicable regulations, and the committee mandate. Where appropriate, and in line with regulations, committees only comprise independent non-executive directors or a majority of independent non-executive directors. The committee chairmen report to the board on the activities of the respective committee at each board meeting and chairmen submit written reports to the board which highlight matters for board attention. Each committee has its own mandate which is reviewed annually and any changes to it are recommended to the board for approval. In addition to the review, the board's compliance with the provisions of the respective mandates is done annually. The group's external auditors conduct a limited assurance assessment on the review, and express an opinion on this. The committee chairmen are accountable for the effective functioning of the committees.

The roles, membership and activities of these committees are described in the report from **page 116** to **125**

Separation of roles of chairman and chief executive

The role of chairman is separate from that of the chief executive, and there is a clear division of responsibilities.

CHAIRMAN'S RESPONSIBILITIES INCLUDE:

- setting the ethical tone for the board and group;
- leading the board and ensuring its effective functioning;
- setting the board's annual work plan and the agendas, in consultation with the group secretary, the chief executive and other directors;
- building and maintaining stakeholder trust and confidence;
- conveying feedback in a balanced and accurate manner between the board and the chief executive; and
- monitoring the effectiveness of the board and assessing individual performance of directors;

CHIEF EXECUTIVE'S RESPONSIBILITIES INCLUDE:

- appointing and ensuring proper succession planning of the executive team, and assessing their performance;
- developing the group's strategy for consideration and approval by the board;
- developing and recommending to the board budgets that support the group's long-term strategy;
- monitoring and reporting to the board on the performance of the group and its compliance with applicable laws and corporate governance principles;
- establishing an organisational structure for the group which is appropriate for the execution of strategy;
- setting the tone for ethical leadership and creating an ethical environment;
- ensuring a culture that is based on the group's values; and
- ensuring that the group operates within the approved risk appetite.

2016 Board activities

During the year, the board held five meetings which included the annual two day meeting dedicated to strategy. All board meetings allow for sufficient time for consideration of all matters and are normally scheduled for a full day. The chairman sets the board agenda, assisted by the chief executive and the group secretary. 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 being present in closed sessions led by the chairman. The primary objective of these sessions is to provide non-executive directors with an opportunity to test thoughts among peers and to raise any matters not deemed appropriate for discussion in the presence of executives. The chairman provides feedback to the chief executive on closed session discussions. Continuing board education sessions are scheduled a year in advance to ensure full board participation.

The board's calendar and activities in 2016:

1st QUARTER

- **1 March** Board education
- **2 March** Board meeting
- **3 March** Results announcement

2nd QUARTER

- **24 May** Board education
- **25 May** Board meeting
- **25 May** Annual General Meeting

3rd QUARTER

- **17 August** Board meeting
- **18 August** Results announcement
- **26 & 27 September** Strategy conference

4th QUARTER

- **29 November** Board education
- **30 November** Board meeting

Key areas and activities considered by the board in 2016

STRATEGY AND BUSINESS FOCUS

- held annual two-day strategy session and received feedback on the strategy work streams and strategy execution update from work stream heads
- approved management plans to achieve key metrics of the refreshed strategy in the light of the competitive environment
- considered global and Chinese economies and their implications for Africa
- considered detailed competitor analysis reports
- considered the group's IT investments
- approved the group's four-year strategy plan
- approved the 2017 group budget.

RISK AND OVERSIGHT

- reviewed quarterly financial performance reports against the agreed budget
- received quarterly feedback from the committee chairmen on its activities
- considered risk management, group capital and liquidity and group IT reports
- approved the group's annual report and annual financial statements
- in line with the Companies Act, reviewed the group's solvency, liquidity and going concern status
- considered the potential impact of a South Africa sovereign rating downgrade.

GOVERNANCE

- approved the appointment of seven non-executive directors in line with the board's succession plans
- considered the 2015 board evaluation report and implemented its action plans
- approved the board's promotion of gender diversity policy
- approved the 2016 corporate governance, risk and capital management process and objectives
- considered the King IV report, for which disclosure on the application will be effective for the group's 2018 financial year.

STAKEHOLDER ENGAGEMENT

- engaged with the Registrar of Banks and the supervisory team in line with the SARB's annual supervisory programme
- reviewed the quarterly stakeholder engagement reports
- under the leadership of the chief executive, Sim Tshabalala, participated in the CEO Initiative in partnership with government, business and labour.

The table below sets out director's attendance at board meetings during 2016. Attendance of directors at committee meetings is shown in each committee report from page 116 to 125.

BOARD MEMBER	2016 BOARD MEETING ATTENDANCE/6 MEETINGS		DATE OF APPOINTMENT TO THE BOARD
	ELIGIBLE TO ATTEND	ATTENDED	
Thulani Gcabashe (chairman)	5	5	1 July 2003, appointed chairman on 28 May 2015
Arno Daehnke	4	4	1 May 2016
Richard Dunne	5	5	3 December 2009
Geraldine Fraser-Moleketi	1	0#	21 November 2016
Shu Gu	1	1	21 November 2016
Trix Kennealy	1	1	21 November 2016
Ben Kruger	5	5	7 March 2013
Nomgando Matyumza	1	1	21 November 2016
Jacko Maree	1	1	21 November 2016
Kgomotso Moroka	5	5	1 July 2003
Martin Oduor-Otieno	5	5	1 January 2016
André Parker	5	5	14 March 2014
Atedo Peterside CON	5	5	22 August 2014
Myles Ruck	5	5	15 August 2006
Peter Sullivan	5	5	15 January 2013
Sim Tshabalala	5	5	1 June 2008
Swazi Tshabalala	5	5	14 March 2014
John Vice	1	1	21 November 2016
Wenbin Wang	1	1	21 November 2016
Ted Woods	5	5	1 February 2007

Geraldine Fraser-Moleketi was unable to attend the board meeting held on 30 November 2016 owing to commitments which predated her appointment to the board in November 2016. An apology was received.

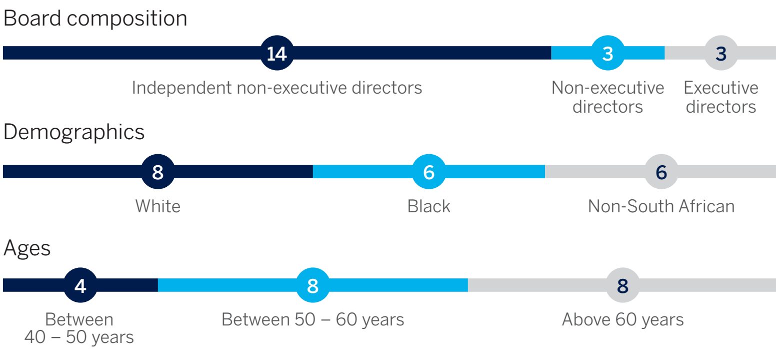
Board effectiveness

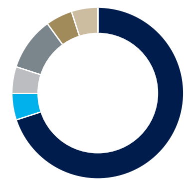
Board composition

The board is effective and of appropriate size for the group. It is a unitary board comprising 20 directors, 14 of whom are independent non-executive directors, three of whom are non-executive directors and three of whom are executive directors.

Non-executive directors bring diverse perspectives to board deliberations and constructively challenge management. There is a clear division of responsibilities ensuring that no one director has unfettered powers in the decision-making process. This strengthens the group's decision making process and ensures that there is an appropriate balance of power.

Apart from the executive directors, the group's prescribed officers, as defined by the Companies Act, also attend board meetings, thereby increasing the points of contact between the board and management.



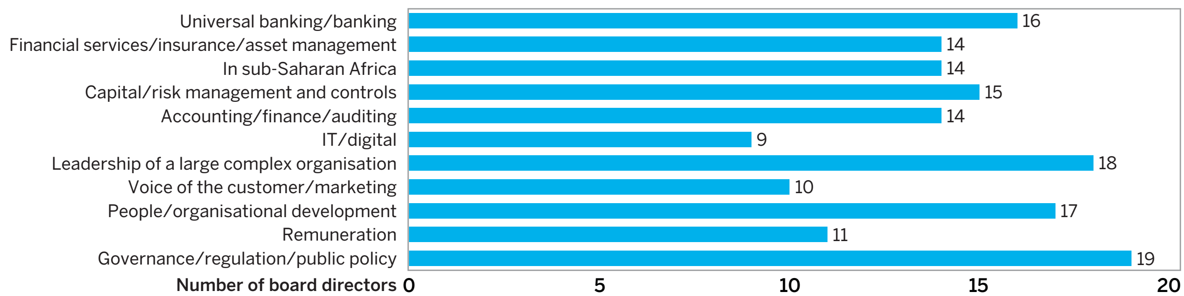


Director nationalities

	2016
South African	14
Australian	1
British	1
Chinese	2
Kenyan	1
Nigerian	1

Skills and experience

Board experience



The collective background of the board members provides for a balanced mix of attributes and skills that enable the board to fulfill 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 knowledge, with several directors having chief executive experience.

Diversity policy

Emphasis is placed on ensuring that the board composition reflects diversity in the broadest sense. The board is committed to ensuring diversity, including that of backgrounds, experience, skills, geography, race, age, and gender and ensuring that this diversity is also reflected in its composition. The board has adopted a gender diversity policy and has set a target of 33% female representation on the board by 2020.

During 2016, three female non-executive directors were appointed to the board, which brings the total number of female directors to five or 25% of the total board membership. The board is confident that the set target will be attained.

Gender diversity of the board

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 as a whole, the responsibility to oversee the nomination process and shortlist candidates for interviews has been delegated to the directors' affairs committee. Where necessary, a human resources placement agency supports the committee in identifying a broad pool of potential candidates. The attributes and experience required are identified and agreed prior to the search process. Apart from a candidate's skills, experience, availability and likely fit, the committee also considers the candidate's demonstrated integrity, proven leadership 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.

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. Accordingly, Shu Gu, Geraldine Fraser-Moleketi, Trix Kennealy, Jacko Maree, Nomgando Matyumza, John Vice and Wenbin Wang who were appointed in the current period after the 2016 AGM, will retire at the 2017 AGM and stand for re-election.

In addition, in terms of the King Code and the MOI, one-third of the non-executive directors are required to retire annually, and if available and eligible, stand for re-election at the company's AGM. 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. At the 2017 AGM, Kgomotso Moroka, André Parker and Swazi Tshabalala will retire and being eligible, avail themselves for re-election.

Succession

Careful management of the board's succession planning is vital for the effective functioning of the board. Taking into account the group's strategy and future needs of the group, as non-executives retire, candidates with requisite attributes, skills and experience are identified to ensure that the board's competence and balance is maintained and enhanced. In order to support the new non-executive directors as they acquaint themselves with the business of the group and its strategy, it is preferable to appoint replacement non-executive directors before the directors being replaced retire from office.

Refer to **pages 102** to **105** for CVs of newly appointed directors.

Ted Woods, having reached the mandatory retirement age set in the group's MOI, will retire from the board at the 2017 AGM. The chairman and the board extend their sincere gratitude to Ted Woods for his invaluable contribution to the board and leadership of the remuneration committee over the years.

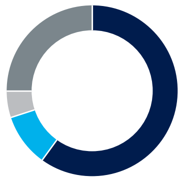
In addition to managing non-executive director succession, the board also considers the talent management, development, and succession planning of the executive leadership team. In May 2016, Arno Daehnke was appointed as executive director following the retirement of Simon Ridley, who had reached the executive retirement age. This appointment and several other key appointments within the group continue to demonstrate the depth of leadership and talent across the group. The board continues to be satisfied with the depth of talent and commitment of the group's executive leadership team.

Director independence

The directors' affairs committee oversees the assessment process for directors' independence for board approval. Independence is determined against the criteria set out in the King Code and in line with its recommendations. In addition, the board rigorously reviews non-executive directors with tenure longer than nine years. The review considers director performance and factors that may impair independence, including directors' interests, and demonstrated behaviour. The approved assessment process includes a self-assessment by each director as well as consideration of each director's circumstances by the board. The director being assessed is recused from the meeting when their performance and independence is being discussed.

Thulani Gcabashe, Advocate Kgomotso Moroka, and Myles Ruck, have all served for periods longer than nine years. Following the rigorous annual review, the board has concluded that, in each instance, these directors continue to be independent in character, demonstrated behaviour, contribution to board deliberations and judgement, notwithstanding tenure. In the assessment of independence, an individual's effective shareholding in the group's shares is taken into account to ensure that for directors considered independent, their shareholding is not material to their personal wealth. Ted Woods has served on the board for longer than nine years, and is considered independent. Having reached retirement age, he will be retiring from the board at the upcoming AGM.

For the period under review, SBG's largest shareholder, ICBC's nominated directors Shu Gu and Wenbin Wang, as well as Jacko Maree, who retired as group chief executive in 2013 and was appointed to the board in November 2016, are not considered independent.



Non-executive director tenure

	2016
<3 years	60%
3 – 6 years	10%
6 – 9 years	5%
>9 years	25%

Conflicts of interests and other commitments

In terms of the Companies Act, directors are required to disclose their outside business interests. Directors do not participate in, and recuse themselves from, the meeting when the board considers any matters in which they may be conflicted. 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 other commitments of its directors and is satisfied that all directors allocate sufficient time to enable them to discharge their responsibilities effectively.

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. External auditors are invited to attend GAC and GRCMC meetings.

Induction and ongoing director training

On appointment, directors are provided with the group's governance manual which contains 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 and its operations. The remainder of the induction programme is tailored to each new director's specific requirements.

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 2016 included the following topics:

- Risk data aggregation and risk reporting (RDARR)
- Cloud computing
- Model development and model validation requirements
- SBG mobile applications
- Cybersecurity
- IFRS 9: Financial Instruments

2016 Board evaluation

In line with the provisions of the King code, the board annually conducts an evaluation of its performance. In 2016, an evaluation of the board and its committees was undertaken by an independent facilitator, Korn Ferry. The evaluation process included the completion of online surveys, followed by one-on-one in-person interviews with board members. The analysis of the 2016 board and committee evaluation results were presented to the directors' affairs committee and the board at the group's quarter one, 2017 meetings.

THE REVIEW WAS STRUCTURED AROUND SEVEN KEY AREAS:

1. board mandate, strategy and culture
2. board composition
3. directors' contribution
4. team dynamics
5. delivery of mandate
6. secretariat support and training
7. board committees

Results of the assessment confirmed that the board is a good mix of personalities and experiences and one which board members are proud to be part of. Non-executive directors are sufficiently involved in the strategy formulation process and enjoy a relationship of mutual trust and respect with the management team, which is highly competent, open and transparent. An efficient secretariat team contributes to the board's ability to discharge its duties. Overall, the board was found to be well-functioning and delivering on the majority of its responsibilities with high marks.

The work of board committees is considered accretive to overall board effectiveness and good corporate governance. The board holds its committees to account.

The key themes identified during the board evaluation process, together with proposed action plans, are set out below.

TOPIC	FINDINGS	ACTIONS
Board mandate, strategy and culture	Board members are satisfied with the board's approach to matters relating to its mandate, group strategy and group culture. Decisions are consistently based on ethical foundations. The board is considered to have fulfilled its mandate and does so effectively.	• board to review its mandate to take into account recent regulatory changes, including King IV and financial sector developments.
Board composition	The addition of new directors onto the board has improved the board's collective skills and experience. However, as part of its continuity programme, the board should continue to strengthen its experience in the domain of fintech and cybersecurity.	• board to explore practical options including giving consideration to the appointment of fintech/cyber security advisors. • the appointment of non-executive directors with the relevant skills and experience, to continue to support the group's strategy ambitions and fulfilment of its responsibilities.
Directors' contributions	In their contributions, non-executive directors demonstrate independence of mind when confronted with proposals from management. Management provides clear, unbiased information.	• as part of the ongoing director development, continue to update directors on developments in the financial sector and the micro and macro environments in which the group operates.

TOPIC	FINDINGS	ACTIONS
Team dynamics	The chairman's style allows for sufficient candour. He manages meetings appropriately, interacts with management well, raises clarificatory questions while continuing to leave space for others to participate. He is open to feedback. A relationship of mutual trust and respect exists between the CE and the rest of the board. Topics are thoroughly discussed at committee level and management come to meetings well-prepared, addressing potential issues from the onset.	• consideration to be given to ensuring that board agendas allow sufficient time for debating both current and future risks and opportunities.
Secretariat support and training	The secretariat is considered competent and understands its duties. Meetings held during the year, including the two-day strategy session, are considered sufficient, with appropriate structure and accurate minutes. Training is an integral part of board activities and is taken seriously.	• continue to reduce the size of the board packs, highlighting areas of focus.
Board committees	All board committees are considered accretive to overall board effectiveness and group governance.	• review committee mandates to remove or minimise areas of overlap • effect changes required considering King IV.

Subsidiary governance framework

In line with Basel Committee principles for corporate governance, the group board has overall responsibility for adequate corporate governance across the group and ensuring that there are governance policies and mechanisms appropriate to the structure, business and risks of the group and its entities.

To achieve this outcome, the group has a subsidiary governance framework, the aim of which is to ensure consistent application of sound governance practices and appropriate risk management, thereby creating long-term value for the group and its stakeholders.

Code of ethics

Our values and code of ethics ensure that we do the right business in the right way, by complying with relevant laws. This is imperative to retain the trust of our stakeholders.

Our code of ethics is informed by the group's values; our ethical standards as set out in anti-corruption and corporate governance legislation in our countries of operation; and globally recognised standards such as the King Code. SBG's code of ethics applies to the board, its employees and all our banking operations. It is aligned to group standards, policies and procedures. It is certified by the Ethics Institute of South Africa as conforming to the highest standards of international best practice.

Mechanisms are in place for employees and other stakeholders to seek advice or report concerns about unethical or unlawful behaviour anonymously. Information on accessibility, anonymity, processes and the policy relating to the whistle-blowing service is published in all business units and geographical publications during the year. Overall, the group's financial crime control unit held over 2 283 awareness sessions and 348 disclosures were made to the independently operated hotline during 2016.

To report unethical behaviour, the contact details are:

Hotline SA only
0800 113 443

Hotfax SA only
0800 200 796

Hotfax international
+27 12 543 1547

Hotmail International
fraud@kpmg.co.za

Refer to our Code of Ethics:
http://www.standardbank.com/pages/StandardBankGroup/web/CodeOfEthics.html

Political party contribution

As part of its efforts to contribute to the strengthening of democracy in South Africa, the group has been making annual donations since 2004 to political parties represented in the National Assembly, to help them effectively engage and represent the people of the country. The annual donation is calculated using a similar formula to that of the Independent Electoral Commission to allocate its party funding, i.e. 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 funds. Reports indicate that the donations are used mainly for administrative costs and party campaign materials.

In 2016, the group allocated a total of R2.2 million (2015: R2.2 million) as a direct donation.

Connecting with stakeholders

The group's stakeholder engagement activities are governed by the group's stakeholder engagement policy that sets out formal areas of responsibility.

The SBG social and ethics committee oversees the group's approach to stakeholder engagement, especially regarding material social and ethics-related matters relevant to the group's legitimacy and social relevance across its footprint, and provides assurance to the board that the group's conduct continues to be legitimate and socially relevant. Individual business units undertake stakeholder engagement activities appropriate to their particular areas. The board reviews material stakeholder engagements on a quarterly basis and provides guidance where necessary.

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. A similar process is followed during the interim reporting period. In addition, the board considers the solvency and liquidity requirements in line with the provisions of the Companies Act.

King Code

The group continues to apply the principles of the King Code. 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 are explained below.

Exceptions to the application of the King Code principles

- Principle 2.19 (paragraph 88.7): The King Code 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 may be involved with political parties in South Africa, no director is an office bearer of any political party.
- 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.
- 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.

Statement of differences to the King Code

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.

The comprehensive King III application register can be found on our website **www.standardbank.com/reporting**

Board committees

DAC Directors' affairs committee

COMMITTEE MEMBER	2016 COMMITTEE MEETING ATTENDANCE/4 ELIGIBLE TO ATTEND	ATTENDED	DATE OF APPOINTMENT TO COMMITTEE
Thulani Gcabashe (chairman)	4	4	7 March 2012 (as member), 27 May 2015 (as chairman)
Geraldine Fraser-Moleketi	–	–	30 November 2016
Shu Gu	–	–	30 November 2016
Kgomotso Moroka	4	4	29 May 2013
André Parker	4	4	27 May 2015
Myles Ruck	4	4	28 May 2014
Wenbin Wang (alternate to Shu Gu)	–	–	30 November 2016

Committee purpose and responsibilities

The directors' affairs committee (DAC) is responsible for determining the appropriate group corporate governance structures and practices. It establishes and maintains the board directorship continuity programme. The committee ensures compliance with all applicable laws, regulations and codes of conduct and practices. It assists in the effectiveness review of the board and its committees.

Committee composition, skills and experience

The committee is chaired by the board chairman who is an independent non-executive director. It includes five independent non-executive directors and two non-executive directors. The chief executive is a standing invitee to the committee meetings.

The collective skills and experience profile of the committee members includes governance, and most members have leadership experience of large complex organisations.

Details of the skills and experience of each of the committee members are set out in their CVs on **pages 102** to **105**.

Key committee activities for the year:

In discharging its responsibilities as set out in the committee's terms of reference, the following were some of the key focus areas for the year under review:

Succession planning

- approved the appointment of directors on the boards of subsidiary companies
- recommended for board approval the appointment of Arno Daehnke, and seven non-executive directors: Shu Gu, Geraldine Fraser-Moleketi, Jacko Maree, Nomgando Matyumza, Trix Kennealy, John Vice and Wenbin Wang
- considered talent and succession planning for the group management committee
- approved the appointment of Sola David-Borha as the new chief executive: Africa Regions
- considered board's composition as it relates to skills, experience, background, gender and racial diversity
- recommended for board approval the promotion of gender diversity policy
- considered the directors eligible for retirement by rotation in the current year and recommended them for re-election to the board and 2017 AGM
- considered and recommended to the board, changes to board committee composition, taking into account the newly appointed directors.

Corporate governance

- reviewed the board and committee mandates and concluded that the board and the DAC have met their terms of reference
- recommended for approval to the board the process to be followed for the assessment of director independence for purposes of disclosure in the annual report and confirmed the classification of independent non-executive directors in the annual report
- recommended for board approval the final assessment report of the 2015 corporate governance, risk and capital management process and objectives
- recommended for board approval the 2016 corporate governance, risk and capital management process and objectives
- noted the draft and the final King IV code on corporate governance
- considered and recommended to the board the 2017 board corporate calendar.

Board performance review

- considered the 2015 full board evaluation report, including that of its committees, and the recommended action plans to the board
- recommended to the board for approval the 2016 board evaluation process to be carried out by an external service provider
- considered and noted the chief executive's performance contract for 2016.

GAC

Audit committee

COMMITTEE MEMBER	2016 COMMITTEE MEETING ATTENDANCE/5 ELIGIBLE TO ATTEND	ATTENDED	DATE OF APPOINTMENT TO COMMITTEE
Richard Dunne (chairman)	5	5	3 December 2009 (as chairman)
Trix Kennealy	–	–	30 November 2016
Martin Oduor-Otieno	2	2	25 May 2016
Atedo Peterside CON	5	5	27 May 2015
Peter Sullivan	5	5	6 March 2013
Swazi Tshabalala	5	4	27 May 2015
John Vice	–	–	30 November 2016
Ted Woods	5	5	22 May 2008

Committee purpose and responsibilities

The audit committee is responsible for monitoring and reviewing the adequacy and effectiveness of accounting policies, internal control systems and financial reporting processes. It reviews the independence and effectiveness of the group's external audit, internal audit, compliance and financial crime control functions.

The committee met five times during the financial year.

The chairman routinely met with the external auditors, chief audit officer, chief compliance officer, head of operational risk responsible for financial crime control, SBG financial director and the executive management team before each quarterly meeting. The purpose of these meetings was to discuss relevant themes that would be covered during the meeting, and to offer assurance providers an opportunity to raise any matters which they wanted to discuss with the audit committee chairman in private. The audit committee also met with the external auditors in a private session at the end of the March meeting, to discuss matters pertaining to the statutory audit.

Committee composition, skills and experience

The committee is chaired by an independent non-executive director and its membership comprises eight independent non-executive directors, which includes the SBG IT and remuneration committee chairmen. The chief executive, chief financial officer, chief audit officer, GCCO, CRO, business unit chief executives, head of operational risk and the group's external auditors are standing invitees to committee meetings.

The collective skills and experience profile of members includes banking and financial services, accounting and auditing.

Details of the skills and experience of each of the committee members are set out in their CVs on **pages 102** to **105**.

Key committee activities for the year:

In discharging its responsibilities as set out in the committee's terms of reference, the following were some of the key focus areas for the year under review:

Internal audit

- considered and approved the annual review of the internal audit's charter as well as the internal audit plan
- reviewed a quarterly report from internal audit which covered progress with delivery of the audit plan; an analysis of the cumulative results of audit outcomes for the year; a summary of satisfactory and unsatisfactory audits that were completed during the reporting period, as well as the outcomes of reviews performed at the request of management; and an analysis of the status of audit findings previously reported. For audit matters, management was invited to attend meetings to present an update on the status of actions implemented to address audit findings and recommendations
- reviewed internal audit's annual report which summarised the results and themes identified as part of internal audit's activities for the prior year. The report concluded with internal audit's assurance statement that the control environment was effective to maintain the degree of risk taken by the group at an acceptable level and that internal financial controls were adequate and effective in ensuring the integrity of material financial information. In addition, internal audit confirmed the organisational independence of the internal audit activity
- The group's external auditors conducted an annual assessment of the internal audit function against the International Standards on Auditing (ISA) 610 and confirmed that reliance could be placed on the work of internal audit for the purposes of the external audit.

Compliance

- considered and approved group compliance's annual plan and monitoring activities for the year, as well as group compliance's mandate
- reviewed a quarterly report from group compliance which covered key compliance matters across the group. The report also summarised interactions with various regulators in South Africa and other jurisdictions, as well as an update on matters identified as part of regulators' routine and non-routine inspections.

Group financial crime control

- considered and approved group financial crime control's mandate
- considered a quarterly report from the group financial crime control function, which provided an update on key activities of this unit.

Tax

- on a quarterly basis, the committee reviewed a report on key tax matters of significance across the group, including ruling and emerging tax legislation
- reviewed the results of group tax's self-assessment of compliance with the tax control framework, following which a revision to the framework was tabled and approved.

Financial accounting and external reporting issues

- group finance submitted a quarterly report which outlined financial accounting and external reporting issues of significance that affected the group or could affect the group in future. The audit committee considered the impact of these matters on the group's financial statements and disclosures. Further to current matters, the reports routinely provided an update on developments in international accounting standards
- the group's IFRS 9 *Financial Instruments* (IFRS 9) project continued to receive focus throughout 2016, as the group developed its processes towards meeting the mandatory 1 January 2018 implementation date. At the board's annual prudential meeting with the SARB, the chairman of the audit committee presented an update on progress made with IFRS 9 developments
- the committee considered the JSE's report on its process for monitoring financial statements for compliance with IFRS.

Internal financial controls

- on a quarterly basis, reviewed a report on the group's internal financial control committee
- reviewed proposed amendments to the group's delegation of authority framework and recommended the revised limits to the board for approval.

Non-audit services

- approved the non-audit services policy as part of the annual review of the policy to use the group's external auditors for non-audit services
- on a quarterly basis, the committee considered the nature and quantum of non-audit services that were approved during the period and, in accordance with the approval thresholds as set out in the policy, considered and where deemed appropriate, approved engagements.

Annual financial results

- considered and recommended to the board for approval, the annual financial results, after having considered an analysis of the results, relevant financial accounting issues, solvency, liquidity and going concern assessments.

Financial reporting

- reviewed the annual report, risk and capital management report, and annual financial statements and recommended these to the board for approval, after having considered King III disclosure requirements.

External audit

- evaluated the independence assessment of the external auditors and recommended their reappointment for shareholder approval at the group's AGM
- approved the external audit plan, fees and terms of engagement as specified in the engagement letter for the statutory audit for the financial year ended 31 December 2016. The external audit plan confirmed that work with internal audit continued to ensure all assurance providers were aligned to address the requirements of King III from a combined assurance perspective
- considered revisions to the independent auditors' report, with particular reference to the audit opinion, which introduced key audit matters that were, in the external auditors' judgement, deemed significant to the audit of the financial statements. It was noted that these were reviewed as part of the finalisation of the 2016 statutory audit
- at the meeting in March, the committee reviewed the external auditors' report on findings for the prior financial year; and at the meeting in November, it reviewed a progress report on findings from the preliminary audit for the year ended 31 December 2016
- reviewed the external auditors' report relating to the regulatory audit work for the year ended 31 December 2015

Oversight

- on a quarterly basis, the committee considered key matters raised at GRCMC.

GRCMC Risk and capital management committee

COMMITTEE MEMBER	2016 COMMITTEE MEETING ATTENDANCE/4 ELIGIBLE TO ATTEND	ATTENDED	DATE OF APPOINTMENT TO COMMITTEE
Myles Ruck (chairman)	4	4	1 January 2007 (as member), 6 August 2010 (as chairman)
Richard Dunne	4	4	3 December 2009
Thulani Gcabashe	4	4	27 May 2015
Shu Gu	–	–	30 November 2016
Geraldine Fraser-Moleketi	–	–	30 November 2016
Trix Kennealy	–	–	30 November 2016
Nomgando Matyumza	–	–	30 November 2016
Kgomotso Moroka	4	4	28 May 2014
Peter Sullivan	4	4	6 March 2013
Swazi Tshabalala	4	4	28 May 2014
John Vice	–	–	30 November 2016
Wenbin Wang (alternate to Shu Gu)	–	–	30 November 2016
Ted Woods	4	4	7 March 2012

Committee purpose and responsibilities

The board has delegated authority to GRCMC to provide independent and objective oversight of risk and capital management across the group. The committee ensures that risk and capital management standards and policies are well documented and support group strategies by being fit for purpose and effective in operation. It supports a climate of discipline and control that will reduce the opportunity for fraud.

Committee composition, skills and experience

The committee is chaired by an independent non-executive director and its membership comprises eleven independent non-executive directors, including the chairmen of the board, group audit, SBG IT, SBG remuneration and SBG social and ethics committees, and two non-executive directors. The chief executive, SBG financial director, group and business unit CROs, group chief compliance officer (GCCO), group chief audit officer (GCAO), business unit chief executives, head of operational risk and external auditors are standing invitees to committee meetings.

The chairman met with the group and business unit CROs before each quarterly meeting to discuss relevant themes that would be covered in routine reports, as well as pertinent matters that would be included on the agenda. These included matters that were identified by, or proposed to the chairman by management, GRCMC members or other board members.

The collective skills and experience profile of GRCMC members includes banking and financial services, accounting and auditing; capital and risk management; governance, regulation and public policy; and information technology.

Details of the skills and experience of each of the committee members are set out in their CVs on **pages 102** to **105**.

Key committee activities for the year:

In discharging its responsibilities as set out in the committee's terms of reference, the following were some of the key focus areas for the year under review:

Risk appetite and risk profile

- considered and approved the 2016 risk appetite statement for the group's banking operations
- on a quarterly basis, reviewed a detailed risk management report which covered key risk types, including credit, operational, country and market risk across the group and at a business unit level
- considered risk overviews on events and risks that occurred or were emerging, which were expected to have a direct or indirect impact on the group's risk profile
- in view of the effect of the commodity downturn on certain geographies and markets in which the group operates, considered management updates on risk appetite across sectors and countries to ensure that concentration to specific sectors was appropriately managed and risk appetite adjusted, where appropriate
- considered the impact of persistent drought conditions on the group's agriculture portfolio
- considered the effect of the macroeconomic and operating environment, as well as consumer strain on the group's Personal & Business Banking portfolios
- with reference to its oversight of the operational risk profile, the committee reviewed and considered management reports which covered an overview of key contributors to operational risk losses, industry trends and management's response to operational risk and financial crime. The committee also considered the results of the SARB's interaction with management as part of its regulatory oversight of operational risk
- reviewed an annual update on significant insurance programmes across the group, as well as their current and renewed terms and conditions
- reviewed quarterly reports on compliance and legal risk, which included key matters that were significant to the group
- considered key risks to the group in the event of a South African sovereign rating downgrade to sub-investment grade, an overview of the anticipated implications from a revenue, capital and liquidity perspective, as well as the group's mitigation strategies.

Regulatory matters

- on a quarterly basis, considered an update on progress to achieve BCBS 239 RDARR compliance by the December 2016 deadline for the defined and agreed Standard Bank Group scope. Two board education sessions were presented on BCBS 239 principles, metrics and risk reporting. At the November 2016 meeting, the committee approved the annual update to the group's RDARR governance framework
- on a quarterly basis, considered updates on regulatory developments. Areas of focus included the Financial Sector Regulation Bill (Twin Peaks), market conduct, and consumer credit regulations. At the November 2016 meeting, the committee considered the implications of emerging local, global and prudential regulations on the group including Basel IV; amendments to Pillar 3 disclosures; LCR and NSFR
- considered and approved the annual update to the group's integrated recovery plan
- considered the annual and interim risk disclosures made to shareholders to ensure timely, relevant, complete, accurate and accessible risk disclosure.

Internal Capital Adequacy Assessment Process (ICAAP)

- reviewed and approved the macroeconomic scenarios for the running of the ICAAP 2015 financial year end stress testing process. The scenarios were primarily chosen to target the group's key markets and included macroeconomic considerations at both a global and a South African-specific level
- reviewed and recommended to the board for approval the group's 2015 ICAAP, prior to it being submitted to the SARB.

Capital and liquidity risk management

- reviewed the group's capital and liquidity three-year forecast and recommended revised capital adequacy target ranges to the board for approval
- on a quarterly basis, reviewed capital adequacy and liquidity ratios, including events that could have an impact on these.

Governance

- continued to review and approve the group's risk governance standards, frameworks and relevant policies in accordance with a scheduled review programme.

Oversight

- considered key matters raised at group risk oversight committee meetings and reviewed the minutes of key subsidiary risk and credit committee meetings on a quarterly basis.

LEC Large exposure credit committee

COMMITTEE MEMBER	2016 COMMITTEE MEETING ATTENDANCE/2 ELIGIBLE TO ATTEND	ATTENDED
Myles Ruck (chairman)	2	2
Thulani Gcabashe	2	2
Jacko Maree	–	–
André Parker	2	2
Sim Tshabalala	2	1*
Ben Kruger	2	2
Arno Daehnke	2	2
Suné Brugman	2	2
Libby King	2	1*
Neil Surgey	2	2
Carel Buitendag	2	2
John Wixley	2	2
David Munro	2	1

* Approved applications presented at the meeting on a round robin basis.

Committee purpose and responsibilities

The purpose of the committee is to assist the board of directors in discharging their duties in overseeing the credit-granting and credit-risk management functions of the bank in approving large exposures as defined in the South African Banks Act 94 of 1990 (the Banks Act).

Committee composition, skills and experience

The committee is chaired by an independent non-executive director and membership comprises a further two independent non-executive directors, one non-executive director, the chief executive, the chief financial officer, the CRO, as well as further management representation from a group level. When the committee requires specific input from particular business units in respect of a proposed credit exposure, the committee invites the relevant business unit representatives to make the required presentations to the committee.

In November 2016, Jacko Maree was appointed to the bank's board and as a member of this committee.

The collective skills and experience profile of the committee members includes banking, finance, risk management, credit risk, equity risk, corporate credit and portfolio management.

Details of the skills and experience of each of the committee members are set out in their CVs on **pages 102** to **105**.

Key committee activities for the year:

In discharging its responsibilities as set out on in the committee's terms of reference, the committee considered management reports recommending the approval and annual renewals of large exposures as defined in the Banks Act. In considering the reports, the committee inter alia, reviewed the credit risks associated with exposure as well as the mitigating actions to be implemented in order to ensure the maintenance of effective risk management within the bank.

Our executive committee

SIM TSHABALALA/49
Chief executive, SBG and SBSA

KENNY FIHLA/49
Deputy chief executive, CIB and head of CIB SA
MSc (University of London), MBA (Wits)

Kenny Fihla joined SBSA in 2006 as head of investor services. In 2007, he was appointed to the CIB executive committee and in 2008, was appointed CIB head of transactional products and services SA. In November 2016 he was appointed deputy chief executive of CIB. In addition to heading up CIB South Africa, he is responsible for corporate client relationship management across 20 African countries and major financial centres outside Africa.

LIBBY KING/51
Chief financial officer
BAcc (Wits), BCom (Wits), CA(SA)

Libby King joined the financial control department of 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.

ISABEL LAWRENCE/48
Group chief compliance officer
BA (Hons), LLM (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 group legal in 2003 and was appointed group chief compliance officer in January 2012.

FUNEKA MONTJANE/38
Chief executive, PBB South Africa (SA)
BCom (Hons) (Wits), MCom (UJ), CA (SA)

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

MYEN MOODLEY/43
Head of human capital
Master's degree in industrial psychology

Myen Moodley joined the group in January 1997 and has held various roles in human capital across a range of business areas including business operations and customer channels before being appointed as head of human capital for PBB SA in November 2012.

MARGARET NIENABER/43
Chief executive, Wealth
BCompt (Hons) (UFS), CA (SA)

Margaret Nienaber joined the group in 2010 as head of private clients South Africa. In 2013, she was appointed global head of wealth and investment (previously known as private clients). She was acting chief executive of wealth from May 2016 and was confirmed as Chief Executive of Wealth with effect 1 January 2017.

NEIL SURGEY/57
Group chief risk officer
BCom (UCT), AMP (Insead)

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

CV details of the chief executive is included on **pages 102 to 105**.

Annual financial statements

The group and company's financial statements were audited in terms of the Companies Act 71 of 2008.

The preparation of the Standard Bank of South Africa's consolidated and separate annual financial statements was supervised by SBSA's chief financial officer, Libby King, BAcc (Wits), BCom (Wits), CA (SA).

A summary of these results were made publically available on 2 March 2017.

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Directors' responsibility for financial reporting

In accordance with the Companies Act 71 of 2008 (Companies Act), the directors are responsible for the preparation of the annual financial statements. The annual financial statements conform to International Financial Reporting Standards (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 2016, 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 2016 annual financial statements and specified sections of the risk and capital management report were approved by the board of directors on 1 March 2017 and signed on its behalf by:

Thulani Gcabashe
Chairman
1 March 2017

Sim Tshabalala
Chief executive
1 March 2017

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 2016, 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
1 March 2017

Report of the group audit committee

This report is provided by the audit committee, in respect of the 2016 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, and in terms of the JSE Listings Requirements. The committee's operation is guided by a detailed mandate that is informed by the Companies Act, the Banks Act and the King Code of Governance Principles and is approved by the board. Section 94(2) of the Companies Act determines that, at each annual general meeting, a public company must elect an audit committee comprising at least three members. In view of the exemption granted in section 94(1), this section does not apply to the audit committee and, accordingly, the appointment of its members is approved annually by the board. Information on the membership and composition of the audit committee, its terms of reference and its activities is provided in greater detail in the corporate governance statement.

Execution of functions

The audit committee has executed its duties and responsibilities during the financial year in accordance with its mandate as it relates to the group's accounting, internal auditing, internal control and financial reporting practices.

During the year under review, the committee, amongst other matters, considered the following:

- **In respect of the external auditors and the external audit:**
  - considered and recommended the reappointment of KPMG Inc. and PricewaterhouseCoopers Inc. as joint external auditors for the financial year ended 31 December 2016, in accordance with all applicable legal requirements
  - approved the external auditors' terms of engagement, the audit plan and budgeted audit fees payable
  - reviewed the audit process and evaluated the effectiveness of the audit, taking into consideration the results of an external audit assessment performed by the finance function
  - assessed and obtained assurance from the external auditors that their independence was not impaired
  - reviewed and approved the annual renewal of the Use of Joint Group Auditors for Non-Audit Services policy
  - through the chairman, approved proposed contracts with the external auditors for the provision of non-audit services and pre-approved proposed contracts with the external auditors for the provision of non-audit services above an agreed threshold amount
  - considered the nature and extent of all non-audit services provided by the external auditors
  - monitored that the non-audit service fees for the year ended 31 December 2016 were within the threshold set by the audit committee for such engagements
  - confirmed that no reportable irregularities were identified and reported by the external auditors in terms of the Auditing Profession Act 26 of 2005.
- **In respect of the financial statements:**
  - confirmed the going concern basis for the 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 provisions for performing and non-performing loans and impairment of other assets and considered feedback from the external auditors concerning any changes that were made to the models applied by management in determining charges for and levels of impairment of performing loans
  - ensured that the annual financial statements fairly present the financial position of the company and of the group as at the end of the financial year and the results of operations and cash flows for the financial year and considered the basis on which the group 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
  - considered and made recommendations to the board on the interim and final dividend payments to shareholders
  - noted that there were no material reports or complaints received concerning accounting practices, internal audit, internal financial controls, content of annual financial statements, internal controls and related matters
  - reviewed and discussed the independent auditors' report.

In accordance with revised International Standards on Auditing, independent auditors' reports for financial years ending on or after 15 December 2016 are required to incorporate the reporting of key audit matters. When reviewing the external audit plan for the financial year ended 31 December 2016, the audit committee considered a preliminary view by the external auditors of key audit matters that might arise during the course of the audit, which in their judgement, were of significance to the audit of the financial statements. As part of the audit committee's responsibilities, notably its review of financial results, reports from internal and external audit, finance and internal financial control reports, the group's accounting policies as well as the annual financial statements, the audit committee concluded that it had adequately considered the key audit matters as reported in the independent auditors' report.

- **In respect of the annual report:**
  - recommended the annual report to the board for approval
  - evaluated management's judgements 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 independence and effectiveness of the internal audit function and adequacy of the available internal audit resources and found them to be satisfactory
  - 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
  - based on the above, the committee formed the opinion that, at the date of this report, there were no material breakdowns in internal control, including internal financial controls, resulting in any material loss to the group
  - 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, the group chief compliance officer, the head of financial crime control, the group financial director, management and the external auditors
  - considered quarterly reports from the group's internal financial controls committee
  - reviewed any significant legal and tax matters that could have a material impact on the financial statements.

- **In respect of legal, regulatory and compliance requirements:**
  - reviewed and approved the annual compliance mandate and compliance plan
  - reviewed, with management, matters that could have a material impact on the group
  - monitored compliance with the Companies Act, the Banks Act, other applicable legislation and governance codes and reviewed reports from internal audit, external auditors and compliance detailing the extent of this
  - noted that no complaints were received through the group's ethics and fraud hotline concerning accounting matters, internal audit, internal financial controls, contents of financial statements, potential violations of the law and questionable accounting or auditing matters.

- **In respect of risk management and 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
  - considered updates on key internal and external audit findings in relation to the IT control environment, significant IT programmes and IT intangible assets
  - 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 SBSA group chief financial officer 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 audit 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 audit committee has complied with its legal, regulatory and governance responsibilities as set out in its mandate.

On behalf of the audit committee

Richard Dunne
Chairman, group audit committee
28 February 2017

Directors' report

for the year ended 31 December 2016

Nature of business

SBSA is a wholly-owned subsidiary of Standard Bank Group Limited, an African banking group with South African roots. SBSA is the single largest operating entity within the Standard Bank Group.

SBSA results

Group headline earnings increased by 9% to R14.6 billion. Net asset value per share increased by 6% and group return on equity increased to 15.8%.

A general review of the business and its operations is provided in the financial review.

Share capital

Ordinary shares

During 2016, one share was issued at a premium of R1 billion (2015: two shares were issued at a premium of R3.8 billion).

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 D.

Dividends to the shareholder

Ordinary shares

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 paid on 18 April 2016.

On 18 August 2016, a dividend of R3.8 billion was declared to the shareholder recorded at the close of business on 1 September 2016, and paid on 8 September 2016.

On 2 March 2017, a dividend of R8.0 billion was declared to the shareholder recorded at the close of business on 17 March 2017, and payable on 20 March 2017.

Board of directors

The following changes in directorate have taken place during the 2016 financial year and up until 1 March 2017:

THE STANDARD BANK OF SOUTH AFRICA LIMITED

APPOINTMENTS		
Dr ML Oduor-Otieno	as director	1 January 2016
Dr A Daehnke	as director	1 May 2016
GJ Fraser-Moleketi	as director	21 November 2016
S Gu	as director	21 November 2016
GMB Kennealy	as director	21 November 2016
JH Maree	as director	21 November 2016
NNA Matyumza	as director	21 November 2016
JM Vice	as director	21 November 2016
W Wang	as director	21 November 2016

RETIREMENTS		
SP Ridley	as director	30 April 2016

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' in terms of the group's risk exposures.

Independent auditors' report

To the shareholder of The Standard Bank of South Africa Limited

Report on the audit of the consolidated and separate financial statements

Our opinion

The Standard Bank of South Africa Limited's group ("consolidated") and company ("separate") financial statements, set out on pages 144 to 296, comprise:

- the consolidated and separate statements of financial position as at 31 December 2016
- the consolidated and separate statements of comprehensive income for the year then ended
- the consolidated and separate statements of changes in equity for the year then ended
- the consolidated and separate statements of cash flows for the year then ended
- the notes to the consolidated and separate financial statements, which include a summary of significant accounting policies
- annexures A to E.

Certain required disclosures have been presented in the risk and capital management report which has been identified as audited.

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 (the company) and its subsidiaries (together the group) as at 31 December 2016, and its consolidated and separate financial performance and its consolidated and separate cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of the Companies Act of South Africa.

Basis of opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditors' responsibilities for the audit of the consolidated and separate financial statements* section of our report.

We are independent of the group and company in accordance with the Independent Regulatory Board for Auditors Code of Professional Conduct for Registered Auditors (IRBA Code) and other independence requirements applicable to performing audits of financial statements in South Africa. We have fulfilled our other ethical responsibilities in accordance with the IRBA Code and in accordance with other ethical requirements applicable to performing audits in South Africa. The IRBA Code is consistent with the International Ethics Standards Board for Accountants Code of Ethics for Professional Accountants (Parts A and B).

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated and separate financial statements. These matters were addressed in the context of our audit of the consolidated and separate financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

<table>
<tr><th>LEVEL</th><th>KEY AUDIT MATTER</th><th>HOW OUR AUDIT ADDRESSED THE MATTER</th></tr>
<tr><td rowspan="3">Group and Company – consolidated and separate financial statements</td><td colspan="2">CREDIT IMPAIRMENT LOSSES ON LOANS AND ADVANCES</td></tr>
<tr><td colspan="2">(Refer to the key management assumptions note, note 6 loans and advances and note 31 credit impairment charges in the annual financial statements and the credit risk section of the risk and capital management report.)</td></tr>
<tr><td>Credit impairments relating to loans and advances, disclosed in note 6 loans and advances, represent management's best estimate of the losses incurred within the loan portfolios at the balance sheet date. Credit impairments are calculated on a portfolio basis for loans of a similar nature and on an individual basis for significant loans.

The key management assumptions note in the financial statements sets out the basis, including the related judgements, for the calculation of portfolio and specific loan impairments. The impairment calculations are considered separately for Corporate and Investment Banking and Personal and Business Banking, as described further below.

These impairment provisions are material to the group and company in terms of the value, subjective nature of the impairment calculations and the effect of these on the risk management processes and operations of the group and company. This has resulted in this matter being identified as a matter of most significance in the current year audit of the consolidated and separate financial statements.</td><td>Our audit included considering the appropriateness of accounting policies and assessed the loan impairment methodologies across the group, in order to compare these with the requirements of IAS 39 Financial Instruments: Recognition and Measurement (IAS 39).</td></tr>
</table>

LEVEL	KEY AUDIT MATTER	HOW OUR AUDIT ADDRESSED THE MATTER
Group and Company – *consolidated and separate financial statements*	**Corporate and Investment Banking (Specific loan impairments)** In Corporate and Investment Banking, a significant portion of the loans are assessed on an individual basis. Significant judgements, estimates and assumptions have been made by management in respect of: • determining if the loan is impaired • adequacy and recoverability of collateral • expected cash flows to be collected • timing of the future cash flows.	**Corporate and Investment Banking (Specific loan impairments)** We have obtained an understanding and tested the relevant controls relating to the approval of credit facilities, the subsequent monitoring and remediation of exposures including collateral management and the evaluation of credit risk ratings. We inspected legal agreements and supporting documentation to confirm the existence and legal right to collateral. We assessed collateral valuation techniques against the group's and company's valuation guidelines. We have assessed management's process for identifying specific impairment based on IAS 39 guidelines relating to impairment indicators, the current macro-economic and global environment, industry factors and client specific factors identified from the review of credit records. Where specific impairments have been raised, we have considered the impairment indicators, uncertainties and assumptions made by management in their assessment of the recoverability of the exposure. For a sample of impaired loans, we have independently recalculated the impairment losses based on our assessment of the expected cash flows and recoverability of collateral. We also selected a sample of loans and advances that had not been identified as impaired and formed an independent view about the appropriateness of the conclusions reached, including using external evidence to substantiate our views.

LEVEL	KEY AUDIT MATTER	HOW OUR AUDIT ADDRESSED THE MATTER
Group and Company – *consolidated and separate financial statements*	**Personal and Business Banking** For Personal and Business Banking a significant portion of the impairment is calculated on a portfolio basis. Portfolio impairment provisions are predominantly determined using statistical models which incorporate observable data, assumptions and estimates. The models approximate the impact of current economic and credit conditions on the portfolio of loans. Management applies judgement in designing the models, analysing the observable data, determining appropriate assumptions and formulating estimates. Management also evaluates the overall portfolio provisions calculated by the model and may, in certain instances, recognise additional portfolio provisions (overlays) where there is uncertainty over the ability of the models to address specific emerging trends or conditions. Specific emphasis is placed on the treatment of cured and renegotiated loans, accounts under debt review and post write off recoveries. Significant judgements, estimates and assumptions have been made by management in respect of: • the probability of default • the loss given default • the emergence periods between the impairment event occurring and an individual or collective impairment being recognised.	**Personal and Business Banking** We have obtained an understanding and tested the relevant controls relating to the credit origination processes, the credit monitoring processes and credit remediation processes. For model-based portfolio impairments which considers the performing (which includes normal monitoring, close monitoring and early arrears exposures) and non-performing book: • We have considered the design and implementation of the models, with the involvement of valuation experts on our audit team, including significant assumptions and the quality of the observable data used to derive model parameters in relation to our understanding of industry norms. • We assessed the current business practice and data outputs in terms of collection strategy, write-off and rehabilitation against policy as well as industry norms. • Our valuation experts assessed the reasonableness of the impairment model methodology used to determine the probability of default, loss given default and economic and parameter override estimates (together the "modelled parameters") used to compute the performing portfolio provision in relation to their knowledge of the client and the industry. • Our valuation experts also assessed the reasonableness of the loss rates estimated for the non-performing book allowing for the ageing of defaulted assets, the type of collection process followed as well as the impact of the treatment of renegotiated and cured loans in the impairment model in the light of the South African Reserve Bank directive dealing with distressed credit in relation to their knowledge of the client and the industry. • We assessed the appropriateness of management's central overlays, as well as parameter overrides, in the light of recent economic events and circumstances. • In addition, our valuation experts assessed the final reasonableness of the portfolio provision by assessing the difference in portfolio provisions in relation to an independent model. This model independently estimates the modelled parameters using the same modelling data as that of the group.

LEVEL	KEY AUDIT MATTER	HOW OUR AUDIT ADDRESSED THE MATTER

Level: Group and Company – *consolidated and separate financial statements*

IMPAIRMENT OF COMPUTER SOFTWARE INTANGIBLE ASSETS

(Refer to the key management assumptions note, note 10 goodwill and other intangible assets and note 33 non-trading and capital related items in the annual financial statements.)

Key audit matter

The group and company have a substantial investment in recognised computer software intangible assets relating to various computer software that is currently being developed and/or has been brought into use.

As disclosed in note 10 goodwill and other intangible assets in the financial statements, additional amounts were capitalised during the year as a result of further developments to a number of these systems. Furthermore, certain previously recognised intangible assets were impaired to reflect management's current outlook relating to the components of the software and its estimated utilisation.

The key management assumptions note in the financial statements sets out the basis, including the related judgements, for the impairment of computer software intangible assets where impairment indicators have been identified. Significant judgements, estimates and assumptions have been made by management in respect of:

- assessing the future economic benefits associated with additional costs capitalised
- identifying appropriate cash-generating units
- determining the recoverable amount of the recognised asset or cash-generating unit, where indicators of impairment exist.

The recoverable amount of the group and company's computer software intangible assets or cash-generating units is based on complex value in use calculations. The significant estimates and assumptions made by management in determining the recoverable amount include:

- expected future cash flows to be derived from these assets and the related timing of the expected future cash flows
- determining the appropriate discount rate to utilise in the impairment calculation.

The extent of management's judgement relating to the capitalisation and impairment of computer software intangible assets and the magnitude of this balance, resulted in this matter being identified as a matter of most significance in the current year audit of the consolidated and separate financial statements.

How our audit addressed the matter

As part of our audit, we have inspected The Standard Bank of South Africa Limited's capitalisation policy in terms of the requirements IAS 38 *Intangible Assets.*

We have obtained an understanding and tested the design and implementation of the relevant management controls relating to the monitoring of cost capitalisation of computer software intangible assets.

These processes include controls over the approval and recognition of new computer software intangible assets, ongoing monitoring and review of estimated and actual spend relating to system development, review and sign off of impairment assessments and the approval of transfer of assets from "under construction" to "in use".

We also selected a sample of supporting documentation for costs capitalised to ensure these are in line with the capitalisation policy.

We inspected the cash projections used in the value in use calculations to ensure that they reflect the most recently approved management budgets and represent management's best estimate of future performance. We assessed the reasonableness of the key assumptions used in the calculation in the light of our current understanding of the business and the economic conditions that are expected to exist over the remaining operational life of the computer software intangible asset or cash-generating unit. We have also assessed the process followed to identify cash-generating units.

We have recalculated the value in use, which supported management's valuation of a positive net present value for each significant project. Our valuation experts on our audit team evaluated the significant assumptions used in determining the value in use which included an independent comparison to industry norms and evaluation of the discount rates applied.

LEVEL	KEY AUDIT MATTER	HOW OUR AUDIT ADDRESSED THE MATTER
Group and Company – *consolidated and separate financial statements*	RECOGNITION OF TAXATION EXPENSES AND LIABILITIES *(Refer to the key management assumptions note and note 17 provisions and other liabilities in the annual financial statements.)* Through its diverse financial services offerings and operations across multiple jurisdictions, the group and company are exposed to a wide range of taxation laws. These laws are constantly changing and are also subject to interpretation by management. Management's judgement is applied in determining the appropriate tax accruals and, in some instances, estimates of possible consequences where there is subjectivity in the application of tax rules, which can have a material impact on the financial statements. Due to the significance of judgements applied by management, this has been identified as a matter of most significance in the current year audit of the consolidated and separate financial statements.	As part of our audit, and using our tax specialists, we have evaluated whether the group and company's tax risk management control framework is adequate with reference to its ability to identify tax issues and we have evaluated tax considerations applied to new or significant products and transactions. We have assessed the competence of The Standard Bank of South Africa Limited's internal tax experts involved in the interpretation of taxation laws. We have examined correspondence between The Standard Bank of South Africa Limited and the relevant tax authorities and considered matters in dispute to evaluate whether the provision made by management is adequate, in the context of any uncertainty. We have further assessed the inputs and calculation of the tax computation for the group and company, taking into account relevant tax legislation and the requirements of International Financial Reporting Standards.

LEVEL	KEY AUDIT MATTER	HOW OUR AUDIT ADDRESSED THE MATTER
Group and Company – *consolidated and separate financial statements*	VALUATION OF LEVEL 3 FINANCIAL INSTRUMENTS *(Refer to the key management assumptions note, note 2 derivative instruments, note 3 trading assets, note 4 pledged assets, note 5 financial investments, note 13 trading liabilities, note 19 assets and liabilities at fair value, note 29 trading revenue in the annual financial statements and the market risk section of the risk and capital management report.)*	
	The fair value of financial instruments significantly affects the measurement of profit and loss and disclosures of financial risks in the financial statements. Fair value calculations are dependent on various sources of external and internal data and on sophisticated modelling techniques used to value financial instruments disclosed as level 3 in the financial statements, which are evolving as markets become more sophisticated. Furthermore, certain unlisted financial instruments require greater judgement and estimation in determining appropriate valuation techniques and obtaining relevant and reliable inputs. This relates specifically in the case of structured derivative trades to credit and debit valuation adjustments where credit risk factors are not observable in the local market. Due to the magnitude of financial instruments measured at fair value and the significant judgements applied by management in their valuation, this has been identified as an area of most significance in the current year audit of the consolidated and separate financial statements.	Our audit included obtaining an understanding and testing of the relevant controls put in place to ensure that there is appropriate governance over valuation model development and changes. We also tested that correct sources of external and internal data are used in the models' calculations. In conjunction with our valuation experts, we independently sourced inputs and assessed the judgements and estimates applied in relation to our knowledge of current market practice and conditions. In particular, we assessed key assumptions and modelling approaches in estimating credit and debit value adjustments against the current market practice. We recalculated gains or losses on significant settled deals to assess calibration of mark-to-model values. We specifically considered the disclosure of illiquid positions in terms of International Financial Reporting Standards.

Other information

The directors are responsible for the other information. The other information comprises the directors' report, the report of the group audit committee and the group secretary's certification as required by the Companies Act of South Africa and the unaudited sections of the risk and capital management report and the directors' responsibility for financial reporting statement for the year ended 31 December 2016. Other information does not include the consolidated and separate financial statements and our auditors' report thereon.

Our opinion on the consolidated and separate financial statements does not cover the other information and we do not express an audit opinion or any form of assurance conclusion thereon.

In connection with our audit of the consolidated and separate financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated and separate financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the directors for the consolidated and separate financial statements

The directors are responsible for the preparation and fair presentation of the consolidated and separate financial statements in accordance with International Financial Reporting Standards and the requirements of the Companies Act of South Africa, and for such internal control as the directors determine is necessary to enable the preparation of consolidated and separate financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated and separate financial statements, the directors are responsible for assessing the group and the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the group and/or company or to cease operations, or have no realistic alternative but to do so.

Auditors' responsibilities for the audit of the consolidated and separate financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated and separate financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated and separate financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated and separate financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the group's and company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the group and company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the consolidated and separate financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up

to the date of our auditors' report. However, future events or conditions may cause the group and/or the company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated and separate financial statements, including the disclosures, and whether the consolidated and separate financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the directors, we determine those matters that were of most significance in the audit of the consolidated and separate financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on other legal and regulatory requirements

In terms of the IRBA Rule published in Government Gazette Number 39475 dated 4 December 2015, we report that based on available statutory records, KPMG Inc. and PricewaterhouseCoopers Inc. have been the joint auditors of The Standard Bank of South Africa Limited for 54 years.

KPMG Inc.
Registered Auditor

Director: Heather Berrange
Chartered Accountant (SA)
Registered Auditor
1 March 2017

85 Empire Road
Parktown
2193

PricewaterhouseCoopers Inc.
Registered Auditor

Director: Stefan Beyers
Chartered Accountant (SA)
Registered Auditor
1 March 2017

2 Eglin Road
Sunninghill
2157

Statements of financial position

as at 31 December 2016

		GROUP		COMPANY		
	Note	**2016 Rm**	2015 Rm	**2016 Rm**	2015[1] Rm	2014[1] Rm
Assets						
Cash and balances with central banks	1	**33 947**	30 252	**33 947**	30 253	32 202
Derivative assets	2	**60 074**	100 356	**60 076**	100 355	54 060
Trading assets	3	**107 442**	63 282	**107 442**	63 280	51 436
Pledged assets	4.1	**2 081**	7 879	**2 081**	7 879	5 281
Financial investments	5	**91 551**	98 944	**90 824**	97 993	100 445
Current tax asset		**264**	242	**262**	241	313
Loans and advances	6.1	**920 406**	897 344	**909 909**	882 278	769 402
Other assets	7	**7 493**	9 003	**7 318**	8 800	7 175
Interest in SBG companies, associates and joint ventures – banking activities	8	**34 807**	41 347	**42 091**	50 636	77 217
Property and equipment	9	**8 637**	8 931	**8 600**	8 868	9 028
Goodwill and other intangible assets	10	**18 354**	19 315	**18 285**	19 262	16 952
Deferred tax asset	14	**565**	58	**507**	10	7
Total assets		**1 285 621**	1 276 953	**1 281 342**	1 269 855	1 123 518
Equity and liabilities						
Equity		**96 290**	90 714	**94 500**	89 467	81 782
Equity attributable to the ordinary shareholder		**96 285**	90 714	**94 500**	89 467	81 782
Ordinary share capital	11.2	**60**	60	**60**	60	60
Ordinary share premium	12	**41 138**	40 138	**41 138**	40 138	36 296
Reserves		**55 087**	50 516	**53 302**	49 269	45 426
Non-controlling interest		**5**				
Liabilities		**1 189 331**	1 186 239	**1 186 842**	1 180 388	1 041 736
Derivative liabilities	2	**67 104**	120 857	**67 106**	120 857	66 298
Trading liabilities	13	**26 976**	24 625	**26 976**	24 625	22 709
Current tax liability		**3 987**	2 945	**3 992**	2 936	3 326
Deposits and debt funding	15	**937 038**	874 372	**934 944**	867 358	790 995
Liabilities to SBG companies	8.3	**117 983**	127 185	**117 914**	128 668	126 034
Subordinated debt	16	**20 340**	21 309	**20 340**	21 309	20 734
Provisions and other liabilities	17	**15 885**	14 403	**15 570**	14 094	11 419
Deferred tax liability	14	**18**	543		541	221
Total equity and liabilities		**1 285 621**	1 276 953	**1 281 342**	1 269 855	1 123 518

[1] The company has elected to change its accounting policy in its separate financial statements to account for investments in associates and joint ventures using the equity method, refer to accounting policies and restatements.

Income statements

for the year ended 31 December 2016

	Note	GROUP 2016 Rm	GROUP 2015 Rm	COMPANY 2016 Rm	COMPANY 2015[1] Rm
Net interest income		**39 445**	34 958	**38 767**	34 212
Interest income	25	**86 301**	74 035	**85 276**	72 840
Interest expense	26	**(46 856)**	(39 077)	**(46 509)**	(38 628)
Non-interest revenue		**27 429**	26 347	**26 434**	25 420
Net fee and commission revenue		**20 142**	19 094	**19 054**	18 120
Fee and commission revenue	27	**24 447**	23 095	**23 331**	22 091
Fee and commission expense	28	**(4 305)**	(4 001)	**(4 277)**	(3 971)
Trading revenue	29	**4 944**	4 188	**4 985**	4 216
Other revenue	30	**2 343**	3 065	**2 395**	3 084
Total income		**66 874**	61 305	**65 201**	59 632
Credit impairment charges	31	**(7 024)**	(7 385)	**(6 962)**	(7 282)
Revenue sharing agreements		**(1 015)**	(1 125)	**(1 015)**	(1 125)
Income after credit impairment charges and revenue sharing agreements		**58 835**	52 795	**57 224**	51 225
Operating expenses	32	**(38 824)**	(34 693)	**(37 910)**	(33 959)
Net income before non-trading and capital related items and equity accounted earnings		**20 011**	18 102	**19 314**	17 266
Non-trading and capital related items	33	**(524)**	(1 234)	**(525)**	(1 232)
Share of (loss)/profits from associates and joint ventures	8.2	**(21)**	65	**(21)**	65
Profit before indirect taxation		**19 466**	16 933	**18 768**	16 099
Indirect taxation	34.1	**(1 381)**	(1 550)	**(1 373)**	(1 543)
Profit before direct taxation		**18 085**	15 383	**17 395**	14 556
Direct taxation	34.2	**(3 849)**	(2 904)	**(3 699)**	(2 731)
Profit for the year		**14 236**	12 479	**13 696**	11 825
Attributable to non-controlling interest		**1**	1		
Attributable to the ordinary shareholder		**14 235**	12 478	**13 696**	11 825
Basic earnings per ordinary share (cents)	35	**23 726**	20 798	**22 828**	19 709

[1] The company has elected to change its accounting policy in its separate financial statements to account for investments in associates and joint ventures using the equity method, refer to accounting policies and restatements.

Statements of other comprehensive income

for the year ended 31 December 2016

	GROUP		COMPANY	
	2016 Rm	2015 Rm	**2016 Rm**	2015[1] Rm
Profit for the year	**14 236**	12 479	**13 696**	11 825
Other comprehensive (loss)/income – net of taxation	**(68)**	419	**(64)**	417
Items that may be reclassified subsequently to profit and loss				
Exchange differences on translating foreign operations	**(413)**	583	**(411)**	581
Movements in the cash flow hedging reserve	**149**	(115)	**149**	(115)
Change in fair value on cash flow hedges	**(1 128)**	1 663	**(1 128)**	1 663
Realised fair value adjustments of cash flow hedges transferred to profit or loss	**1 277**	(1 778)	**1 277**	(1 778)
Net change in fair value of available-for-sale financial assets	**28**	61	**28**	61
Items that may not be reclassified to profit and loss				
Defined benefit fund remeasurements	**168**	(110)	**170**	(110)
Total comprehensive income for the year	**14 168**	12 898	**13 632**	12 242
Attributable to the ordinary shareholder	**14 167**	12 897	**13 632**	12 242
Attributable to non-controlling interest	**1**	1		

[1] The company has elected to change its accounting policy in its separate financial statements to account for investments in associates and joint ventures using the equity method, refer to accounting policies and restatements.

Statements of cash flows

for the year ended 31 December 2016

	Note	GROUP 2016 Rm	GROUP 2015 Rm	COMPANY 2016 Rm	COMPANY 2015[1] Rm
Net cash flows from operating activities		**16 006**	7 458	**15 999**	7 450
Net cash flows used in operations		**(20 298)**	(24 427)	**(19 793)**	(23 904)
Net income before non-trading and capital related items and equity accounted earnings		**20 011**	18 102	**19 314**	17 266
Adjusted for non-cash items and other adjustments included in the income statement	38.1	**(29 722)**	(26 491)	**(29 112)**	(25 856)
Increase in income-earning assets	38.2	**(65 508)**	(98 034)	**(68 278)**	(98 443)
Increase in deposits, trading and other liabilities	38.3	**56 739**	82 447	**60 101**	83 580
Movement in post-employment remeasurements and equity-linked transactions		**(1 818)**	(451)	**(1 818)**	(451)
Dividends received		**3 916**	2 937	**3 573**	2 625
Interest paid		**(47 059)**	(39 486)	**(46 712)**	(39 037)
Interest received		**83 161**	71 445	**82 490**	70 577
Direct taxation paid		**(3 714)**	(3 011)	**(3 559)**	(2 811)
Net cash flows used in investing activities		**(2 610)**	(6 179)	**(2 606)**	(6 152)
Capital expenditure on property and equipment	9	**(1 677)**	(1 809)	**(1 672)**	(1 788)
Proceeds from sale of property and equipment		**69**	68	**54**	65
Capital expenditure on intangible assets		**(3 551)**	(4 738)	**(3 537)**	(4 729)
Proceeds from sale of intangible assets		**2 433**	74	**2 433**	74
Proceeds from sale of associate	8.2		161		161
Distributions from investments in associates and joint ventures	8.2	**116**	65	**116**	65
Net cash flows used in financing activities		**(9 350)**	(3 828)	**(9 350)**	(3 828)
Proceeds from issue of share capital to shareholder	11.2	**1 000**	3 842	**1 000**	3 842
Subordinated debt issued	38.4	**1 700**	3 630	**1 700**	3 630
Subordinated debt redeemed	38.4	**(2 750)**	(3 000)	**(2 750)**	(3 000)
Dividends paid	37	**(9 300)**	(8 300)	**(9 300)**	(8 300)
Effects of exchange rate changes		**(351)**	583	**(349)**	581
Net increase/(decrease) in cash and cash equivalents		**3 695**	(1 966)	**3 694**	(1 949)
Cash and cash equivalents at the beginning of the year	1	**30 252**	32 218	**30 253**	32 202
Cash and cash equivalents at the end of the year	1	**33 947**	30 252	**33 947**	30 253

[1] The company has elected to change its accounting policy in its separate financial statements to account for investments in associates and joint ventures using the equity method, refer to accounting policies and restatements.

Statements of changes in equity

for the year ended 31 December 2016

	Note	Ordinary share capital and premium Rm	Foreign currency translation reserve Rm
Group			
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
Balance at 1 January 2016		**40 198**	**1 094**
Total comprehensive (loss)/income for the year			**(413)**
Profit for the year			
Other comprehensive (loss)/income after tax for the year			**(413)**
Transactions with the shareholder, recorded directly in equity		**1 000**	
Equity-settled share-based payment transactions			
Transactions with non-controlling shareholders			
Issue of share capital and share premium		**1 000**	
Transfer of vested equity options			
Dividends paid	37		
Balance at 31 December 2016		**41 198**	**681**

Details relating to each reserve are provided in the accounting policies detailed in annexure E.

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
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
(92)	**174**	**40**	**49 300**	**90 714**		**90 714**
149	**28**		**14 403**	**14 167**	**1**	**14 168**
			14 235	**14 235**	**1**	**14 236**
149	**28**		**168**	**(68)**		**(68)**
		(33)	**(9 563)**	**(8 596)**	**4**	**(8 592)**
		(30)	**(266)**	**(296)**		**(296)**
					4	**4**
				1 000		**1 000**
		(3)	**3**			
			(9 300)	**(9 300)**		**(9 300)**
57	**202**	**7**	**54 140**	**96 285**	**5**	**96 290**

Statements of changes in equity

for the year ended 31 December 2016

	Note	Ordinary share capital and premium Rm
Company		
Balance at 1 January 2015		36 356
IAS 27 restatement of opening balance[1]		
Balance at 1 January 2015 (restated)		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	37	
Dividends paid		
Balance at 31 December 2015		40 198
Balance at 1 January 2016		**40 198**
Total comprehensive (loss)/income for the year		
Profit for the year		
Other comprehensive (loss)/income after tax for the year		
Transactions with the shareholder, recorded directly in equity		**1 000**
Equity-settled share-based payment transactions		
Issue of share capital and share premium		**1 000**
Transfer of vested equity options		
Dividends paid	37	
Balance at 31 December 2016		**41 198**

[1] The company has elected to change its accounting policy in its separate financial statements to account for investments in associates and joint ventures using the equity method, refer to accounting policies and restatements.

Details relating to each reserve are provided in the accounting policies detailed in annexure E.

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
477	23	113	42	43 948	80 959
				823	823
477	23	113	42	44 771	81 782
581	(115)	61		11 715	12 242
				11 825	11 825
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	48 089	89 467
1 058	**(92)**	**174**	**40**	**48 089**	**89 467**
(411)	**149**	**28**		**13 866**	**13 632**
				13 696	**13 696**
(411)	**149**	**28**		**170**	**(64)**
			(33)	**(9 566)**	**(8 599)**
			(30)	**(266)**	**(296)**
					1 000
			(3)		**(3)**
				(9 300)	**(9 300)**
647	**57**	**202**	**7**	**52 389**	**94 500**

Accounting policy elections and restatement

The principal accounting policies applied in the presentation of the group and company's annual financial statements are set out below. The group and company's accounting policies are consistent with that of the prior year unless stated otherwise.

Basis of preparation

The group's consolidated and company's separate annual financial statements (annual financial statements) are prepared in accordance with IFRS as issued by the IASB, its interpretations adopted by the IASB, the South African Institute of Chartered Accountants' (SAICA) Financial Reporting Guides as issued by the Accounting Practices Committee, the JSE Listings Requirements, and the Companies Act. The annual financial statements have been prepared on the historical cost basis except for the following material items in the statement of financial position:

- Available-for-sale financial assets, financial assets and liabilities classified at fair value through profit or loss, 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 fluctuation 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)
- Investment in associates and joint ventures are initially measured at cost and subsequently accounted for using the equity method in the separate financial statements (accounting policy 2).

Functional and presentation currency

The annual financial statements are presented in South African rand (R), 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 amendments effective from the current period:

Adoption of new and amended standards effective for the current financial period

- IFRS 11 *Joint Arrangements* (IFRS 11): amendments specify the appropriate accounting treatment for acquisitions of interests in joint operations in which the activities of the joint operation constitute a business
- SAICA Headline Earnings circular (Circular 2/2015): changes relate largely to amendments made to IFRS since 2013, and specifically IFRS 9 *Financial Instruments* (IFRS 9)
- IAS 27 *Separate Financial Statements* (IAS 27): amendment which allows entities preparing separate financial statements to utilise the equity method to account for investments in subsidiaries, joint ventures and associates. The standard will be applied retrospectively. The group has elected to change its accounting policy in its separate financial statements to account for investments in associates and joint ventures using the equity method. (refer to restatement on the following page).

Early adoption of revised standards:

- IAS 7 *Statement of Cash flows* (IAS 7): amendments require entities to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, refer to note 38 for this additional disclosure
- IAS 12 *Income Taxes* (IAS 12): amendments clarify various accounting requirements with respect to the recognition of deferred tax assets for unrealised losses.

The abovementioned amendments to IFRS and circular, adopted on 1 January 2016, did not have any effect on the group's previously reported financial results or disclosures and had no material impact on the group's accounting policies.

The group has elected to change the accounting policy for investments in associates and joint ventures only in The Standard Bank of South Africa Limited's separate financial statements as a result of the IAS 27 amendment from the cost method to the equity accounting method. The amendment has been applied retrospectively.

	31 December 2015		31 December 2014	
SBSA Company	Restated Rm	As previously reported Rm	Restated Rm	As previously reported Rm
Interest in SBG companies, associates and joint ventures – banking activities[1]	50 636	49 935	77 217	76 394
Reserves[2]	49 269	48 568	45 426	44 603
Share of profits from associates and joint ventures[3]	65		*	*
Other revenue[4]	3 084	3 149	*	*
Non-trading and capital related items[5]	(1 232)	(1 110)	*	*

* not required to be reported in terms of IFRS.

1 Increase as a result of equity accounting the associates of R701 million (2014: R823 million).

2 Increase as a result of equity accounting the associates offset by not accounting for dividend income of R65 million from associates and lower gain on disposal of R122 million as a result of a higher equity accounted carrying value.

3 Equity accounted earnings for the year.

4 Lower other revenue as a result of not accounting for dividend income received from associates of R65 million.

5 Increase as a result of a lower gain on disposal of R122 million due to a higher equity accounted carrying value.

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 its 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 loan basis.

The impairment for performing and non-performing but not specifically impaired loans is calculated on a portfolio basis, based on historical loss patterns, adjusted for national and industry-specific economic conditions and other indicators present at the reporting date that correlate with defaults on the portfolio. These include early arrears, notices of accounts under debt review, renegotiated loans, post write-off recoveries, watch list exposures and changes in macro-economic conditions and legislation affecting credit recovery. The impairments are monitored on a monthly basis, with back-testing performed between actual write-off experience and that estimated by the group's models. The models are updated on a regular basis to incorporate actual write-off experience. The sensitivity to changing conditions is evaluated and specific sensitivity testing is done if and when required.

A key input into the determination of the group and company's portfolio impairment provisions is the emergence period. The loss ratios applied to loan balances in the portfolio are based on the estimated loss emergence period. At year end, the group and company applied an average loss emergence period of a minimum of three months (2015: three months) for Personal & Business Banking and 12 months (2015: 12 months) for Corporate & Investment Banking loans and advances. Where required, these emergence periods are assessed by determining the sensitivity of the impairment by applying both longer and shorter emergence periods and comparing the sensitivity results with the incurred loss experience.

Specific loan impairments

Non-performing loans include those loans for which the group 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, recoverability of collateral and probability of default. Management's estimates of future cash flows on individually impaired loans are based on historical loss experience for assets with similar credit risk characteristics. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

Expected time to recover cash and collateral and recoveries of individual specifically impaired loans as a percentage of the outstanding balances are estimated as follows:

	Expected time to recovery		Expected recoveries as a percentage of impaired loans	
	2016 Months	2015 Months	**2016 %**	2015 %
Personal & Business Banking	**8 – 15**	10 – 15	**58**	59
Mortgage lending	**15**	15	**75**	73
Instalment sale and finance leases	**9**	10	**56**	54
Card debtors[1]	**8**	15	**28**	32
Other lending	**13**	14	**32**	34
Corporate & Investment Banking	**21**	22	**34**	34

[1] The methodology has been enhanced to more accurately reflect the time to completion for accounts in the card portfolio. The period of recovery incorporates the average time to write-off, as well as the average time it takes an account to cure.

Fair value

Financial instruments

In terms of IFRS, the group and company are either required to or elects 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 is not an amount that represents a forced transaction, involuntary liquidation or a distressed sale. Information obtained from the valuation of financial instruments is used to assess the performance of the group and, in particular, provides assurance that the risk and return measures that the group has taken are accurate and complete.

The group 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 and company establish 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 and company make 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 and company believe 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 and company apply 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 and company'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 2016 was a net gain of R5 053 million (2015: R5 705 million net loss) for the group and net gain of R5 053 million (2015: R5 706 million net loss) for the company. Other financial instruments are utilised to mitigate the risk of these changes in fair value.

Refer to note 19 for fair value disclosures.

Consolidation of entities

The group controls and consolidates an entity where the group has power over the entity's relevant activities; is exposed to variable returns from its involvement with the investee; and has the ability to affect the returns through its power over the entity, including SEs. Determining whether the group controls another entity requires judgement by identifying an entity's relevant activities, being those activities that significantly affect the investee's returns, and whether the group controls those relevant activities by considering the rights attached to both current and potential voting rights, de facto control and other contractual rights including whether such rights are substantive.

Interests in unconsolidated SEs that are not considered to be a typical customer-supplier relationship are required to be identified and disclosed. The group regards interest to be a typical customer-supplier relationship where the level of risk inherent in that interest in the SE exposes the group to a similar risk profile to that found in standard market-related transactions. The group sponsors an SE where it provides financial support to the SE when not contractually required to do so. Financial support may be provided by the group to an SE for events such as litigation, tax and operational difficulties.

Computer software intangible assets

The group and company review assets under construction and assets brought into use for impairment at each reporting date and test the carrying value 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, new technological developments, obsolescence, changes in the manner in which the software is used or is expected to be used, changes in discount rates or changes in estimates of related future cash benefits. The impairment tests are performed by comparing an asset's recoverable amounts to their carrying amounts. The review and testing of assets for impairment inherently requires significant management judgement as it requires management to derive the estimates of the identified asset's future cash flows in order to derive the asset's recoverable amount.

The recoverable amount is determined as the higher of an asset's fair value less costs to sell and its value in use. The value in use is calculated by estimating future cash benefits that will result from each asset and discounting those cash benefits at an appropriate discount rate.

During the 2016 financial year, impairment indicators were identified with regard to certain ring-fenced components of the group and company's computer software assets. The recoverable values for these identified components were determined to be nil due to components being obsolete, redundant or unusable. The carrying value of these components was fully impaired.

Refer to note 10 for intangible asset disclosure, as well as annexure E for more detail on the accounting policy relating to computer software, the capitalisation thereof as well as amortisation and impairment policies.

Current and deferred tax

The group and company are subject to direct and indirect taxation requirements which are determined with reference to 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, 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.

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 principle assumptions used in the determination of the group and company's obligations include the following:

	RETIREMENT FUND	POST-EMPLOYMENT MEDICAL AID FUND
2016		
Discount rate	Nominal government bond yield curve	Nominal government bond yield curve
Return on investments	9.45% – 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
Consumer price index (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 rate plus 2%	Not applicable to fund
Pension increase in allowance	Inflation rates	Not applicable to fund
Remaining service life of employees (years)	10.68	Not applicable to 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 rate 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

Notes to the annual financial statements
for the year ended 31 December 2016

1. Cash and balances with central banks

	GROUP		COMPANY	
	2016 Rm	2015 Rm	**2016 Rm**	2015 Rm
Coins and bank notes	**12 256**	11 688	**12 256**	11 689
Balances with central banks[1]	**21 691**	18 564	**21 691**	18 564
Total	**33 947**	30 252	**33 947**	30 253

[1] The balances with the central bank are 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	
	2016 Rm	2015 Rm	**2016 Rm**	2015 Rm
Group				
Held-for-trading	**59 388**	97 133	**(65 399)**	(118 266)
Held-for-hedging	**686**	3 223	**(1 705)**	(2 591)
Total	**60 074**	100 356	**(67 104)**	(120 857)
Company				
Held-for-trading	**59 390**	97 148	**(65 401)**	(118 266)
Held-for-hedging	**686**	3 207	**(1 705)**	(2 591)
Total	**60 076**	100 355	**(67 106)**	(120 857)

2.1 Use and measurement of derivative instruments

In the normal course of business, the group and company enter 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.

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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 take proprietary positions for own account. Trading derivative products include the following:

	Fair value of assets		Fair value of liabilities		Contract/notional amount[1]	
	2016 Rm	2015 Rm	**2016 Rm**	2015 Rm	**2016 Rm**	2015 Rm
Group						
Foreign exchange derivatives	**30 810**	44 357	**(25 854)**	(45 774)	**1 745 139**	1 506 626
Interest rate derivatives	**23 082**	45 283	**(33 146)**	(62 043)	**6 590 331**	5 510 815
Commodity derivatives	**305**	1 404	**(270)**	(1 208)	**4 818**	14 083
Credit derivatives	**3 528**	4 320	**(3 942)**	(6 345)	**95 197**	67 685
Equity derivatives	**1 663**	1 769	**(2 187)**	(2 896)	**194 585**	228 315
Total	**59 388**	97 133	**(65 399)**	(118 266)	**8 630 070**	7 327 524
Company						
Foreign exchange derivatives	**30 810**	44 357	**(25 854)**	(45 774)	**1 745 139**	1 506 626
Interest rate derivatives	**23 084**	45 298	**(33 147)**	(62 043)	**6 587 718**	5 504 533
Commodity derivatives	**305**	1 404	**(270)**	(1 208)	**4 818**	14 083
Credit derivatives	**3 528**	4 320	**(3 942)**	(6 345)	**95 197**	67 685
Equity derivatives	**1 663**	1 769	**(2 188)**	(2 896)	**194 585**	228 315
Total	**59 390**	97 148	**(65 401)**	(118 266)	**8 627 457**	7 321 242

[1] The notional amount is the sum of the absolute value of all bought and sold contracts for both derivative assets and liabilities. The amount cannot be used to assess the market risk associated with the positions held and should be used only as a means of assessing the group's participation in derivative contracts.

2. Derivative instruments continued

2.3 Derivatives held-for-hedging

The group and company enter 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[1]	
	2016 Rm	2015 Rm	**2016 Rm**	2015 Rm	**2016 Rm**	2015 Rm
Group						
Derivatives designated as fair value hedges	**515**	763	**(1 233)**	(2 280)	**72 188**	79 464
Derivatives designated as cash flow hedges	**171**	2 460	**(472)**	(311)	**4 530**	4 776
Total	**686**	3 223	**(1 705)**	(2 591)	**76 718**	84 240
Company						
Derivatives designated as fair value hedges	**515**	747	**(1 233)**	(2 280)	**72 188**	78 739
Derivatives designated as cash flow hedges	**171**	2 460	**(472)**	(311)	**4 530**	4 776
Total	**686**	3 207	**(1 705)**	(2 591)	**76 718**	83 515

[1] The notional amount is the sum of the absolute value of all bought and sold contracts for both derivative assets and liabilities. The amount cannot be used to assess the market risk associated with the positions held and should be used only as a means of assessing the group's participation in derivative contracts.

2.3.1 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 gains/(loss) arising from fair value hedges during the year were as follows:

	GROUP		COMPANY	
	2016 Rm	2015 Rm	**2016 Rm**	2015 Rm
Hedging instruments	**958**	(1 274)	**965**	(1 267)
Hedged items attributable to the hedged risk	**(963)**	1 427	**(969)**	1 420

2. Derivative instruments continued

2.3 Derivatives held-for-hedging continued

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
2016			
Net cash (outflow)/inflow	**(23)**	**63**	**39**
2015			
Net cash outflow	(2)	(22)	(104)

Reconciliation of movements in the cash flow hedging reserve

	GROUP		COMPANY	
	2016 Rm	2015 Rm	**2016 Rm**	2015 Rm
Balance at the beginning of the year	**(92)**	23	**(92)**	23
Amounts recognised directly in OCI before tax	**(1 567)**	2 305	**(1 567)**	2 305
Add/(less): **amounts released to profit or loss before tax**	**1 774**	(2 467)	**1 774**	(2 467)
Total income	**1 811**	(2 491)	**1 811**	(2 491)
Other operating expenses	**(37)**	24	**(37)**	24
Less: deferred tax	**(58)**	47	**(58)**	47
Balance at the end of the year	**57**	(92)	**57**	(92)

Ineffectiveness that arises from cash flow hedges is recognised immediately in profit or loss. No amounts were recognised in profit or loss during 2016 and 2015.

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		COMPANY	
	2016 Rm	2015 Rm	**2016 Rm**	2015 Rm
Unamortised profit at the beginning of the year	**25**	61	**25**	61
Additional profit on new transactions	**2**		**2**	
Recognised in profit or loss during the year	**(16)**	(36)	**(16)**	(36)
Unamortised profit at the end of the year	**11**	25	**11**	25

3. Trading assets

	GROUP		COMPANY	
	2016 Rm	2015 Rm	**2016 Rm**	2015 Rm
Government, municipality and utility bonds	**29 595**	7 795	**29 595**	7 795
Corporate bonds	**3 582**	7 635	**3 582**	7 635
Collateral	**2 430**	2 730	**2 430**	2 730
Reverse repurchase and other collateralised agreements	**44 805**	21 958	**44 805**	21 958
Listed equities	**18 298**	12 556	**18 298**	12 556
Other instruments	**8 732**	10 608	**8 732**	10 606
Total	**107 442**	63 282	**107 442**	63 280

3.1 Day one profit or loss – trading assets

The table below sets out the aggregate net day one profits to be recognised in profit or loss at the beginning and end of the year with a reconciliation of changes in the balance during the year:

	GROUP		COMPANY	
	2016 Rm	2015 Rm	**2016 Rm**	2015 Rm
Unamortised profit at the beginning of the year	**582**	418	**582**	418
Additional profit on new transactions	**137**	268	**137**	268
Recognised in profit or loss during the year	**(131)**	(104)	**(131)**	(104)
Unamortised profit at the end of the year	**588**	582	**588**	582

4. Pledged assets

4.1 Pledged assets

	GROUP		COMPANY	
	2016 Rm	2015 Rm	**2016 Rm**	2015 Rm
Financial assets that may be repledged or resold by counterparties in absence of default				
Government, municipality and utility bonds	**1 879**	4 722	**1 879**	4 722
Corporate bonds	**202**	1 033	**202**	1 033
Commodity leases		2 124		2 124
Total	**2 081**	7 879	**2 081**	7 879

4.2 Total assets pledged

The total amount of financial assets that have been pledged as collateral for liabilities and contingent liabilities is R10 949 million (2015: R17 371 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 borrowing activities.

4.3 Collateral accepted as security for assets

As part of the reverse repurchase and securities borrowing 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 R143 139 million (2015: R115 202 million).

The fair value of financial assets accepted as collateral and commodities received through commodity leases that have been sold, repledged or leased in terms of repurchase agreements or leasing transactions is R33 056 million (2015: R19 625 million).

These transactions are conducted under terms that are usual and customary to reverse repurchase 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 transfer substantially all the risks and rewards of ownership and its contractual right to receive cash flows from the financial assets or retain the contractual rights to receive the cash flows of the financial assets but assume 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 credit interest rate, currency, prepayment and other price risks.

However, where the group and company have retained substantially all risks 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					
2016					
Mortgage loans	**18 602**	**638**	**18 537**	**638**	**17 899**
2015					
Mortgage loans	23 912	4 394	23 172	4 401	18 771
Company					
2016					
Mortgage loans	**16 143**	**16 367**	**16 143**	**16 175**	**(32)**
2015					
Mortgage loans	16 187	16 344	15 848	16 337	(489)

[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			
2016			
Mortgage loans	**364**	**364**	**364**
2015			
Mortgage loans	204	204	204

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					
2016					
Pledged assets	**2 081**	**2 081**	**2 084**	**2 084**	
Bonds	**2 081**	**2 081**	**2 084**	**2 084**	
Financial investments	**8 868**	**8 860**	**8 868**	**8 858**	**10**
Total	**10 949**	**10 941**	**10 952**	**10 942**	**10**
2015					
Pledged assets	7 879	5 755	7 885	5 756	2 129
Bonds	5 755	5 755	5 761	5 756	5
Commodities (leases)	2 124		2 124		2 124
Financial investments	11 615	11 548	11 615	11 548	67
Total	19 494	17 303	19 500	17 304	2 196
Company					
2016					
Pledged assets	**2 081**	**2 081**	**2 084**	**2 084**	
Bonds	**2 081**	**2 081**	**2 084**	**2 084**	
Financial investments	**8 868**	**8 860**	**8 868**	**8 858**	**10**
Total	**10 949**	**10 941**	**10 952**	**10 942**	**10**
2015					
Pledged assets	7 879	5 755	7 885	5 756	2 129
Bonds	5 755	5 755	5 761	5 756	5
Commodities (leases)	2 124		2 124		2 124
Financial investments	11 615	11 548	11 615	11 548	67
Total	19 494	17 303	19 500	17 304	2 196

[1] Where the counterparty 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		COMPANY	
	2016 Rm	2015 Rm	**2016 Rm**	2015 Rm
Short-term negotiable securities	**60 753**	54 887	**60 753**	54 887
Other financial investments	**30 798**	44 057	**30 071**	43 106
Total	**91 551**	98 944	**90 824**	97 993
Comprising:				
Government, municipality and utility bonds	**25 502**	38 924	**25 502**	38 867
Corporate bonds	**5 839**	6 560	**5 839**	5 666
Listed equities	**784**	105	**57**	105
Unlisted equities	**2 745**	2 632	**2 745**	2 632
Mutual funds	**173**	1 149	**173**	1 149
Treasury bills	**56 458**	49 574	**56 458**	49 574
Other instruments	**50**		**50**	
Total	**91 551**	98 944	**90 824**	97 993

6. Loans and advances

6.1 Loans and advances net of impairments

	GROUP		COMPANY	
	2016 Rm	2015 Rm	**2016 Rm**	2015 Rm
Loans and advances to banks	**119 844**	113 600	**119 351**	112 944
Loans and advances to customers	**800 562**	783 744	**790 558**	769 334
Gross loans and advances to customers	**818 658**	801 607	**808 515**	787 018
Mortgage loans	**321 445**	310 330	**318 650**	302 655
Vehicle and asset finance (note 6.2)	**71 335**	69 618	**71 335**	69 618
Card debtors	**30 668**	30 389	**29 617**	29 225
Overdrafts and other demand lending	**49 262**	49 755	**49 273**	49 763
Personal loans	**8 219**	8 485	**8 219**	8 495
Corporate, business and other loans	**41 043**	41 270	**41 054**	41 268
Other term loans	**259 279**	242 572	**252 662**	236 791
Personal loans	**31 488**	29 256	**31 488**	29 256
Corporate, business and other loans	**227 791**	213 316	**221 174**	207 535
Loans granted under resale agreements	**14 148**	36 391	**14 148**	36 391
Commercial property finance	**72 521**	62 552	**72 830**	62 575
Credit impairments for loans and advances (note 6.3)	**(18 096)**	(17 863)	**(17 957)**	(17 684)
Specific credit impairments	**(12 762)**	(12 738)	**(12 649)**	(12 593)
Portfolio credit impairments	**(5 334)**	(5 125)	**(5 308)**	(5 091)
Net loans and advances	**920 406**	897 344	**909 909**	882 278

6. Loans and advances continued

6.2 Vehicle and asset finance

	GROUP		COMPANY	
	2016 Rm	2015 Rm	**2016 Rm**	2015 Rm
Gross investment in vehicle and asset finance	**86 362**	83 502	**86 362**	83 502
Receivable within one year	**27 661**	27 191	**27 661**	27 191
Receivable after one year but within five years	**58 511**	56 126	**58 511**	56 126
Receivable after five years	**190**	185	**190**	185
Unearned finance charges deducted	**(15 027)**	(13 884)	**(15 027)**	(13 884)
Net investment in vehicle and asset finance	**71 335**	69 618	**71 335**	69 618
Receivable within one year	**21 869**	21 582	**21 869**	21 582
Receivable after one year but within five years	**49 296**	47 872	**49 296**	47 872
Receivable after five years	**170**	164	**170**	164

Leases entered into are at market-related terms. Under the terms of the lease agreements, no contingent rentals are payable. Moveable assets are leased or sold to customers under finance leases and instalment sale agreements for periods varying between 12 and 84 months. Depending on the terms of the agreement, the lessee may have the option to purchase the asset at the end of the lease term.

6. Loans and advances continued

6.3 Credit impairments for loans and advances

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
2016			
Group			
Specific impairments			
Balance at beginning of the year	**3 700**	**1 067**	**1 364**
Impaired accounts written off	**(1 835)**	**(821)**	**(1 240)**
Discount element recognised in interest income	**(360)**	**(97)**	**(19)**
Net impairments raised[1]	**1 942**	**974**	**1 483**
Exchange and other movements			**(21)**
Balance at end of the year	**3 447**	**1 123**	**1 567**
Portfolio impairments			
Balance at beginning of the year	**1 014**	**688**	**642**
Net impairments raised/(released)[1]	**47**	**23**	**54**
Exchange and other movements			**(55)**
Balance at end of the year	**1 061**	**711**	**641**
Total	**4 508**	**1 834**	**2 208**
2015			
Group			
Specific impairments			
Balance at 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 end of the year	3 700	1 067	1 364
Portfolio impairments			
Balance at 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

Refer to footnote on page 170.

Personal unsecured lending Rm	Business lending and other Rm	Corporate lending Rm	Commercial property finance Rm	Total Rm
2 651	1 023	2 775	158	12 738
(1 381)	(360)	(498)	(13)	(6 148)
(222)	(49)	(104)		(851)
1 985	558	358	11	7 311
10		(277)		(288)
3 043	1 172	2 254	156	12 762
1 043	1 217	425	96	5 125
142	(61)	163		368
(103)		(1)		(159)
1 082	1 156	587	96	5 334
4 125	2 328	2 841	252	18 096
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

6. Loans and advances continued

6.3 Credit impairments for loans and advances continued

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
2016			
Company			
Specific impairments			
Balance at beginning of the year	**3 652**	**1 067**	**1 316**
Impaired accounts written off	**(1 771)**	**(821)**	**(1 205)**
Discount element recognised in interest income	**(349)**	**(97)**	**(18)**
Net impairments raised[1]	**1 903**	**974**	**1 443**
Exchange and other movements			**(21)**
Balance at end of the year	**3 435**	**1 123**	**1 515**
Portfolio impairments			
Balance at beginning of the year	**1 011**	**686**	**626**
Net impairments raised/(released)[1]	**58**	**23**	**51**
Exchange and other movements			**(55)**
Balance at end of the year	**1 069**	**709**	**622**
Total	**4 504**	**1 832**	**2 137**
2015			
Company			
Specific impairments			
Balance at 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 end of the year	3 652	1 067	1 316
Portfolio impairments			
Balance at 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

[1] Net impairments raised/(released) less recoveries of amounts written off in previous years, as well as credit recovery on off-balance sheet exposures, 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
	2 651	**1 022**	**2 727**	**158**	**12 593**
	(875)	**(866)**	**(489)**	**(8)**	**(6 035)**
	(111)	**(160)**	**(105)**		**(840)**
	1 319	**1 224**	**351**	**5**	**7 219**
	10		**(277)**		**(288)**
	2 994	**1 220**	**2 207**	**155**	**12 649**
	1 043	**1 215**	**414**	**96**	**5 091**
	109	**(44)**	**163**	**(18)**	**342**
	(70)				**(125)**
	1 082	**1 171**	**577**	**78**	**5 308**
	4 076	**2 391**	**2 784**	**233**	**17 957**
	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

7. Other assets

	GROUP		COMPANY	
	2016 Rm	2015 Rm	**2016 Rm**	2015 Rm
Trading settlement assets	**3 938**	5 077	**3 837**	5 017
Items in the course of collection	**283**	287	**283**	287
Post-employment benefits (note 40)	**1 283**	1 160	**1 283**	1 160
Prepayments	**1 236**	1 002	**1 235**	996
Other debtors	**753**	1 477	**680**	1 340
Total	**7 493**	9 003	**7 318**	8 800

8. Interest in SBG companies, associates and joint ventures – banking activities

	GROUP		COMPANY	
	2016 Rm	2015 Rm	**2016 Rm**	2015[1] Rm
Interest in SBG companies (note 8.1)	**34 140**	40 535	**41 424**	49 824
Interest in associates and joint ventures (note 8.2)	**667**	812	**667**	812
Total	**34 807**	41 347	**42 091**	50 636

[1] The accounting policy for the company's separate financial statements for investments in associates and joint ventures has changed from the cost method to the equity accounted measurement basis. This resulted in a R701 million (2014: R823 million) increase in the previous year's interest in associates and joint ventures carrying value. The carrying value of interests in associates now aligns to the group's carrying value.

8.1 Interest in SBG companies

	GROUP		COMPANY	
	2016 Rm	2015 Rm	**2016 Rm**	2015 Rm
Ultimate holding company				
– Indebtedness to the group/company	**94**	215	**94**	215
Interest in subsidiary companies			**7 189**	9 128
– Shares at cost			**147**	134
– Indebtedness to the company			**7 042**	8 994
Interest in fellow banking subsidiary companies				
– Indebtedness to the group/company	**34 046**	40 320	**34 141**	40 481
Total	**34 140**	40 535	**41 424**	49 824
Comprising:				
Shares at cost			**147**	134
Derivative assets	**804**	1 785	**804**	1 788
Trading assets	**5 713**		**5 713**	
Financial investments			**2 004**	3 568
Loans and advances	**25 435**	36 027	**30 440**	41 415
Other	**2 188**	2 723	**2 316**	2 919
Total	**34 140**	40 535	**41 424**	49 824

8. Interest in SBG companies, associates and joint ventures – banking activities continued

8.2 Interest in associates and joint ventures

	GROUP		COMPANY	
	2016 Rm	2015 Rm	**2016 Rm**	2015 Rm
Carrying value at the beginning of the year (as previously reported)	**812**	951	**111**	128
IAS 27 restatement of opening balance[1]			**701**	823
Carrying value at the beginning of the year (restated)	**812**	951	**812**	951
Share of (losses)/profits	**(21)**	65	**(21)**	65
Impairments of associates	**(10)**		**(10)**	
Disposal of associate – carrying value		(142)		(142)
Gain on disposal of associate		19		19
Disposal of associate – fair value (proceeds)		(161)		(161)
Acquisition	**2**	3	**2**	3
Dividends received	**(116)**	(65)	**(116)**	(65)
Carrying value at the end of the year	**667**	812	**667**	812
Comprising:				
Cost of investments	**177**	175	**177**	175
Share of reserves	**508**	645	**508**	645
Impairments	**(18)**	(8)	**(18)**	(8)
Carrying value at the end of the year	**667**	812	**667**	812
Share of (losses)/profits	**(21)**	65	**(21)**	65
Impairments of associates	**(10)**		**(10)**	
Gain on disposal of associate		19		19
Share of (losses)/profits from associates and joint ventures	**(31)**	84	**(31)**	84

1 The accounting policy for the company's separate financial statements for investments in associates and joint ventures has changed from the cost method to the equity accounted measurement basis. This resulted in a R701 million (2014: R823 million) increase in the previous year's interest in associates and joint ventures carrying value. The carrying value of interests in associates now aligns to the group's carrying value.

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. Interest in SBG companies, associates and joint ventures – banking activities continued

8.3 Liabilities to SBG companies

	GROUP		COMPANY	
	2016 Rm	2015 Rm	**2016 Rm**	2015 Rm
Indebtedness by the group/company to:				
Ultimate holding company	**176**	176	**176**	176
Subsidiaries			**147**	1 825
Fellow banking subsidiaries	**117 807**	127 009	**117 591**	126 667
Total	**117 983**	127 185	**117 914**	128 668
Comprising:				
Derivative liabilities	**1 318**	660	**1 318**	669
Deposits and debt funding	**98 890**	126 016	**98 900**	127 545
Trading liabilities	**17 285**	2	**17 285**	2
Other	**490**	507	**411**	452
Total	**117 983**	127 185	**117 914**	128 668

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**
Net book value at 1 January 2015	3 104	1 323	2 378	124	320	1 836	9 085
Movements	(19)	(128)	7	(21)	(2)	9	(154)
Additions	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[1]	**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)**
Movements	**(59)**	**(85)**	**(95)**	**(17)**	**(48)**	**10**	**(294)**
Additions	**47**	**239**	**875**	**30**	**56**	**430**	**1 677**
Disposals	**(8)**		**(11)**	**(22)**	**(13)**	**(68)**	**(122)**
Depreciation	**(98)**	**(324)**	**(959)**	**(25)**	**(91)**	**(352)**	**(1 849)**
Net book value at 31 December 2016[1]	**3 026**	**1 110**	**2 290**	**86**	**270**	**1 855**	**8 637**
Cost	**3 640**	**2 644**	**6 284**	**196**	**665**	**3 729**	**17 158**
Accumulated depreciation	**(614)**	**(1 534)**	**(3 994)**	**(110)**	**(395)**	**(1 874)**	**(8 521)**

[1] Includes work in progress of R336 million (2015: R289 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
Net book value at 1 January 2015	3 097	1 317	2 351	118	311	1 834	9 028
Movements	(19)	(128)	1	(20)		6	(160)
Additions	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[1]	**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)**
Movements	**(54)**	**(80)**	**(91)**	**(14)**	**(41)**	**12**	**(268)**
Additions	**47**	**239**	**871**	**30**	**56**	**429**	**1 672**
Disposals	**(3)**		**(10)**	**(21)**	**(6)**	**(68)**	**(108)**
Depreciation	**(98)**	**(319)**	**(952)**	**(23)**	**(91)**	**(349)**	**(1 832)**
Net book value at 31 December 2016[1]	**3 024**	**1 109**	**2 261**	**84**	**270**	**1 852**	**8 600**
Cost	**3 638**	**2 643**	**6 212**	**186**	**662**	**3 723**	**17 064**
Accumulated depreciation	**(614)**	**(1 534)**	**(3 951)**	**(102)**	**(392)**	**(1 871)**	**(8 464)**

[1] Includes work in progress of R336 million (2015: R289 million) for which depreciation has not yet commenced.

A register of freehold land and buildings is available for inspection at the company's registered office.

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 613 million (2015: R5 286 million) for the group and R5 611 million (2015: R5 279 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 2015	36	16 963	16 999
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)**
Movements	**6**	**(967)**	**(961)**
Additions[1]	**6**	**3 835**	**3 841**
Disposals		**(2 383)**	**(2 383)**
Amortisation		**(1 849)**	**(1 849)**
Impairments		**(570)**	**(570)**
Net book value at 31 December 2016[2]	**42**	**18 312**	**18 354**
Cost	**85**	**27 058**	**27 143**
Accumulated amortisation and impairment	**(43)**	**(8 746)**	**(8 789)**

10.2 Company

	Goodwill	Computer software	Total
Net book value at 1 January 2015		16 952	16 952
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)**
Movements		**(977)**	**(977)**
Additions[1]		**3 821**	**3 821**
Disposals		**(2 383)**	**(2 383)**
Amortisation		**(1 845)**	**(1 845)**
Impairments		**(570)**	**(570)**
Net book value at 31 December 2016[2]		**18 285**	**18 285**
Cost	**39**	**27 016**	**27 055**
Accumulated amortisation and impairment	**(39)**	**(8 731)**	**(8 770)**

1 During 2016, R284 million (2015: R354 million) of interest was capitalised.
2 Includes work in progress of R3 448 million (2015: R6 239 million) for which amortisation has not yet commenced.

10. Goodwill and other intangible assets continued

10.3 Goodwill composition

	2016			2015		
	Gross goodwill Rm	**Accumulated impairment Rm**	**Net goodwill Rm**	Gross goodwill Rm	Accumulated impairment Rm	Net goodwill Rm
Group						
eCentric Payment Systems Proprietary Limited	**36**		**36**	36		36
Greystone Technologies Proprietary Limited	**6**		**6**			
LC Golf SA Proprietary Limited	**4**	**(4)**		4	(4)	
Company						
Oltio Holdings Proprietary Limited[1]	**39**	**(39)**		39	(39)	
Total	**85**	**(43)**	**42**	79	(43)	36

[1] Previously known as MTN Mobile Money.

11. Ordinary share capital

11.1 Authorised

	GROUP		COMPANY	
	2016 Rm	2015 Rm	**2016 Rm**	2015 Rm
80 000 000 (2015: 80 000 000) ordinary shares	**80**	80	**80**	80
1 000 000 000 (2015: 1 000 000 000) preference shares	**10**	10	**10**	10
Total	**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

59 997 130 (2014: 59 997 129) ordinary shares	**60**	60	**60**	60

During 2016, 1 ordinary share (2015: 2) of R1 was issued on 18 April 2016 at a premium of R1 000 million (2015: R3 842 million).

11.3 Unissued shares

20 002 870 (2015: 20 002 871) ordinary shares	**20**	20	**20**	20
1 000 000 000 (2015: 1 000 000 000) preference shares	**10**	10	**10**	10
Total	**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 2017.

12. Ordinary share premium

	GROUP		COMPANY	
	2016 Rm	2015 Rm	**2016 Rm**	2015 Rm
Share premium on issue of shares	**41 138**	40 138	**41 138**	40 138

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	
	2016 Rm	2015 Rm	**2016 Rm**	2015 Rm
Government, municipality and utility bonds	**8 062**	4 400	**8 062**	4 400
Listed equities	**149**	320	**149**	320
Collateral	**437**	367	**437**	367
Repurchase and other collateralised agreements	**6 984**	10 952	**6 984**	10 952
Credit-linked notes	**5 778**	3 828	**5 778**	3 828
Other instruments	**5 566**	4 758	**5 566**	4 758
Total	**26 976**	24 625	**26 976**	24 625

14. Deferred tax

14.1 Deferred tax analysis

	GROUP		COMPANY	
	2016 Rm	2015 Rm	**2016 Rm**	2015 Rm
Assessed losses	**(20)**	(4)	**(16)**	
Assets on lease	**182**	223	**182**	223
Depreciation	**1 870**	1 876	**1 870**	1 876
Derivatives as defined for income tax purposes		196		196
Other derivatives and financial instruments	**100**	727	**100**	727
Fair value adjustments on financial instruments	**(103)**	(225)	**(110)**	(225)
Impairment charges on loans and advances	**(750)**	(820)	**(724)**	(794)
Deferred income	**(488)**	(519)	**(488)**	(519)
Share-based payments	**(502)**	(294)	**(502)**	(294)
Other differences	**(836)**	(675)	**(819)**	(659)
Deferred tax closing balance	**(547)**	485	**(507)**	531
Deferred tax asset	**(565)**	(58)	**(507)**	(10)
Deferred tax liability	**18**	543		541

14. Deferred tax continued

14.2 Deferred tax reconciliation

	GROUP 2016 Rm	GROUP 2015 Rm	COMPANY 2016 Rm	COMPANY 2015 Rm
Deferred tax balance at the beginning of the year	**485**	192	**531**	214
Change in deferred tax on the capital gains tax (CGT) inclusion rate[1]	**8**		**8**	
Deferred tax balance after adjustment for CGT inclusion rate	**493**	192	**539**	214
Prior year tax adjustment	**352**	20	**(18)**	22
Assessed losses	**1**	(1)		
Depreciation	**(85)**	1	**(85)**	
Other derivatives and financial instruments	**(12)**		**(12)**	
Fair value adjustments of financial instruments[2]	**1**	25	**(6)**	25
Impairment charges on loans and advances	**75**	(121)	**75**	(119)
Share-based payments	**282**		**(78)**	
Other differences	**90**	116	**88**	116
(Reversing)/originating temporary differences for the year	**(1 392)**	273	**(1 028)**	295
Assessed losses	**(17)**		**(16)**	
Assets on lease	**(41)**	(30)	**(41)**	(30)
Depreciation	**79**	452	**79**	453
Derivatives as defined for income tax purposes[3]	**(196)**	(196)	**(196)**	(196)
Other derivatives and financial instruments	**(615)**	454	**(615)**	454
Fair value adjustments of financial instruments[2]	**113**	(258)	**113**	(258)
Impairment charges on loans and advances	**(5)**	(127)	**(5)**	(119)
Deferred income	**31**	(45)	**31**	(45)
Share-based payments	**(490)**	287	**(130)**	287
Other differences	**(251)**	(264)	**(248)**	(251)
Deferred tax balance at the end of the year	**(547)**	485	**(507)**	531
Temporary differences for the year comprise:				
Recognised in OCI	**147**	(78)	**143**	(79)
Recognised in profit or loss	**(1 179)**	371	**(1 181)**	396
Total	**(1 032)**	293	**(1 038)**	317

1 Relates to fair value adjustments on financial instruments.
2 Included in the fair value adjustments of financial instruments is a deferred tax credit of R82 million (2015: R36 million credit) relating to OCI. The R82 million credit (2015: R36 million credit) is made up of R18 million charge (2015: R12 million charge) relating to fair value adjustments on available-for-sale investments and R64 million credit (2015: R48 million credit) relating to fair value adjustments on cash flow hedges.
3 Derivatives as defined in section 24JB of the Income Tax Act 58 of 1962 of South Africa.

15. Deposits and debt funding

	GROUP 2016 Rm	GROUP 2015 Rm	COMPANY 2016 Rm	COMPANY 2015 Rm
Deposits and debt funding from banks	**105 724**	118 325	**105 739**	118 554
Deposits and debt funding from customers	**831 314**	756 047	**829 205**	748 804
Current accounts	**104 982**	100 927	**104 982**	100 927
Cash management deposits	**165 510**	132 068	**165 510**	132 068
Card creditors	**1 440**	1 474	**1 440**	1 474
Call deposits	**195 354**	179 062	**195 354**	179 066
Savings accounts	**14 001**	14 117	**14 001**	14 117
Term deposits	**191 820**	187 697	**189 341**	184 530
Foreign currency funding	**32 364**	35 686	**32 364**	35 686
Negotiable certificates of deposit	**121 848**	100 059	**121 848**	100 059
Securitisation issuances	**495**	4 103		
Other funding	**3 500**	854	**4 365**	877
Deposits and debt funding	**937 038**	874 372	**934 944**	867 358

16. Subordinated debt

	Redeemable/ repayable date	Callable date	Notional value[1] 2016 Rm	Carrying value[1] 2016 Rm	Carrying value[1] 2015 Rm
Group and company					
Unsecured, subordinated, redeemable tier II bonds					
SBK12	24 November 2021	24 November 2016	**1 600**		1 618
SBK13	24 November 2021	24 November 2016	**1 150**		1 160
SBK15	23 January 2022	23 January 2017	**1 220**	**1 242**	1 239
SBK14	1 December 2022	1 December 2017	**1 780**	**1 795**	1 795
SBK16	15 March 2023	15 March 2018	**2 000**	**2 008**	2 008
SBK9	10 April 2023	10 April 2018	**1 500**	**1 529**	1 529
SBK17	30 July 2024	30 July 2019	**2 000**	**2 031**	2 029
SBK19	24 October 2024	24 October 2019	**500**	**508**	508
SBK20[2]	2 December 2024	2 December 2019	**2 250**	**2 269**	2 269
SBK21[2]	28 January 2025	28 January 2020	**750**	**763**	763
SBK22[2]	28 May 2025	28 May 2020	**1 000**	**1 009**	1 009
SBK24[2]	19 October 2025	19 October 2020	**880**	**897**	897
SBK18	24 October 2025	26 October 2020	**3 500**	**3 565**	3 557
SBK26[2]	25 April 2026	25 April 2021	**500**	**511**	
SBK25[2]	25 April 2026	26 April 2021	**1 200**	**1 225**	
SBK23[2]	28 May 2027	28 May 2022	**1 000**	**988**	928
Total subordinated debt				**20 340**	21 309

[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		COMPANY	
	2016 Rm	2015 Rm	**2016 Rm**	2015 Rm
Trading settlement liabilities	**2 111**	1 636	**2 111**	1 636
Items in the course of transmission		991		1 052
Post-employment benefits (note 40.2)	**641**	665	**641**	665
Equity-linked transactions (annexure C)	**2 155**	1 329	**2 155**	1 329
Staff-related accruals	**5 174**	4 199	**5 087**	4 128
Accrued expenses	**2 033**	2 091	**1 972**	2 007
Other liabilities, accruals and provisions	**3 771**	3 492	**3 604**	3 277
Total	**15 885**	14 403	**15 570**	14 094

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 value:

	Note	Held-for-trading Rm	Designated at fair value Rm
Group			
2016			
Assets			
Cash and balances with central banks	1		
Derivative assets	2	**60 074**	
Trading assets	3	**107 442**	
Pledged assets	4.1	**1 178**	**705**
Financial investments	5		**17 747**
Loans and advances to banks	6.1		
Loans and advances to customers	6.1		**86**
Interest in SBG companies, associates and joint ventures – banking activities	8	**6 517**	
Other financial assets[3]			
Other non-financial assets			
Total		**175 211**	**18 538**
Liabilities			
Derivative liabilities	2	**67 104**	
Trading liabilities	13	**26 976**	
Deposits and debt funding from banks	15		
Deposits and debt funding from customers	15		**12 434**
Subordinated debt	16		
Liabilities to SBG companies	8.3	**18 603**	
Other financial liabilities[3]			
Other non-financial liabilities			
Total		**112 683**	**12 434**
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 activities[4]	8	1 785	114
Other financial assets[3]			
Other non-financial assets			
Total		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			
Total		146 144	16 689

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 The fair value of the interest in SBG companies, associates and joint ventures – banking activities at 31 December 2015 has been restated to exclude certain non-financial instruments and provide more accurate disclosure.

	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
		33 947				33 947	33 947
						60 074	60 074
						107 442	107 442
		198				2 081	2 084
	72 514		1 290			91 551	91 940
		119 844				119 844	119 805
		800 476				800 562	797 620
		27 056			1 234	34 807	32 825
		5 524				5 524	
					29 789	29 789	
	72 514	987 045	1 290		31 023	1 285 621	
						67 104	67 104
						26 976	26 976
				105 724		105 724	105 609
				818 880		831 314	832 898
				20 340		20 340	20 282
				99 360	20	117 983	118 405
				14 733		14 733	
					5 157	5 157	
				1 059 037	5 177	1 189 331	
		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	37 988
		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	

18. Classification of assets and liabilities continued

	Note	Held-for-trading Rm	Designated at fair value Rm	
Company				
2016				
Assets				
Cash and balances with central banks	1			
Derivative assets	2	**60 076**		
Trading assets	3	**107 442**		
Pledged assets	4.1	**1 178**	**705**	
Financial investments	5		**17 746**	
Loans and advances to banks	6.1			
Loans and advances to customers	6.1		**86**	
Interest in SBG companies, associates and joint ventures – banking activities	8	**6 517**		
Other financial assets[3]				
Other non-financial assets				
Total		**175 213**	**18 537**	
Liabilities				
Derivative liabilities	2	**67 106**		
Trading liabilities	13	**26 976**		
Deposits and debt funding from banks	15			
Deposits and debt funding from customers	15		**12 420**	
Subordinated debt	16			
Liabilities to SBG companies	8.3	**18 603**		
Other financial liabilities[3]				
Other non-financial liabilities				
Total		**112 685**	**12 420**	
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	72 345
Loans and advances to banks	6.1			
Loans and advances to customers	6.1		66	
Interest in SBG companies, associates and joint ventures – banking activities[4]	8	1 788	223	837
Other financial assets[3]				
Other non-financial assets				
Total		170 033	27 573	73 182
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				
Total		146 153	16 671	

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 The fair value of the interest in SBG companies, associates and joint ventures – banking activities at 31 December 2015 has been restated to exclude certain non-financial instruments and provide more accurate disclosure.

	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
		33 947				**33 947**	**33 947**
						60 076	**60 076**
						107 442	**107 442**
		198				**2 081**	**2 084**
	71 788		**1 290**			**90 824**	**91 184**
		119 351				**119 351**	**119 357**
		790 472				**790 558**	**787 551**
		34 194			**1 380**	**42 091**	**39 803**
		5 363				**5 363**	
					29 609	**29 609**	
	71 788	**983 525**	**1 290**		**30 989**	**1 281 342**	
						67 106	**67 106**
						26 976	**26 976**
				105 739		**105 739**	**105 624**
				816 785		**829 205**	**829 921**
				20 340		**20 340**	**20 282**
				99 291	**20**	**117 914**	**117 932**
				14 423		**14 423**	
					5 139	**5 139**	
				1 056 578	**5 159**	**1 186 842**	
	30 253					30 253	30 252
						100 355	100 355
						63 280	63 280
	175					7 879	7 885
5		1 458				97 993	98 492
	112 944					112 944	113 960
	769 268					769 334	768 129
7	45 866			1 922		50 636	47 168
	6 353					6 353	
				30 828		30 828	
2	964 859	1 458		32 750		1 269 855	
						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	

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				
2016				
Assets				
Measured on a recurring basis				
Derivative assets	**178**	**57 781**	**2 115**	**60 074**
Trading assets	**45 529**	**57 162**	**4 751**	**107 442**
Pledged assets	**1 879**	**4**		**1 883**
Financial investments	**10 373**	**6 023**	**2 641**	**19 037**
Loans and advances to customers		**86**		**86**
Interest in SBG companies[1]		**6 508**	**9**	**6 517**
Total	**57 959**	**127 564**	**9 516**	**195 039**
Liabilities				
Measured on a recurring basis				
Derivative liabilities	**145**	**58 405**	**8 554**	**67 104**
Trading liabilities	**7 551**	**15 244**	**4 181**	**26 976**
Deposits and debt funding from customers		**12 434**		**12 434**
Liabilities to SBG companies		**18 592**	**11**	**18 603**
Total	**7 696**	**104 675**	**12 746**	**125 117**
2015				
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
Total	39 351	145 593	14 068	199 012
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
Total	3 361	142 458	17 014	162 833

[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				
2016				
Assets				
Measured on a recurring basis				
Derivative assets	**178**	**57 783**	**2 115**	**60 076**
Trading assets	**45 529**	**57 162**	**4 751**	**107 442**
Pledged assets	**1 879**	**4**		**1 883**
Financial investments	**10 373**	**6 022**	**2 641**	**19 036**
Loans and advances to customers		**86**		**86**
Interest in SBG companies[1]		**6 508**	**9**	**6 517**
Total	**57 959**	**127 565**	**9 516**	**195 040**
Liabilities				
Measured on a recurring basis				
Derivative liabilities	**145**	**58 407**	**8 554**	**67 106**
Trading liabilities	**7 551**	**15 244**	**4 181**	**26 976**
Deposits and debt funding from customers		**12 420**		**12 420**
Liabilities to SBG companies		**18 592**	**11**	**18 603**
Total	**7 696**	**104 663**	**12 746**	**125 105**
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]		1 969	42	2 011
Total	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
Total	3 361	142 447	17 016	162 824

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

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 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[1]		3 477			3 477
Balance at 31 December 2015	2 457	8 942	2 627	42	14 068
Balance at 1 January 2016	**2 457**	**8 942**	**2 627**	**42**	**14 068**
Total gains/(losses) included in profit or loss	**960**	**(469)**	**(23)**		**468**
Interest income			**30**		**30**
Trading revenue	**960**	**(469)**	**(47)**		**444**
Other revenue			**(6)**		**(6)**
Total gains included in OCI			**43**		**43**
Originations and purchases	**23**	**393**	**658**	**9**	**1 083**
Sales and settlements	**(1 574)**	**(3 846)**	**(677)**	**(42)**	**(6 139)**
Reclassifications[2]		**(112)**			**(112)**
Transfers into level 3[1]	**249**	**359**	**13**		**621**
Transfers out of level 3[3]		**(516)**			**(516)**
Balance at 31 December 2016	**2 115**	**4 751**	**2 641**	**9**	**9 516**

1 The valuation inputs of certain financial assets became unobservable during the year. The fair value of these financial assets was transferred into level 3.

2 Level 3 financial assets were reclassified from held-for-trading to loans and receivables at amortised cost in terms of IFRS during the 2016 year. Refer to note 21.

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

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
Company					
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
Balance at 1 January 2016	**2 457**	**8 942**	**2 627**	**42**	**14 068**
Total gains/(losses) included in profit or loss	**960**	**(469)**	**(23)**		**468**
Interest income			**30**		**30**
Trading revenue	**960**	**(469)**	**(47)**		**444**
Other revenue			**(6)**		**(6)**
Total gains included in OCI			**43**		**43**
Originations and purchases	**23**	**393**	**654**	**9**	**1 079**
Sales and settlements	**(1 574)**	**(3 846)**	**(673)**	**(42)**	**(6 135)**
Reclassifications[2]		**(112)**			**(112)**
Transfers into level 3[1]	**249**	**359**	**13**		**621**
Transfers out of level 3[3]		**(516)**			**(516)**
Balance at 31 December 2016	**2 115**	**4 751**	**2 641**	**9**	**9 516**

1 The valuation inputs of certain financial assets became unobservable during the year. The fair value of these financial assets was transferred into level 3.

2 Level 3 financial assets were reclassified from held-for-trading to loans and receivables at amortised cost in terms of IFRS during the 2016 year. Refer to note 21.

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 table provides 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):

	Derivative liabilities Rm	Trading liabilities Rm	Liabilities to SBG companies Rm	Total Rm
Group				
Balance at 1 January 2015	5 958	1 522	485	7 965
Total losses included in profit or loss – trading revenue	5 641	682	2	6 325
Issuances	3 343	690	34	4 067
Sales and settlements	(301)	(684)	(358)	(1 343)
Balance at 31 December 2015	14 641	2 210	163	17 014
Balance at 1 January 2016	**14 641**	**2 210**	**163**	**17 014**
Total (profits)/losses included in profit or loss – trading revenue[1]	**(4 895)**	**310**		**(4 585)**
Issuances		**1 803**	**11**	**1 814**
Sales and settlements	**(1 193)**	**(142)**	**(163)**	**(1 498)**
Transfers into level 3	**1**			**1**
Balance at 31 December 2016	**8 554**	**4 181**	**11**	**12 746**
Company				
Balance at 1 January 2015	5 958	1 522	485	7 965
Total losses included in profit or loss – trading revenue	5 641	682	2	6 325
Issuances	3 343	690	34	4 067
Sales and settlements	(301)	(684)	(356)	(1 341)
Balance at 31 December 2015	14 641	2 210	165	17 016
Balance at 1 January 2016	**14 641**	**2 210**	**165**	**17 016**
Total (profits)/losses included in profit or loss – trading revenue[1]	**(4 895)**	**310**		**(4 585)**
Issuances		**1 803**	**11**	**1 814**
Sales and settlements	**(1 193)**	**(142)**	**(165)**	**(1 500)**
Transfers into level 3	**1**			**1**
Balance at 31 December 2016	**8 554**	**4 181**	**11**	**12 746**

[1] 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					
2016					
Trading revenue	**1 043**	**(469)**	**(48)**		**526**
Other revenue			**15**		**15**
Total	**1 043**	**(469)**	**(33)**		**541**
2015					
Interest income			47		47
Trading revenue	812	266	(58)	7	1 027
Other revenue			(326)		(326)
Total	812	266	(337)	7	748

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

	Derivative liabilities Rm	Trading liabilities Rm	Liabilities to SBG companies Rm	Total Rm
Group and company				
2016				
Trading revenue	**(6 309)**	**26**		**(6 283)**
2015				
Trading revenue	5 879	682	2	6 563

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.

		Effect on profit or loss	
	Change in significant unobservable input	Favourable Rm	(Unfavourable) Rm
Group and company			
2016			
Derivative assets and liabilities	From (1%) to 1%	**606**	**(605)**
Trading assets	From (1%) to 1%	**578**	**(578)**
Financial investments	From (1%) to 1%	**79**	**(77)**
Trading liabilities	From (1%) to 1%	**260**	**(260)**
Total		**1 523**	**(1 520)**
2015			
Derivative assets and liabilities	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)

Refer to key management assumptions on page 154, and annexure E: detailed accounting policies on page 260 for more information.

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				
2016				
Assets				
Cash and balances with central banks	33 947			33 947
Pledged assets			201	201
Financial investments	17 155	54 988	760	72 903
Loans and advances to banks	10 091	108 448	1 266	119 805
Loans and advances to customers		40 854	756 680	797 534
Interest in SBG companies	2 135	15 162	9 011	26 308
Total	63 328	219 452	767 918	1 050 698
Liabilities				
Deposits and debt funding from banks	38 956	65 966	687	105 609
Deposits and debt funding from customers	509 284	310 536	644	820 464
Subordinated debt		20 282		20 282
Liabilities to SBG companies	4 120	94 226	1 456	99 802
Total	552 360	491 010	2 787	1 046 157
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[1]	888	20 735	14 466	36 089
Total	52 434	257 919	726 770	1 037 123
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
Total	518 975	488 955	20 397	1 028 327

[1] The interest in SBG companies balances at 31 December 2015 have been restated to provide a more accurate analysis of the fair value hierarchy. The restatement improves the comparability of the financial information and did not affect the statement of financial position.

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				
2016				
Assets				
Cash and balances with central banks	33 947			33 947
Pledged assets			201	201
Financial investments	17 155	54 988	5	72 148
Loans and advances to banks	9 646	108 447	1 264	119 357
Loans and advances to customers		40 828	746 637	787 465
Interest in SBG companies	3 540	29 048	698	33 286
Total	64 288	233 311	748 805	1 046 404
Liabilities				
Deposits and debt funding from banks	38 970	65 967	687	105 624
Deposits and debt funding from customers	510 153	307 345	3	817 501
Subordinated debt		20 282		20 282
Liabilities to SBG companies	4 172	95 157		99 329
Total	553 295	488 751	690	1 042 736
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]	1 104	38 034	6 019	45 157
Total	52 042	275 113	703 302	1 030 457
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	11 282	116 292	441	128 015
Total	517 471	482 536	1 636	1 001 643

[1] The interest in SBG companies balances at 31 December 2015 have been restated to provide a more accurate analysis of the fair value hierarchy. The restatement improves the comparability of the financial information and did not affect the statement of financial position.

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	
	2016 Rm	2015 Rm	**2016 Rm**	2015 Rm
Loans and advances				
Maximum exposure to credit risk	**86**	66	**86**	66
Current year gain on changes in fair value attributable to changes in credit risk	**3**		**3**	
Cumulative gain on changes in fair value attributable to changes in credit risk	**3**		**3**	
Financial liabilities				
Current year (loss)/gain on changes in fair value attributable to changes in credit risk	**(23)**	1	**(23)**	1
Cumulative gain on changes in fair value attributable to changes in credit risk	**37**	60	**37**	60
Contractual payment required at maturity	**14 467**	19 413	**14 467**	19 413
Carrying amount	**12 434**	16 689	**12 420**	16 671
Difference between carrying amount and contractual payment	**2 033**	2 724	**2 047**	2 742

The changes in fair value of the designated financial liabilities attributable to changes in credit risk are calculated by reference to the change in the credit risk implicit in the market value of the 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, R112 million (2015: Rnil) 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 2016, no financial assets matured in the company (2015: financial assets with a carrying value and fair value of R499 million matured).

	GROUP		COMPANY	
	2016 Rm	2015 Rm	**2016 Rm**	2015 Rm
Carrying value of reclassified financial assets at end of the year	**1 233**	997	**1 233**	997
Fair value of reclassified financial assets at end of the year	**1 140**	917	**1 140**	917

A fair value gain after tax of R88 million (2015: R92 million loss[1]) for the group and R88 million (2015: R86 million loss[1]) for the company would have been recognised in 2016 had these reclassifications not been effected.

The table below sets out the amounts actually recognised in profit or loss:

	GROUP		COMPANY	
	2016 Rm	2015 Rm	**2016 Rm**	2015 Rm
Trading income	**10**		**10**	
Net interest income/(expense)[2]	**163**	(53)	**163**	(60)

[1] This amount was previously erroneously disclosed as a gain of R92 million for group and R86 million for company.
[2] Included in this are items subject to fair value hedge accounting for interest rate risk only. The total fair value adjustment recognised in net interest income in respect of the hedged items amounted to a gain of R82 million (2015: R82 million loss).

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.

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 netting agreements[3] Rm	Collateral received[4] Rm	Net amount Rm
2016					
Assets					
Derivative assets	43 225		43 225	(39 830)	3 395
Trading assets	49 026		49 026	(46 243)	2 783
Loans and advances[5]	111 072	(33 190)	77 882	(76 589)	1 293
Total	203 323	(33 190)	170 133	(162 662)	7 471

Group and company	Gross amount of recognised financial liabilities[1] Rm	Financial assets set off in the statement of financial position[2] Rm	Net amount of financial liabilities subject to netting agreements[3] Rm	Collateral pledged[6] Rm	Net amount Rm
2016					
Liabilities					
Derivative liabilities	50 585		50 585	(42 359)	8 226
Trading liabilities	22 390		22 390	(22 390)	
Deposits and debt funding[5]	39 374	(33 190)	6 184		6 184
Total	112 349	(33 190)	79 159	(64 749)	14 410

Refer to footnotes on page 198.

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 netting agreements[3] Rm	Collateral received[4] 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[5]	110 748	(34 862)	75 886	(74 256)	1 630
Total	204 792	(34 862)	169 930	(159 246)	10 684

	Gross amount of recognised financial liabilities[1] Rm	Financial assets set off in the statement of financial position[2] Rm	Net amount of financial liabilities subject to netting agreements[3] Rm	Collateral pledged[6] Rm	Net amount Rm
2015					
Liabilities					
Derivative liabilities	82 647		82 647	(64 466)	18 181
Trading liabilities	10 277		10 277	(10 277)	
Deposits and debt funding[5]	42 848	(34 862)	7 986	(1 803)	6 183
Total	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.
4 In most cases, the group and company is allowed to sell or repledge collateral received.
5 The most material amounts offset in the statement of financial position pertain to cash management accounts. The cash management accounts allow holding companies (or central treasury functions) to manage the cash flows of 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 a similar agreement), have been included.
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

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
Deposits 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. For the maturity analysis of financial liabilities on a contractual undiscounted basis, refer to the funding and liquidity risk section within the risk and capital management report.

	Note	On demand Rm	Within 1 year Rm	Within 1 – 5 years Rm	After 5 years Rm	Undated Rm	Total Rm
Group							
2016							
Cash and balances with central banks	1	12 256				21 691	33 947
Trading assets	3	2 822	36 048	16 597	33 588	18 387	107 442
Pledged assets	4.1		730	290	1 061		2 081
Financial investments	5		78 762	3 531	6 907	2 351	91 551
Gross loans and advances	6.1	86 111	247 450	313 445	291 496		938 502
Net derivative liability	2		459	(6 898)	(591)		(7 030)
Trading liabilities	13	(409)	(13 430)	(7 957)	(5 031)	(149)	(26 976)
Deposits and debt funding	15	(548 240)	(273 221)	(83 708)	(31 869)		(937 038)
Subordinated debt	16		(3 037)	(16 315)	(988)		(20 340)

23. Maturity analysis continued

	Note	On demand Rm	Within 1 year Rm	Within 1 – 5 years Rm	After 5 years Rm	Undated Rm	Total Rm
Group							
2015							
Cash and balances with central banks	1	11 688				18 564	30 252
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	6.1	87 897	237 577	298 993	290 740		915 207
Net derivative liability[1]	2		(6 636)	378	(14 243)		(20 501)
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)

	Note	**On demand Rm**	**Within 1 year Rm**	**Within 1 – 5 years Rm**	**After 5 years Rm**	**Undated Rm**	**Total Rm**
Company							
2016							
Cash and balances with central banks	1	**12 256**				**21 691**	**33 947**
Trading assets	3	**2 822**	**36 048**	**16 597**	**33 588**	**18 387**	**107 442**
Pledged assets	4.1		**730**	**290**	**1 061**		**2 081**
Financial investments	5		**78 651**	**2 916**	**6 907**	**2 350**	**90 824**
Gross loans and advances	6.1	**85 474**	**245 952**	**306 709**	**289 731**		**927 866**
Net derivative liability	2		**460**	**(6 899)**	**(591)**		**(7 030)**
Trading liabilities	13	**(409)**	**(13 431)**	**(7 957)**	**(5 031)**	**(148)**	**(26 976)**
Deposits and debt funding	15	**(549 123)**	**(270 397)**	**(83 561)**	**(31 863)**		**(934 944)**
Subordinated debt	16		**(3 037)**	**(16 315)**	**(988)**		**(20 340)**
2015							
Cash and balances with central banks	1	11 689				18 564	30 253
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	6.1	86 137	236 082	292 688	285 055		899 962
Net derivative liability[1]	2		(6 637)	378	(14 243)		(20 502)
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)

[1] The net derivative liability balances at 31 December 2015 have been restated to provide a more accurate analysis of the maturity of the net derivative liability. The restatement improves the comparability of the financial information and did not affect the statement of financial position.

24. Contingent liabilities and commitments

24.1 Contingent liabilities

	GROUP		COMPANY	
	2016 Rm	2015 Rm	**2016 Rm**	2015 Rm
Letters of credit	**9 580**	9 304	**9 580**	9 304
Guarantees	**45 051**	47 777	**45 051**	47 777
Total	**54 631**	57 081	**54 631**	57 081

Loan commitments of R107 120 million (2015: R93 482 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's risk disclosures.

24.2 Commitments

	GROUP		COMPANY	
	2016 Rm	2015 Rm	**2016 Rm**	2015 Rm
Property and equipment	**107**	163	**107**	163
Other intangible assets	**399**	758	**399**	758
Total	**506**	921	**506**	921

The expenditure will be funded from internal resources.

24.3 Operating lease commitments

The future minimum payments under non-cancellable operating leases are as follows:

	GROUP		COMPANY	
	2016 Rm	2015 Rm	**2016 Rm**	2015 Rm
Property and equipment				
Within one year	**662**	669	**657**	664
After one year but within five years	**1 310**	1 415	**1 301**	1 399
After five years	**43**	115	**43**	115
Total	**2 015**	2 199	**2 001**	2 178

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 ordinary course of business, the group and company is involved as a defendant in litigation, lawsuits and other proceedings. Management recognises the inherent difficulty of predicting the outcome of defended legal proceedings. Nevertheless, based on management's knowledge from investigation, analysis and after consulting with legal counsel, management believes that there are no individual legal proceedings that are currently assessed as being 'likely to succeed and material' or 'unlikely to succeed but material should they succeed'. The group and company is also the defendant in some legal cases for which the group and company is fully indemnified by external third parties, none of which are individually material. Management is accordingly satisfied that the legal proceedings currently pending against the group and company should not have a material adverse effect on the group and company's consolidated financial position and the directors are satisfied that the group and company has adequate insurance programmes and, where required in terms of IFRS for claims that are probable, provisions in place to meet claims that may succeed.

Competition Commission – trading of foreign currency pairs

In April 2015, the South African Competition Commission announced that it had initiated a complaint against Standard New York Securities Inc. (SNYS) and 21 other institutions concerning possible contravention of the Competition Act in relation to USD/ZAR trading between 2007 and 2013. No mention was made of SBSA. On 15 February 2017, the Competition Commission lodged five complaints with the Competition Tribunal against 18 institutions, including SBSA and SNYS, in which it alleges unlawful collusion between those institutions in the trading of USD/ZAR. SBSA only learned of the complaints at this time and is engaging with the Competition Commission to better understand the basis for the complaints and the appropriate response. The group considers these allegations in an extremely serious light and remains committed to maintaining the highest levels of control and compliance with all relevant regulations. The allegations are confined to USD/ZAR trading activities within SBSA and do not relate to the conduct of SBG more broadly.

25. Interest income

	GROUP		COMPANY	
	2016 Rm	2015 Rm	**2016 Rm**	2015 Rm
Interest on loans and advances and investments	**83 161**	71 445	**82 490**	70 577
Unwinding of discount element of credit impairments for loans and advances (note 6.3)	**851**	817	**840**	802
Fair value adjustments on debt financial instruments	**22**	23	**22**	23
Dividends on dated securities	**2 267**	1 750	**1 924**	1 438
Total	**86 301**	74 035	**85 276**	72 840
Comprising:				
Interest income on items measured on an amortised cost basis	**85 799**	70 816	**84 776**	69 636
Interest income on items measured at fair value through profit and loss	**502**	3 219	**500**	3 204
Total	**86 301**	74 035	**85 276**	72 840

26. Interest expense

	GROUP		COMPANY	
	2016 Rm	2015 Rm	**2016 Rm**	2015 Rm
Current accounts	**157**	152	**157**	152
Savings and deposit accounts	**13 384**	10 500	**13 459**	10 559
Foreign finance creditors	**1 189**	893	**1 189**	893
Subordinated debt	**3 057**	1 807	**3 057**	1 807
Other interest-bearing liabilities	**29 069**	25 725	**28 647**	25 217
Total	**46 856**	39 077	**46 509**	38 628
Comprising:				
Interest expense on items measured on an amortised cost basis	**46 534**	37 523	**46 188**	37 068
Interest expense on items measured at fair value through profit and loss	**322**	1 554	**321**	1 560
Total	**46 856**	39 077	**46 509**	38 628

27. Fee and commission revenue

	GROUP		COMPANY	
	2016 Rm	2015 Rm	**2016 Rm**	2015 Rm
Account transaction fees	**9 405**	8 927	**9 397**	8 917
Bancassurance revenue	**2 084**	1 918	**818**	790
Card-based commission	**5 234**	4 949	**4 870**	4 566
Documentation and administration fees	**1 216**	1 025	**1 190**	1 000
Electronic banking fees	**2 553**	2 427	**2 553**	2 427
Foreign currency service fees	**1 058**	1 237	**1 729**	1 890
Knowledge-based fees and commission	**830**	759	**830**	759
Other	**2 067**	1 853	**1 944**	1 742
Total	**24 447**	23 095	**23 331**	22 091

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		COMPANY	
	2016 Rm	2015 Rm	**2016 Rm**	2015 Rm
Account transaction fees	**1 042**	981	**1 042**	981
Bancassurance fees	**536**	535	**520**	519
Card-based commission	**1 703**	1 538	**1 691**	1 524
Documentation and administration fees	**117**	119	**117**	119
Electronic banking fees	**651**	621	**651**	621
Other	**256**	207	**256**	207
Total	**4 305**	4 001	**4 277**	3 971

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.

29. Trading revenue

	GROUP		COMPANY	
	2016 Rm	2015 Rm	**2016 Rm**	2015 Rm
Fixed income and currencies (FIC)	**3 362**	2 859	**3 399**	2 887
Equities	**1 649**	1 187	**1 649**	1 187
Commodities	**64**	197	**64**	197
Other	**(131)**	(55)	**(127)**	(55)
Total	**4 944**	4 188	**4 985**	4 216

30. Other revenue

	GROUP		COMPANY	
	2016 Rm	2015 Rm	**2016 Rm**	2015 Rm
Banking and other[1,2]	**1 170**	2 024	**1 218**	2 039
Property-related revenue	**177**	95	**181**	99
Insurance – bancassurance income	**996**	946	**996**	946
Total	**2 343**	3 065	**2 395**	3 084

1 The accounting policy for the company's separate financial statements for investments in associates and joint ventures has changed from the cost method to the equity accounted measurement basis. This resulted in a R65 million decrease in the prior year banking and other income due to lower dividend income now not recognised.

2 Included in banking and other income for the company is dividend income from subsidiaries of R107 million (2015: R100 million).

31. Credit impairment charges

	GROUP		COMPANY	
	2016 Rm	2015 Rm	**2016 Rm**	2015 Rm
Net credit impairments raised for loans and advances	**7 679**	8 196	**7 561**	8 071
Recoveries on loans and advances previously written off	**(655)**	(811)	**(599)**	(789)
Total	**7 024**	7 385	**6 962**	7 282
Comprising:				
Net specific credit impairment charges	**6 656**	6 475	**6 620**	6 379
Specific credit impairment charges (note 6.3)	**7 311**	7 286	**7 219**	7 168
Recoveries on loans and advances previously written off	**(655)**	(811)	**(599)**	(789)
Portfolio credit impairment reversals (note 6.3)	**368**	910	**342**	903
Total	**7 024**	7 385	**6 962**	7 282

32. Operating expenses

	GROUP		COMPANY	
	2016 Rm	2015 Rm	**2016 Rm**	2015 Rm
Amortisation – intangible assets (note 10)	**1 849**	1 482	**1 845**	1 480
Auditors' remuneration	**174**	165	**167**	159
Audit fees – current year	**144**	137	**137**	131
Fees for other services	**30**	28	**30**	28
Communication-related expenses	**788**	796	**754**	770
Depreciation (note 9)	**1 849**	1 863	**1 832**	1 851
Property	**422**	428	**417**	428
Equipment	**1 427**	1 435	**1 415**	1 423
Information technology	**4 923**	5 000	**4 886**	4 970
Operating lease charges	**1 520**	1 390	**1 505**	1 378
Premises	**1 026**	1 005	**1 023**	1 003
Professional fees	**990**	1 570	**975**	1 558
Staff costs	**20 914**	17 795	**20 414**	17 401
Salaries and wages	**18 016**	16 759	**17 516**	16 365
Current service cost	**847**	718	**847**	718
Equity-linked transactions (annexure C)	**2 051**	318	**2 051**	318
Other expenses	**4 791**	3 627	**4 509**	3 389
Total	**38 824**	34 693	**37 910**	33 959

33. Non-trading and capital related items

	GROUP 2016 Rm	GROUP 2015 Rm	COMPANY 2016 Rm	COMPANY 2015 Rm
Impairment of intangible assets (note 10)	**570**	1 220	**570**	1 219
Loss on sale of property and equipment	**53**	33	**54**	32
Profit on sale of intangible assets	**(50)**		**(50)**	
Impairment of associates	**10**		**10**	
Gain on disposal of associate[1] (note 8)		(19)		(19)
Loss on disposal of business	**3**		**3**	
Realised foreign currency profit on foreign operations	**(62)**		**(62)**	
Total	**524**	1 234	**525**	1 232

[1] The accounting policy for the company's separate financial statements for investments in associates and joint ventures has changed from the cost method to the equity accounted measurement basis. This resulted in a R122 million decrease in the prior year gain on disposal of associate.

34. Taxation

34.1 Indirect taxation

	GROUP		COMPANY	
	2016 Rm	2015 Rm	**2016 Rm**	2015 Rm
Value added tax	**1 199**	1 361	**1 199**	1 360
Other indirect taxes and levies	**182**	189	**174**	183
Total	**1 381**	1 550	**1 373**	1 543

34.2 Direct taxation

	GROUP		COMPANY	
	2016 Rm	2015 Rm	**2016 Rm**	2015 Rm
South African normal tax	**5 011**	2 478	**4 863**	2 280
Current year	**4 979**	2 502	**4 834**	2 297
Prior year	**32**	(24)	**29**	(17)
Deferred taxation	**(1 179)**	371	**(1 181)**	396
Current year	**(1 171)**	351	**(1 162)**	374
Prior year	**(8)**	20	**(19)**	22
Capital gains, foreign and withholding tax	**17**	55	**17**	55
Total	**3 849**	2 904	**3 699**	2 731

The aggregate current and deferred tax relating to items charged or credited to OCI for the group and company amounted to a credit of R147 million (2015: R78 million charge) and R143 million (2015: R79 million charge) respectively.

Income tax recognised in OCI

The table below sets out the amount of income tax relating to each component within OCI:

	GROUP		COMPANY	
	2016 Rm	2015 Rm	**2016 Rm**	2015 Rm
Net change in fair value on cash flow hedges	**434**	(644)	**438**	(642)
Realised fair value adjustments on cash flow hedges transferred to profit or loss	**(498)**	691	**(497)**	690
Net change in fair value of available-for-sale financial assets	**(18)**	(12)	**(19)**	(12)
Defined benefit fund remeasurements	**(65)**	43	**(65)**	43
Total	**(147)**	78	**(143)**	79

34. Taxation continued

34.2 Direct taxation continued

Future tax relief

The group and company have estimated tax losses of R73 million (2015: R14 million) and R57 million (2015: Rnil) respectively, 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 E – *accounting policy 12 – Taxation.*

South African tax rate reconciliation

	GROUP		COMPANY	
	2016 %	2015 %	**2016 %**	2015 %
Direct tax charge for the year as a percentage of profit before tax	**21**	19	**21**	19
Tax charge for the year has been reduced as a consequence of the following permanent differences	**7**	9	**7**	9
Dividends received	**8**	6	**8**	6
Other non-taxable income	**1**	4	**1**	4
Other permanent differences	**(2)**	(1)	**(2)**	(1)
Direct taxation – statutory rate	**28**	28	**28**	28

35. Earnings per share

	GROUP		COMPANY	
	2016	2015	**2016**	2015[1]
Earnings				
The calculations of basic earnings and headline earnings per ordinary share are as follows:				
Basic earnings (Rm)	**14 235**	12 478	**13 696**	11 825
Headline earnings (Rm) (note 36)	**14 599**	13 376	**14 061**	12 721
Weighted average number of ordinary shares in issue (thousands) (note 11)	**59 997**	59 997	**59 997**	59 997
Basic earnings per ordinary share (cents)	**23 726**	20 798	**22 828**	19 709
Headline earnings per ordinary share (cents)	**24 332**	22 294	**23 436**	21 203

[1] The accounting policy for the company's separate financial statements for investments in associates and joint ventures has changed from the cost method to the equity accounted measurement basis. This resulted in a R122 million decrease in the prior year basic earnings and also resulted in the basic earnings per share being restated.

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
2016				
Group				
Profit for the year	18 085	(3 849)	(1)	14 235
Headline earnings adjustable items added/(reversed)	524	(160)		364
Impairment of intangible assets – IAS 38	570	(160)		410
Realised foreign currency profit on foreign operations – IAS 21	(62)			(62)
Loss on disposal of business – IAS 27/IAS 28	3			3
Impairment of associates – IAS 28/IAS 36	10			10
Profit on sale of intangible assets – IAS 38	(50)	14		(36)
Loss on sale of property and equipment – IAS 16	53	(14)		39
Headline earnings	18 609	(4 009)	(1)	14 599
Company				
Profit for the year	17 395	(3 699)		13 696
Headline earnings adjustable items added/(reversed)	525	(160)		365
Impairment of intangible assets – IAS 38	570	(160)		410
Realised foreign currency profit on foreign operations – IAS 21	(62)			(62)
Loss on disposal of business – IAS 27/IAS 28	3			3
Impairment of associates – IAS 28/IAS 36	10			10
Profit on sale of intangible assets – IAS 38	(50)	14		(36)
Loss on sale of property and equipment – IAS 16	54	(14)		40
Headline earnings	17 920	(3 859)		14 061

36. Headline earnings continued

	Gross Rm	Tax Rm	Non-controlling interest Rm	Net Rm
2015				
Group				
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	14 556	(2 731)		11 825
Headline earnings adjustable items added/(reversed)	1 232	(336)		896
Impairment of intangible assets – IAS 38	1 219	(341)		878
Disposal of associate – IAS 28	(19)	15		(4)
Loss on sale of property and equipment – IAS 16	32	(10)		22
Headline earnings	15 788	(3 067)		12 721

Headline earnings is calculated in accordance with Circular 2/2015 Headline Earnings issued by SAICA at the request of the JSE. 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		COMPANY	
	2016 Rm	2015 Rm	**2016 Rm**	2015 Rm
Ordinary dividends				
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
Dividend No. 144 of 9 167 cents per share paid on 18 April 2016 to the shareholder registered on 15 April 2016	**5 500**		**5 500**	
Dividend No. 145 of 6 334 cents per share paid on 8 September 2016 to the shareholder registered on 1 September 2016	**3 800**		**3 800**	
Total	**9 300**	8 300	**9 300**	8 300

On 2 March 2017, dividend No. 146 of 13 334 cents per share payable on 20 March 2017 was declared, to the shareholder registered on 17 March 2017, bringing the total dividends declared in respect of 2016 to 19 668 cents per share (2015: 15 834 cents per share).

38. Statement of cash flows notes

38.1 Adjustment for non-cash items and other adjustments included in the income statement

	GROUP		COMPANY	
	2016 Rm	2015 Rm	**2016 Rm**	2015 Rm
Amortisation of intangible assets	**1 849**	1 482	**1 845**	1 480
Depreciation of property and equipment	**1 849**	1 863	**1 832**	1 851
Credit impairment charges on loans and advances	**7 024**	7 385	**6 962**	7 282
Interest income	**(85 347)**	(73 250)	**(84 333)**	(72 070)
Interest expense	**46 856**	39 077	**46 509**	38 628
Equity-linked transactions	**2 051**	318	**2 051**	318
Indirect taxation	**(1 381)**	(1 550)	**(1 373)**	(1 543)
Dividends included in trading revenue	**(1 649)**	(1 187)	**(1 649)**	(1 187)
Other adjustments	**(974)**	(629)	**(956)**	(615)
Total	**(29 722)**	(26 491)	**(29 112)**	(25 856)

38. Statement of cash flows notes continued

38.2 Increase in income-earning assets

	GROUP 2016 Rm	GROUP 2015 Rm	COMPANY 2016 Rm	COMPANY 2015 Rm
Financial investments	**7 432**	2 990	**7 208**	2 530
Trading assets	**(44 160)**	(11 846)	**(44 162)**	(11 844)
Pledged assets	**5 798**	(2 598)	**5 798**	(2 598)
Loans and advances	**(29 213)**	(118 406)	**(33 731)**	(119 333)
Net derivative liabilities	**(13 264)**	8 118	**(13 265)**	8 117
Interest in SBG companies, associates and joint ventures – banking activities	**6 434**	25 353	**8 439**	26 439
Other assets	**1 465**	(1 645)	**1 435**	(1 754)
Total	**(65 508)**	(98 034)	**(68 278)**	(98 443)

38.3 Increase in deposits, trading and other liabilities

	GROUP 2016 Rm	GROUP 2015 Rm	COMPANY 2016 Rm	COMPANY 2015 Rm
Deposits and debt funding	**62 666**	74 436	**67 586**	76 363
Trading liabilities	**2 351**	1 916	**2 351**	1 916
Liabilities to SBG companies	**(9 202)**	3 391	**(10 754)**	2 634
Other liabilities	**924**	2 704	**918**	2 667
Total	**56 739**	82 447	**60 101**	83 580

38.4 Reconciliation of subordinated debt

	GROUP 2016 Rm	GROUP 2015 Rm	COMPANY 2016 Rm	COMPANY 2015 Rm
Balance at the beginning of the year	**21 309**	20 734	**21 309**	20 734
Subordinated debt issued	**1 700**	3 630	**1 700**	3 630
Subordinated debt redeemed	**(2 750)**	(3 000)	**(2 750)**	(3 000)
Movement in accrued finance cost	**82**	(56)	**82**	(56)
Amortisation and fair value adjustments	**(1)**	1	**(1)**	1
Balance at the end of the year	**20 340**	21 309	**20 340**	21 309

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 2016 and 2015. 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 SBSA. 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

	2016 Rm	2015 Rm
Key management compensation		
Salaries and other short-term benefits paid	**124**	117
Post-employment benefits	**4**	5
IFRS 2 value of share options and rights expensed	**212**	18
Total	**340**	140
Loans and advances		
Loans outstanding at the beginning of the year	**11**	10
Change in key management structures	**2**	(2)
Net loans (repaid)/granted during the year	**(2)**	3
Loans outstanding at the end of the year	**11**	11
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 personnel in the current or previous years.		
The mortgage loans and vehicle and asset finance are secured by the underlying assets.		
All other loans are unsecured.		
Deposits and debt funding[1]		
Deposits outstanding at the beginning of the year	**32**	149
Change in key management structures	**(11)**	(117)
Net deposits received during the year	**5**	
Deposits outstanding at the end of the year	**26**	32
Net interest (expense)/income	**(5)**	3
Investment products		
Balance at the beginning of the year	**162**	239
Change in key management structures	**241**	(96)
Net investments (withdrawn)/placed during the year	**(243)**	19
Balance at the end of the year	**160**	162
Investment return to key management personnel	**44**	24
Third party funds under management		
Fund value at the beginning of the year	**299**	858
Change in key management structures	**(65)**	(589)
Net deposits including commission and other transaction fees	**5**	30
Fund value at the end of the year	**239**	299
Net investment return	**2**	7
Financial consulting fees and commission	**9**	9
Shares and share options held[2]		
Shares beneficially owned (number)	**1 552 359**	1 349 917
Share options held (number)	**4 225 216**	3 982 654

1 Deposits include cheque, current and savings accounts.
2 Aggregate details of SBG shares and share options held by key management personnel.

39. Related party transactions continued

39.5 Holding company, subsidiaries and fellow subsidiaries

	Holding company		Subsidiaries		Fellow banking subsidiaries	
	2016 Rm	2015 Rm	**2016 Rm**	2015 Rm	**2016 Rm**	2015 Rm
Assets						
Group						
Assets outstanding at the beginning of the year	**215**	387			**40 320**	65 569
Net movement for the year	**(121)**	(172)			**(6 274)**	(25 249)
Assets outstanding at the end of the year	**94**	215			**34 046**	40 320
Interest income					**764**	959
Non-interest revenue		168			**1 112**	1 528
Company						
Assets outstanding at the beginning of the year	**215**	387	**8 994**	9 274	**40 481**	66 509
Net movement for the year	**(121)**	(172)	**(1 952)**	(280)	**(6 340)**	(26 028)
Assets outstanding at the end of the year	**94**	215	**7 042**	8 994	**34 141**	40 481
Interest income			**394**	472	**770**	813
Non-interest revenue		168	**671**	653	**788**	1 229
Included in the above are loans issued to subsidiaries and fellow banking subsidiaries that are repayable on demand. Interest is charged based on the group's internal funding rate. The loans are unsecured.						
Liabilities						
Group						
Liabilities outstanding at the beginning of the year	**176**	1 386			**127 010**	135 117
Net movement for the year		(1 210)			**(9 203)**	(8 107)
Liabilities outstanding at the end of the year	**176**	176			**117 807**	127 010
Interest expense					**2 171**	2 332
Company						
Liabilities outstanding at the beginning of the year	**176**	1 323	**1 825**	1 994	**126 668**	135 363
Net movement for the year		(1 147)	**(1 678)**	(169)	**(9 077)**	(8 695)
Liabilities outstanding at the end of the year	**176**	176	**147**	1 825	**117 591**	126 668
Interest expense			**148**	141	**2 151**	2 330

39. Related party transactions continued

39.5 Holding company, subsidiaries and fellow subsidiaries continued

Liberty[1] and its subsidiaries hold the following deposits and current accounts with the group and company:

	Deposits and debt funding		Fees received		Net interest paid	
	2016 Rm	2015 Rm	**2016 Rm**	2015 Rm	**2016 Rm**	2015 Rm
Banking arrangements						
Deposits and debt funding						
– Liberty	**137**	13			**3**	2
– Liberty subsidiaries	**4 344**	5 091	**55**	49	**77**	63
– Liberty mutual fund associates[2]	**11 228**	5 013				
Total	**15 709**	10 117	**55**	49	**80**	65

1 Liberty Holdings Limited.
2 Relates to assets held by the following material Liberty Mutual fund associates; STANLIB Income Fund, STANLIB Property Income Fund, STANLIB Balanced Cautious Fund, STANLIB Balanced Fund and STANLIB Corporate Money Market fund.

39.6 Transactions with fellow banking subsidiaries

Below is a summary of the nature and value of transactions with fellow subsidiaries:

Royalty fees

Royalty fees are charged by SBSA to its fellow SBG subsidiaries in the Africa Regions in terms of a licencing agreement for the use of IT software owned by SBSA and the use of SBSA's core banking system. SBSA also earns fees relating to the development of new IT software. Fees charged for 2016 amounted to R178 million (2015: R372 million).

Core banking systems

SBSA disposed of certain core banking systems with a carrying value of R2 383 million to fellow subsidiaries in SBG's Africa Regions for R2 433 million. The gain of R50 million relating to their disposal has been excluded from headline earnings.

Systems development fees

SBSA develops new IT systems and enhances existing IT systems for its fellow SBG subsidiaries in its Africa Regions. In terms of the agreement, fees charged for 2016 amounted to R128 million (2015: R160 million).

Franchise and management fees

SBSA charges certain subsidiaries in SBG's Africa Regions 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 SBSA provided business systems. The following table provides a summary of the franchise and management fees and fees written off that are included in the income statement as well as the balances included in the statement of financial position.

	2016 Rm	2015 Rm
Franchise and management fee income for the year	**505**	671
Franchise and management fee balance owing to SBSA included in interests in SBG companies	**415**	1 154
Gross amounts owing to SBSA	**989**	1 446
Provisions	**(574)**	(292)
Franchise and management fees written off during the year	**155**	

39. Related party transactions continued

39.6 Transactions with fellow banking subsidiaries continued

Transfer pricing arrangements for 2016 and 2015

The company entered into various transfer pricing agreements with other SBG subsidiaries. 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 Co-operation 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 SBSA and fellow subsidiaries during the 2016 and 2015 financial years.

The following amounts were recognised in the group and company income statements for the agreements:

	2016 Rm	2015 Rm
Revenue sharing agreements	1 015	1 125
Other operating expenses	1 205	872
Total	2 220	1 997

39.7 Transactions with Liberty

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 2016 amounted to R27 million (2015: R29 million).

Software development fees

Liberty developed a number of distribution systems on behalf of the company in prior years. The 2016 annual maintenance fees paid by SBSA to Liberty were R7 million (2015: R7 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 2016 amounted to R79 million (2015: R73 million).

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 2016 amounted to R7 973 million (2015: R7 503 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 by SBSA from Liberty for the year ended 31 December 2016 is R1 005 million (2015: R896 million).

The bancassurance agreements are evergreen agreements with a 24-month notice period for termination. As at the date of the approval of the financial statements, 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 2016 are R150 million (2015: R110 million).

39. Related party transactions continued

39.7 Transactions with Liberty continued

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 SBSA by Liberty for 2016 is R13 million (2015: R11 million).

Asset management fees

Asset management fees of R9 million (2015: R23 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 2016 is a liability of R249 million (2015: R1 185 million liability).

Collateral deposits of R242 million as at 31 December 2016 (2015: R505 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 2016.

Open contracts totalled R5 million as at 31 December 2016 (2015: R1 942 million). Income recognised in respect of these agreements was R132 million (2015: R119 million).

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 2016 was R1 100 million (2015: R1 053 million). STANLIB also paid commission of R157 million (2015: R175 million) to the group for the year to 31 December 2016 in relation to its management business.

Advisory fees received in respect of bond issue

During 2016, Liberty issued R1 billion in subordinated notes. An advisory fee of R5 million was paid to the company for advisory fees in respect of the note issue.

Advisory fees received in respect of listing of Liberty Two Degrees

During 2016, Liberty listed the Real Estate Investment Trust 'Liberty Two Degrees'. Fees amounting to R27.5 million were paid by Liberty to the company for advisory services in respect of the listing.

Liberty PropCo Proprietary Limited

On 9 June 2015, Liberty PropCo Proprietary Limited issued notes to SBSA amounting to R223 million. These have been fully settled in 2016.

39. Related party transactions continued

39.8 Balances and transactions with ICBCS

On 1 February 2015, SBG disposed of its controlling interest in Standard Bank Plc (SB Plc) to ICBC. With effect from that date, SB Plc was renamed to ICBC Standard Bank Plc (ICBCS) and became a supported subsidiary of ICBC. SBG retained a 40% interest in ICBCS and with effect from the disposal date, classified ICBCS as an interest in an associate and equity accounted thereafter. The following balances were in place as at 31 December with the group and company. These transactions have been entered into on market-related terms.

	2016 Rm	2015 Rm
Derivative assets	**1 851**	4 653
Trading assets	**24**	35
Loans and advances	**27 020**	23 930
Other assets	**155**	139
Derivative liabilities	**(2 165)**	(5 109)
Deposits and debt funding	**(1 233)**	(3 238)
Provisions and other liabilities	**(193)**	(132)

39.9 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 collectibility or present other unfavourable features. There were no bad debt expenses and provisions for bad debts that related to the balances and transactions with ICBC.

39.9.1 Balances and transactions with a shareholder of the parent

The following balances are outstanding between SBSA and ICBC at 31 December:

	2016 Rm	2015 Rm
Trading assets		7
Loans and advances	**246**	153
Other assets	**656**	918
Deposits and debt funding	**(6 583)**	
Provisions and other liabilities		(71)

Letters of credit

The group has off-balance sheet letters of credit exposure issued to ICBC as at 31 December 2016 of R349 million (2015: R216 million). The group received R1 million in fee and commission income relating to these transactions (2015: R2 million).

39.10 Post-employment benefit plans

Details of balances and transactions between the group and the company's post-employment benefit plans are listed below:

	2016 Rm	2015 Rm
Fee income	**16**	25
Deposits held with the company	**42**	32
Interest paid	**2**	2
Investments held in bonds and money markets	**489**	251
Value of ordinary SBG shares held	**570**	471

In addition to the above, the group manages R8 938 million (2015: R8 092 million) of the post-employment benefit plans' assets.

40. Pensions and other post-employment benefits

40.1 Retirement funds

Membership of the principal fund, the SBGRF exceeds 95% (2015: 95%) of SBSA's permanent staff. The fund, one of the 10 largest in South Africa, is a defined contribution fund governed by the Pension Funds Act 24 of 1956 (Pension Funds Act). Member-elected trustees represent 50% of the trustee board. The assets of the fund are held independently.

SBGRF is regulated by the Pension Funds Act, as well as the Financial Services Board.

The fund is subject to a statutory financial review by actuaries at an interval of not more than three years. A full actuarial valuation was performed using 31 December 2015 data during 2016. The previous full actuarial valuation was performed on 31 December 2012. 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 data during 2019.

From 1 January 1995, new employees became entitled to defined contribution benefits only. Employees who were members of the fund on 31 December 1994 were entitled to guaranteed benefits under the old rules of the defined benefit fund. Given the defined benefit nature of the guaranteed benefits, the entire plan is classified as a defined benefit plan and accounted for as such. A specific liability was recognised within the fund to provide for the guaranteed defined benefits.

On 1 November 2009, the fund introduced individual member investment choice for defined contribution members and the pre-1995 members could choose to give up their guaranteed defined benefits and instead accept an offer of a 10% enhancement to their actuarial reserve values. Over 90% of the pre-1995 defined benefit members accepted the offer and converted to defined contribution plans.

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's asset and liability management process.

40. Pensions and other post-employment benefits continued

40.1 Retirement funds continued

	GROUP AND COMPANY	
	2016 Rm	2015 Rm
The amounts recognised in the statement of financial position in respect of the retirement fund is as follows:		
Present value of funded obligations	**(31 411)**	(30 082)
Fair value of plan assets	**32 694**	31 242
Surplus (included in other assets in the statement of financial position)	**1 283**	1 160
Movement in the present value of funded obligations		
Balance at the beginning of the year	**30 082**	28 308
Current service cost	**944**	818
Interest cost	**2 977**	2 284
Contributions paid by employees	**743**	632
Actuarial (gains)/losses	**(749)**	1 158
Benefits paid	**(2 586)**	(3 118)
Balance at the end of the year	**31 411**	30 082
Movement in the fair value of plan assets		
Balance at the beginning of the year	**31 242**	29 690
Interest income	**3 074**	2 384
Contributions received	**1 495**	1 273
Actuarial (losses)/gains	**(531)**	1 013
Benefits paid	**(2 586)**	(3 118)
Balance at the end of the year	**32 694**	31 242
Plan assets consist of the following:		
Cash	**573**	844
Equities	**14 940**	13 278
Bonds	**8 998**	8 592
Property and other	**8 183**	8 528
Total	**32 694**	31 242

40. Pensions and other post-employment benefits continued

40.1 Retirement funds continued

The group expects to pay R847 million in contributions to SBGRF in 2017 (2016: R752 million).

	GROUP AND COMPANY	
	2016 Rm	2015 Rm
The amounts recognised in profit or loss are determined as follows:		
Current service cost	**(944)**	(818)
Net interest income	**97**	100
Included in staff costs	**(847)**	(718)

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	
	2016 Rm	2015 Rm
Components of statement of OCI		
Actuarial (losses)/gains on assets	**(531)**	1 013
Actuarial gains/(losses) on obligation	**749**	(1 158)
Gain/(loss) from changes in demographic assumptions	**501**	(1 264)
Gain from changes in financial assumptions	**248**	106
Increase/(decrease) in remeasurements recognised in OCI	**218**	(145)
Reconciliation of net defined benefit asset		
Net defined benefit asset at the beginning of the year	**1 160**	1 382
Net expense recognised	**(847)**	(718)
Amounts recognised in OCI	**218**	(145)
Company contributions	**752**	641
Net defined benefit asset at the end of the year	**1 283**	1 160

40. Pensions and other post-employment benefits continued

40.1 Retirement funds continued

Sensitivity analysis for post-retirement fund

	2016		2015	
	1% increase Rm	**1% decrease Rm**	1% increase Rm	1% decrease Rm
Group and company				
Inflation rate				
Effect on the defined benefit obligation	**307**	**(264)**	553	(434)
Discount rate				
Effect on the defined benefit obligation	**(506)**	**398**	(411)	528
	+10% increase	**-10% decrease**	+10% increase	-10% decrease
Mortality improvements				
Effect on the defined benefit obligation	**(54)**	**59**	(56)	62
	+ 1 year	**-1 year**	+ 1 year	-1 year
Mortality improvements				
Effect on the defined benefit obligation	**(53)**	**53**	(56)	56

	2016 Rm	2015 Rm
Historical information		
Experience adjustments arising on plan liabilities	**(749)**	1 158
Experience adjustments arising on plan assets	**(531)**	1 013

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 2016. The next actuarial valuation will be performed as at 31 December 2017.

40. Pensions and other post-employment benefits continued

40.2 Post-employment healthcare benefits continued

	GROUP AND COMPANY	
	2016 Rm	2015 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	**641**	665
Unfunded shortfall included in the statement of financial position	**641**	665
Comprising:		
Post-employment medical aid	**641**	665
Movement in the present value of defined benefit obligations		
Balance at beginning of the year	**665**	665
Interest cost	**51**	51
Actuarial (gains)/losses	**(15)**	8
Benefits paid	**(60)**	(59)
Balance at end of the year	**641**	665
The amounts recognised in profit or loss are determined as follows:		
Net interest cost (included in staff costs)	**(51)**	(51)
Components of statement of OCI		
Actuarial gains arising from changes in financial assumptions	**(7)**	(16)
(Gains)/losses arising from experience adjustments	**(8)**	8
(Increase)/decrease in remeasurement recognised in OCI	**(15)**	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 2016 and 2015:

	2016		2015	
	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	**4**	**(4)**	17	14
Effect on the defined benefit obligation	**48**	**(43)**	56	(48)

	2016 Rm	2015 Rm
Experience adjustments arising on plan liabilities	**(15)**	8

41. Segment reporting

The group is organised on the basis of products and services and the segments have been identified on this basis. The principal business units in the group and company are as follows:

BUSINESS UNITS AND WHAT WE OFFER

Personal & Business Banking

Banking and other financial services to individual customers and small to medium enterprises

Transactional products

- Comprehensive suite of transactional, savings, investment, trade, foreign exchange, payment and liquidity management solutions made accessible through a range of physical and digital channels.

Lending products

- Lending products offered to both personal and business markets
- Business lending offerings constitute a comprehensive suite of lending product offerings, structured working capital finance solutions and commercial property finance solutions.

Mortgage lending

- Residential accommodation loans to mainly personal market customers.

Card products

- Credit card facilities to individuals and businesses (credit card issuing)
- Merchant transaction acquiring services (merchant solutions).

Vehicle and asset finance

- Finance of vehicles for retail market customers
- Finance of vehicles and equipment in the business and corporate assets market
- Fleet solutions.

Bancassurance and wealth

- Brokerage and underwriting of short-term insurance products comprising simple embedded products including homeowners' insurance and loan protection plans sold in conjunction with related banking products, funeral cover, household contents and vehicle insurance
- Brokerage of long-term insurance products comprising long-term complex insurance products including life, disability and investment policies sold by qualified intermediaries
- Financial planning and modelling
- Integrated fiduciary services including fiduciary advice, will drafting and custody services, trust and estates administration, as well as pension fund asset management, tailored banking, wealth management, investment and advisory services solutions for private high net worth individuals
- Offshore financial services to African clients in high net worth, mass affluent and corporate sectors
- Investment services including global asset management offering through Melville Douglas' comprehensive portfolios of multi-asset funds, advisory and discretionary stockbroking solutions.

BUSINESS UNITS AND WHAT WE OFFER

Corporate & Investment Banking
Corporate and investment banking services to clients including governments, parastatals, larger corporates, financial institutions and international counterparties

Client coverage
- Relationship management
- Sector expertise.

Global markets
- FIC
- Commodities
- Equities.

Transactional products and services
- Transactional banking
- Investor services
- Trade finance.

Investment banking
- Advisory
- Debt products
- Real estate finance
- Structured finance
- Structured trade finance and commodity finance
- Debt capital markets
- Equity capital markets.

Real estate and principal investment management

Corporate functions
Includes the results of support functions, which are either centralised or embedded in the business segments.

The direct costs of corporate functions are recharged to the business segments. These functions include:
- Legal & compliance
- Human capital
- Finance
- Governance
- Assurance
- IT
- Procurement
- Marketing
- Real estate
- Risk management
- Group shared services
- Corporate social investment.

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	
	2016 Rm	2015[1] Rm
Group		
Net interest income	**30 399**	27 533
Interest income	**59 665**	51 406
Interest expense	**(29 266)**	(23 873)
Non-interest revenue	**18 707**	17 586
Net fee and commission revenue	**17 567**	16 505
Trading revenue		
Other revenue	**1 140**	1 081
Total income	**49 106**	45 119
Credit impairment charges	**(6 592)**	(6 603)
Revenue sharing agreements		
Net income after credit impairment charges and revenue sharing agreements	**42 514**	38 516
Operating expenses	**(27 202)**	(24 435)
Net income before non-trading and capital related items and equity accounted earnings	**15 312**	14 081
Non-trading and capital related items	**(293)**	(683)
Share of (losses)/profits from associates and joint ventures	**(23)**	13
Profit/(loss) before indirect taxation	**14 996**	13 411
Indirect taxation	**(328)**	(364)
Profit/(loss) before direct taxation	**14 668**	13 047
Direct taxation	**(3 847)**	(3 374)
Profit/(loss) for the year	**10 821**	9 673
Attributable to non-controlling interest	**1**	1
Attributable to the ordinary shareholder	**10 820**	9 672
Headline earnings	**11 034**	10 181
Operating information		
Total assets	**524 235**	501 877
Total liabilities	**473 222**	455 027
Other information		
Interest in associates and joint ventures	**281**	328
Depreciation and amortisation	**1 831**	1 506
Impairments of intangible assets	**265**	658

[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		Corporate functions		Total	
2016 Rm	2015[1] Rm	**2016 Rm**	2015[1] Rm	**2016 Rm**	2015[1] Rm
10 036	8 033	**(990)**	(608)	**39 445**	34 958
44 410	36 003	**(17 774)**	(13 374)	**86 301**	74 035
(34 374)	(27 970)	**16 784**	12 766	**(46 856)**	(39 077)
9 681	8 786	**(959)**	(25)	**27 429**	26 347
3 581	3 407	**(1 006)**	(818)	**20 142**	19 094
5 436	4 223	**(492)**	(35)	**4 944**	4 188
664	1 156	**539**	828	**2 343**	3 065
19 717	16 819	**(1 949)**	(633)	**66 874**	61 305
(532)	(379)	**100**	(403)	**(7 024)**	(7 385)
(1 015)	(1 125)			**(1 015)**	(1 125)
18 170	15 315	**(1 849)**	(1 036)	**58 835**	52 795
(11 438)	(10 832)	**(184)**	574	**(38 824)**	(34 693)
6 732	4 483	**(2 033)**	(462)	**20 011**	18 102
(128)	(297)	**(103)**	(254)	**(524)**	(1 234)
3	51	**(1)**	1	**(21)**	65
6 607	4 237	**(2 137)**	(715)	**19 466**	16 933
(180)	(218)	**(873)**	(968)	**(1 381)**	(1 550)
6 427	4 019	**(3 010)**	(1 683)	**18 085**	15 383
(765)	191	**763**	279	**(3 849)**	(2 904)
5 662	4 210	**(2 247)**	(1 404)	**14 236**	12 479
				1	1
5 662	4 210	**(2 247)**	(1 404)	**14 235**	12 478
5 748	4 429	**(2 183)**	(1 234)	**14 599**	13 376
705 927	729 944	**55 459**	45 132	**1 285 621**	1 276 953
676 130	692 688	**39 979**	38 524	**1 189 331**	1 186 239
386	484			**667**	812
329	233	**1 538**	1 607	**3 698**	3 346
135	110	**170**	452	**570**	1 220

Annexure A

Subsidiaries, consolidated and unconsolidated structured entities

Subsidiaries

	Nature of operation	Issued share capital Rm
Blue Bond Investments (RF) 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 Shield Investments 01 (RF) Limited[1,2]	Securitisation vehicle	
Blue Titanium Conduit (RF) Limited[1]	Asset-backed commercial paper conduit	
Diners Club (S.A.) Proprietary Limited	Travel and entertainment card	*
Out of the Blue Originator Proprietary Limited[1]	Securitisation vehicle	
Rapitrade 584 Proprietary Limited	Financing company	*
Siyakha Fund (RF) Limited[1]	Securitisation vehicle	
Standard Bank Insurance Brokers Proprietary Limited	Insurance broking	*
Miscellaneous	Finance companies	
Total investment in subsidiaries		

1 SE, no shareholding.
2 Blue Shield Investments 01 (RF) Limited was previously known as Tabistone 06 (RF) Limited.
* Issued share capital less than R1 million.
** Book value less than R1 million.
*** Held indirectly.
**** Various holdings.

All subsidiaries are incorporated in South Africa. The detailed information is only given in respect of subsidiaries which are material to the group's financial position. Details of all the group's subsidiaries and SEs are available upon request at the company's registered office.

Consolidation of securitisation vehicles

The securitisation vehicles are dependent on the group 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		Book value of shares		Net indebtedness to/(by) SBSA company	
	2016 **%**	2015 %	**2016** **Rm**	2015 Rm	**2016** **Rm**	2015 Rm
	100	100	**	**		
					425	441
					40	250
					386	455
					307	112
					228	185
					350	154
	100	100	**	**	**460**	582
					(4)	(3)
	100	100	***	***	**3 961**	4 309
					713	694
	100	100	***	***	**5**	(109)
	****	****	**147**	134	**24**	99
			147	134	**6 895**	7 169

Consolidated structured entities

The following table discloses the consolidated SEs to which the group provides financial support[1]:

		Amount of support provided as at[2,4]		Type of support[3]	
Name of the entity	**Nature of operations**	**2016 Rm**	2015 Rm	**2016**	2015
Blue Banner Securitisation Vehicle RC1 Proprietary Limited (Blue Banner)	Originates mortgage loans on behalf of SBSA. SBSA provides the funding for these mortgage loans to Blue Banner.	**129**	160	**Bridging finance**	Bridging finance
Blue Granite Investments No. 1 (RF) Limited (BG 1)	Facilitates mortgage-backed securitisations. SBSA is the primary liquidity facility provider to BG 1.	**1**	1	**Subordinated loan**	Subordinated loan
		599	617	**Mortgage backed notes**	Mortgage backed notes
Blue Granite Investments No. 2 (RF) Limited (BG 2)	Facilitates mortgage backed securitisations. SBSA is the primary liquidity facility provider to BG 2.	**7**		**Subordinated loan**	Subordinated loan
			1 003	**Mortgage backed notes**	Mortgage backed notes
Blue Granite Investments No. 3 (RF) Limited (BG 3)	Facilitates mortgage backed securitisations. SBSA is the primary liquidity facility provider to BG 3.	**204**	58	**Subordinated loan**	Subordinated loan
			868	**Mortgage backed notes**	Mortgage backed notes
Blue Granite Investments No. 4 (RF) Limited (BG 4)	Facilitates mortgage backed securitisations. SBSA is the primary liquidity facility provider to BG 4.	**6**	81	**Subordinated loan**	Subordinated loan
			1 028	**Mortgage backed notes**	Mortgage backed notes

Refer to footnotes on page 234.

TERMS OF CONTRACTUAL ARRANGEMENTS THAT REQUIRE THE GROUP TO PROVIDE FINANCIAL SUPPORT TO THE SE	EVENTS/CIRCUMSTANCES THAT COULD EXPOSE THE GROUP TO A LOSS AS A RESULT OF THE CONTRACTUAL ARRANGEMENT
The 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. All the profits in BG 1 are paid out to SBSA as interest on the loan granted.	Should BG 1's customers be unable to meet their contractual obligations under the mortgage loan agreement and the loans be classified as non-performing.
The group holds the class A4,A6, B, C, D, E and F notes. Interest for the different classes of notes accrues at the three-month JIBAR rate plus a margin ranging between 0.55% to 8%. Interest is payable quarterly. The notes maturity date is 21 November 2032.	
The loan does not have a fixed term or repayment date. The loan incurs interest at a rate of prime less 1.5% per annum and is only payable when BG 2 has sufficient cash reserves.	Should BG 2's customers be unable to meet their contractual obligations under the mortgage loan agreement and the loans be classified as non-performing.
The mortgage backed assets were bought back in July 2016 hence all note holders both internal and external were settled. The group subsequently holds subordinated loans in the entity to fund those mortgage assets that are remaining in the entity.	
The loan does not have a fixed term or repayment date. The loan incurs interest at a rate of prime less 1.5% per annum and is only payable when BG 3 has sufficient cash reserves.	Should BG 3's customers be unable to meet their contractual obligations under the mortgage loan agreement and the loans be classified as non-performing.
The mortgage backed assets were bought back in October 2016 hence all noteholders both internal and external were settled. The group subsequently holds subordinated loans in the entity to fund those mortgage assets that are remaining in the entity.	
The loan does not have a fixed term or repayment date. The loan incurs interest at a rate of prime less 1.5% per annum and is only payable when BG 4 has sufficient cash reserves.	Should BG 4's customers be unable to meet their contractual obligations under the mortgage loan agreement and the loans be classified as non-performing.
The mortgage backed assets were bought back in December 2016 hence all noteholders both internal and external were settled. The group subsequently holds subordinated loans in the entity to fund those mortgage assets that are remaining in the entity.	

Consolidated structured entities continued

Name of the entity	Nature of operations	Amount of support provided as at[2,4] 2016 Rm	Amount of support provided as at[2,4] 2015 Rm	Type of support[3] 2016	Type of support[3] 2015
Blue Shield Investments 01 (RF) Limited (Blue Shield)[5]	Facilitates mortgage backed securitisations. SBSA is the primary liquidity facility provider to Blue Shield.	**505**	503	**Subordinated loan**	Subordinated loan
		16 168	16 073	**Mortgage backed notes**	Mortgage backed notes
Blue Titanium Conduit (RF) Limited (BTC)	Purchases eligible term assets and funds such investments through the issuance of commercial paper. SBSA is the primary liquidity facility provider to BTC.			**Liquidity facility – undrawn**	Liquidity facility – undrawn
		382	233	**Commercial paper**	Commercial paper
			475	**Credit enhancement facility**	Credit enhancement facility

Refer to footnotes on page 234.

TERMS OF CONTRACTUAL ARRANGEMENTS THAT REQUIRE THE GROUP TO PROVIDE FINANCIAL SUPPORT TO THE SE	EVENTS/CIRCUMSTANCES THAT COULD EXPOSE THE GROUP TO A LOSS AS A RESULT OF THE CONTRACTUAL ARRANGEMENT
The 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 Blue Shield.	Should Blue Shield'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.	
The liquidity facility is limited to the value of the underlying assets in BTC. As at 31 December 2016, the liquidity facility limit was R3 120 million (2015: R2 696 million). BTC had not drawn down on the liquidity facility as at 31 December 2016.	In the event that the underlying assets are classified as non-performing loans.
The group periodically invests in commercial paper issued by BTC. The commercial paper is typically short term in nature, and issued at arm's length. During the year ended 31 December 2016, commercial paper issued by BTC was priced at a spread of between 43 and 60 basis points over JIBAR.	In the event that the underlying assets are classified as non-performing loans.
The credit enhancement facility is limited to 15% of the outstanding commercial paper issued in the market. BTC had drawn down on the credit enhancement facility as at 31 December 2016.	In the event that the underlying assets are classified as non-performing loans.

Consolidated structured entities continued

Name of the entity	Nature of operations	Amount of support provided as at[2,4] 2016 Rm	2015 Rm	Type of support[3] 2016	2015
Out of the Blue Originator Proprietary Limited (OTB)	OTB originates loans on behalf of BTC. BTC is consolidated by the group.			**Overdraft facility**	Overdraft facility
Rapvest Investments Proprietary Limited	Facilitates finance deals for other group companies and third parties through preference share investments and loans to clients.	**3 961**	3 253	**Loan**	Loan
			1 056	**Preference shares**	Preference shares
Siyakha Fund (RF) Limited (Siyakha)	Facilitates mortgage backed securitisations. SBSA is the primary liquidity facility provider to Siyakha.	**45**	43	**Subordinated loan**	Subordinated loan
		836	836	**Mortgage backed notes**	Mortgage backed notes

1 During the reporting period, SBSA 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 drawn down credit facilities provided to SEs. All amounts are disclosed as at 31 December 2016 and 31 December 2015 respectively.
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 current accounts and derivatives.
4 This is the amount as reported on the company's statements of financial position as at 31 December 2016 and 2015, respectively. For credit facilities, the amount shown is the drawn balance as at the reporting date.
5 Blue Shield Investments 01 (RF) Limited was previously known as Tabistone 06 (RF) Limited.

TERMS OF CONTRACTUAL ARRANGEMENTS THAT REQUIRE THE GROUP TO PROVIDE FINANCIAL SUPPORT TO THE SE	EVENTS/CIRCUMSTANCES THAT COULD EXPOSE THE GROUP TO A LOSS AS A RESULT OF THE CONTRACTUAL ARRANGEMENT
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 R900 million in 2016 (2015: R600 million). OTB drew down on the overdraft facility in both the current and prior year. As at 31 December 2016, the outstanding balance on the facility was Rnil (2015: Rnil).	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.
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 preference shares were redeemed on 2 June 2016.	In the event that the underlying assets are classified as non-performing loans.
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.	

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 Blue Diamond Investments No. 2 (RF) Limited Blue Diamond Investments No. 3 (RF) Limited	SBSA purchases credit protection from Blue Diamond Investments No. 1, 2 and 3 (BD) in the form of credit-linked notes on single or multiple corporate names. BD then purchases credit protection from third-party investors on single or multiple corporate names. SBSA purchases high quality collateral with maturities that match BD's obligations in respect of its issued credit-linked notes. SBSA 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 SBSA
Africa ETF Issuer Limited offering the following: • Africa Palladium ETF (JSE code: ETFPLD) • Africa Platinum ETF (JSE code: ETFPLT) • Africa Gold 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:

	2016 Rm	2015 Rm
Trading assets	**37**	36
Deposits and debt funding from customers	**(1 776)**	(1 658)
Net carrying amount	**(1 739)**	(1 622)

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	SBSA compensates BD for providing credit protection over single or multiple corporate names. SBSA 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 SBSA.	In the event of a credit event and BD is unable to pay, SBSA would be exposed to a credit loss – this risk is considered remote given the collateral held by BD. SBSA 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 2016**	**31 December 2016**	**31 December 2016**

	Safika 2016	Safika 2015	Other 2016	Other 2015	Total 2016	Total 2015
Effective holding (%)	**20**	20	**Various**	Various	**Various**	Various

	Safika 2016 Rm	Safika 2015 Rm	Other 2016 Rm	Other 2015 Rm	Total 2016 Rm	Total 2015 Rm
Income statement						
Total comprehensive income	**13**	55	**(239)**	186	**(226)**	241
Dividends received from associates	**100**	50		15	**100**	65
Statement of financial position[1]						
Non-current assets	**1 939**	3 119				
Current assets	**187**	235				
Non-current liabilities		(125)				
Current liabilities	**(192)**	(807)				
Net asset value attributed to the equity holders of the associate	**1 934**	2 422				
Proportion of net asset value based on effective holding	**387**	484				
Carrying value	**387**	484	**234**	271	**621**	755
Share of total comprehensive income from associates	**3**	11	**(26)**	48	**(24)**	59

[1] Summarised financial information of the associates is provided based on the latest available management accounts.

	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 2016**		**31 December 2016**	
	2016	2015	**2016**	2015
Effective holding (%)	**Various**	Various	**Various**	Various
	Rm	Rm	**Rm**	Rm
Income statement				
Total comprehensive income	**6**	11	**(220)**	252
Dividends received from associates and joint ventures	**16**		**116**	65
Statement of financial position[1]				
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				
Carrying value	**46**	57	**667**	812
Share of total comprehensive income from associates and joint ventures	**3**	6	**(21)**	65

1 Summarised financial information of the associates is provided based on the latest available management accounts received.

	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 2016**	
	2016	2015
Effective holding (%)	**Various**	Various
	Rm	Rm
Carrying value	**387**	484
Income statement		
Other income		81
Total comprehensive income for the year	**13**	34
Dividends received from the associate	**100**	50
Statement of financial position[2]		
Non-current assets	**1 939**	3 119
Current assets	**187**	235
Non-current liabilities		(125)
Current liabilities	**(192)**	(807)
Net asset value	**1 934**	2 422
Share of profits from associates/joint ventures	**3**	51
Fair value	**387**	482

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.

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 2/2015 Headline Earnings, issued by SAICA at the request of the JSE.

Annexure C
Equity-linked transactions

	2016 Rm	2015 Rm
Group and company		
Expenses recognised in staff cost[1]		
Equity-settled share-based payments (other)		4
Cash-settled share-based payments	**2 051**	314
Equity growth scheme	**602**	(337)
Deferred bonus scheme	**1 104**	536
Performance reward plan	**333**	112
Other share schemes	**12**	3
Total expenses recognised in staff costs	**2 051**	318
Summary of liabilities recognised in other liabilities		
Equity growth scheme	**809**	625
Deferred bonus scheme	**842**	514
Performance reward plan	**493**	186
Other share schemes	**11**	4
Total liability recognised in other liabilities	**2 155**	1 329

[1] Excluding gains and losses from hedges in terms of IFRS.

Equity growth scheme

The EGS represents appreciation rights allocated to employees. The converted value of the rights is effectively settled by the issue of SBG 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)	Number of rights	
	2016	2016	2015
EGS			
Rights outstanding at beginning of the year		**22 010 759**	28 082 473
Granted	**122.24**	**1 515 774**	1 315 544
Exercised	**62.39 – 126.87**	**(5 967 445)**	(5 911 957)
Lapsed	**62.39 – 111.94**	**(211 266)**	(1 321 345)
Transfers from/(to) other group companies	**62.39 – 156.96**	**359 459**	(153 956)
Rights outstanding at the end of the year		**17 707 281**	22 010 759

During the year, 1 439 353 (2015: 1 336 483) SBG shares were issued to settle the appreciated rights value. At the end of the year, SBG would need to issue 5 169 971 (2015: 2 920 490) shares to settle the outstanding appreciated rights value. The EGS rights are only awarded to individuals in the employment of a group entity domiciled in South Africa.

The group is required to ensure that employees' tax arising from benefits due in terms of the EGS is paid in accordance with the Fourth Schedule of the Income Tax Act of South Africa. Where employees have elected not to fund the tax from their own resources the tax due is treated as a diminution of the gross benefits due under the scheme. A total of 456 604 (2015: 628 008) SBG shares were sold to settle the employees' tax due during the year. This reduces the liability due in respect of the outstanding appreciated rights value.

Share options were exercised regularly throughout the year. The weighted average share price for the year was R151.63 (2015: R147.88).

The following rights granted to employees, including executive directors, had not been exercised at year end:

Number of rights	Option price range (rand)	Weighted average price (rand)	Option expiry period
511 603	**98.00 – 106.80**	**98.02**	**Year to 31 December 2017**
1 852 249	**83.10 – 92.00**	**91.94**	**Year to 31 December 2018**
1 771 297	**62.39 – 98.20**	**64.10**	**Year to 31 December 2019**
3 679 776	**102.00 – 116.80**	**111.80**	**Year to 31 December 2020**
4 130 891	**90.50 – 107.55**	**98.74**	**Year to 31 December 2021**
701 661	**98.75 – 108.90**	**108.42**	**Year to 31 December 2022**
883 205	**115.51**	**115.51**	**Year to 31 December 2023**
1 298 937	**126.87**	**126.87**	**Year to 31 December 2024**
1 361 888	**156.96**	**156.96**	**Year to 31 December 2025**
1 515 774	**122.24**	**122.24**	**Year to 31 December 2026**
17 707 281			

The following rights granted to employees, including executive directors, had not been exercised at 31 December 2015:

Number of rights	Option price range (rand)	Weighted average price (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 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	
	2016	2015
Number of appreciation rights granted	**1 515 774**	1 315 544
Weighted average fair value at grant date (rands)	**35.19**	37.72
The principal inputs are as follows:		
Weighted average share price (rand)	**122.24**	156.96
Weighted average exercise price (rand)	**122.24**	156.96
Expected life (years)	**6.2**	6.2
Expected volatility (%)	**25.63**	22.19
Risk-free interest rate (%)	**8.60**	7.24
Dividend yield (%)	**3.98**	3.87

Deferred bonus scheme

All employees granted an annual performance award over a threshold have part of their award deferred. The award is indexed to SBG's share price and accrues notional dividends during the vesting period, which are payable on vesting. Awards are issued to individuals in the employment of a group entity domiciled in South Africa and are settled in SBG shares. Awards vest in three equal amounts at 18 months, 30 months and 42 months from the date of award. The final payout is determined with reference to SBG's share price on vesting date. These have been partially hedged through the use of equity options and forwards.

	Units	
	2016	2015
Reconciliation		
Units outstanding at beginning of the year	**9 819 235**	9 776 286
Granted	**7 803 319**	4 895 306
Exercised	**(4 627 639)**	(4 579 000)
Lapsed	**(438 385)**	(431 035)
Transfers from other group companies	**1 116 163**	157 678
Units outstanding at the end of the year	**13 672 693**	9 819 235
Weighted average fair value at grant date (R)	**122.25**	154.89
Expected life (years)	**2.51**	2.51

Performance reward plan

The performance-driven share plan commenced in March 2014 which rewards value delivered against specific targets. The PRP incentivises a group of senior executives to meet the group strategic long-term objectives that deliver value to shareholders, to align the interests of those executives with shareholders and to act as an attraction and retention mechanism in a highly competitive marketplace for skills. The PRP operates alongside the existing conditional, equity-settled long-term plans, namely the EGS, DBS, and other share incentive schemes.

The PRP is settled in SBG shares to the employee on the applicable vesting dates together with notional dividends that are settled in cash. Awards are issued to individuals in the employment of a group entity domiciled in South Africa and are equity-settled. Shares that vest (if any), and that are delivered to the employee, are conditional on achieving the pre-specified performance metrics. These awards have been partially hedged through the use of equity forwards.

	Units 2016	Units 2015
Reconciliation		
Units outstanding at beginning of the year	**4 070 933**	2 558 100
Granted	**2 768 300**	1 983 200
Lapsed	**(318 400)**	(446 667)
Transfers from/(to) other group companies	**232 500**	(23 700)
Units outstanding at the end of the year	**6 753 333**	4 070 933
Weighted average fair value at grant date (R)	**122.24**	157.06
Expected life (years)	**3**	3

Other share schemes

SCHEME	DESCRIPTION	CLASSIFICATION	STOCK SYMBOL	2016 Outstanding units	2015 Outstanding units
Quanto awards	The Quanto stock scheme commenced in 2007 and vests over three years. The Quanto units are denominated in USD for nil consideration. The Quanto units are hedged through the use of equity options.	Cash-settled scheme	SBK	**6 302**[1]	10 314
Group share incentive scheme (GSIS)	GSIS confers rights to employees to acquire shares at the value of the SBG share price at the date the option was granted. The scheme has various vesting periods, and expires ten years after grant date.	Equity-settled scheme	SBK	**1 026 139**[2]	622 168

1 Quanto units were issued by SBSA in the current and prior year. The outstanding number of units relate to employees that transferred to SBSA from other group companies and remain in the employment of SBSA at 31 December 2016 and 2015 respectively.

2 In 2016, there were no new awards granted. The increase in the outstanding units is a result of transfers from SBG's Africa Regions and Standard Bank International into SBSA.

Annexure D

Emoluments and share incentives of directors and prescribed officers

Executive directors' and prescribed officers' emoluments 2016

		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[2]
Executive directors*						
BJ Kruger	**2016**	**7 809**	**190**	**1 106**	**9 105**	**10 090**
	2015	7 538	171	1 076	8 785	10 150
SK Tshabalala	**2016**	**7 850**	**242**	**1 106**	**9 198**	**10 090**
	2015	7 583	277	1 129	8 989	10 150
A Daehnke[4]	**2016**	**2 986**	**2**	**375**	**3 363**	**7 400**
Prescribed officers						
DC Munro	**2016**	**5 802**	**143**	**847**	**6 792**	**12 900**
	2015	5 609	202	774	6 585	12 150
PL Schlebusch	**2016**	**5 834**	**206**	**812**	**6 852**	**11 150**
	2015	5 594	230	755	6 579	10 650
Former executive director*						
SP Ridley[5]	**2016**	**1 963**	**99**	**154**	**2 216**	**5 000**
	2015	5 532	271	677	6 480	6 650

1 The grant date Black-Scholes value has been used for the forfeited EGS. The grant date share price has been used for the forfeited PRP units.
2 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.
3 The DBS 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 2016 performance years are subject to choice. Participants can elect to have the value of the deferred award, or a part thereof, invested in the share appreciation rights plan (SARP) rather than the default DBS. To the extent that SARP is selected, a 10% premium of the value of the award is added. Deferred bonus amounts not invested in the SARP will be unitised with respect to the group's closing share price on the date on which the group's year end financial results are communicated publicly. The elections and the number of units relating to the 2016 performance year will be disclosed in the group's 2017 annual financial statements.
4 Appointed effective 1 May 2016. The above remuneration represents remuneration for services rendered as an executive director.
5 Retired on 30 April 2016.
* All executive directors were also prescribed officers of the group for 2015 and 2016, and former prescribed officers until the date of their retirement.

Variable remuneration						
DBS: notional dividends R'000	Deferred bonus[3] R'000	Total variable compensation for the year R'000	% change in variable compensation	Total compensation for the year R'000	% change in total compensation	Grant date value of participation rights/units forfeited[1] R'000
494	**12 790**	**23 374**	**2**	**32 479**	**3**	**(3 953)**
896	11 850	22 896	104	31 681	58	(914)
789	**12 790**	**23 669**	**6**	**32 867**	**5**	**(3 953)**
350	11 850	22 350	41	31 339	27	(457)
552	**8 100**	**16 052**		**19 415**		**(1 898)**
1 133	**15 600**	**29 633**	**5**	**36 425**	**4**	**(3 162)**
2 286	13 850	28 286	116	34 871	80	(228)
1 223	**13 850**	**26 223**	**7**	**33 075**	**6**	**(3 162)**
1 523	12 350	24 523	35	31 102	28	
		5 000		**7 216**		
986	8 350	15 986	27	22 466	19	(457)

Non-executive directors 2016

		Fixed remuneration				
		Services as directors of Standard Bank Group R'000	**Standard Bank Group committee fees R'000**	**Services as directors of group subsidiaries R'000**	**Other benefits R'000**	**Total compensation for the year R'000**
MJD Ruck	**2016**	**248**	**870**	**2 298**		**3 416**
	2015	233	810	2 145		3 188
Adv KD Moroka	**2016**	**248**	**772**	**248**		**1 268**
	2015	233	689	233		1 155
TS Gcabashe[2]	**2016**	**5 978**			**538[1]**	**6 516**
	2015	3 446	155	119	251[1]	3 971
EM Woods	**2016**	**248**	**973**	**273**		**1 494**
	2015	233	1 043	326		1 602
RMW Dunne	**2016**	**248**	**1 208**	**248**		**1 704**
	2015	233	1 128	256		1 617
PD Sullivan	**2016**	**991**	**1 405**	**1 146**		**3 542**
	2015	939	1 131	1 171		3 241
W Wang	**2016**	**248**	**296**	**28**		**572**
	2015	233	325			558
BS Tshabalala	**2016**	**248**	**681**	**356**		**1 285**
	2015	233	438	728		1 399
AC Parker	**2016**	**248**	**401**	**372**		**1 021**
	2015	233	271	441		945
ANA Peterside CON	**2016**	**991**	**450**	**991**		**2 432**
	2015	939	252	939		2 130
S Gu	**2016**	**991**	**562**	**28**		**1 581**
	2015	939	528			1 467
JH Maree[3]	**2016**	**28**		**2 627[7]**		**2 655**
	2015					
NNA Matyumza[3]	**2016**	**28**		**28**		**56**
	2015					
Dr ML Oduor-Otieno[4]	**2016**	**991**	**293**	**991**		**2 275**
	2015					
GJ Fraser-Moleketi[3]	**2016**	**28**		**28**		**56**
	2015					
JM Vice[3]	**2016**	**28**	**237**	**28**		**293**
	2015					
GMB Kennealy[3]	**2016**	**28**		**28**		**56**
	2015					
Total	**2016**	**11 818**	**8 148**	**9 718**	**538**	**30 222**
Total	**2015**	7 894	6 770	6 358	251	21 273

Refer to footnotes on the next page.

Former non-executive directors 2015

		Fixed remuneration				
		Services as directors of Standard Bank Group R'000	Standard Bank Group committee fees R'000	Services as directors of group subsidiaries R'000	Other benefits[1] R'000	Total compensation for the year R'000
TMF Phaswana[5]	**2015**	2 315			151	2 466
Lord Smith of Kelvin, KT[5]	**2015**	385	112	382		879
FA du Plessis[6]	**2015**	95	155	165		415
Total	**2015**	2 795	267	547	151	3 760

1 Use of motor vehicle and/or club subscriptions.
2 Appointed as group chairman 28 May 2015.
3 Appointed on 21 November 2016.
4 Appointed on 1 January 2016.
5 Retired on 28 May 2015.
6 Resigned on 28 May 2015.
7 Paid from Liberty Holdings.

Share incentives

Equity growth scheme

The EGS allocates participation rights to participate in the future growth of the SBG share price. The eventual value of the right is settled by the receipt of SBG shares equivalent to the full value of the participation rights.

Deferred bonus scheme

Employees are awarded a deferred bonus, as a mandatory deferral of their short-term incentive or as discretionary award, into the DBS. The deferred bonus is unitised into a number of units with respect to SBG's share price on the date of award. The shares are delivered to the employee on the vesting date. Notional dividends on the units are paid to the employees on the vesting date.

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	Grant date value of participation rights/units forfeited (R)	Number of share incentives exercised during the year
Executive directors*							
SK Tshabalala[3]	**EGS**						
	2016	**1 133 914**					**(45 000)** **(50 000)**
	2015	1 196 414			(12 500)	(456 750)	(50 000)
	PRP						
	2017[6]	**264 500**	**85 400**	**2017/03/02**	**(31 156)**	**(3 952 762)[7]**	
	2016	162 200	102 300	2016/03/03			

Refer to page 256 for the footnotes.

Performance reward plan

The group's PRP is settled in SBG shares with a three-year vesting period which is in effect from March 2014. The awards are subject to the achievement of performance conditions set at award date and that determine the number of shares that ultimately vest. The awards will only vest in future in terms of the rules of the PRP. The shares, subject to meeting the pre-specified conditions, are delivered to the employee on vesting date. Notional dividends accrue during the vesting period and will be payable on vesting date.

Issue price (R)/ resultant shares	Delivery value[1] (R)	Balance of share incentives 31 December	Number of share incentives[2]	Issue date	Offer price (R)	Vesting category	Expiry date
10 866	**1 597 500**	**1 038 914**	100 000	2008/03/06	92.00	B	2018/03/06
14 364	**2 350 000**		37 500[4]	2009/03/06	62.39	B	2019/03/06
22 311	4 165 000	1 133 914	62 500[4]	2010/03/05	111.94	A	2020/03/05
			62 500[4]	2010/03/05	111.94	B	2020/03/05
			100 000[4]	2011/03/04	98.80	A	2021/03/04
			100 000[4]	2011/03/04	98.80	B	2021/03/04
			61 471[4]	2012/03/08	108.90	A	2022/03/08
			212 834	2012/03/08	108.90	D	2022/03/08
			70 742[4]	2013/03/07	115.51	E	2023/03/07
			231 367	2013/03/07	115.51	D	2023/03/07
		318 744	67 344[5]	2014/03/06	126.87		2017/03/31
122.24		264 500	63 700	2015/03/05	156.96		2018/03/31
			102 300	2016/03/03	122.24		2019/03/31

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	Grant date value of participation rights/units forfeited (R)	Number of share incentives exercised during the year
BJ Kruger	**EGS**						
	2016	**884 387**					**(50 000)** **(150 000)** **(100 000)**
	2015	909 387			(25 000)	(913 500)	
	PRP						
	2017[6]	**264 500**	**85 400**	**2017/03/02**	**(31 156)**	**(3 952 762)[7]**	
	2016	162 200	102 300	2016/03/03			
A Daehnke[8]	**EGS**						
	2016	**194 450**					**(7 500)**
	2015	201 950					(7 500)
	PRP						
	2017[6]	**142 800**	**47 800**	**2017/03/02**	**(14 961)**	**(1 898 102)[7]**	
	2016	85 500	57 300	2016/03/03			

Refer to page 256 for the footnotes.

Issue price (R)/ resultant shares	Delivery value[1] (R)	Balance of share incentives 31 December	Number of share incentives[2]	Issue date	Offer price (R)	Vesting category	Expiry date
20 059	**4 130 500**	**584 387**	100 000[4]	2010/03/05	111.94	B	2020/03/05
42 478	**8 295 000**		50 000[4]	2011/03/04	98.80	B	2021/03/04
23 609	**4 216 000**		61 471[4]	2012/03/08	108.90	A	2022/03/08
		884 387	56 594[4]	2013/03/07	115.51	E	2023/03/07
			316 322	2014/03/06	126.87	D	2024/03/06
		318 744	67 344[5]	2014/03/06	126.87		2017/03/31
122.24		264 500	63 700	2015/03/05	156.96		2018/03/31
			102 300	2016/03/03	122.24		2019/03/31
2 273	**342 450**	**186 950**	4 100	2007/03/08	98.00	A	2017/03/08
3 707	682 875	194 450	4 100	2007/03/08	98.00	B	2017/03/08
			7 500	2008/03/06	92.00	A	2018/03/06
			27 500	2008/03/06	92.00	B	2018/03/06
			12 500	2009/03/06	62.39	A	2019/03/06
			12 500	2009/03/06	62.39	B	2019/03/06
			12 500	2010/03/05	111.94	A	2020/03/05
			12 500	2010/03/05	111.94	B	2020/03/05
			12 500	2011/03/04	98.80	A	2021/03/04
			12 500	2011/03/04	98.80	B	2021/03/04
			68 750	2014/03/06	126.87	D	2024/03/06
		175 639	32 339[5]	2014/03/06	126.87		2017/03/31
122.24		142 800	38 200	2015/03/05	156.96		2018/03/31
			57 300	2016/03/03	122.24		2019/03/31

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	Grant date value of participation rights/units forfeited (R)	Number of share incentives exercised during the year
DC Munro	**EGS**						
	2016	**796 458**					**(47 500)**
							(175 000)
	2015	927 708			(6 250)	(228 375)	(50 000)
							(75 000)
	PRP						
	2017[6]	**249 800**	**68 300**	**2017/03/02**	**(24 924)**	**(3 162 108)[7]**	
	2016	168 000	81 800	2016/03/03			
PL Schlebusch	**EGS**						
	2016	**175 036**					**(12 500)**
							(12 500)
							(37 500)
	2015	430 352					(12 500)
							(71 875)
							(40 000)
							(37 500)
							(18 441)
							(75 000)
	PRP						
	2017[6]	**224 300**	**68 300**	**2017/03/02**	**(24 924)**	**(3 162 108)[7]**	
	2016	142 500	81 800	2016/03/03			

Refer to page 256 for the footnotes.

Issue price (R)/ resultant shares	Delivery value[1] (R)	Balance of share incentives 31 December	Number of share incentives[2]	Issue date	Offer price (R)	Vesting category	Expiry date
14 821	**2 484 250**	**573 958**	50 000	2008/03/06	92.00	B	2018/03/06
44 299	**7 479 500**		25 000[4]	2009/03/06	62.39	B	2019/03/06
23 681	4 552 500	796 458	50 000	2010/03/05	111.94	A	2020/03/05
33 491	5 786 250		50 000	2010/03/05	111.94	B	2020/03/05
			50 000[4]	2011/03/04	98.80	A	2021/03/04
			50 000[4]	2011/03/04	98.80	B	2021/03/04
			61 471[4]	2012/03/08	108.90	A	2022/03/08
			60 948	2013/03/07	115.51	D	2023/03/07
			70 742[4]	2013/03/07	115.51	E	2023/03/07
			105 797	2014/03/06	126.87	D	2024/03/06
		293 176	53 876[5]	2014/03/06	126.87		2017/03/31
122.24		249 800	89 200	2015/03/05	156.96		2018/03/31
			81 800	2016/03/03	122.24		2019/03/31
5 407	**1 132 625**	**112 536**	12 500	2010/03/05	111.94	B	2020/03/05
3 018	**513 250**		25 000[4]	2011/03/04	98.80	B	2021/03/04
10 929	**2 032 500**		18 442[4]	2012/03/08	108.90	A	2022/03/08
4 444	1 182 125	175 036	56 594[4]	2013/03/07	115.51	E	2023/03/07
23 073	4 669 000						
13 663	2 358 400						
10 853	2 230 000						
4 886	1 218 766						
23 207	4 728 750						
		267 676	53 876[5]	2014/03/06	126.87		2017/03/31
122.24		224 300	63 700	2015/03/05	156.96		2018/03/31
			81 800	2016/03/03	122.24		2019/03/31

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	Grant date value of participation rights forfeited (R)	Number of share incentives exercised during the year
Non-executive director							
JH Maree[9]	**EGS**						
	2016						
Former executive director*							
SP Ridley[10]	**EGS**						
	2016	**439 328**					**(30 000)**
							(30 000)
	2015	476 828			(12 500)	(456 750)	(25 000)
	PRP						
	2016	114 100					

1 For the EGS awards, this is determined as the difference between the grant date share price and share price on the date of exercise.
2 Represents the number of share incentives held as at 31 December 2016, which have been adjusted for conditional requirements.
3 As at 31 December 2016, SK Tshabalala has a right to 418 814 (2015: 418 814) shares as a beneficiary of the Tutuwa Managers' Trusts. At 31 December 2016, the debt per share was R58.26 (2015: R56.82).
4 Conditional awards.
5 The remaining PRP units that have not been forfeited will vest on 31 March 2017. The value of the award will be determined with reference to the share price at the vesting date and will be disclosed in the 2017 financial statements.
6 PRP units allocated in 2017 have been determined using the closing SBG price of R146.38 on 1 March 2017. 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 2 March 2017. The actual number of units will be updated and disclosed in the group's 2017 annual financial statements.
7 PRP units met a 68.37% conditional requirement and will be delivered to participants in the 2017 financial year. As a result, 31.63% of the award has been forfeited.
8 Appointed as director on 1 May 2016.
9 Awards disclosed are in relation to those received while the participant was in the company's employment. Retired participants would in the normal course retain their holdings post retirement.
10 Retired on 30 April 2016. Balance and number of share incentives are at 30 April 2016.
* All executive directors were also prescribed officers for the group for 2015 and 2016, and former prescribed officers until the date of their retirement.

Issue price (R)/ resultant shares	Delivery Value[1] (R)	Balance of share incentives 31 December	Number of share incentives[2]	Issue date	Offer price (R)	Vesting category	Expiry date
		759 010	62 500[4]	2009/03/06	62.39	B	2019/03/06
			500 000[4]	2010/03/05	111.94	A	2020/03/05
			61 471[4]	2012/03/08	108.90	A	2022/03/08
			56 594[4]	2013/03/07	115.51	E	2023/03/08
			78 445	2015/03/05	156.96	D	2025/03/05
6 492	**1 016 400**	**379 328**	100 000[4]	2010/03/05	111.94	A	2020/03/05
10 248	**2 084 700**		100 000[4]	2011/03/04	98.80	A	2021/03/04
9 811	1 912 500	439 328	100 000[4]	2011/03/04	98.80	B	2021/03/04
			36 883[4]	2012/03/08	108.90	A	2022/03/08
			42 445[4]	2013/03/07	115.51	E	2023/03/07
		114 100	63 100	2014/03/06	126.87		2017/03/31
			51 000	2015/03/05	156.96		2018/03/31

Deferred bonus schemes

The table below reflects bonus awards for the 2016 and previous financial years. The awards will only vest in future in terms of the rules of the DBS. The deferred bonus awards for the 2016 performance year are only issued in the 2017 financial year.

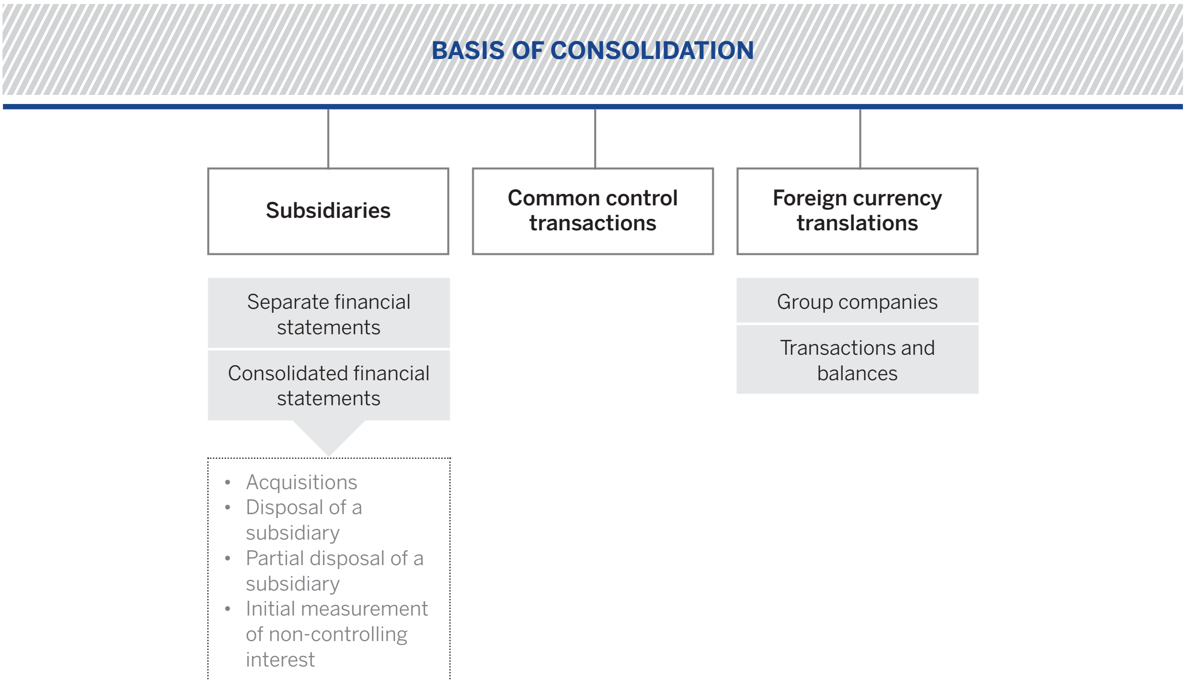
Director's name	Performance year	Issue date[1]	Amount deferred (R)	Award price (R)	Units awarded
Executive directors*					
SK Tshabalala	**2013**	2014/03/06	11 100 000	126.87	87 492
	2014	2015/03/05	8 037 500	156.96	51 208
	2015	2016/03/03	11 850 000	122.24	96 941
	2016	**2017/03/02[2]**	**12 790 000**		
BJ Kruger	**2012**	2013/03/07	5 100 000	115.51	44 153
	2014	2015/03/05	4 975 000	156.96	31 696
	2015	2016/03/03	11 850 000	122.24	96 941
	2016	**2017/03/02[2]**	**12 790 000**		
A Daehnke[3]	**2012**	2013/03/07	4 000 000	115.51	34 630
	2013	2014/03/06	2 412 500	126.87	19 016
	2014	2015/03/05	5 400 000	156.96	34 404
	2015	2016/03/03	6 217 500	122.24	50 864
	2016	**2017/03/02[2]**	**8 100 000**		
DC Munro	**2012**	2013/03/07	5 887 500	115.51	50 970
	2013	2014/03/06	11 137 500	126.87	87 787
	2014	2015/03/05	5 850 000	156.96	37 271
	2015	2016/03/03	13 850 000	122.24	113 302
	2016	**2017/03/02[2]**	**15 600 000**		
PL Schlebusch	**2012**	2013/03/07	6 225 000	115.51	53 892
	2013	2014/03/06	10 850 000	126.87	85 521
	2014	2015/03/05	8 650 000	156.96	55 110
	2015	2016/03/03	12 350 000	122.24	101 031
	2016	**2017/03/02[2]**	**13 850 000**		
Non-executive director					
JH Maree[4]	**2016**				
Former executive director*					
SP Ridley[5]	**2012**	2013/03/07	4 700 000	115.51	40 690
	2013	2014/03/06	7 850 000	126.87	61 875
	2014	2015/03/05	6 850 000	156.96	43 642
	2015	2016/03/03	8 350 000	122.24	68 309

1 Units are granted in DBS and vest in three equal tranches at 18, 30 and 42 months from date of award.
2 Deferred bonus amounts awarded in March 2017 are still subject to choice. Participants can elect to have the value of the deferred award, or a part thereof, invested in the SARP rather than the default DBS. To the extent that SARP is selected, a 10% premium of the value of the award is added. Deferred bonus amounts not invested in SARP (previously EGS) will be unitised with respect to the group's closing share price on 2 March 2017. This award will be updated in the group's 2017 annual financial statements to reflect the choices made and units/rights awarded.
3 Appointed as director on 1 May 2016.
4 Awards disclosed are in relation to those received while the participant was in the company's employment. Retired participants would in the normal course retain their holdings post retirement.
5 Retired on 30 April 2016. Balance of units is at 30 April 2016.
* All executive directors were also prescribed officers for the group for 2015 and 2016, and former prescribed officers until the date of their retirement.

Expiry date/ final vesting date	Balance of units 1 January 2016	Number of units exercised during the year	Exercise date share price (R)	Value of units exercised (R)	Balance of units 31 December 2016
2017/09/30	58 328	29 164	146.08	4 260 277	29 164
2018/09/30	51 208	17 069	146.08	2 493 440	34 139
2019/09/30					96 941
2016/09/30	14 719	14 719	146.08	2 150 152	
2018/09/30	31 696	10 565	146.08	1 543 335	21 131
2019/09/30					96 941
2016/09/30	11 544	11 544	146.08	1 686 348	
2017/09/30	12 678	6 338	146.08	925 855	6 340
2018/09/30	34 404	11 468	146.08	1 675 245	22 936
2019/09/30					50 864
2016/09/30	16 990	16 990	146.08	2 481 899	
2017/09/30	58 525	29 262	146.08	4 274 593	29 263
2018/09/30	37 271	12 423	146.08	1 814 752	24 848
2019/09/30	113 302				113 302
2016/09/30	17 964	17 964	146.08	2 624 181	
2017/09/30	57 014	28 507	146.08	4 164 303	28 507
2018/09/30	55 110	18 370	146.08	2 683 490	36 740
2019/09/30	101 031				101 031
					10 354
2016/09/30	13 564				13 564
2017/09/30	41 250				41 250
2018/09/30	43 642				43 642
2019/09/30					68 309

Annexure E
Detailed accounting policies

1. Basis of consolidation



Subsidiaries

Separate financial statements

Investments in subsidiaries are accounted for at cost less accumulated impairment losses (where applicable) in the separate financial statements. The carrying amounts of these investments are reviewed annually for impairment indicators and, where an indicator of impairment exists, are impaired to the higher of the investment's fair value less costs to sell or value in use.

Consolidated financial statements

The accounting policies of subsidiaries that are consolidated by the group conform to the group's accounting policies. Intragroup transactions, balances and unrealised gains (losses) are eliminated on consolidation. Unrealised losses are eliminated in the same manner as unrealised gains, but only to the extent that there is no evidence of impairment. The proportion of comprehensive income and changes in equity allocated to the group and non-controlling 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

Acquisitions

The acquisition method of accounting is used to account for the acquisition of subsidiaries by the group.

The consideration transferred is measured as the sum of the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the acquisition date. The consideration includes any asset, liability or equity resulting from a contingent consideration arrangement. The obligation to pay contingent consideration is classified as either a liability or equity based on the terms of the arrangement. The right to a return of previously transferred consideration is classified as an asset.

Transaction costs are recognised within profit or loss as and when they are incurred. Where the initial accounting is incomplete by the end of the reporting period in which the business combination occurs (but no later than 12 months since the acquisition date), the group reports provisional amounts.

Where applicable, the group adjusts retrospectively the provisional amounts to reflect new information obtained about facts and circumstances that existed at the acquisition date and affected the measurement of the provisional amounts. Identifiable assets acquired, liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any non-controlling interest. The excess (shortage) of the sum of the consideration transferred (including contingent consideration), the value of non-controlling interest recognised and the acquisition date fair value of any previously held equity interest in the subsidiary over the fair value of identifiable net assets acquired is recorded as goodwill in the statement of financial position (gain on bargain purchase, which is recognised directly in non-trading and capital related items).

When a business combination occurs in stages, the previously held equity interest is remeasured to fair value at the acquisition date and any resulting gain or loss is recognised in non-trading and capital related items.

Increases in the group's interest in a subsidiary, when the group already has control, are accounted for as transactions with equity holders of the group. The difference between the purchase consideration and the group's proportionate share of the subsidiary's additional net asset value acquired is accounted for directly in equity.

Disposal of a subsidiary

A disposal arises where the group loses control of a subsidiary. When the group loses control of a subsidiary, the profit or loss on disposal is calculated as the difference between the fair value of the consideration received (including the fair value of any retained interest in the underlying investee) and the carrying amount of the assets and liabilities and any non-controlling interest. Any gains or losses in OCI that relate to the subsidiary are reclassified to profit or loss at the time of the disposal. On disposal of a subsidiary that includes a foreign operation, the relevant amount in the foreign currency translation reserve (FCTR) is reclassified to profit or loss at the time at which the profit or loss on disposal of the foreign operation is recognised.

Partial disposal of a subsidiary

A partial disposal arises as a result of a reduction in the group's ownership interest in an investee that is not a disposal (i.e. a reduction in the group's interest in a subsidiary while retaining control). Decreases in the group's interest in a subsidiary, where the group retains control, are accounted for as transactions with equity holders of the group. Gains or losses on the partial disposal of the group's interest in a subsidiary are computed as the difference between the sales consideration and the group's proportionate share of the investee's net asset value disposed of, and are accounted for directly in equity. On the partial disposal of a subsidiary that includes a foreign operation, a proportionate share of the balance of the FCTR is transferred to non-controlling interest.

Initial measurement of non-controlling interest

The group elects on each acquisition to initially measure non-controlling interest on the acquisition date at either fair value or at the non-controlling interest's proportionate share of the investees' identifiable net assets.

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 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 (in certain instances a rate that approximates the actual rate at the date of the transaction is utilised, for example, an average rate for a month). Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies at year end exchange rates, are recognised in profit or loss (except when recognised in OCI as part of qualifying cash flow hedges and net investment hedges).

Non-monetary assets and liabilities denominated in foreign currencies that are measured at historical cost are translated using the exchange rate at the transaction date, and those measured at fair value are translated at the exchange rate at the date that the fair value was determined. Exchange rate differences on non-monetary items are accounted for based on the classification of the underlying items.

Foreign exchange gains and losses on equities (debt) classified as available-for-sale financial assets are recognised in the available-for-sale reserve in OCI (interest income) whereas the exchange differences on equities (debt) that are classified as held at fair value through profit or loss are reported as part of the other revenue (interest income).

Foreign currency gains and losses on intragroup loans are recognised in profit or loss except where the settlement of the loan is neither planned nor likely to occur in the foreseeable future. In these cases, the foreign currency gains and losses are recognised in the group's FCTR.

2. Interest in associates and joint arrangements

INTEREST IN ASSOCIATES AND JOINT ARRANGEMENTS

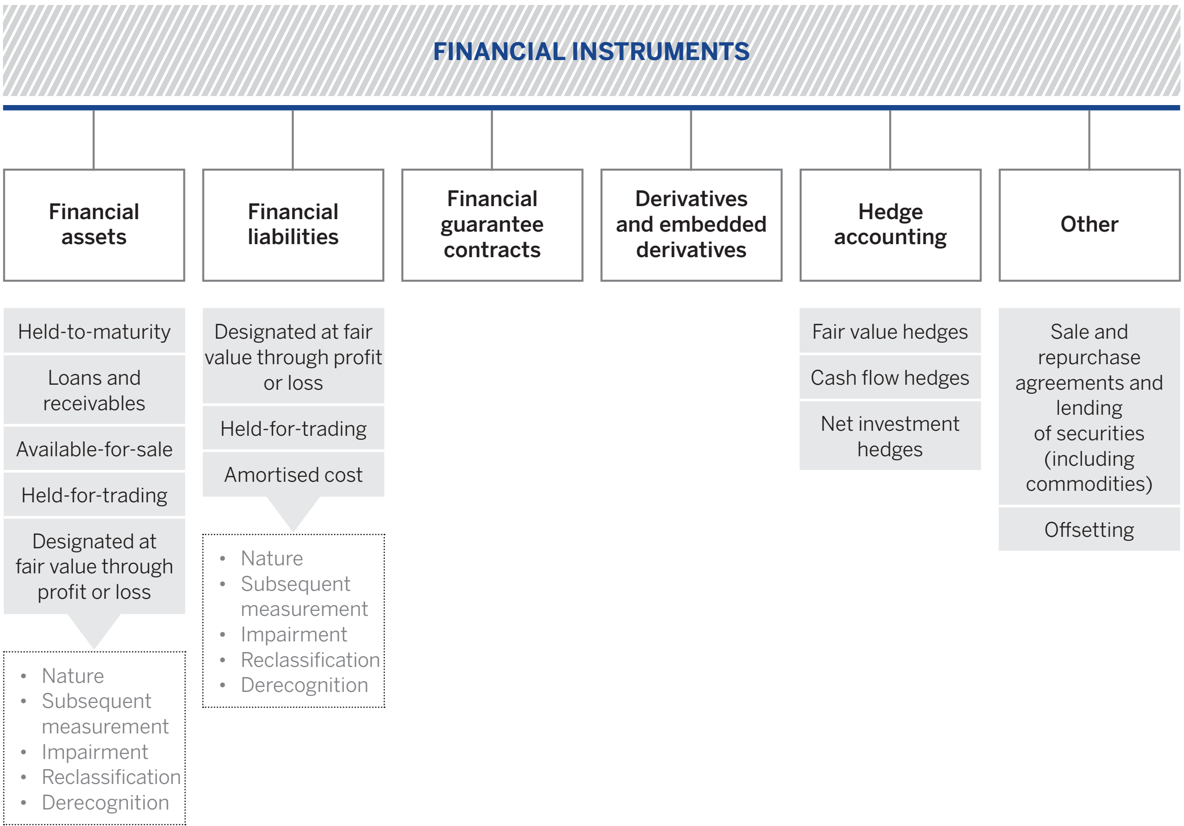
- Associates and joint ventures
- Private equity and venture capital investments
- Joint operations

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). Equity accounting is applied from the date on which the entity becomes an associate or joint venture up to the date on which the group ceases to have significant influence or joint control. Equity accounting of losses is restricted to the interests in these entities, including unsecured receivables or other commitments, unless the group has an obligation or has made payments on behalf of the associate or joint ventures. Unrealised profits from transactions are eliminated in determining the group's share of equity accounted profits. Unrealised losses are eliminated in the same way as unrealised gains (but only to the extent that there is no evidence of impairment). Where there is an indicator of impairment the carrying amount of the investment is tested for impairment by comparing its recoverable amount with its carrying amount. Impairment losses are recognised through non-trading and capital related items. Impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount, but only to the extent that the investment's carrying amount does not exceed the carrying amount that would have been determined, net of equity accounted losses, if no impairment loss had been recognised. For a disposal of an associate or joint venture, being where the group loses significant influence over an associate or loses joint control over a joint venture, the difference between the sales proceeds and any retained interest and the carrying value of the equity accounted investment is recognised as a gain or loss in non-trading and capital related items.
	SEPARATE FINANCIAL STATEMENTS
	Same accounting treatment as for group financial statements.

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 while 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. 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 are either designated on initial recognition at fair value through profit or loss, or are equity accounted.
Joint operations	The following is recognised for joint operations: • assets it controls, including its share of assets jointly controlled • liabilities, including its share of liabilities incurred jointly • revenue from the sale of its share of output and from the sale of the output by a joint operation • expenses, including the share of expenses incurred jointly. Individual assets are individually assessed for impairment and, where applicable, are impaired to the higher of the fair value less cost to sell and the asset's value in use.
	SEPARATE FINANCIAL STATEMENTS
	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 through profit or loss where such transaction costs and fees are immediately recognised in profit or loss. Financial instruments are recognised (derecognised) on the date the group commits to purchase (sell) the instruments (trade date accounting).

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. Included are commodities that are acquired principally for the purpose of selling in the near future or generating a profit from fluctuations in price or broker-traders' margin.
Designated at fair value through profit or loss	Financial assets are designated to be measured at fair value in the following instances: • to eliminate or significantly reduce an accounting mismatch that would otherwise arise • where the financial assets are managed and their performance evaluated and reported on a fair value basis • where the financial asset contains one or more embedded derivatives that significantly modify the financial asset's cash flows.
Available-for-sale	Financial assets that are not classified into one of the abovementioned financial asset categories.

Subsequent measurement

Subsequent to initial measurement, financial assets are classified in their respective categories and measured at either amortised cost or fair value as follows:

Held-to-maturity and loans and receivables	Amortised cost using the effective interest method with interest recognised in interest income, less any impairment losses which are recognised as part of credit impairment charges. Directly attributable transaction costs and fees received are capitalised and amortised through interest income as part of the effective interest rate.
Available-for-sale	Fair value, with gains and losses recognised directly in the available-for-sale reserve until the financial asset is derecognised or impaired. Interest on debt financial assets is recognised in interest income in terms of the effective interest rate method. Dividends received on debt (equity) available-for-sale financial assets are recognised in interest income (other revenue) within profit or loss. When debt (equity) available-for-sale financial assets are disposed of, the cumulative fair value adjustments in OCI are reclassified to interest income (other revenue).
Held-for-trading	Fair value, with gains and losses arising from changes in fair value (including interest and dividends) recognised in trading revenue.
Designated at fair value through profit or loss	Fair value, with gains and losses recognised in interest income/(other revenue) for all debt/(equity) financial assets.

3. Financial instruments continued

Impairment

A financial asset is impaired if objective evidence indicates that a loss event has occurred after initial recognition which has a negative effect on the estimated future cash flows of the financial asset that can be estimated reliably. The group assesses at each reporting date whether there is objective evidence that a financial asset which is either carried at amortised cost or classified as available-for-sale is impaired as follows:

Held-to-maturity and loans and receivables (amortised cost)

The following criteria are used in determining whether there is objective evidence of impairment for loans or groups of loans:

- known cash flow difficulties experienced by the borrower
- a breach of contract, such as default or delinquency in interest and/or principal payments
- breaches of loan covenants or conditions
- becomes probable that the borrower will enter bankruptcy or other financial reorganisation
- where the group, for economic or legal reasons relating to the borrower's financial difficulty, grants the borrower a concession that the group would not otherwise consider.

The group first assesses whether there is objective evidence of impairment individually for loans that are individually significant, and individually or collectively for loans that are not individually significant. Non-performing loans include those loans for which there is identified objective evidence of impairment, such as a breach of a material loan covenant or condition, as well as those loans for which instalments are due and unpaid for 90 days or more. The impairment of non-performing loans takes into account past loss experience adjusted for changes in economic conditions and the nature and level of risk exposure since the recording of the historic losses.

When a loan carried at amortised cost has been identified as specifically impaired, the carrying amount of the loan is reduced to an amount equal to the present value of its estimated future cash flows, including the recoverable amount of any collateral, discounted at the financial asset's original effective interest rate. The carrying amount of the loan is reduced through the use of a specific credit impairment account and the loss is recognised as a credit impairment charge in profit or loss.

Increases in loan impairments and any subsequent reversals thereof, or recoveries of amounts previously impaired (including loans that have been written off), are reflected within credit impairment charges in profit or loss. Subsequent to impairment, the effects of discounting unwind over time as interest income.

The calculation of the present value of the estimated future cash flows of collateralised financial assets recognised on an amortised cost basis includes cash flows that may result from foreclosure less costs of obtaining and selling the collateral, whether or not foreclosure is probable.

If the group determines that no objective evidence of impairment exists for an individually assessed loan, whether significant or not, it includes the loan in a group of financial loans with similar credit risk characteristics and collectively assesses for impairment. Loans that are individually assessed for impairment and for which an impairment loss is recognised are not included in a collective assessment for impairment.

Impairment of groups of loans that are assessed collectively is recognised where there is objective evidence that a loss event has occurred after the initial recognition of the group of loans but before the reporting date. In order to provide for latent losses in a group of loans that have not yet been identified as specifically impaired, a credit impairment for incurred but not reported losses is recognised based on historic loss patterns and estimated emergence periods (time period between the loss event and the date on which the group identifies the losses). Groups of loans are also impaired when adverse economic conditions develop after initial recognition, which may impact future cash flows. The carrying amount of groups of loans is reduced through the use of a portfolio credit impairment account and the loss is recognised as a credit impairment charge in profit or loss.

Previously impaired loans are written off once all reasonable attempts at collection have been made and there is no realistic prospect of recovering outstanding amounts.

3. Financial instruments continued

Impairment continued

Available-for-sale	Available-for-sale debt instruments 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. When an available-for-sale asset has been identified as impaired, the cumulative loss, measured as the difference between the acquisition price and the current fair value, less any previously recognised impairment losses on that financial asset, is reclassified from OCI to profit or loss, within interest income (other revenue) for debt (equity) instruments. If, in a subsequent period, the amount relating to an impairment loss decreases and the decrease can be linked objectively to an event occurring after the impairment loss was recognised, the impairment loss is reversed through interest income for available-for-sale debt instruments. Any reversal of an impairment loss in respect of an available-for-sale equity instrument is recognised directly in OCI.

Reclassification

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: • If the financial asset is no longer held for the purpose of selling it in the near term and the financial asset would not otherwise have met the definition of loans and receivables, it is permitted to be reclassified only in rare circumstances • If the financial asset is no longer held for the purpose of selling it in the near team and the financial asset would have met the definition of loans and receivables, it is permitted to be reclassified if the group, at the date of reclassification, has the intention and ability to hold these financial assets for the foreseeable future or until maturity.

Reclassifications are made at fair value as of the reclassification date. Effective interest rates for financial assets reclassified to loans and receivables, held-to-maturity and available-for-sale categories are determined at the reclassification date. Subsequent changes in estimates of cash flows (other than credit impairment changes) adjust the financial asset's effective interest rates prospectively. On reclassification of a trading asset, all embedded derivatives are reassessed and, if necessary, accounted for separately.

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: • to eliminate or significantly reduce an accounting mismatch that would otherwise arise; or • where the financial liabilities are managed and their performance evaluated and reported on a fair value basis; or • 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 arising from changes in fair value (including interest and dividends) recognised in interest expense.
Amortised cost	Amortised cost using the effective interest method with interest recognised in interest expense.

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. The group enters into transactions whereby it transfers assets recognised in its statement of financial position, but retains either all or a portion of the risks or rewards of the transferred assets. If all or substantially all risks and rewards are retained, then the transferred assets are not derecognised. Transfers of assets with the retention of all or substantially all risks and rewards include securities lending and repurchase agreements. When assets are sold to a third party with a concurrent total rate of return swap on the transferred assets, the transaction is accounted for as a secured financing transaction, similar to repurchase transactions. In transactions where the group neither retains nor transfers substantially all the risks and rewards of ownership of a financial asset, the asset is derecognised if control over the asset is lost. The rights and obligations retained in the transfer are recognised separately as assets and liabilities as appropriate. In transfers where control over the asset is retained, the group continues to recognise the asset to the extent of its continuing involvement, determined by the extent to which it is exposed to changes in the value of the transferred asset.	Where an existing financial asset or liability is replaced by another with the same counterparty on substantially different terms, or the terms of an existing financial asset or liability are substantially modified, such an exchange or modification is treated as a derecognition of the original asset or liability and the recognition of a new asset or liability, with the difference in the respective carrying amounts being recognised in profit or loss. In all other instances, the renegotiated asset or liability's effective interest rate is redetermined at date of modification taking into account the renegotiated terms.
Financial liabilities	Financial liabilities are derecognised when the financial liabilities' obligation is extinguished, that is, when the obligation is discharged, cancelled or expires.	

3. Financial instruments continued

Financial guarantee contracts

A financial guarantee contract is a contract that requires the group (issuer) to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument.

Financial guarantee contracts are initially recognised at fair value, which is generally equal to the premium received, and then amortised over the life of the financial guarantee. Financial guarantee contracts are subsequently measured at the higher of the:

- present value of any expected payment, when a payment under the guarantee has become probable
- unamortised premium.

Derivatives and embedded derivatives

In the normal course of business, the group enters into a variety of derivative transactions for both trading and hedging purposes. Derivative financial instruments are entered into for trading purposes and for hedging foreign exchange, interest rate, inflation, credit, commodity and equity exposures. Derivative instruments used by the group in both trading and hedging activities include swaps, options, forwards, futures and other similar types of instruments based on foreign exchange rates, credit risk, inflation risk, interest rates and the prices of commodities and equities.

Derivatives are initially recognised at fair value. Derivatives that are not designated in a qualifying hedge accounting relationship are classified as held-for-trading with all changes in fair value being recognised within trading revenue. This includes forward contracts to purchase or sell commodities, where net settlement occurs or where physical delivery occurs and the commodities are held to settle another derivative contract. All derivative instruments are carried as financial assets when the fair value is positive and as financial liabilities when the fair value is negative.

Embedded derivatives included in hybrid instruments are treated and disclosed as separate derivatives when their economic characteristics and risks are not closely related to those of the host contract, the terms of the embedded derivative are the same as those of a stand-alone derivative and the combined contract is not measured at fair value through profit or loss. The host contract is accounted for and measured applying the relevant group accounting policy.

The method of recognising fair value gains and losses on derivatives designated as a hedging instrument depends on the nature of the hedge relationship.

Hedge accounting

Derivatives are designated by the group into the following relationships:

TYPE OF HEDGE	NATURE	TREATMENT
Fair value hedges	Hedges of the fair value of recognised financial assets, liabilities or firm commitments.	Where a hedging relationship is designated as a fair value hedge, the hedged item is adjusted for the change in fair value in respect of the risk being hedged. Gains or losses on the remeasurement of both the derivative and the hedged item are recognised in profit or loss. Fair value adjustments relating to the hedging instrument are allocated to the same line item in profit or loss as the related hedged item. Any hedge ineffectiveness is recognised immediately in trading revenue. If the derivative expires, is sold, terminated, exercised, no longer meets the criteria for fair value hedge accounting, or the designation is revoked, then hedge accounting is discontinued. The adjustment to the carrying amount of a hedged item measured at amortised cost, for which the effective interest method is used, is amortised to profit or loss as part of the hedged item's recalculated effective interest rate over the period to maturity.

3. Financial instruments continued

Hedge accounting continued

TYPE OF HEDGE	NATURE	TREATMENT
Cash flow hedges	Hedges of highly probable future cash flows attributable to a recognised asset or liability, a forecasted transaction, or a highly probable forecast intragroup transaction.	The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in the cash flow hedging reserve. The ineffective part of any changes in fair value is recognised immediately in profit or loss as trading revenue. Amounts recognised in OCI are transferred to profit or loss in the periods in which the hedged forecast cash flows affect profit or loss. However, when the forecast transaction that is hedged results in the recognition of a non-financial asset or a non-financial liability, the cumulative gains or losses recognised previously in OCI are transferred and included in the initial measurement of the cost of the asset or liability. If the derivative expires, is sold, terminated, exercised, no longer meets the criteria for cash flow hedge accounting, or the designation is revoked, then hedge accounting is discontinued. The cumulative gains or losses recognised in OCI remain in OCI until the forecast transaction is recognised in the case of a non-financial asset or a non-financial liability, or until the forecast transaction affects profit or loss in the case of a financial asset or a financial liability. If the forecast transaction is no longer expected to occur, the cumulative gains and losses recognised in OCI are immediately reclassified to profit or loss and classified as trading revenue.

Other

Sale and repurchase agreements and lending of securities

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.

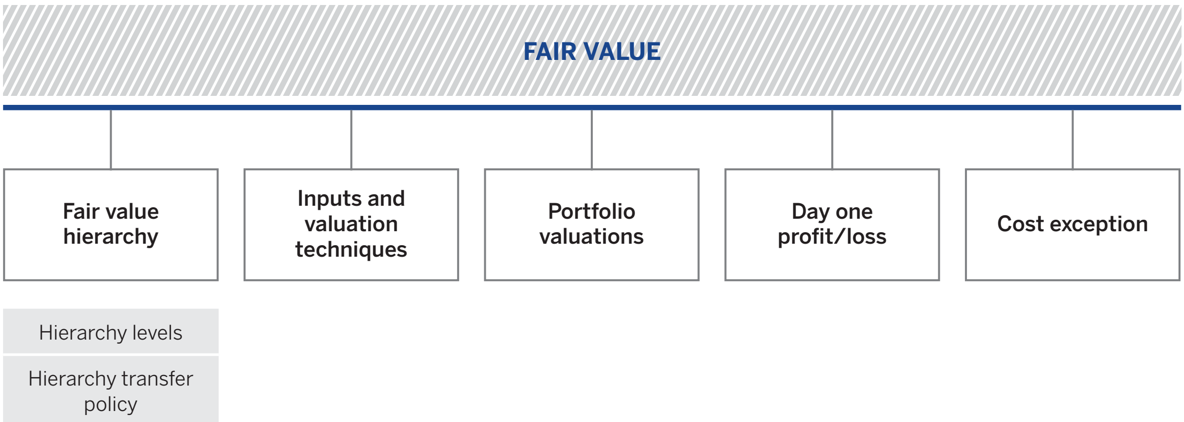
Securities purchased under agreements to resell (reverse repurchase agreements), at either a fixed price or the purchase price plus a lender's rate of return, are recorded as loans and included under trading assets or loans and advances, as appropriate. For repurchase and reverse repurchase agreements 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 Derivative financial instruments comprise foreign exchange, interest rate, commodity, credit and equity derivatives that are either held-for-trading or designated as hedging instruments in hedge relationships.	Standard derivative contracts are valued using market accepted models and quoted parameter inputs. More complex derivative contracts are modelled using more sophisticated modelling techniques applicable to the instrument. Techniques include: • Discounted cash flow model • Black-Scholes model • Combination technique models.	**For level 2 and 3 fair value hierarchy items** • Discount rate* • Spot prices of the underlying • Correlation factors • Volatilities • Dividend yields • Earnings yield • Valuation multiples.
Trading assets and trading liabilities Trading assets and liabilities comprise instruments which are part of the group's underlying trading activities. These instruments primarily include sovereign and corporate debt, commodities, collateral, collateralised lending agreements and equity securities. **Pledged assets** Pledged assets comprise instruments that may be sold or repledged by the group's counterparty in the absence of default by the group. Pledged assets include sovereign and corporate debt, equities, commodities pledged in terms of repurchase agreements and commodities that have been leased to third parties. **Financial investments** Financial investments are non-trading financial assets and primarily comprise of sovereign and corporate debt, listed and unlisted equity instruments, listed sovereign or corporate debt, investments in debentures issued by the SARB, investments in mutual fund investments and unit-linked investments.	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.	

* 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

Inputs and valuation techniques continued

ITEM AND DESCRIPTION	VALUATION TECHNIQUE	MAIN INPUTS AND ASSUMPTIONS
Loans and advances to banks and customers Loans and advances comprise: • Loans and advances to banks: call loans, loans granted under resale agreements and balances held with other banks • Loans and advances to customers: mortgage loans (home loans and commercial mortgages), other asset-based loans, including collateralised debt obligations (instalment sale and finance leases), and other secured and unsecured loans (card debtors, overdrafts, other demand lending, term lending and loans granted under resale agreements).	For certain loans fair value may be determined from the market price of a recently occurring transaction adjusted for changes in risks and information between the transaction and valuation dates. Loans and advances are reviewed for observed and verified changes in credit risk and the credit spread is adjusted at subsequent dates if there has been an observable change in credit risk relating to a particular loan or advance. In the absence of an observable market for these instruments, discounted cash flow models are used to determine fair value. Discounted cash flow models incorporate parameter inputs for interest rate risk, foreign exchange risk, liquidity and credit risk, as appropriate. For credit risk, probability of default and loss given default parameters are determined using credit default swaps (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** • Discount rate*.
Deposits from bank and customers Deposits from banks and customers comprise amounts owed to banks and customers, deposits under repurchase agreements, negotiable certificates of deposit, credit-linked deposits and other deposits.	For certain deposits, fair value may be determined from the market price on a recently occurring transaction adjusted for all changes in risks and information between the transaction and valuation dates. In the absence of an observable market for these instruments, discounted cash flow models are used to determine fair value based on the contractual cash flows related to the instrument. The fair value measurement incorporates all market risk factors, including a measure of the group's credit risk relevant for that financial liability. The market risk parameters are valued consistently to similar instruments held as assets stated in the section above. The credit risk of the reference asset in the embedded CDS in credit-linked deposits is incorporated into the fair value of all credit-linked deposits that are designated to be measured at fair value through profit or loss. For collateralised deposits that are designated to be measured at fair value through profit or loss, such as securities repurchase agreements, the credit enhancement is incorporated into the fair valuation of the liability.	**For level 2 and 3 fair value hierarchy items** • Discount rate*.

* 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.

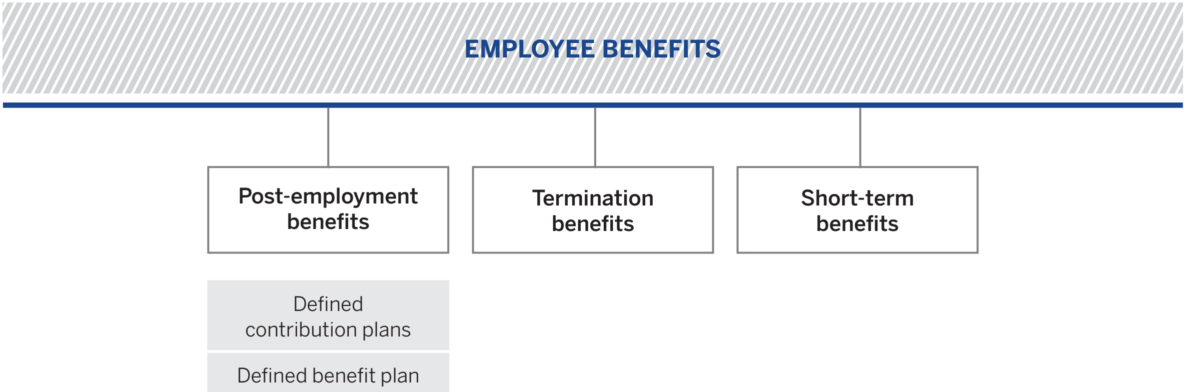
Day one profit or loss is deferred where the fair value of the financial instrument is not able to be evidenced by comparison with other observable current market transactions in the same instrument, or is determined using valuation models that utilise non-observable market data as inputs.

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

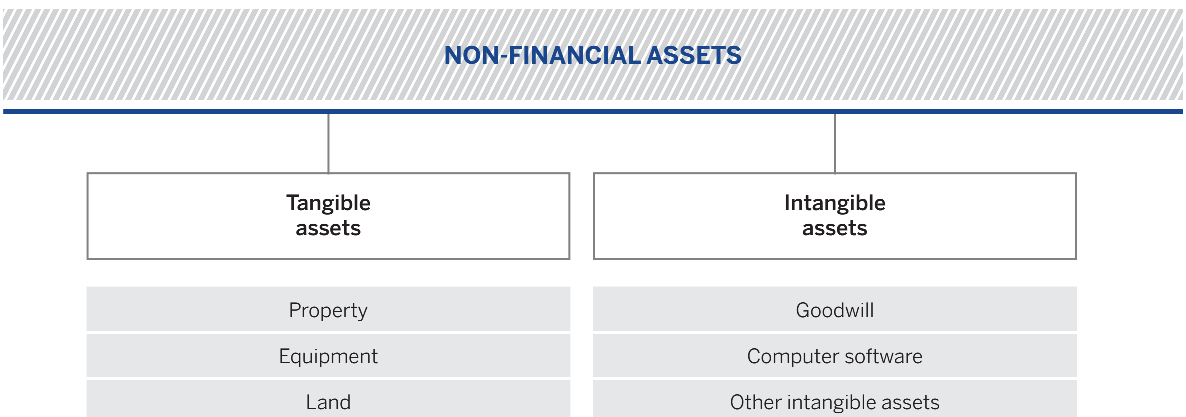


TYPE AND DESCRIPTION	STATEMENT OF FINANCIAL POSITION	STATEMENT OF OTHER COMPREHENSIVE INCOME	INCOME STATEMENT
Defined contribution plans The group operates a number of defined contribution plans. See note 40 for more information.	Accruals are recognised for unpaid contributions.	No direct impact.	Contributions are recognised as an operating expense in the periods during which services are rendered by the employees.
Defined benefit plans 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. A net defined benefit asset is only recognised to the extent that economic benefits are available to the group from reductions in future contributions or future refunds from the plan.	Remeasurements of the net defined benefit obligation, including actuarial gains and losses, the return on plan assets (excluding interest calculated) and the effect of any asset ceiling are recognised within OCI.	Net interest income/(expense) is determined on the defined benefit asset/(liability) by applying the discount rate used to measure the defined benefit obligation at the beginning of the annual period to the net defined benefit asset/(liability). Other expenses related to the defined benefit plans are also recognised in operating expenses. When the benefits of a plan are changed or when a plan is curtailed, the resulting change in benefit that relates to past service or the gain or loss on curtailment is recognised immediately in operating expenses. The group recognises gains and losses on the settlement of a defined benefit plan when the settlement occurs.

5. Employee benefits continued

TYPE AND DESCRIPTION	STATEMENT OF FINANCIAL POSITION	STATEMENT OF OTHER COMPREHENSIVE INCOME	INCOME STATEMENT
Termination benefits 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 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



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) Property and equipment are measured at cost less accumulated depreciation and accumulated impairment losses. Cost includes expenditure that is directly attributable to the acquisition of the asset. Land is measured at cost less accumulative impairment losses. Costs that are subsequently incurred are included in the asset's related carrying amount or are recognised as a separate asset, as appropriate, only when it is probable that future economic benefits will flow to the group and the cost of the item can be measured reliably. Expenditure, which does not meet these criteria, is recognised in operating expenses as incurred. Where significant parts of an item of property or equipment have different useful lives, they are accounted for as separate major components of property and equipment.	Property and equipment are depreciated on the straight-line basis over estimated useful lives (see below) of the assets to their residual values. Land is not depreciated. Buildings: 40 years Computer equipment: 3 – 5 years Motor vehicles: 4 – 5 years Office equipment: 5 – 10 years Furniture: 5 – 13 years Capitalised leased assets: Shorter of lease term or useful life The residual values, useful lives and the depreciation method applied are reviewed, and adjusted if appropriate, at each financial year end.	These assets are reviewed for impairment at each reporting date and tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised in non-trading and capital related items for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is determined as the higher of an asset's fair value less costs to sell and value in use. Fair value less costs to sell is determined by ascertaining the current market value of an asset and deducting any costs related to the realisation of the asset. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For the purposes of assessing impairment, assets that cannot be tested individually are grouped at the lowest levels for cash-generating units (CGUs). Impairment losses recognised in respect of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to the CGU, and then to reduce the carrying amounts of the other assets in the CGU on a pro rata basis. The carrying amount of these other assets may, however, not be reduced below the higher of the CGU's fair value less costs to sell and its value in use. Impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed through non-trading and capital related items only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

6. Non-financial assets continued

TYPE AND INITIAL AND SUBSEQUENT MEASUREMENT	USEFUL LIVES, DEPRECIATION/ AMORTISATION METHOD OR FAIR VALUE BASIS	IMPAIRMENT
Goodwill Goodwill represents the excess of the consideration transferred and the acquisition date fair value of any previously held equity interest over the group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities of the acquired subsidiary, associate or joint venture at the date of the acquisition. The group's interest in acquired subsidiaries takes into account any non-controlling interest. Goodwill arising on the acquisition of subsidiaries (associates or joint ventures) is reported in the statement of financial position as part of 'Goodwill and other intangible assets' ('Interest in associates and joint ventures').	Not applicable.	The accounting treatment is generally the same as that for tangible assets except as noted below. Goodwill is tested annually for impairment and additionally when an indicator of impairment exists. An impairment loss in respect of goodwill is not reversed.

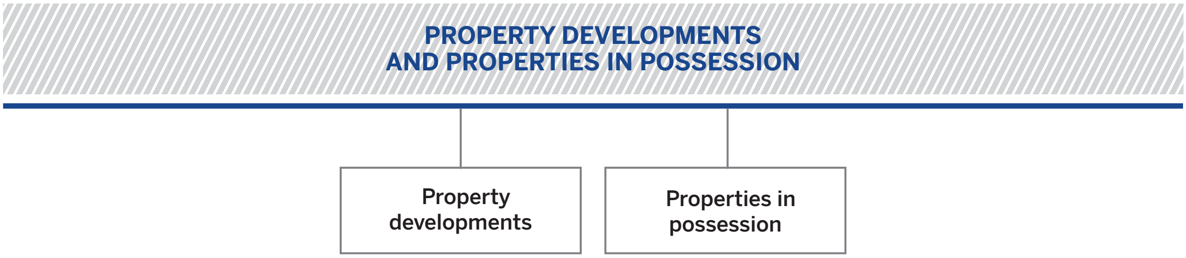
6. Non-financial assets continued

TYPE AND INITIAL AND SUBSEQUENT MEASUREMENT	USEFUL LIVES, DEPRECIATION/ AMORTISATION METHOD OR FAIR VALUE BASIS	IMPAIRMENT
Computer software Costs associated with developing or maintaining computer software programmes and the acquisition of software licences are generally recognised as an expense as incurred. However, direct computer software development costs that are clearly associated with an identifiable and unique system, which will be controlled by the group and have a probable future economic benefit beyond one year, are recognised as intangible assets. Intangible assets are carried at cost less accumulated amortisation and accumulated impairment losses from the date that the assets are available for use. Expenditure subsequently incurred on computer software is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates.	Amortisation is recognised in operating expenses on a straight-line basis at rates appropriate to the expected lives of the assets (two to 15 years) from the date that the asset is available for use. Amortisation methods, useful lives and residual values are reviewed at each financial year end and adjusted, if necessary.	Intangible assets that have an indefinite useful life are tested annually for impairment and additionally when an indicator of impairment exists. The accounting treatment for computer software and other intangible assets is otherwise the same as for tangible assets.
Other intangible assets The group recognises the costs incurred on internally generated intangible assets such as brands, customer lists, customer contracts and similar rights and assets, in operating expenses as incurred. The group capitalises brands, customer lists, customer contracts, distribution forces and similar rights acquired in business combinations. Capitalised intangible assets are measured at cost less accumulated amortisation and accumulated impairment losses.	Amortisation is recognised in operating expenses on a straight-line basis over the estimated useful lives of the intangible assets, not exceeding 20 years, from the date that the asset is available for use. Amortisation methods, useful lives and residual values are reviewed at each financial year end and adjusted, if necessary.	

Derecognition

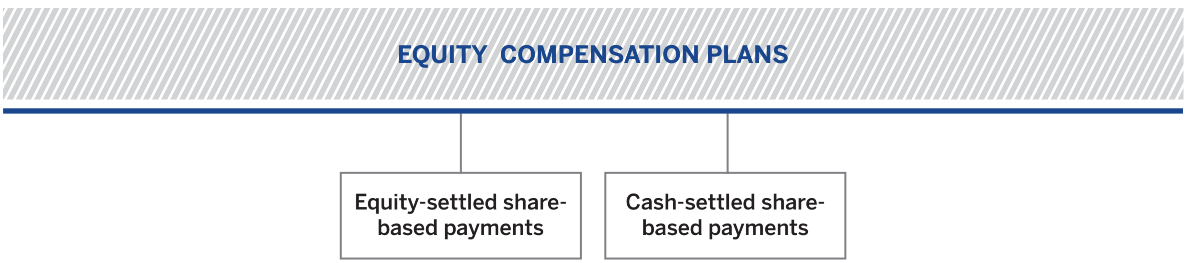
Non-financial assets are derecognised on disposal or when no future economic benefits are expected from their use or disposal. The gain or loss on derecognition is recognised in profit or loss and is determined as the difference between the net disposal proceeds and the carrying amount of the non-financial asset.

7. Property developments and properties in possession



Property developments	Property developments are stated at the lower of cost or net realisable value. Cost is assigned by specific identification and includes the cost of acquisition and where applicable, development and borrowing costs during development.
Properties in possession	Properties in possession are properties acquired by the group which were previously held as collateral for underlying lending arrangements that, subsequent to origination, have defaulted. The properties are initially recognised at cost and are subsequently measured at the lower of cost and its net realisable value. Any subsequent write-down in the value of the acquired properties is recognised as an operating expense. Any subsequent increases in the net realisable value, to the extent that it does not exceed its original cost, are also recognised within operating expenses.

8. Equity-linked transactions



Equity-settled share-based payments	The fair value of the equity-settled share-based payments are determined on grant date and accounted for within operating expenses – staff costs over the vesting period with a corresponding increase in the group's share-based payment reserve. Non-market vesting conditions, such as the resignation of employees and retrenchment of staff, are not considered in the valuation but are included in the estimate of the number of options expected to vest. At each reporting date, the estimate of the number of options expected to vest is reassessed and adjusted against operating expenses and share-based payment reserve over the remaining vesting period. On vesting of the equity-settled share-based payments, amounts previously credited to the share-based payment reserve are transferred to retained earnings through an equity transfer. On exercise of the equity-settled share-based payment, any proceeds received are credited to share capital and premium.
Cash-settled share-based payments	Cash-settled share-based payments are accounted for as liabilities at fair value until the date of settlement. The liability is recognised over the vesting period and is revalued at every reporting date up to and including the date of settlement. All changes in the fair value of the liability are recognised in operating expenses.

9. Leases

LEASES

Finance leases	Operating leases
Lessee	Lessee
Lessor	Lessor

TYPE AND DESCRIPTION	STATEMENT OF FINANCIAL POSITION	INCOME STATEMENT
Finance leases – lessee Leases, where the group assumes substantially all the risks and rewards incidental to ownership, are classified as finance leases.	The leased asset is capitalised at the inception of the lease at the lower of the fair value of the leased asset and the present value of the minimum lease payments together with an associated liability to the lessor. Refer to non-financial assets accounting policy for the treatment of the leased asset. Lease payments less the interest component, which is calculated using the interest rate implicit in the lease or the group's incremental borrowing rate, are recognised as a capital repayment which reduces the liability to the lessor.	A lease finance cost, determined with reference to the interest rate implicit in the lease or the group's incremental borrowing rate, is recognised within interest expense over the lease period.
Finance leases – lessor Leases, where the group transfers substantially all the risks and rewards incidental to ownership, are classified as finance leases.	Finance lease receivables, including initial direct costs and fees, are primarily accounted for as financing transactions in banking activities, with rentals and instalments receivable, less unearned finance charges, being included in loans and advances.	Finance charges earned within interest income are computed using the effective interest method, which reflects a constant periodic rate of return on the investment in the finance lease. The tax benefits arising from investment allowances on assets leased to clients are accounted for within direct taxation.

9. Leases continued

TYPE AND DESCRIPTION	STATEMENT OF FINANCIAL POSITION	INCOME STATEMENT
Operating leases – lessee All leases that do not meet the criteria of a financial lease are classified as operating leases.	Accruals for unpaid lease charges, together with a straight-line lease asset or liability, being the difference between actual payments and the straight-line lease expense are recognised.	Payments made under operating leases, net of any incentives received from the lessor, are recognised in operating expenses on a straight-line basis over the term of the lease. Contingent rentals are expensed as they are incurred. When an operating lease is terminated before the lease period has expired, any payment required to be made to the lessor by way of a penalty is recognised as operating expenses in the period in which termination takes place.
Operating leases – lessor All leases that do not meet the criteria of a financial lease are classified as operating leases.	The asset underlying the lease continues to be recognised and accounted for in terms of the relevant group accounting policies. Accruals for outstanding lease charges, together with a straight-line lease asset or liability, being the difference between actual payments and the straight-line lease income are recognised.	Operating lease income net of any incentives given to lessees, is recognised on the straight-line basis or a more representative basis where applicable over the lease term and is recognised in operating expenses. When an operating lease is terminated before the lease period has expired, any payment required by the group by way of a penalty is recognised as income in the period in which termination takes place.

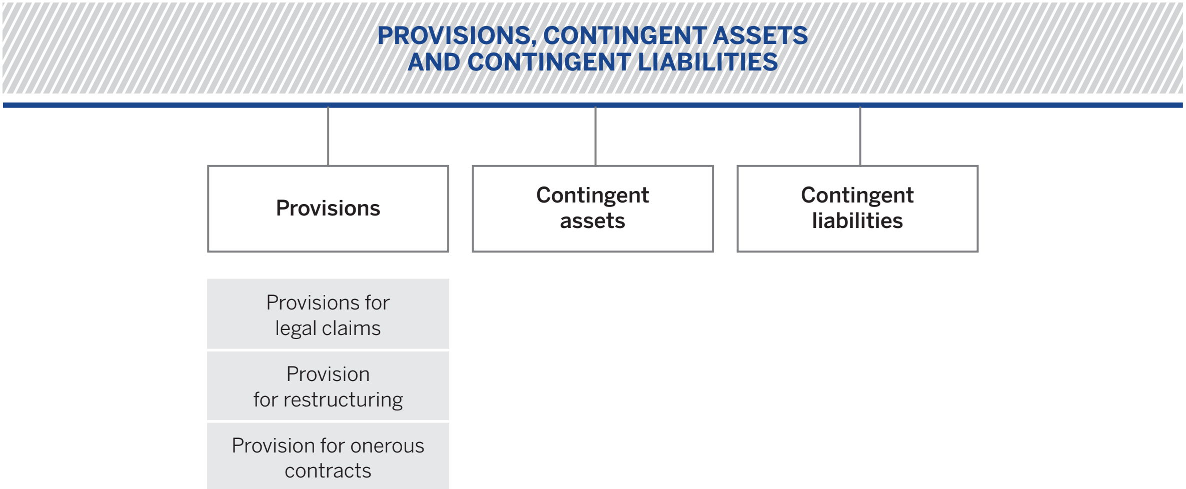
10. Equity

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

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.

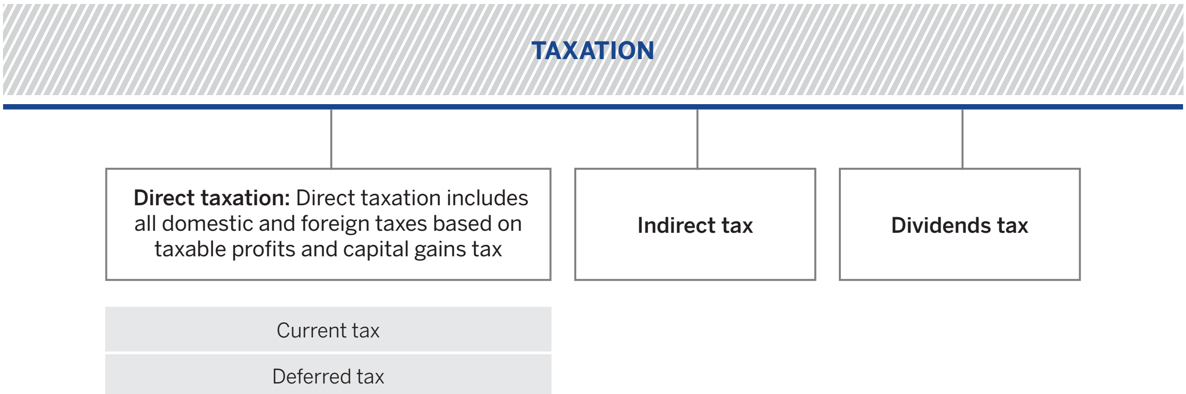
Contingent assets

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



TYPE	DESCRIPTION, RECOGNITION AND MEASUREMENT	OFFSETTING
Direct taxation: current tax	Current tax is recognised in the direct taxation line in the income statement except to the extent that it relates to a business combination (relating to a measurement period adjustment where the carrying amount of the goodwill is greater than zero), or items recognised directly in equity or in OCI. Current tax represents the expected tax payable on taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustments to tax payable in respect of previous years.	Current and deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously.
Direct taxation: deferred tax	Deferred tax is recognised in direct taxation except to the extent that it relates to a business combination (relating to a measurement period adjustment where the carrying amount of the goodwill is greater than zero), or items recognised directly in equity or in OCI. Deferred tax is recognised in respect of temporary differences arising between the tax bases of assets and liabilities and their carrying values for financial reporting purposes. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted at the reporting date. Deferred tax is not recognised for the following temporary differences: • the initial recognition of goodwill • the initial recognition of assets and liabilities in a transaction that is not a business combination, which affects neither accounting nor taxable profits or losses • investments in subsidiaries, associates and jointly controlled arrangements (excluding mutual funds) where the group controls the timing of the reversal of temporary differences and it is probable that these differences will not reverse in the foreseeable future.	

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. Deferred tax assets are recognised to the extent that it is probable that future taxable income will be available against which the unused tax losses can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised. Deferred income tax liabilities are provided on taxable temporary differences arising from investments in subsidiaries, associates and joint arrangements, except for deferred income tax liability where the timing of the reversal of the temporary difference is controlled by the group and it is probable that the temporary difference will not reverse in the foreseeable future. Generally, the group is unable to control the reversal of the temporary difference for associates unless there is an agreement in place that gives the group the ability to control the reversal of the temporary difference. Deferred income tax assets are recognised on deductible temporary differences arising from investments in subsidiaries, associates and joint arrangements only to the extent that it is probable the temporary difference will reverse in the future and there is sufficient taxable profit available against which the temporary difference can be utilised.	
Indirect taxation	Indirect taxes, including non-recoverable value added tax, 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. 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

Net interest income

Non-interest revenue

- Net fee and commission revenue
- Trading revenue
- Other revenue
- Dividend income
- Revenue sharing agreements
- Customer loyalty programmes.

DESCRIPTION	RECOGNITION AND MEASUREMENT
Net interest income	Interest income and expense (with the exception of borrowing costs that are capitalised on qualifying assets, that is assets that necessarily take a substantial period of time to get ready for their intended use or sale and which are not measured at fair value) are recognised in net interest income using the effective interest method for all interest-bearing financial instruments. In terms of the effective interest method, interest is recognised at a rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, where appropriate, a shorter period, to the net carrying amount of the financial asset or financial liability. Direct incremental transaction costs incurred and origination fees received, including loan commitment fees, as a result of bringing margin-yielding assets or liabilities into the statement of financial position, are capitalised to the carrying amount of financial instruments that are not at fair value through profit or loss and amortised as interest income or expense over the life of the asset or liability as part of the effective interest rate. Where the estimates of payments or receipts on financial assets (except those that have been reclassified from held-for-trading) or financial liabilities are subsequently revised, the carrying amount of the financial asset or financial liability is adjusted to reflect actual and revised estimated cash flows. The carrying amount is calculated by computing the present value of the adjusted cash flows at the financial asset or financial liability's original effective interest rate. Any adjustment to the carrying value is recognised in net interest income. Where financial assets have been impaired, interest income continues to be recognised on the impaired value (gross carrying value less specific impairment) based on the original effective interest rate. Fair value gains and losses on realised debt financial instruments, including amounts reclassified from OCI in respect of available-for-sale debt financial assets are included in net interest income. Dividends received on preference share investments classified as debt form part of the group's lending activities and are included in interest income.

13. Revenue and expenditure continued

DESCRIPTION	RECOGNITION AND MEASUREMENT
Net fee and commission revenue	Fee and commission revenue, including transactional fees, account servicing fees, investment management fees, sales commissions and placement fees are recognised as the related services are performed. Loan commitment fees for loans that are not expected to be drawn down are recognised on a straight-line basis over the commitment period. Loan syndication fees, where the group does not participate in the syndication or participates at the same effective interest rate for comparable risk as other participants, are recognised as revenue when the syndication has been completed. Syndication fees that do not meet these criteria are capitalised as origination fees and amortised to the income statement as interest income. The fair value of issued financial guarantee contracts on initial recognition is amortised as income over the term of the contract. Fee and commission expenses, included in net fee and commission revenue, are mainly transaction and service fees relating to financial instruments, which are expensed as the services are received. Expenditure is recognised as fee and commission expenses where the expenditure is linked to the production of fee and commission revenue.
Trading revenue	Trading revenue comprises all gains and losses from changes in the fair value of trading assets and liabilities, together with related interest income, expense and dividends.
Other revenue	Other revenue includes gains and losses on equity instruments designated at fair value through profit or loss, dividends relating to those financial instruments, underwriting profit from the group's short-term insurance operations and related insurance activities and remeasurement gains and losses from contingent consideration on disposals and purchases. Gains and losses on equity available-for-sale financial assets are reclassified from OCI to other revenue on derecognition or impairment of the investments. Dividends on these instruments are also recognised in other revenue.
Dividend income	Dividends are recognised in interest income (other revenue) for debt (equity instruments) when the right to receipt is established. Scrip dividends are recognised as dividends received where the dividend declaration allows for a cash alternative.

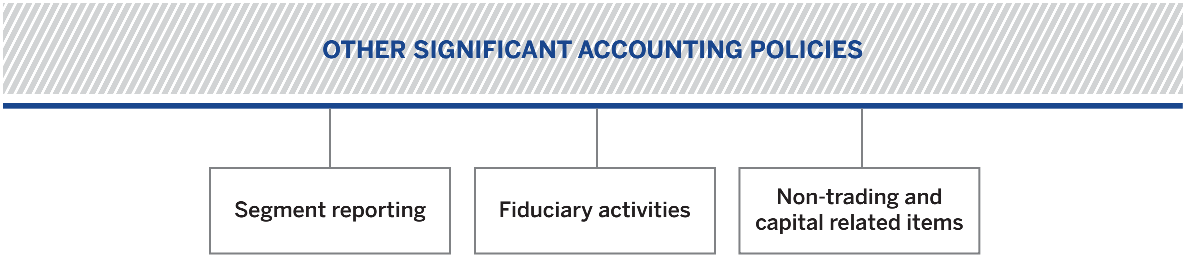
13. Revenue and expenditure continued

DESCRIPTION	RECOGNITION AND MEASUREMENT
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: 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 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. 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



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: • gains and losses on disposal of subsidiaries, joint ventures and associates (including foreign exchange translation gains and losses) • gains and losses on the disposal of property, equipment, land and intangible assets • impairment and reversals of impairments of joint ventures and associates • impairment of investments in subsidiaries, property and equipment, and intangible assets • other items of a capital related nature.

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 2016 and have not been applied in preparing these annual financial statements.

PRONOUNCEMENT	TITLE	EFFECTIVE DATE
IFRS 9	Financial instruments 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. The accounting for financial assets differs in various other areas to existing requirements such as embedded derivatives and the recognition of fair value adjustments in OCI. All changes in the fair value of financial liabilities that are designated at fair value through profit or loss due to changes in own credit risk will be required to be recognised within OCI. The standard has also 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). 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. 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. 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. The standard will be applied prospectively. The impact on the annual financial statements has not yet been fully determined. Refer to the risk and capital 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 The amendments address an inconsistency between the requirements in IFRS 10 and those in IAS 28, in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The main consequence of the amendments is that a full gain or loss is recognised when a transaction involves a business (whether it is housed in a subsidiary or not). A partial gain or loss is recognised when a transaction involves assets that do not constitute a business, even if these assets are housed in a subsidiary. The amendments will be applied prospectively and are not expected to have a material impact on the group's financial statements.	To be determined.
IFRS 15	Revenue from contracts with customers This standard will replace the existing revenue standards and their related interpretations. The standard sets out the requirements for recognising revenue that applies to all contracts with customers (except for contracts that are within the scope of the standards on leases, insurance contracts or financial instruments). The core principle of the standard is that revenue recognised reflects the consideration to which the company expects to be entitled in exchange for the transfer of promised goods or services to the customer. The standard incorporates a five-step analysis to determine the amount and timing of revenue recognition. The standard will be applied retrospectively. The impact on the annual financial statements has not yet been fully determined.	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 16	Leases This standard will replace IAS 17 Leases as well as the related interpretations and sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract, being the lessee (customer) and the lessor (supplier). The core principle of this standard is that the lessee and lessor should recognise all rights and obligations arising from leasing arrangements on balance sheet. The most significant change pertaining to the accounting treatment 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. The lessor accounting requirements in IAS 17 has 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 it currently done in terms of IAS 17. In addition, the standard requires lessor to provide enhanced disclosures about its leasing activities and in particular about its exposure to residual value risk and how it is managed. 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.
IFRS 2 (amendment)	Share-based payments The amendments are intended to eliminate diversity in practice in three main areas of the classification and measurement of share-based payment transactions are: • The effects of vesting conditions on the measurement of a cash-settled share based payment transaction • The classification of a share-based payment transaction with net settlement features for withholding tax obligations • The accounting where a modification to the terms and conditions of a share-based payment transaction changes its classification from cash-settled to equity-settled. The amendments 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 2018.

14. Other significant accounting policies continued

New standards and interpretations not yet adopted continued

PRONOUNCEMENT	TITLE	EFFECTIVE DATE
International Financial Reporting Interpretation Committee (IFRIC) 22	Foreign currency transactions and advance consideration The IFRIC provides guidance on how to determine the date of the transaction for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or income (or part of it) on the derecognition of a non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration in a foreign currency. The IFRIC will be applied retrospectively or prospectively. The impact on the annual financial statements has not yet been fully determined but is not expected to have a significant impact on the group.	Annual periods beginning on or after 1 January 2018.
Annual Improvements 2014 – 2016 cycle	The IASB has issued various amendments and clarifications to existing IFRS.	Various effective dates, the earliest being for the group's 2017 financial year.

Contact and other details

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Refer to **www.standardbank.com/reporting** for a list of definitions, acronyms and abbreviations

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