THE STANDARD BANK OF SOUTH AFRICA

Annual report 2018

Standard Bank Moving Forward™

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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.

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Our reporting suite

We produce a full suite of reports to cater for the diverse needs of our stakeholders.

All our reports and latest financial results presentations, booklets and SENS announcements are available online at **www.standardbank.com/reporting**, together with financial and other definitions, acronyms and abbreviations used.

Annual integrated report

Provides a holistic assessment of the SBG's ability to create value, in the short, medium and long term.

Key frameworks* applied

- JSE Listings Requirements
- King Code
- The International <IR> Framework of the International Integrated Reporting Council (IIRC)

Assurance

Certain information has been extracted from SBG's audited annual financial statements.

Intended readers: Primarily **our providers of financial capital**, being our shareholders, depositors and bondholders, but information relevant to our other stakeholders is also included.

AIR

Reporting to society

An account of SBG's social, economic and environmental impacts and how these contribute to SBG's sustainability and its ability to achieve its purpose. It includes our environmental, social and governance report.

Key frameworks* applied

- King Code
- FTSE/JSE Responsible Investment Index Series and Dow Jones RobecoSAM
- Sustainalytics
- CDP (previously Carbon Disclosure Project)
- United Nations Sustainable Development Goals
- Equator Principles
- Global Reporting Initiative (as a guide)

Assurance

PricewaterhouseCoopers Inc. has provided assurance on selected information.

Intended readers: clients, employees and society more broadly.

RTS

Governance and remuneration report

A detailed review of SBG's governance and remuneration practices, including SBG's remuneration policy and implementation report.

Key frameworks* applied

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

Assurance

Certain information has been extracted from SBG's audited annual financial statements.

Intended readers: Shareholders, debt providers and regulators.

GOV
REM

References

Refers readers to information elsewhere in this report or in our other reports, which are available online.

*** Definitions:**

- Banks Act – South African Banks Act 94 of 1990
- Basel III – Basel Committee on Banking Supervision's third Basel Accords
- Companies Act – South African Companies Act, 71 of 2008
- FTSE – Financial Times Stock Exchange
- IFRS – International Financial Reporting Standards
- SBG – The Standard Bank Group
- SBSA or 'the group' – The Standard Bank of South Africa
- JSE – Johannesburg Stock Exchange
- King Code – King IV Report on Corporate Governance for South Africa, also known as King IV™. Copyright and trademarks are owned by the Institute of Directors in Southern Africa NPC and all of its rights are reserved.

SBG annual financial statements

Sets out SBG's full audited annual financial statements, including the report of SBG audit committee.

Key frameworks* applied
- IFRS
- Companies Act
- Banks Act
- JSE Listings Requirements
- King Code

Assurance
Unmodified audit opinion expressed by KPMG Inc. and PricewaterhouseCoopers Inc.

Intended readers: Shareholders, debt providers and regulators.

AFS

SBG risk and capital management report

A detailed view of the management of risks relating to SBG's operations.

Key frameworks* applied
- Various regulations, including Basel III
- Banks Act
- IFRS
- JSE Listings Requirements
- King Code

Intended readers: Shareholders, debt providers and regulators.

RCM

THIS REPORT

SBSA annual report

As SBG's largest banking subsidiary, SBSA produces its own annual report and audited annual financial statements.

Key frameworks* applied
- Various regulations, including Basel III
- IFRS
- Companies Act
- Banks Act
- JSE Listings Requirements
- King Code

Assurance
Unmodified audit opinion expressed by KPMG Inc. and PricewaterhouseCoopers Inc.

AR

SBSA risk and capital management report

A detailed view of the management of risks relating to SBSA's operations.

Key frameworks* applied
- Various regulations, including Basel III
- IFRS
- Companies Act
- Banks Act
- JSE Listings Requirements
- King Code

RCM

To assist in the reduction of the group's carbon footprint, we urge our stakeholders to make use of our reporting site to view our reporting suite at **www.standardbank.com/reporting** or scan the code to be directed to the page.

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. In line with SBG's strategic value drivers, our intention is to place our clients 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.

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.

AR | Progress against strategy is available in the chief executive's report on page 10.

OUR PURPOSE

Africa is our home, we drive her growth.

Our vision is our medium-term aspiration: to be the leading financial services organisation in, for and across Africa, delivering exceptional client experiences and superior value.

SPECTRUM OF FINANCIAL SERVICES

Personal & Business Banking (PBB)

Offers banking and other financial services to individuals and small-to medium-sized enterprises and enables clients to take control of their financial aspects, such as transacting, saving, borrowing or planning by making use of product sets either through face-to-face interaction or digitally according to their preference.

Corporate & Investment Banking (CIB)

Serves a wide range of requirements for banking, finance, trading, investment, risk management and advisor services and deliverers this comprehensive range to investment banking, global markets and global transactional products and service offerings.

As a major integrated financial services organisation, SBSA 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

157-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**

SBSA group's contribution to SBG

62% OF SBG'S OF ASSETS[1]

67% OF SBG'S NET INTEREST INCOME[2]

66% OF SBG'S TOTAL INCOME[2]

62% OF SBG'S BANKING HEADLINE EARNINGS[2,3]

57% OF SBG'S TOTAL HEADLINE EARNINGS[3]

83% OF LOANS AND ADVANCES

60% OF SBG'S EMPLOYEES

1 Excludes balances with SBG companies, associates and joint ventures – banking activities.
2 Based on SBG's banking activities.
3 Based on SBSA's headline earnings as consolidated into SBG after taking into account an adjustment for certain share-based payment schemes which are accounted for on a cash-settled basis in SBSA but equity-settled basis in SBG.

AR Key financial data is available in the financial review on page 12.

AR Key human capital data is available on page 6.

ABOUT THIS REPORT

This annual report includes SBSA group and company's audited annual financial statements, the chief executive's report, a financial review of SBSA's financial performance 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 SBG's annual integrated report and SBG's governance and remuneration report.

Our people

EMPLOYEE HEADCOUNT

8.5%
OVERALL STAFF TURNOVER
(2017: 8.8%)

5.0%
VOLUNTARY STAFF TURNOVER
(2017: 5.3%)

Number of employees

31 662
PERMANENT EMPLOYEES
(2017: 32 342)

1 970
NON-PERMANENT EMPLOYEES
(2017: 2 320)

PERCENTAGE BLACK REPRESENTATION AT ALL MANAGEMENT LEVELS

TOP MANAGEMENT
41.9%
(2017: 34.1%)

SENIOR MANAGEMENT
46.3%
(2017: 43.1%)

MIDDLE MANAGEMENT
71.3%
(2017: 69.5%)

JUNIOR MANAGEMENT
88.3%
(2017: 87.5%)

PERCENTAGE BLACK WOMEN REPRESENTATION AT ALL MANAGEMENT LEVELS

TOP MANAGEMENT
9.3%
(2017: 9.1%)

SENIOR MANAGEMENT
20.4%
(2017: 18.1%)

MIDDLE MANAGEMENT
37.0%
(2017: 36.1%)

JUNIOR MANAGEMENT
60.5%
(2017: 59.9%)

SKILLS DEVELOPMENT INVESTMENT

TRAINING

	2018	2017
Training spend (Rm)	**710**	725
Training spend as a percentage of staff costs (%)	**3.0**	3.3
Number of employees trained	**32 866**	30 943
Number of women employees trained	**20 589**	19 534
Number of black employees trained	**26 607**	24 716

BURSARY SPEND

	2018	2017
Total bursary spend on employees (Rm)	**38**	23
Total number of employees assisted	**1 555**	934

LEADERSHIP DEVELOPMENT PROGRAMME PARTICIPATION

	2018	2017
Total number of participants	**4 920**	3 543
Number of black participants	**3 682**	2 392

YOUNG TALENT DEVELOPMENT INVESTMENT

LEARNERSHIP PROGRAMMES

783
SUCCESSFULLY COMPLETED LEARNERSHIPS[1]
(2017: 771)

815
NUMBER OF LEARNERSHIPS STARTED
(2017: 808)

GRADUATE PROGRAMME PARTICIPANTS

194
TOTAL GRADUATE DEVELOPMENT PROGRAMME PARTICIPANTS[2]
(2017: 116)

91%
BLACK GRADUATE PARTICIPANTS
(2017: 89%)

43%
FEMALE GRADUATE PARTICIPANTS
(2017: 46%)

BLACK ECONOMIC EMPOWERMENT (BEE) SCORE
114.55
(2017: 113.68)

Level 1
BEE CONTRIBUTOR[3]

1 64.1% of whom were subsequently employed by SBSA (2017: 83%).
2 This number denotes new intakes to the graduate development programme.
3 Based on the revised 2017 Broad-Based Black Economic Empowerment weighting system.

All information pertains to SBSA group as at 31 December 2018 and 2017, unless otherwise stated.

SUMMARY OF EMPLOYMENT EQUITY PROGRESS REPORT (ALL EMPLOYEES)

	Male			
Occupational levels	**A**	**C**	**I**	**W**
Top management	13	0	1	15
Senior management	308	122	369	977
Professionally qualified and experienced specialists and mid-management	1 589	509	804	1 138
Skilled technical and academically qualified workers, junior management, supervisors, foremen, and superintendents	2 960	879	615	391
Semi-skilled and discretionary decision making	1 486	299	172	40
Unskilled and defined decision making	0	0	0	0
Total permanent[1]	6 356	1 809	1 961	2 561
Temporary employees	101	9	13	30
Grand total	6 457	1 818	1 974	2 591

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

	Male			
Occupational levels	**A**	**C**	**I**	**W**
Top management	0	0	0	0
Senior management	1	0	1	15
Professionally qualified and experienced specialists and mid-management	6	3	7	19
Skilled technical and academically qualified workers, junior management, supervisors, foremen, and superintendents	38	4	9	13
Semi-skilled and discretionary decision making	10	1	2	2
Unskilled and defined decision making	0	0	0	0
Total permanent[1]	55	8	19	49
Temporary employees	0	0	0	0
Grand total	55	8	19	49

1 The employment equity progress is measured as at 30 September 2018. '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.

A African C Coloured I Indian W White

Female				Foreign nationals		
A	C	I	W	Male	Female	Total
4	0	0	4	5	2	44
263	100	258	533	155	64	3 149
1 544	640	917	1 106	200	99	8 546
6 069	2 274	1 270	1 343	41	84	15 926
3 466	743	294	215	17	40	6 772
0	0	0	0	0	0	0
11 346	3 757	2 739	3 201	418	289	34 437
165	33	14	18	12	2	397
11 511	3 790	2 753	3 219	430	291	34 834

Female				Foreign nationals		
A	C	I	W	Male	Female	Total
0	0	0	0	0	0	0
1	1	2	2	1	1	25
4	3	6	13	0	1	62
33	21	13	33	0	1	165
16	5	4	7	0	0	47
0	0	0	0	0	0	0
54	30	25	55	1	3	299
0	0	0	0	0	0	0
54	30	25	55	1	3	299

Chief executive's report

Lungisa Fuzile
The Standard Bank of South Africa, Chief executive

"This is my first report as chief executive of The Standard Bank of South Africa, and I write it with a deep sense of pride that I am part of an organisation – the Standard Bank Group – that calls Africa its home and sees itself as a driver of the continent's growth."

The year under review was an eventful one for South Africa. Significant political changes in the first quarter re-ignited hope and business confidence. It soon became evident that some of the structural constraints to growth run deep. GDP[1] growth for the full year was about half the initial forecasts. This challenging economic environment is reflected in SBSA's results: headline earnings was 1% below 2017 earnings of R16 billion and return on equity (ROE) was slightly up on 2017 at 16.7%.

With the backdrop of an intensifying competitive environment we have seen pockets of pressure on our market share. We, however, saw some recovery in the second half of the year which we expect to accelerate in 2019, particularly in vehicle and asset finance, retail lending and deposits. We are optimistic that, with our focus on delivering relevant solutions and excellent client experience, we will defend and recover our market share.

We continued to execute on the group's strategic focus areas, which are unchanged. The South Africa Executive Committee (previously the SBSA Executive Committee) was reconstituted in November 2018. We also welcomed Peggy-Sue Khumalo as the chief executive of Wealth: South Africa. We expect these changes to further enable us to deliver against our strategy.

The banking landscape is changing very quickly. This presents both challenges and opportunities. The completion of the replacement of our core banking system places SBSA on a firm footing to accelerate its digitisation journey and to take full advantage of technology in delivering a continually improving client experience. Sim Tshabalala in the SBG annual integrated report highlights the progress that SBSA has made in the digitisation space. The shift from traditional ways of banking to digital banking impacts our business in its entirety, including how we meet client expectations, how we work, how we are organised, and the skills required.

We continue to assess the full impact of digitisation on the bank and are mindful that it is not an overnight shift. It is a journey that must be approached with due care and circumspection.

Chief among the issues we are studying carefully is the impact of these developments on our most important asset: our employees. In this regard, SBSA is investing in reskilling its employees for the requirements of a digital world. We appreciate the need for speed and are making changes so that our business is agile and continues to meet our clients' expectations. While a lot remains to be done, we are assessing the impact of these changes holistically for all the constituents of our business. We are determined to take each constituency along on this journey in order for us to remain relevant. We owe it to those who built this formidable brand and indeed to all our clients.

Our vast branch footprint has been a competitive strength. It enabled us to serve our clients throughout South Africa. However, banking has changed and our clients are increasingly doing their banking through our digital channels. One of the big drivers of our cost base is our real estate portfolio. We have begun making the necessary adjustments to our physical infrastructure in line with our clients' shift to digital banking, and will continue to assess this aspect of our business as client preferences change.

We implemented a number of measures in 2018 to slow down our variable cost growth. These decelerated cost growth in the second half of the year but they were not enough to offset the decline in revenue. We realise that we need a step change in our cost base and anticipate that the changes in our physical infrastructure will contribute to this shift.

The changes that we are making to our PBB operating model will enable us to identify efficiencies. We continue to invest in the business in order to enable us to deliver on our commitments of sustainable earnings and ROE growth.

We are already seeing tangible benefits of integration, as evidenced by an the increase in cross-selling of products between business units. We are working to organise ourselves in a manner which lends itself more easily to delivering an integrated financial services to our clients by reducing complexity and bureaucracy. The cultural change that is necessary to embed this is well under way.

PROGRESS AGAINST STRATEGY

CLIENT FOCUS

We received several awards including Best Bank in South Africa (Global Finance and Euromoney), Highly Commended Private Bank in South Africa (Professional Wealth Management and Financial Times Global Private Banking Awards) and the Best Trade Finance Provider and Treasury and Cash Management Provider in South Africa (Global Finance).

We maintained our position as market leader in a number of products including mortgage lending and corporate deposits. We ranked second lowest amongst our peers for the number of complaints registered against us at the Ombudsman for Banking Services against our PBB business.

A number of system outages in South Africa unfortunately caused some inconvenience to our clients. We are working to ensure that the frequency and duration of such incidents is reduced in order to minimise disruption.

EMPLOYEE ENGAGEMENT

In line with global best practice, we introduced an employee net promoter score (eNPS) in 2017. This measures employees' willingness to be ambassadors for Standard Bank. The results in 2018 showed improvement from 2017 and in fact were exceptionally strong by industry standards.

It is important to us that our employees are able to adapt to the dynamic world of financial services. As we continue to assess and enhance our digital capabilities for clients, we are also ensuring that our employees have the right tools and training. We have already developed robotics and artificial intelligence capabilities in several areas.

We are deliberate in ensuring that we invest in our people's skills and are also intentional about bringing new talent into the bank through our graduate programs, internships and learnerships.

As part of the implementation of SBSA's new banking delivery model, some of the roles currently being performed in our branches will change and additional opportunities will become available. We have worked hard to minimise the impact of this re-organisation on affected employees. We have set aside funds to assist employees acquire new skills to improve their competitiveness in the labour market, as well as entrepreneurial training and financial assistance.

RISK AND CONDUCT

Risk

We pride ourselves on doing the right business the right way. The trust our stakeholders place in us requires us to conduct business ethically and responsibly. Accountability and oversight are key to the management of our risks and ensure that we take risk responsibly.

Our capital and liquidity positions remained sound and within or above regulatory and board-approved ranges throughout 2018.

Conduct

The group has successfully implemented a conduct risk framework that incorporates the G30 recommendations on conduct and culture across all jurisdictions. The framework is aligned to the Financial Sector Conduct Authority requirements, gives effect to, and defines the group's conduct risk appetite, and informs the approach to managing and mitigating conduct risk. Regular monitoring and reporting to senior management and the board provides improved insights to enhance integrated decision-making across all aspects of business operations, and to embed business accountability in the management of the conduct risk.

FINANCIAL OUTCOME

SBSA achieved headline earnings of R16 billion in 2018. This represented a decline of 1% on the prior year due mainly to weak revenue growth which was not fully offset by year-on-year cost growth at 3% with the second half of 2018 versus second half of 2017 cost growth flat.

The challenges for revenue growth included the impact of customers switching to digital platforms as well as various political and macro-economic challenges. Credit impairments, which were assisted by the impact of IFRS 9 *Financial Instruments* (IFRS 9) in 2018, reduced by 22% on the prior year. This resulted in a credit loss ratio which improved from 77 basis points (bps) to 59 bps in 2018. Adjusting for the impact of IFRS 9, this ratio would have been 76 bps.

The abovementioned factors resulted in negative jaws of 3.5% and an increase in the cost-to-income ratio to 60.3% (2017: 58.3%). Excluding the impact of IFRS 9, the jaws ratio would have been negative 1.1% and the cost-to-income ratio slightly better at 58.9%.

In spite of 2018 being a tough year, there were positive signs in the last quarter with good increases in deposit balances as well as in disbursements and payouts. These leading indicators provide a foundation for growth in 2019.

SOCIAL, ECONOMIC AND ENVIRONMENTAL IMPACT

Our group takes the role it plays in society seriously. Accordingly, we are deliberate about assessing the impact of the investments we support on society and environment.

While SBSA has maintained its Level 1 BEE status and achieved 2018 Employment Equity targets for black and black female representation in senior, middle and junior management, we recognise that there is a need for us to accelerate African representation at senior and middle management levels. We are reviewing our resourcing practices to ensure that they better facilitate our employment equity objectives while at the same time ensuring we retain our talent.

Looking ahead

The South African economy is expected to grow by 1.5% in 2019[2]. There are encouraging signs that the authorities are taking steps to resolve policy uncertainty and to attract investment. We trust that some of these policy changes will gain the necessary traction and begin to translate into an accelerated and sustainable economic recovery in the medium to long term.

Our priorities for 2019, in addition to executing on the group's strategic objectives, are:

- Growing our client franchise in South Africa, to position us for future economic growth
- Adapting our business to reflect our customers' increasing demand for digital channels and rationalising our physical infrastructure
- Adjusting our cost base in a responsible way to deliver on our commitment to improve efficiency
- Supporting faster, more inclusive and more sustainable economic growth and human development in South Africa.

We remain committed to delivering to our shareholder, clients and other stakeholders.

1 Gross domestic product.
2 National Treasury estimate as at February 2019 (2019 Budget Review).

Financial review

Libby King
The Standard Bank of South Africa, Chief financial officer

"The group has delivered a balanced performance in an operating landscape that has changed dramatically. This, coupled with changes in consumer behaviour, has required in the group to focus on extraction of efficiencies while at the same time improving our client offering."

Delivering sustainable returns to our shareholder depends on the extent to which our investments in satisfied clients, engaged employees and managing risk and conduct are effective and efficient. In turn, we need to ensure that we balance the capital we allocate to these strategic investments with competitive returns.

Global economic growth plateaued at 3.7% as geopolitical tensions rose and risk sentiment deteriorated. Growth trajectories de-coupled as fiscal stimulus in the US supported continued growth, whilst other advanced economies, in particular the Euro area, started to slow. Emerging market capital inflows reversed, which negatively impacted exchange rates and borrowing costs.

Growth in the SA economy was weaker than expected at 0.7%. The poor macro environment, slow policy progress and higher taxes weighed on consumer and business confidence and, in turn, demand for credit. A 25 bps interest rate cut in March, on the back of broadly favourable conditions, was later reversed in November as the US fiscal tightening, oil price and exchange rate outlook were considered a threat to the South African Reserve Bank's inflation targeting. The rand was relatively strong against the major currencies in the first half of the year, but this reversed in the second half.

How we performed

The group delivered reasonable results for the year ended 31 December 2018, with headline earnings at R16 billion and an improved ROE of 16.7%, up from 16.6% in 2017. The group's capital position remained robust, with a common equity tier 1 (CET 1) ratio of 12.7%.

Growth

16.0 Rbn GROUP HE 2017:16.1

60.3% CTI 2017: 58.3[1]

0.59% CLR 2017: 0.77[2]

Returns

16.7% GROUP ROE 2017: 16.6

Resilience

12.7% CET1 2017: 13.6

110.1% LCR[3] 2017: 99.8

105.9% NSFR[3] new in 2018

1 Restated. The group amended its accounting policy for UCount expenses to be recognised against net fee and commission revenue (within non-interest revenue and total income) and not in operating expenses.
2 Based on IAS 39.
3 Excludes foreign branches.

IFRS 9 – impact on our 2018 results

The group has adopted IFRS 9, which replaced IAS 39 *Financial Instruments: Recognition and Measurement* (IAS 39) from 1 January 2018. IFRS 9 has introduced changes to the classification and measurement of financial assets and liabilities as well as new impairment requirements, particularly how to account for expected credit losses resulting in the earlier recognition of credit impairments.

Transition impact of IFRS 9 on 1 January 2018

-60 bps
CET 1 RATIO[1]
13.0% (IAS 39: 13.6%)

-4.7%
GROUP'S RESERVES (INCLUDING MINORITIES)
-R4,9 billion

+29%
IMPAIRMENT PROVISIONS (PRE-TAX)
+R6,5 billion

[1] This represents the full IFRS 9 transition impact on the group's CET 1. After taking into consideration the SARB's three-year phase-in provision for IFRS 9 impairment deductions, the CET 1 ratio is 13.3% as at the date of initial application (1 January 2018).

IFRS 9 related adjustments

In addition to the transition impact shown above, the following two IFRS 9 related accounting changes had a significant impact on the classification between line items in our income statement for the year. While these changes have had no impact on headline earnings, they do have an impact on certain ratios, making year on year comparisons difficult due to the accounting treatment being different in the two reporting periods.

IFRS 9 requires that interest be suspended earlier than under IAS 39.

When a financial asset is classified into stage 3, interest must be suspended in terms of IFRS 9. This may however, occur earlier than under IAS 39 and has therefore resulted in a R545 million decrease in net interest income and credit impairments. The lower credit impairment charge is as a result of the interest income being suspended and therefore not included in the impairment calculation.

Interest in suspense is recognised against credit impairment charges.

Following a clarification from the IFRS Interpretations Committee in December 2018, interest in suspense (IIS) on cured financial assets is required to be recognised as a reduction in credit impairment charges. Previously, IIS on cured financial assets was recognised in interest income. The IIS on cured financial assets has reduced credit impairment charges by R1.1 billion for 2018.

The table below illustrates the effect of the above adjustments on our group ratios:

	2018 Rbn	IFRS9-related accounting impact Rbn	**2018 adjusted Rbn**	2017 Rbn	2018 vs 2017 %	2018 adjusted vs 2017 %
Net interest income	**39.8**	1.6	**41.4**	41.5	(4)	0
Non-interest revenue	**30.0**		**30.0**	28.5	5	5
Total income	**69.8**	1.6	**71.4**	70.0	0	2
Credit impairment charges	**(5.6)**	(1.6)	**(7.2)**	(7.1)	(21)	1
Operating expenses	**(41.7)**		**(41.7)**	(40.4)	3	3
Headline earnings	**16.0**		**16.0**	16.1	(1)	(1)
Credit loss ratio (%)	**0.59**		**0.76**	0.77		
Cost-to-income ratio (%)	**60.3**		**58.9**	58.3		
Jaws (%)	**(3.5)**		**(1.1)**	0.3		

GROWING OUR FRANCHISE

The income statement below reflects the revenue generated and costs incurred with material income statement line items explained.

INCOME STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2018

	% change	2018 Rm	2017 Rm
Net interest income	(4)	**39 831**	41 520
Interest income[1]	4	**102 255**	98 226
Interest expense[1]	10	**(62 424)**	(56 706)
Non-interest revenue	5	**29 987**	28 480
Net fee and commission revenue	4	**21 185**	20 356
Fee and commission revenue	5	**26 603**	25 306
Fee and commission expense[2]	9	**(5 418)**	(4 950)
Trading revenue		**5 358**	5 344
Other revenue	5	**2 922**	2 780
Other gains and losses on financial instruments[1]	100	**522**	
Total income		**69 818**	70 000
Credit impairment charges[1]	(22)	**(5 557)**	(7 145)
Revenue sharing agreements	(1)	**(722)**	(726)
Net income before operating expenses	2	**63 539**	62 129
Operating expenses[2]	3	**(41 660)**	(40 372)
Net income before capital items and equity accounted earnings	1	**21 879**	21 757
Non-trading and capital related items	100	**(383)**	(191)
Share of profit from associates and joint ventures	(31)	**129**	187
Profit before taxation	(1)	**21 625**	21 753
Direct and indirect taxation	(1)	**(5 608)**	(5 648)
Profit for the year	(1)	**16 017**	16 105
Basic and diluted earnings per ordinary share (cents)	(2)	**26 160**	26 570

1 The group and company have, as permitted by IFRS 9, elected not to restate their comparative annual financial statements. Therefore, comparability will not be achieved as the comparative financial information has been prepared on an IAS 39 basis. Refer to the accounting policies for more detail on the change in presentation as a result of IFRS 9 and the amendment to IAS 1 *Presentation of Financial Statements* (IAS 1) requiring interest income calculated using effective interest rate to be separately presented in the income statement.

2 Restated. The group amended its accounting policy for UCount expenses to be recognised against net fee and commission revenue (within non-interest revenue and total income) and not in operating expenses.

Net interest income

What it is: the interest received on lending products that we offer to our clients and investment in debt instruments, less the interest paid on the deposits that our clients place with us and debt funding sourced from other lenders. including subordinated debt.

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

Non-interest revenue

What it is: comprises net fee and commission revenue, trading revenue, other revenue and other gains and losses on financial instruments.

Drivers: number of clients, transactional banking volumes and pricing, capital markets activity, trading volumes and market volatility, and income from bancassurance and unlisted investments.

Credit impairment charges

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

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

Operating expenses

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

Drivers: inflation, headcount, investments in branch and IT infrastructure (which result in amortisation), general costs to operate (including those related to innovation and efficiency programmes) and operational losses including fraud losses.

Net income before non-trading and capital related items

What it is: items typically excluded from headline earnings, for example gains and losses on the disposal of businesses and property and equipment, impairment of goodwill and intangible assets.

Drivers: obsolescence and replacement of our assets, performance of our operations and changes in market prices, which may result in impairment of goodwill and intangible assets and corporate activity resulting in disposal-related gains.

Direct and indirect taxation

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

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

GROWING OUR FRANCHISE

Net interest income

The group's net interest income decreased by 4% to R39.8 billion during 2018, impacted by negative endowment on the back of a lower average prime interest rate and margin compression as a result of a highly competitive environment combined with a low growth environment as well as the change in accounting treatment of interest in suspense for pre-legal and cured loan balances under IFRS 9. Stripping out the impact of IFRS 9, net interest income would have remained flat.

Non-interest revenue

Non-interest revenue increased by R1.5 billion, or 5% with net fee and commission revenue up 4% to R21.2 billion, trading revenue remaining flat at R5.4 billion, other income increased by 5%, and the group recognised R522 million in other gains and losses on financial instruments in accordance with IFRS 9.

In line with our customers' increasing preference for convenient digital channels, net fee and commission revenue benefited from higher electronic banking volumes, particularly relating to ATM usage as well as Instant Money and Business Online transactions. A decline was noted in physical channel volumes (as customers opted to use digital platforms) which impacted fee growth. Adding to this was the positive return from the group's joint venture with Liberty as well as annual fee increases. Offsetting this was a higher Ucount related expense as a greater number of points were redeemed during the year.

Trading revenue was flat year on year due to lower fixed income and currencies revenue impacted by reduced investor flows driven by negative emerging market sentiment and lower deal volumes, offset by higher dividends received from equity trading positions.

Other revenue grew 5%, supported by an increase in franchise and management fees for the provision of services to and the use of SBSA business systems by SBG's Africa Regions operations.

Interest income on certain debt instruments, together with the derecognition gains and losses on instruments not recognised at fair value through profit and loss, are now recorded in other gains and losses on financial instruments, in accordance with IFRS 9.

Credit impairments

Credit impairment charges declined by 22% to R5.6 billion largely as a result of the adoption of IFRS 9. Included in the charge for 2018 is the release of interest in suspense for pre-legal and cured loan balances following the implementation of IFRS 9, amounts which under IAS 39 were recognised within net interest income.

AR | for detail refer to page 13.

Partially offsetting this, are credit impairments of R157 million being recognised on financial investments and off-balance sheet exposures, which under IAS 39 would not have been recognised. Stage 3 provisions were made for corporates in the retail and construction sectors, due to the contracting economic environments.

The group's credit loss ratio improved to 0.59% in 2018 from 0.77% in 2017. While the group's stage 3 loan coverage ratio increased to 53%, the group's non-performing loans as a percentage of total loans increased to 3.8% from 3.1% in the previous year. On a comparable basis, ignoring the effects of IFRS 9, the group's credit loss ratio would have been 0.76%.

Operating expenses

Operating expense growth was well contained at 3% as a result of focused cost control. This was however not enough to offset the reduction in revenue resulting in negative jaws of 3.5%.

Staff costs grew by 4% to R22.9 billion mainly due to annual salary increases and separation costs in the information technology business, offset by a reduction in headcount. Other operating expenses were well contained with a 2% increase on the previous year. This growth was mainly driven by inflation, offset by deliberate actions to contain costs while still investing in skills and technology to improve the client experience and support digitisation.

OUR RESILIENT BALANCE SHEET

The balance sheet or statement of financial position shows the position of the group's assets, liabilities and equity at 31 December 2018, and reflects what the group owns, owes and the equity attributable to our shareholder. Material line items have been discussed below.

BALANCE SHEET AS AT 31 DECEMBER 2018

	% change	2018 Rm	2017 Rm
Assets			
Cash and balances with the central bank	(4)	**34 536**	35 893
Derivative and trading assets	1	**200 691**	197 825
Pledged assets	(90)	**674**	6 812
Financial investments	22	**105 438**	86 344
Loans and advances	3	**931 659**	900 895
Other assets	(35)	**5 511**	8 492
Interest in SBG companies, associates and joint ventures – banking activities	14	**52 296**	46 000
Property and equipment	22	**10 284**	8 448
Goodwill and other intangible assets	(4)	**17 106**	17 746
Current and deferred tax asset	100	**2 157**	345
Total assets	4	**1 360 262**	1 308 800
Equity and liabilities			
Equity	(3)	**101 200**	104 338
Equity attributable to the ordinary shareholder	(3)	**97 650**	100 791
Ordinary share capital		**60**	60
Ordinary share premium	2	**44 388**	43 638
Reserves	(7)	**53 202**	57 093
Other equity instruments		**3 544**	3 544
Non-controlling interest	100	**6**	3
Liabilities	5	**1 259 062**	1 204 462
Derivative and trading liabilities	(28)	**79 250**	111 229
Deposits and debt funding	5	**1 012 246**	962 920
Liabilities to SBG companies	42	**135 301**	95 416
Subordinated debt	(20)	**13 793**	17 287
Provisions and other liabilities	4	**14 693**	14 184
Current and deferred tax liability	10	**3 779**	3 426
Total equity and liabilities	4	**1 360 262**	1 308 800

Derivative and trading assets and liabilities

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

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

Loans and advances

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

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

Goodwill and other intangible assets

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

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

Total equity

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

Drivers: income statement drivers (refer page 14), changes in foreign exchange rates and regulatory capital requirements.

Deposits and debt funding and Subordinated debt

What it is: provides the group with the funding to lend to clients, fulfilling group's role in connecting providers of capital with those that require additional capital and thereby contributing to the functioning of the broader financial system.

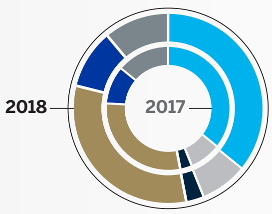
Drivers: client demands, transactions and savings.

Loans and advances

Gross loans and advances grew 4% year on year. The mortgage lending portfolio grew 4% supported by consistent quarter-on-quarter increases in disbursements, an increase in home loan registration values and a marginal slow-down in prepayments. The vehicle and asset finance lending portfolio grew 9%, as the franchise turnaround started to gain traction, particularly in the latter part of the year. Strong growth was also recorded by personal unsecured lending, which grew 12%. Business unsecured lending grew 2%.

Lending growth in the corporate environment was slow, with Investment Banking growing 1%. Corporate overdraft and trade finance facilities grew year on year on the back of trade guarantees. Funding provided to corporates through commercial paper issuances, qualifying as high quality liquid assets is reflected as financial investments on the balance sheet.

Composition of loans and advances (amortised cost) (%)



	2018	2017
Mortgage loans	**36**	36
Vehicle and asset finance	**8**	8
Card debtors	**3**	3
Corporate and sovereign	**32**	29
Bank	**10**	10
Other loans and advances	**11**	14

Funding and liquidity

The group's liquidity position remained strong and within approved risk appetite and tolerance limits. The bank's fourth quarter Basel III liquidity coverage ratio amounted to 110%[1], exceeding the minimum phased-in regulatory requirement of 90%. The bank maintained its net stable funding ratio[1] in excess of the 100% regulatory requirement.

During 2018 the group raised R24.3 billion of longer term funding through a combination of negotiable certificates of deposit, senior debt, syndicated loans and R5 billion of Basel III compliant Tier II capital. The market cost of liquidity tightened in the 60-month tenor, driven by the limited supply of high quality credit issuances.

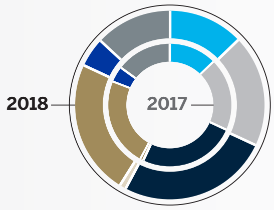
Deposits and debt funding increased by 5% to R1 012 billion with deposits from customers growing by 4% to R917 billion. This increase is mainly attributable to investment and savings products which offered clients higher returns while allowing accessibility of funds.

Retail priced deposits increased by 8% to R402 billion in 2018 largely due to increases in current and cash management deposits and also particularly good growth in savings and investment products.

[1] Excluding foreign branches.

Wholesale priced deposits and debt funding increased by 1% to R514 billion in 2018 mainly as a result of increased call deposits but offset by lower negotiable certificate of deposits (NCDs). The increase in call deposits was driven by growth in corporate short-term working capital balances due to seasonality. NCDs were lower as a result of a slow economic environment resulting in a decrease in long term funding requirements.

Composition of deposits from customers (%)



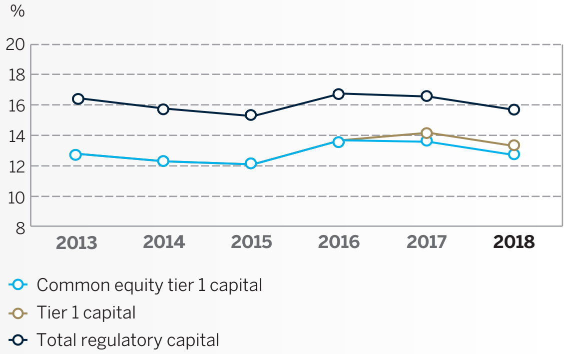
	2018	2017
Current accounts	**13**	13
Cash management deposits	**19**	19
Call deposits	**26**	25
Savings accounts	**1**	1
Term deposits	**23**	23
Foreign currency funding	**5**	4
Negotiable certificates of deposit	**13**	15

Capital management

The group maintained strong capital adequacy ratios, with a CET1 ratio of 12.7% (2017: 13.6%) and a total capital adequacy ratio of 15.7% (2017: 16.6%). The group manages its capital levels to support business growth, maintain depositor and creditor confidence and create value for shareholders whilst ensuring regulatory compliance.

IFRS 9 became effective on 1 January 2018. The fully-loaded day one impact of implementing IFRS 9 was a 60 bps reduction in the group's CET 1 ratio.

Capital adequacy (including unappropriated profit)



LOOKING AHEAD

Global growth is expected to weaken slightly in 2019 to 3.5% as the slowdown in momentum seen at the end of 2018 continues into 2019. With risks to the downside, economic conditions will remain challenging and volatile in 2019. Subdued demand will impact global trade, industrial production and could drive commodity and oil prices lower.

With elections set for May 2019, South Africa is expected to be a tale of two halves. Subdued growth is anticipated in the first half of 2019 as political and policy uncertainty continues to undermine confidence and delay investment and growth. An acceleration in the second half of 2019 and into 2020, driven by corporate investment, while expected, will be dependent on the rate of policy progress, structural reform, broader economic stimulus and job creation. A return of stable electricity supply is critical. Assuming some progress and no further downgrades by rating agencies, we expect inflation to remain within the target range and interest rates to remain at current levels in 2019. This should support growth to 1.3% for the year.

There is no doubt that in the years ahead the financial services industry, the competitive and regulatory environment and our customers' and employees' expectations will continue to change. Across the group, we are making the changes necessary to best position the franchise to deliver to all our stakeholders. We are focused on transforming our customer and employee experience and improving our productivity to deliver a 'future-ready' group. In 2019, we will build on the franchise momentum from 2018, continue to simplify, rationalise and digitise and seek ways to accelerate our delivery.

Finally, in delivering on our purpose of driving Africa's growth, we will continue to support faster, more inclusive and more sustainable growth and human development in South Africa.

Six-year review

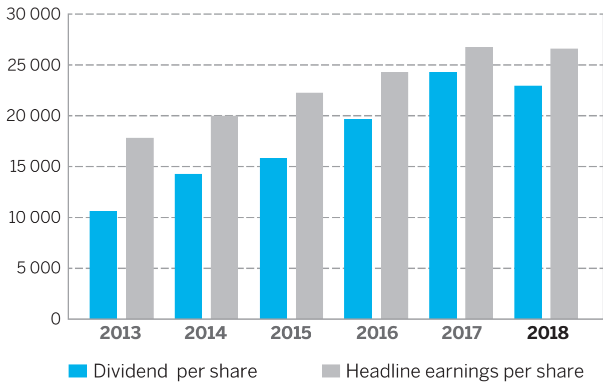
STATEMENT OF FINANCIAL POSITION

	CAGR[1] %	2018 Rm	2017 Rm	2016 Rm	2015 Rm	2014 Rm	2013 Rm
Assets							
Cash and balances with the central bank	3	**34 536**	35 893	33 947	30 252	32 218	29 934
Derivative assets	(5)	**46 707**	71 542	60 074	100 356	54 062	59 974
Trading assets	34	**153 894**	126 283	107 442	63 282	51 436	35 574
Pledged assets	(31)	**674**	6 812	2 081	7 879	5 281	4 394
Financial investments	7	**105 438**	86 344	91 551	98 944	101 856	73 604
Current tax asset	(14)	**132**	122	264	242	313	286
Loans and advances	6	**931 659**	900 895	920 406	897 344	785 483	704 919
Other assets	(14)	**5 511**	8 492	7 493	9 003	7 470	11 623
Interest in SBG companies, associates and joint ventures – banking activities	(6)	**52 296**	46 000	34 807	41 347	66 907	72 757
Property and equipment	3	**10 284**	8 448	8 637	8 931	9 085	8 989
Goodwill and other intangible assets	4	**17 106**	17 746	18 354	19 315	16 999	13 785
Deferred tax asset	>100	**2 025**	223	565	58	40	38
Total assets	6	**1 360 262**	1 308 800	1 285 621	1 276 953	1 131 150	1 015 877
Equity and liabilities							
Equity	5	**101 200**	104 338	96 290	90 714	82 418	79 204
Equity attributable to the ordinary shareholder	4	**97 650**	100 791	96 285	90 714	82 412	79 201
Ordinary share capital		**60**	60	60	60	60	60
Ordinary share premium	4	**44 388**	43 638	41 138	40 138	36 296	36 296
Reserves	4	**53 202**	57 093	55 087	50 516	46 056	42 845
Other equity instruments		**3 544**	3 544				
Non-controlling interests	15	**6**	3	5		6	3
Liabilities	6	**1 259 062**	1 204 462	1 189 331	1 186 239	1 048 732	936 673
Derivative liabilities	(6)	**49 546**	72 989	67 104	120 857	66 298	65 813
Trading liabilities	8	**29 704**	38 240	26 976	24 625	22 709	20 424
Current tax liability	2	**3 758**	3 411	3 987	2 945	3 338	3 361
Deposits and debt funding	7	**1 012 246**	962 920	937 038	874 372	799 936	721 350
Liabilities to SBG companies	8	**135 301**	95 416	117 983	127 185	123 794	90 688
Subordinated debt	(8)	**13 793**	17 287	20 340	21 309	20 734	20 815
Provisions and other liabilities	1	**14 693**	14 184	15 885	14 403	11 691	14 084
Deferred tax liability	(31)	**21**	15	18	543	232	138
Total equity and liabilities	6	**1 360 262**	1 308 800	1 285 621	1 276 953	1 131 150	1 015 877

[1] CAGR refers to compound annual growth rate for the period 2013 to 2018.

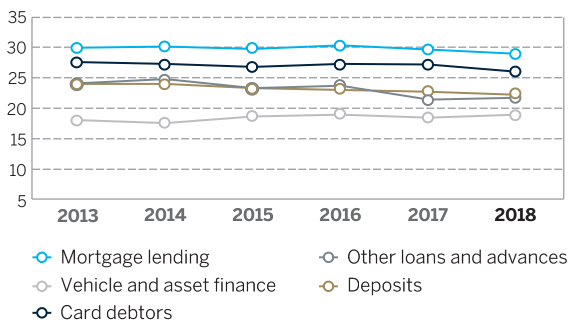
Dividend per share

(cents)



Market share

%

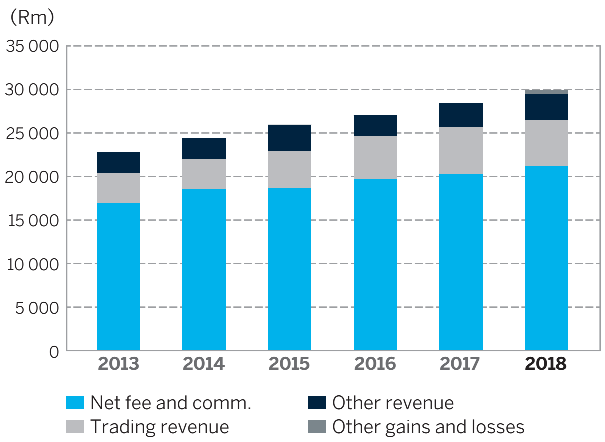


INCOME STATEMENT

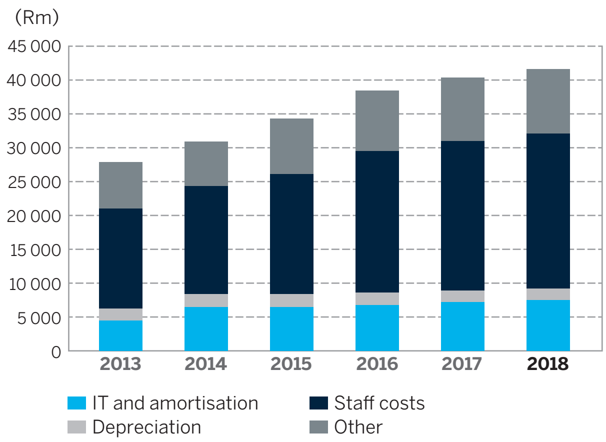
	CAGR[1] %	2018 Rm	2017 Rm	2016 Rm	2015 Rm	2014 Rm	2013 Rm
Net interest income	7	**39 831**	41 520	39 445	34 958	32 492	28 888
Interest income	12	**102 255**	98 226	86 301	74 035	66 749	58 069
Interest expense	16	**(62 424)**	(56 706)	(46 856)	(39 077)	(34 257)	(29 181)
Non-interest revenue	6	**29 987**	28 480	27 065	25 983	24 443	22 787
Net fee and commission revenue	5	**21 185**	20 356	19 778	18 730	18 533	16 915
Fee and commission revenue	5	**26 603**	25 306	24 447	23 095	22 770	20 508
Fee and commission expense[2]	9	**(5 418)**	(4 950)	(4 669)	(4 365)	(4 238)	(3 593)
Trading revenue	9	**5 358**	5 344	4 944	4 188	3 453	3 521
Other revenue	4	**2 922**	2 780	2 343	3 065	2 457	2 351
Other gains and losses on financial instruments		**522**					
Total income	6	**69 818**	70 000	66 510	60 941	56 935	51 675
Credit impairment charges	(7)	**(5 557)**	(7 145)	(7 024)	(7 385)	(7 876)	(7 815)
Revenue sharing agreements	(15)	**(722)**	(726)	(1 015)	(1 125)	(1 759)	(1 646)
Net income before operating expenses	8	**63 539**	62 129	58 471	52 431	47 300	42 214
Operating expenses[2]	8	**(41 660)**	(40 372)	(38 460)	(34 329)	(30 929)	(27 895)
Net income before capital items and equity accounted earnings	9	**21 879**	21 757	20 011	18 102	16 371	14 319
Non-trading and capital related items	6	**(383)**	(191)	(524)	(1 234)	(475)	(287)
Share of profit/(loss) from associates and joint ventures	(16)	**129**	187	(21)	65	121	303
Net income before indirect taxation	9	**21 625**	21 753	19 466	16 933	16 017	14 335
Indirect taxation	3	**(1 418)**	(1 301)	(1 381)	(1 550)	(1 398)	(1 211)
Profit before direct taxation	9	**20 207**	20 452	18 085	15 383	14 619	13 124
Direct taxation	10	**(4 190)**	(4 347)	(3 849)	(2 904)	(2 942)	(2 608)
Profit for the year	9	**16 017**	16 105	14 236	12 479	11 677	10 516
Attributable to non-controlling interest			(1)	1	1	3	(21)
Attributable to other equity instrument holders		**322**	165				
Attributable to the ordinary shareholder	8	**15 695**	15 941	14 235	12 478	11 674	10 537

[1] CAGR refers to compound annual growth rate for the period 2013 to 2018.
[2] Restated. The group amended its accounting policy for UCount expenses to be recognised against net fee and commission revenue (within non-interest revenue and total income) and not in operating expenses.

Non-interest revenue



Operating expenses

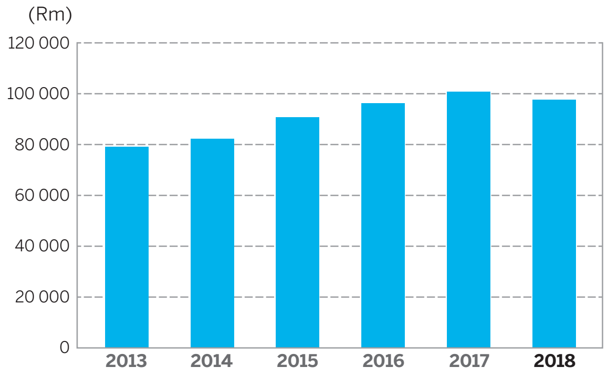


STATISTICS, RETURNS AND CAPITAL ADEQUACY

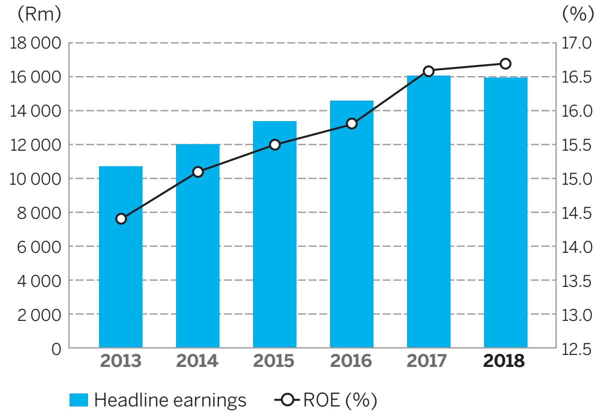
	CAGR[1] %	2018	2017	2016	2015	2014	2013
Group							
Headline earnings (Rm)	8	**15 971**	16 078	14 599	13 376	12 024	10 709
Share statistics							
Number of ordinary shares in issue (thousands)							
Weighted average		**59 997**	59 997	59 997	59 997	59 997	59 997
End of period		**59 997**	59 997	59 997	59 997	59 997	59 997
Share statistics per ordinary share (cents)							
Basic earnings	8	**26 160**	26 570	23 726	20 798	19 458	17 563
Headline earnings	8	**26 620**	26 798	24 332	22 294	20 041	17 849
Dividends	17	**22 985**	24 334	19 668	15 834	14 334	10 667
Net asset value	4	**162 758**	173 897	160 483	151 198	137 360	132 008
Selected returns and ratios							
ROE (%)		**16.7**	16.6	15.8	15.5	15.1	14.4
Non-interest revenue to total income (%)		**43.0**	40.7	41.0	43.0	43.2	44.2
Average ordinary shareholder's equity to average total assets (%)		**7.1**	7.5	7.2	7.2	7.4	7.5
Loans-to-deposits ratio (%)		**92.0**	93.6	98.2	102.6	98.2	97.7
Cost-to-income ratio (%)		**60.3**	58.3	59.0	57.6	57.0	56.0
Credit loss ratio (%)		**0.59**	0.77	0.75	0.84	1.04	1.11
Effective tax rate (%)		**25.9**	26.0	26.9	26.3	27.1	26.6
Headline earnings per employee (rand)	5	**504 422**	497 124	445 008	412 305	442 808	392 242
Number of employees	3	**31 662**	32 342	32 805	32 442	27 154	27 302

1 CAGR refers to compound annual growth rate for the period 2013 to 2018.

Ordinary shareholder's equity



Return on equity



STATISTICS, RETURNS AND CAPITAL ADEQUACY

	CAGR[1] %	2018	2017	2016	2015	2014	2013
Company							
Capital adequacy							
Risk-weighted assets (Rm)	6	**669 386**	610 314	560 735	580 944	513 856	489 045
Tier 1 capital (Rm)[2]	7	**88 734**	86 408	76 866	70 550	63 312	62 379
Total capital (Rm)[2]	5	**104 908**	101 606	94 359	88 943	81 027	80 680
Tier 1 capital adequacy ratio (%)[3]		**13.3**	14.2	13.7	12.1	12.3	12.8
Total capital adequacy ratio (%)[3]		**15.7**	16.6	16.8	15.3	15.8	16.5
Return on average risk-weighted assets (%)	6	**2.3**	2.6	2.5	2.2	2.3	2.0
Headline earnings (Rm)	6	**14 872**	15 211	14 061	12 721	11 738	10 279
Rand exchange rates at 31 December							
US dollar		**14.38**	12.31	13.69	15.50	11.57	10.49
Sterling		**18.31**	16.55	16.94	22.93	18.02	17.36
Euro		**16.44**	14.70	14.42	16.86	14.01	14.44
Market indicators at 31 December							
SA prime overdraft rate (%)		**10.25**	10.25	10.50	9.75	9.00	8.50
JSE[4] All Share Index	2	**52 081**	59 505	50 654	50 694	49 771	46 256
JSE[4] Banks Index	8	**91 617**	96 187	77 545	61 072	72 998	57 745

1 CAGR refers to compound annual growth rate for the period 2013 to 2018.
2 Including unappropriated profits.
3 The 2018 capital adequacy ratios are based on the SARB IFRS9 phased-in approach. On a fully loaded basis, the Tier 1 capital adequacy ratio is 12.9% and total capital adequacy is 15.7%.
4 JSE Limited, the licensed securities exchange in Johannesburg.

Corporate governance report

CREATING AND PROTECTING VALUE

Our governance philosophy

Our approach to corporate governance promotes strategic decision-making that balances short, medium and long term outcomes to reconcile the interests of the group, stakeholders and society in creating sustainable value.

Our corporate governance framework enables the board to oversee strategic direction, financial and non-financial goals, resource allocation and risk appetite, and to hold executive management accountable for strategy execution. The board also ensures that executive management sets the tone for good governance, based on the group's values, and that it is integrated in the way the group operates at all levels.

Our approach to governance extends beyond compliance. The board believes that good governance creates shared value by underpinning responsive thinking and protects it by ensuring responsible behaviour – deepening competitive advantage through enhanced accountability, effective leadership, robust risk management, clear performance management and greater transparency.

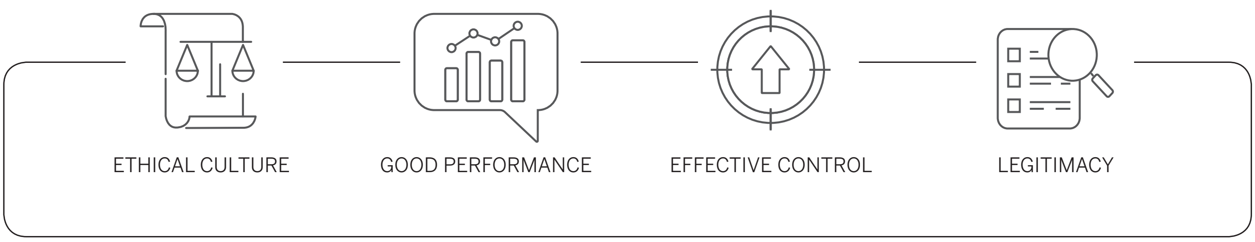
We create value by ensuring our governance underpins responsive thinking

CLIENT FOCUS + **EMPLOYEE ENGAGEMENT** + **RISK AND CONDUCT** = **FINANCIAL OUTCOME** | **SEE IMPACT**

CLIENT FOCUS	EMPLOYEE ENGAGEMENT	RISK AND CONDUCT	FINANCIAL OUTCOME	SEE IMPACT
Our board has the relevant and diverse experience and expertise to support the group's strategy through effective strategic counsel for market relevance, innovation and digitisation.	Our experienced executive leadership, with the appropriate depth and skills, is empowered to appropriately lead our people in achieving our strategy.	Trust is the basis on which we compete. Our strong relationships with stakeholders and our transparency enhances our credibility, ensuring our competitiveness and strengthening relationships aligned to our strategy. This enables the board to identify and respond to opportunities and risks effectively.	We ensure the effective allocation of our resources and align our relationships to achieve our strategy and our related performance aspirations.	We invest in sustainable markets, creating and identifying commercial opportunities in supporting social responsibility.

Achieving our governance outcomes

The King Report on Corporate Governance (King Code or King IV) forms the cornerstone of our approach to governance. We support the overarching goals of King IV, being:



GOV REM | The board is satisfied with the group's application of the principles of King IV, and our application register is available online at **www.standardbank.com**.

Maintaining effective control

The board has overall responsibility for governance across the group and retains effective control through the board-approved governance framework which enables delegation of authority with clearly defined mandates and authorities while retaining its accountability.

OUR LEADERSHIP

Board of directors

Our directors have deep experience and diverse skills, which collectively ensure that the board operates effectively to protect and create value in the design and delivery of the group's strategy and in the execution of its duties. Non-executive directors bring diverse perspectives to board deliberation and constructively challenge management. The board comprises of 17 directors – ten independent non-executive directors, four non-executive directors and three executive directors.

Separation of roles and responsibilities

The role of chairman is separate from that of the chief executive. There is a clear division of responsibilities ensuring that no single director has unfettered powers in the decision-making process. Executive directors and the group's prescribed officers attend board meetings, increasing the contact between the board and management.

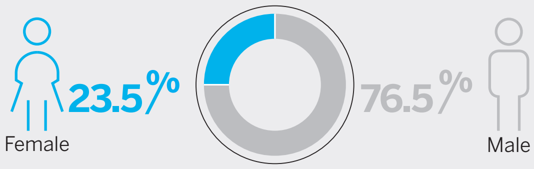
Supporting gender diversity and transformation

Diversity

The board composition is qualitatively and quantitatively balanced in terms of skills, demographics, gender, nationalities, experience and tenure.

The board approved an amendment of its diversity policy to include race diversity. In addition to the 2016 target of achieving 33% female representation on the board by 2021, the board has undertaken to achieve the race diversity targets in the Management Control Scorecard of the Amended Financial Sector Code of 2017.

Gender



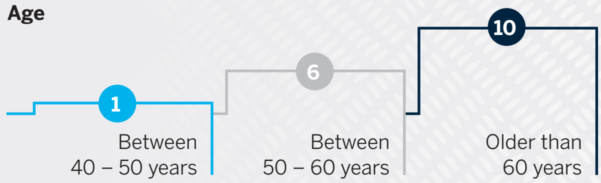
Race

Balancing experience and new insight

Tenure of non-executives

8	3	0	3
<3 years	3 – 6 years	6 – 9 years	>9 years

Age



Our board

CHAIRMAN

1. THULANI GCABASHE 61

Chairman and independent non-executive director, SBG and SBSA 7/7

Key strengths: Business leadership; executive management of a complex business; solid strategic planning experience.

Appointed: 2003

Appointed chairman: 2015

EXECUTIVE DIRECTORS

2. LUNGISA FUZILE 52

Chief executive, SBSA 7/7

Key strengths: Strategy formation and execution; leadership and organisational development; deep understanding of the regulatory environment and relationship with regulators.

Appointed: 2018

3. SIM TSHABALALA 51

Group chief executive, SBG and executive director, SBSA 7/7

Key strengths: Extensive groupwide leadership experience; leading strategy formulation and execution; proven track record of enhancing competitiveness and ensuring sustainability; ability to manage complex stakeholder relationships.

Appointed: 2008

4. ARNO DAEHNKE 51

Group financial director, SBG and executive director, SBSA 7/7

Key strengths: Detailed understanding of banking regulations; financial management, budgeting and forecasting skills; balance sheet management experience, including capital and liquidity management, at group and subsidiary level.

Appointed: 2016

5. GERALDINE FRASER-MOLEKETI 58

Independent non-executive director, SBG and SBSA 7/7

Key strengths: Experience in international, regional and national politics; strong strategic, ethical and oversight skills; experience in human resources oversight.

Appointed: 2016

6. HAO HU 56

Deputy chairman, SBG and non-executive director, SBG and SBSA 6/7

Key strengths: Proven leadership in a large international group; solid board experience; strong strategy management skills in banking.

Appointed: 2017

7. TRIX KENNEALY 60

Independent non-executive director, SBG and SBSA 7/7

Key strengths: Extensive operational and strategic management experience across a variety of industries and sectors; corporate governance experience of over 30 years; broad experience in strategic financial management including restructuring, acquisitions and integrations.

Appointed: 2016

8. NOMGANDO MATYUMZA 56

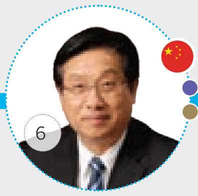
Independent non-executive director, SBG and SBSA 7/7

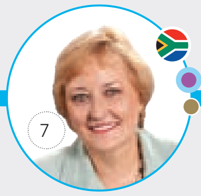
Key strengths: Strong financial and executive management skills; experience in strategy development and execution; seasoned non-executive director in several sectors.

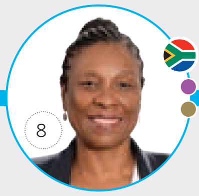
Appointed: 2016

Chairman | Executive directors | Independent non-executive directors | Non-executive directors

NON-EXECUTIVE DIRECTORS







9. JACKO MAREE 63

Deputy chairman, SBG and non-executive director, SBG and SBSA 6/7

Key strengths: Over 35 years experience in banking and leadership; deep insight into role and challenges facing a chief executive; skilled team builder.

Appointed: 2016

10. KGOMOTSO MOROKA 64

Non-executive director, SBG and SBSA 6/7

Key strengths: Strong business leadership skills; extensive experience in governance, regulation and public policy; significant legal experience.

Appointed: 2003

11. MARTIN ODUOR-OTIENO 62

Independent non-executive director, SBG and SBSA 7/7

Key strengths: Extensive banking experience of over 18 years; strategy development and execution skills; strong leadership and governance experience.

Appointed: 2016

12. ANDRÉ PARKER 68

Independent non-executive director, SBG and SBSA 7/7

Key strengths: Extensive experience of running businesses in Africa and Asia; strong brand management experience in fast-moving consumer goods markets; non-executive director experience in South African corporates.

Appointed: 2014

13. ATEDO PETERSIDE CON 63

Independent non-executive director, SBG and SBSA 7/7

Key strengths: Strong business and banking experience, as the founder and former chief executive of the Investment Bank and Trust Company Limited (IBTC); seasoned investment banker and economist.

Appointed: 2014

14. MYLES RUCK 63

Independent non-executive director, SBG and SBSA 7/7

Key strengths: Strong banking experience with a career spanning over 30 years; experience in running a large and complex business; extensive risk management experience.

Appointed: 2006

15. PETER SULLIVAN 71

Lead independent non-executive director, SBG and independent non-executive director SBSA 7/7

Key strengths: Seasoned banker with international experience; over ten years leadership experience in both Africa and Asia; strong non-executive director and chairman experience with excellent coaching and mentoring skills.

Appointed: 2013

16. JOHN VICE 66

Independent non-executive director, SBG and SBSA 7/7

Key strengths: Extensive experience in auditing, accounting, risk and practice management; experienced IT advisor and consultant in IT strategy, risk, audit and controls; knowledge and experience of running businesses in South Africa and other African countries.

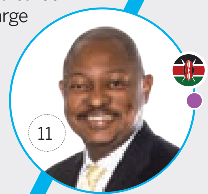
Appointed: 2016

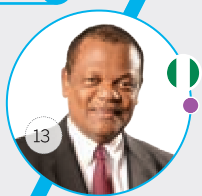
17. LUBIN WANG 45

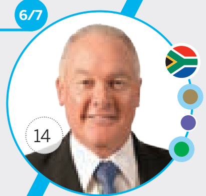
Non-executive director, SBG and SBSA 6/7

Key strengths: Senior management experience in multiple geographies; experience in a variety of corporate functions, including finance, IT, procurement and administration; strong ability to adapt to different environments.

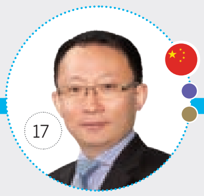
Appointed: 2017







Non-executive directors provide independent and objective judgement. They challenge and monitor the executive directors' delivery of strategy within the approval framework and risk appetite agreed by the board.



- Group directors' affairs committee (DAC)
- Group audit committee (GAC)
- SBSA large exposure credit committee (LEC)
- Group risk and capital management committee (GRCMC)
- Committee chairman

South Africa executive committee

Our experienced leadership team, which includes an executive member of the board, collaborates to deliver on our strategy, where progress is measured according to our strategic drivers.

The complementary skills and diverse experience of group exco members strengthens the group's ability to deliver the group's strategy with specific focus on the five strategic value drivers.

The board has delegated the management of the day-to-day business and affairs of the group to the group chief executive, with full power on behalf of and in the name of the group. The group chief executive is accountable for the implementation of the group strategy, and its performance, and is supported by the executive committee (exco).

South Africa exco is responsible for providing counsel to the chief executive, acting as a sounding board and ensuring overall coordination across the universal financial services group, legal entities, and other key stakeholders. Ultimate decision-making powers remain vested with the chief executive and all members of the committee exercise powers in accordance with their delegated authority.

1. LUNGISA FUZILE
Chief executive, SBSA
MCom(UKZN), AMP (Harvard)

2. LIBBY KING
Chief financial officer, SBSA, and head, finance operations
BAcc(Wits), BCom (Wits), CA(SA)

3. RENÉ DU PREEZ
Group general counsel
BProc (cum laude), LLB (cum laude), HDipTax (UJ)

4. JÖRG FISCHER
Head of shared services and real estate services
BCom (Wits), Bachelor of Accountancy (Wits), CA(SA)

5. PEGGY-SUE KHUMALO*
Chief executive, Wealth South Africa
MSc Economics, BA Hons Economics and Political Science (University of Manchester, UK)

6. ISABEL LAWRENCE
Group chief compliance and data officer
BA (Hons), LLM (RAU)

7. DISEBO MOEPHULI
Chief executive, CIB South Africa
MBA (Finance) (Dalhousie), BA (University of Lesotho)

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

9. MYEN MOODLEY
Head of human capital, South Africa
Master's degree in industrial psychology

10. MIKE MURPHY
Chief information officer, South Africa
BCom (Wits), Associate of the Institute of Bankers (CAIB(SA))

11. THULANI SIBEKO
Group head, marketing and communication
BSc Bus Admin (California State University, USA), MBA (Henley), Graduate Certificate (Harvard)

12. NEIL SURGEY #
Group chief risk officer and group ethics officer
BCom (UCT), AMP (Insead)

* Appointed 1 Feb 2019.
\# Neil Surgey will be retiring from the group on 31 May 2019. He will be succeeded by David Hodnett.

OUR GOVERNANCE FRAMEWORK

Clear responsibilities for value protection and creation

Our governance framework is integrated across the group and supports robust and defensible decision-making.

- It ensures the group delivers on its strategy within the appropriate risk appetite, supporting a prudent risk and return balance.
- Provides effective control to avoid financial loss or reputational damage due to misconduct and unethical behaviour.
- Enables us to do the right business the right way, ensuring the group operates through ethical and defensible business practices.
- Supports our legitimacy as a corporate citizen and is underpinned by advocating for an enabling business environment which contributes to national and regional objectives that support beneficial socioeconomic and environmental outcomes.

The board serves as the focal point and custodian of the group's corporate governance. It operates within a clearly defined governance framework. This allows the board to fulfil its oversight role, deliberate with executive management over strategy direction, financial goals, resource allocation and risk appetite, and ensure accountability.

It outlines mechanisms for the group to implement robust governance practices while providing clear direction for decision-making across disciplines.

The board has delegated certain functions to its committees, which allows the board to focus on matters reserved for its decision-making, while also ensuring that delegated matters receive in-depth focus.

The chief executive and the executive team deliver against agreed performance targets which are aligned to our strategy and is in the best interests of the group and its material stakeholders.

The board monitors and holds the relevant executive accountable for the group's operational and financial performance. Management is open and transparent with the board and escalates concerns to its attention in the appropriate forums and in a timeous manner.

SBSA BOARD

Responsible for ethical and effective leadership of the group:

- Steers and sets the strategic direction of the group.
- Approves policy, resource allocation and capital planning.
- Ensures accountability for the performance of the group.
- Provides oversight to the implementation and execution of the strategy.

Board committee	Committee membership and meeting attendance		Board committee purpose
Group risk and capital management committee	**Myles Ruck (chairman)** Geraldine Fraser-Moleketi Thulani Gcabashe Hao Hu Trix Kennealy Jacko Maree Nomgando Matyumza Kgomotso Moroka Peter Sullivan John Vice Lubin Wang[1]	**4/4** 4/4 4/4 3/4 4/4 4/4 4/4 4/4 4/4 4/4 4/4	• Provides independent and objective oversight of risk and capital management across the group. • Reviews and assesses the adequacy and effectiveness of the risk and capital management governance framework and that the associated standards and policies are clear, appropriate and effective. • Evaluates and agrees the nature and extent of opportunities and ensures discipline and control in managing the associated risks in pursuit of group strategic objectives.
Group audit committee	**Trix Kennealy (chairman)** Nomgando Matyumza[2] Martin Oduor-Otieno Atedo Peterside CON Peter Sullivan John Vice	**5/5** 2/2 5/5 5/5 5/5 5/5	• Monitors and reviews the adequacy and effectiveness of accounting policies, financial and other internal control systems and financial reporting processes. • Provides independent oversight of the group's combined assurance functions, including reviews of the independence and effectiveness of external audit, internal audit and compliance. • Assesses compliance with applicable legal, regulatory and accounting standards and policies in the preparation of fairly presented financial statements and external reports.
Group directors' affairs committee	**Thulani Gcabashe (chairman)** Geraldine Fraser-Moleketi Hao Hu Kgomotso Moroka André Parker Myles Ruck Lubin Wang[1]	**5/5** 4/5 4/5 5/5 5/5 5/5 5/5	• Determines the appropriate corporate governance structures and practices. • Establishes and maintains the board continuity programme. • Ensures compliance with all applicable laws, regulations and codes of conduct and practices. • Assesses and ensures the effectiveness of the board and its committees.
Large exposure credit committee	**Myles Ruck (chairman)** Thulani Gcabashe Jacko Maree André Parker Sim Tshabalala Arno Daehnke Lungisa Fuzile	**3/3** 3/3 2/3 3/3 1/3 3/3 3/3	• Considers management reports recommending the approval and annual renewals of large exposures, as defined by the Banks Act. • Reviews credit risks associated with the exposure as well as the mitigating actions to be implemented in order to ensure the maintenance of effective risk management in the bank.

GOV REM | More information relating to the detailed activities of each board committee during the year can be found in the full SBG governance and remuneration report, available online.

1 Alternate to Hao Hu.
2 Appointed on 14 August 2018.

Effective governance of ethics – achieving an ethical culture

The chairman and the board set the ethical tone for the group and collectively ensure that the conduct of the board and management aligns with the group's values and code of ethics, to achieve the group's strategy. This is measured as part of the board effectiveness assessment and the performance of the executives.

Delivering good performance

The board appreciates the interconnectedness between the group's purpose, vision, values and legitimacy to its risks and opportunities, operating model and IT systems and performance. In approving the group's strategy, it deliberates on these and considers progress on implementation of the strategy and that it is in line with group values and ensures the long-term success and sustainability of the group.

During the year, the board held seven meetings, including its annual two-day strategy summit. The chairman sets the board agenda, assisted by the group chief executive and the group secretary. Care is taken to ensure that the board has the appropriate time to consider matters critical to the group, including compliance, governance and administrative matters. Continuing board education sessions are scheduled a year in advance to ensure full board participation.

Assessing the board's effectiveness

The effectiveness of the board and the board committees is assessed annually. Externally facilitated board and board committee evaluations are performed every two years and internal self-evaluations performed every alternate year. The 2018 board effectiveness review was externally facilitated. Topics covered in the review included strategic alignment, board composition, overall contribution and alignment of directors, board culture, relationship with management, and processes and practices of the board.

Overall, the review concluded that the performance of the board and its committees were effective. The board is considered to be of high quality and well-functioning, comprising members of stature and experience. There is considerable support for both the chairman and the group chief executive. The culture of the board is seen to be healthy and robust, with strong level of trust between the board and management, as well as amongst non-executive directors. The board is satisfied that the evaluation process contributes to its performance and effectiveness.

GOV REM | For an in-depth overview of the 2018 board effectiveness results together with areas of consideration, refer to the full SBG corporate governance report.

Assessing committee effectiveness

The committee chairmen are accountable for the effective functioning of the committees. The assessment of board's and committees' compliance with the provisions of their respective mandates is conducted annually. For the board and committee mandates, the group's external auditors conduct a limited assurance review against this assessment and in the period under review, the board is satisfied that it has fulfilled its responsibilities in accordance with its terms of reference for the reporting period. The activities of the committees encompass the strategy and five strategic value drivers.

Ensuring our legitimacy

Relevance

As a financial services organisation, our ability to innovate is critical to remaining relevant to our clients. The board is committed to ensuring the group remains agile in order to meet the changing needs of its clients and other stakeholders. The composition of the board was carefully reviewed to ensure we have the necessary skills to deliver on our strategy and leverage the opportunities that innovation presents.

The board monitors and holds the management accountable for the group's operational and financial performance. Management is open and transparent with the board and escalates concerns to its attention in the appropriate forums and in a timeous manner.

Being a responsible corporate citizen

The board oversees and monitors how the consequences of the group's activities and outputs affect the group's status as a responsible corporate citizen. This oversight and monitoring is performed against the strategic value drivers and impact on society, economy and environment.

RTS | Read more online about our group's impact on the societies, economies and environment in which we operate.

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

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

Annual financial statements

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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.

These annual financial statements conform to International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB), the South African Institute of Chartered Accountants' (SAICA) Financial Reporting Guides as issued by the Accounting Practices Committee, the Johannesburg Stock Exchange (JSE) Listings Requirements, Financial Pronouncements as issued by the Financial Reporting Standards Council, the requirements of the South African Companies Act and fairly present the affairs of the group and company as at 31 December 2018, and the net income and cash flows for the year then ended.

The directors are ultimately responsible for the internal controls of the group and company. Management enables the directors to meet these responsibilities. Standards and systems of internal controls are designed, implemented and monitored by management to provide reasonable assurance of the integrity and reliability of the financial statements and to adequately safeguard, verify and maintain accountability for shareholder investments and group and company assets. Systems and controls include the proper delegation of responsibilities within a clearly defined framework, effective accounting procedures and adequate segregation of duties. It is the responsibility of the independent auditors to report on the fair presentation of the financial statements.

Based on the information and explanations provided by management and the group's internal auditors, the directors are of the opinion that the internal financial controls are adequate and that the financial records may be relied upon for preparing the financial statements in accordance with IFRS and to maintain accountability for the group and 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 company will have adequate resources to continue in operational existence and as a going concern in the financial year ahead. The 2018 annual financial statements which appear on pages 42 to 215 were approved by the board on 6 March 2019 and signed on its behalf by:

Thulani Gcabashe
Chairman
6 March 2019

Lungisa Fuzile
Chief executive
6 March 2019

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 2018, 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
6 March 2019

Report of the group audit committee

This report is provided by the audit committee, in respect of the 2018 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, the JSE Listings Requirements and the King IV Code on Corporate Governance and is approved by the board. Section 94(2) of the Companies Act determines that, at each annual general meeting, a public company must elect an audit committee comprising at least three members. In view of the exemption granted in section 94(1), this section does not apply to the audit committee and, accordingly, the appointment of its members is approved annually by the board. Information on the committee's role and responsibilities; its composition, including members' qualifications and experience; the date of members' appointment to the committee; the number of meetings held during the year and attendance at those meetings; as well as key areas of focus during the reporting period is provided in greater detail in the corporate governance statement.

Execution of functions

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

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

- **In respect of the external auditors and the external audit:**
  - considered and recommended the reappointment of KPMG Inc. and PricewaterhouseCoopers Inc. as joint external auditors for the financial year ended 31 December 2018, in accordance with all applicable legal requirements
  - approved the external auditors' terms of engagement, the audit plan and budgeted audit fees payable
  - reviewed the audit process and evaluated the effectiveness of the audit, taking into consideration the results of an external audit assessment performed by the group's finance function
  - assessed and obtained assurance from the external auditors that their independence was not impaired
  - reviewed and approved the annual renewal of the group's Use of Joint Group Auditors for Non-Audit Services policy
  - through the chairman, approved proposed contracts with the external auditors for the provision of non-audit services and pre-approved proposed contracts with the external auditors for the provision of non-audit services above an agreed threshold amount
  - considered the nature and extent of all non-audit services provided by the external auditors
  - monitored that the non-audit service fees for the year ended 31 December 2018 were within the threshold set by the 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 external audit's report on the adequacy of credit provisions for performing and non-performing loans and impairment tests with respect to assets and considered feedback from the external auditors regarding any changes that were made to the models applied by management in determining such impairments
  - ensured that the annual financial statements fairly present the financial position of the group and company as at the end of the financial year and the results of operations and cash flows for the financial year
  - ensured that the annual financial statements conform with IFRS, the requirements of the JSE Listings Requirements, the Companies Act and all other applicable accounting guides and pronouncements
  - considered accounting treatments, significant unusual transactions and accounting judgements
  - considered the appropriateness of the accounting policies adopted and changes thereto
  - noted that there were no material reports or complaints received concerning accounting practices, internal audit, internal financial controls, content of annual financial statements, internal controls and related matters
  - reviewed any significant legal and tax matters that could have a material impact on the financial statements
  - reviewed the content of the JSE's annual proactive monitoring report, including specific considerations in the preparation of financial statements
  - reviewed and discussed the independent auditors' report.

As part of the audit committee's responsibilities, notably its review of financial results, reports from internal and external audit, finance and internal financial control reports, the group's accounting policies, as well as the annual financial statements, the audit committee took cognisance of the key audit matters as reported in the independent auditors' report. In addition, the audit committee reviewed management's judgements on significant accounting and external reporting issues and confirmed external audit's agreement with the treatment thereof.

- **In respect of financial accounting and reporting developments:**
  - reviewed management's process and progress with respect to new financial accounting and reporting developments.

- **In respect of the external reporting:**
  - 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 had been included
  - reviewed both financial and non-financial information, forward-looking statements and sustainability information
  - reviewed and approved the South African Reserve Bank (SARB) IFRS 9 transition report, which was submitted in compliance with SARB's directive 5 of 2017.

- **In respect of internal control and internal audit:**
  - reviewed and approved the annual internal audit charter and audit plan and evaluated the independence, effectiveness and performance of the internal audit department and compliance with its charter
  - considered reports of the internal and external auditors on the group's systems of internal control, including internal financial controls, and maintenance of effective internal control systems
  - reviewed significant issues raised by the internal audit processes and the adequacy of corrective action taken in response to such findings
  - noted that there were no significant differences of opinion between the internal audit function and management
  - assessed the independence and effectiveness of the group chief audit officer, the internal audit function and adequacy of the available internal audit resources and found them to be satisfactory
  - considered the outcome of the group's external auditors' annual assessment of internal audit against the requirements of International Standards on Auditing (ISA) 601, which confirmed that the external auditors could place reliance on internal audit's work for the purpose of external audit engagements
  - noting that King IV and the Institute of Internal Audit Standards require an external and independent quality review of internal audit every five years, the committee confirmed that all actions in relation to areas of improvement as reported in Ernst and Young's 2014 review of internal audit had been completed
  - based on the above, the committee formed the opinion that, at the date of this report, there were no material breakdowns in internal control, including internal financial controls, resulting in any material loss to the group
  - over the course of the year, met with the chief audit officer, the group chief compliance and data officer, the chief financial officer, management and the external auditors
  - considered quarterly reports from the group's internal financial controls committee.

- **In respect of legal, regulatory and compliance requirements:**
  - reviewed and approved the annual compliance mandate and compliance plan
  - reviewed, with management, matters that could have a material impact on the group
  - monitored compliance with the Companies Act, the Banks Act, JSE Listings Requirements, King IV and other applicable legislation and governance codes and reviewed reports from internal audit, external auditors and compliance detailing the extent of this
  - reviewed the findings from the SARB Prudential Authority's anti-money laundering/combating the funding of terrorism (AML/CFT) compliance inspection as conducted during 2018
  - noted that no complaints were received through the group's ethics and fraud hotline concerning accounting matters, internal audit, internal financial controls, contents of financial statements, potential violations of the law and questionable accounting or auditing matters.

- **In respect of risk management and information technology:**
  - considered and reviewed reports from management on risk management, including fraud and information technology risks as they pertain to financial reporting and the going concern assessment
  - considered updates on key internal and external audit findings in relation to the IT control environment, significant IT programmes and IT intangible assets
  - to ensure that risk-related matters of relevance to the audit committee are considered, the chairman is a member of and attended the risk and capital management committee and the group technology and information committee meetings held during the financial year
  - John Vice and Peter Sullivan, both independent non-executive directors and chairmen of the SBG technology and information committee and the SBG remuneration committee respectively, are both members of the audit committee, which further enhances collective and integrated oversight and ensures that key matters are taken into account in the respective committees' deliberations.

- **In respect of the coordination of assurance activities, the committee:**
  - reviewed the plans and work outputs of the external and internal auditors, as well as compliance and internal financial control, and concluded that these were adequately robust to place reliance on the combined assurance underlying the statements made in external reports
  - considered the expertise, resources and experience of the finance function and the senior members of management responsible for this function and concluded that these were appropriate.

Independence, skills and expertise of the external auditors

The audit committee is satisfied that KPMG Inc. and PricewaterhouseCoopers Inc. are independent of the group and that KPMG Inc. and PricewaterhouseCoopers Inc. and the partners who are responsible for signing the group's financial statements have the requisite skills and expertise. This conclusion was arrived at, inter alia, after taking into account the following factors:

- the representations made by KPMG Inc. and PricewaterhouseCoopers Inc. to the audit committee, including confirmation of the firms' and individual auditors' accreditation on the JSE List of Auditors
- the auditors do not, except as external auditors or in rendering permitted non-audit services, receive any remuneration or other benefits from the group
- the auditors' independence was not impaired by any consultancy, advisory or other work undertaken by the auditors
- the auditors' independence was not prejudiced as a result of any previous appointment as auditor
- in accordance with regulatory requirements, the group's engagement partners rotated for KPMG Inc. during 2016 and for PricewaterhouseCoopers Inc. in 2018
- the criteria specified for independence by the Independent Regulatory Board for Auditors and international regulatory bodies were met.

The audit committee noted the Independent Regulatory Board for Auditors' announcement of its Mandatory Audit Firm Rotation (MAFR) ruling on 2 June 2016 which determined that an audit firm may not be appointed auditor of a public interest entity for more than ten years. As a result, the group would, at a minimum, be required to rotate one of the audit firms for its 2024 financial year end, and the other for its 2026 financial year end.

In conclusion, the audit committee is satisfied that it has fulfilled its responsibilities and complied with its legal, regulatory and governance responsibilities as set out in its mandate.

On behalf of the group audit committee:

Trix Kennealy

Trix Kennealy
Chairman
4 March 2019

Directors' report

for the year ended 31 December 2018

Nature of business

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 remained flat at R16 billion. Net asset value per share decreased by 3% to 168 667 cents and group return on equity increased to 16.7% from 16.6% in 2017.

A general review of the business and its operations is provided in the finance review on page 12.

Share capital

Ordinary shares

During 2018, one share was issued at a premium of R750 million (2017: one share was issued at a premium of R2 500 million).

Dividends to the shareholder

Ordinary shares

On 8 March 2018, a dividend of R8.9 billion was declared to the shareholder recorded at the close of business on 30 March 2018, and payable on 2 April 2018.

On 15 August 2018, a dividend of R5.8 billion was declared to the shareholder recorded at the close of business on 6 September 2018, and paid on 7 September 2018.

On 6 March 2019, a dividend of R8 billion was declared to the shareholder recorded at the close of business on March 2019, and payable on 28 March 2019.

Directors' and prescribed officers' interest in shares

At the date of this report, no directors or prescribed officers held, directly and indirectly, interests in the company's ordinary issued share capital or preference share capital.

Directors' and prescribed officers' emoluments and share incentives

Directors' and prescribed officers' emoluments, as well as information relating to the determination of their share incentive allocations and related matters are contained in annexure E.

Change in group directorate

The following changes in directorate took place during the 2018 financial year and up until 6 March 2019:

The Standard Bank of South Africa Limited

Appointment		
L Fuzile	as chief executive	15 January 2018
Retirements		
RMW Dunne	as non-executive director	24 May 2018
BJ Kruger	as executive director	31 December 2018

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

Opinion

We have audited the group (consolidated) and company (separate) financial statements of The Standard Bank of South Africa Limited set out on pages 42 to 215, which comprise:

- the consolidated and separate statements of financial position as at 31 December 2018;
- the consolidated and separate income statements for the year then ended;
- the consolidated and separate statements of other comprehensive income for the year then ended;
- the consolidated and separate statements of cash flows for the year then ended;
- the consolidated and separate statements of changes in equity for the year then ended;
- accounting policy elections, transition and restatement;
- key management assumptions;
- notes to the financial statements; and
- annexures A to F but excludes the sections marked as 'unaudited' in Annexure C.

In our opinion, the consolidated and separate financial statements present fairly, in all material respects, the consolidated and separate financial position of The Standard Bank of South Africa Limited (company) and its subsidiaries (together the group) as at 31 December 2018, and its consolidated and separate financial performance and its consolidated and separate cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS) and the requirements of the Companies Act of South Africa.

Basis for opinion

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

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

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

Key audit matters

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

Level	Key audit matter	How our audit addressed the matter
Group and company – *consolidated and separate financial statements*	**Expected credit losses on Corporate & Investment Banking (CIB) loans and advances** *Refer to the key management assumptions note, note 6 – loans and advances, note 32 – credit impairment charges and the credit risk section of Annexure C: risk and capital management – IFRS disclosures in the consolidated and separate financial statements.*	
	The expected credit losses (ECL) assessment for CIB loans and advances (exposures) is material to the consolidated and separate financial statements in terms of their magnitude, the level of subjective judgement applied by management and the effect that the ECL has on the impairment of loans and advances and on the group's and company's credit risk management processes and operations. This has resulted in this matter being identified as a matter of most significance in the audit of the consolidated and separate financial statements. The ECL of CIB exposures is estimated on an individual basis. For CIB exposures, the key areas of significant management judgement within the ECL calculations include: • Evaluation of significant increase in credit risk (SICR) • Incorporation of macro-economic inputs and forward looking information into the SICR assessment and ECL measurement • Assessment of ECL raised for stage 3 exposures • Input assumptions applied to estimate the probability of default (PD), exposure at default (EAD) and loss given default (LGD) within the ECL measurement. **Evaluation of SICR** For CIB exposures, SICR is largely driven through the movement in credit ratings assigned to clients on origination and reporting date, based on the group's 25-point master rating scale to quantify credit risk for each exposure. **Incorporation of macro-economic inputs and forward looking information into the SICR assessment and ECL measurement** Macroeconomic expectations are incorporated in CIB's client ratings to reflect the group and company's expectation of future economic and business conditions. **Assessment of ECL raised for stage 3 exposures** Management applies its internal credit risk management approach and definitions to determine the recoverable amounts (including collateral) and timing of the future cash flows for stage 3 exposures at an individual exposure level. **Input assumptions applied to estimate the PD, EAD and LGD within the ECL assessment** Input assumptions applied to estimate the PD, EAD and LGD as inputs into the ECL measurement are subject to management judgement and are determined at an exposure level.	Our audit effort focussed on the ECL of CIB exposures as follows: **Evaluation of SICR** We selected a sample of exposures and assessed their assigned credit rating by: • Testing the inputs into the credit rating systems against the financial information obtained from the exposure and the group's 25-point master rating scale • Assessing management assumptions made during the credit risk rating process for reasonability, by obtaining an understanding of the exposure and industry factors, performing an independent review of the exposure and comparing the results to those used by management. We selected a sample of stage 1 and stage 2 exposures and assessed whether the stage classification of these exposures was appropriate in terms of the group's and company's accounting policy for SICR at reporting date since the origination date of these exposures. These procedures included the inspection of credit risk ratings at reporting date relative to origination date. We evaluated management's processes for identifying stage 3 exposures by selecting a sample of exposures not classified at stage 3 to assess whether the stage classification was in line with the group's and company's accounting policy for the definition of default for stage 3 exposures. **Incorporation of macro-economic inputs and forward looking information into the SICR assessment and ECL measurement** We selected a sample of exposures and assessed the incorporation of forward looking information into their assigned credit risk rating. We have done this by obtaining an understanding of the forward looking information which was taken into account for the exposure and evaluated this for reasonability against management's expectation and other industry factors for the SICR assessment and ECL measurement. **Assessment of ECL raised for stage 3 exposures** Where ECL has been raised for stage 3 exposures, we considered the impairment indicators, uncertainties and assumptions applied by management in their assessment of the recoverability of the exposure. For a sample of stage 3 exposures, we independently recalculated the ECL based on our assessment of the expected cash flows and recoverability of collateral at an individual exposure level. For collateral held, we inspected legal agreements and supporting documentation to confirm the existence and legal right to collateral. The collateral valuation techniques applied by management were assessed against the group's and company's valuation guidelines. **Input assumptions applied to estimate the PD, EAD and LGD within the ECL measurement** With the assistance of our internal valuation experts, we assessed the input assumptions applied within the PD, EAD and LGD models (including forward looking information) in compliance with the requirements of IFRS 9 *Financial Instruments* (IFRS 9). In addition, our procedures included assessing the appropriateness of the models by reperformance and validation procedures. We obtained an understanding and tested the relevant controls relating to the approval of credit facilities, subsequent monitoring and remediation of exposures, key system reconciliations and collateral management. We found the accounting policies and the credit impairment methodologies applied to the CIB segment to be in accordance with the requirements of IFRS 9.

Level	Key audit matter	How our audit addressed the matter
Group and company – *consolidated and separate financial statements*	**Expected credit losses on Personal & Business Banking (PBB) loans and advances** *Refer to the key management assumptions note, note 6 – loans and advances, note 32 – credit impairment charges and the credit risk section of Annexure C: risk and capital management – IFRS disclosures in the consolidated and separate financial statements.*	
	The ECL assessment for PBB loans and advances (exposures) is material to the consolidated and separate financial statements in terms of their magnitude, the level of subjective judgement applied by management and the effect that the ECL has on the impairment of loans and advances and on the group's and company's credit risk management processes and operations. This has resulted in this matter being identified as a matter of most significance in the audit of the consolidated and separate financial statements. A significant portion of the PBB ECL is calculated on a portfolio basis. For exposures quantitatively above a pre-defined threshold in secured portfolios, management assesses the recoverability of those exposures individually. The ECL on exposures also includes out-of- model adjustments where certain aspects of the ECL are not fully reflected in the model. Out-of-model adjustments are calculated and assessed based on management's judgement. For PBB, the key areas of significant management judgement within the ECL calculation include: • Evaluation of SICR • Incorporation of macro-economic inputs and forward looking information into the SICR assessment and ECL measurement • Application of out-of-model adjustments into the ECL measurement • Assessment of ECL raised for individual exposures • Input assumptions applied to estimate the PD, EAD and LGD within the ECL measurement. **Evaluation of SICR** The group and company assesses the risk of default of an account relative to the risk of its defined vintage considering the account's behavioural score, historical experience and the rebuttable presumption that accounts which are 30 days past due are classified as stage 2. **Incorporation of macro-economic inputs and forward looking information into the SICR assessment and ECL measurement** Forward looking economic expectations are included in the ECL based on the group's and company's macro-economic outlook, using models that correlate these parameters with macro-economic variables. Where modelled correlations are not viable or predictive, adjustments are based on judgement to predict the outcomes based on the group's and company's macro-economic outlook expectations. **Application of out-of-model adjustments into the ECL measurement** Management may identify that due to market volatility or modelling complexity, certain aspects of the ECL may not be fully reflected by the underlying model and an out-of-model adjustment is required. **Assessment of ECL raised for individual exposures** Impairment is assessed on individual exposures above a quantitative threshold in stage 3, and for accounts placed on the watchlist due to evidence of increased credit risk e.g. potential security shortfalls, deteriorating financial performance, etc. This assessment relates primarily to business lending accounts.	Our audit effort focussed on the ECL for PBB exposures as follows: **Evaluation of SICR** Management provided us with a quantitative assessment of the group's and company's calculation of the impact of SICR against the requirements of IFRS 9. We reviewed management's calculation to confirm that the resultant ECL was not materially different for a sample of portfolios. We evaluated behavioural scores which are used to inform the significant increase in credit risk against the group's and company's accounting policies. We evaluated the reasonability of changes in credit risk of the portfolio against key performance indicators. We performed sensitivity analyses to determine the impact of change in credit risk on the ECL recognised. We tested the design and effectiveness of relevant controls that identify renegotiated and cured loans to ensure that the curing policies were appropriately applied. **Incorporation of macro-economic inputs and forward looking information into the SICR assessment and ECL measurement** We evaluated the appropriateness of forward looking economic expectations included in the ECL by comparing to independent industry data. We evaluated management's economic response models to ensure that the macro-economic inputs are appropriately incorporated into the ECL models. Where management applied out-of-model adjustments to the forward looking information, we evaluated these for reasonableness against historical experience and evaluated the methodology applied to incorporate these into the forecasts. **Application of out-of-model adjustments into the ECL measurement** We evaluated the reasonableness of a selection of out-of-model adjustments by challenging key assumptions, inspecting the calculation methodology and tracing a sample of out-of-model adjustments back to source data. **Assessment of ECL raised for individual exposures** Where ECL has been raised for individual exposures, we considered the impairment indicators, uncertainties and assumptions made by management in their assessment of the recoverability of the exposure. For a sample of stage 3 exposures, we independently recalculated the impairment losses based on our assessment of the expected cash flows and recoverability of collateral at an individual exposure level. For collateral held, we inspected legal agreements and supporting documentation to confirm the existence and legal right to collateral. The collateral valuation techniques applied by management were assessed against the group's and company's valuation guidelines.

Level	Key audit matter	How our audit addressed the matter
Group and company – *consolidated and separate financial statements*	**Expected credit losses on Personal & Business Banking (PBB) loans and advances (continued)** *Refer to the key management assumptions note, note 6 – loans and advances, note 32 – credit impairment charges and the credit risk section of annexure C: risk and capital management – IFRS disclosures in the consolidated and separate financial statements.*	
	Input assumptions applied to estimate the PD, EAD and LGD within the ECL measurement The ECL is calculated using statistical models which incorporate observable data, assumptions and estimates relating to historical default experience, timing and amount of forecasted cash flows and the value of collateral.	**Input assumptions applied to estimate the PD, EAD and LGD within the ECL measurement** With the assistance of our internal valuation experts, we assessed the assumptions relating to historical default experience, estimated timing and amount of forecasted cash flows and the value of collateral applied within the PD, EAD and LGD models for compliance with the requirements of IFRS 9. In addition, our procedures included assessing the appropriateness of the statistical models by reperformance and validation procedures. We found that the accounting policies and the credit impairment methodologies applied to the PBB segment to be in accordance with IFRS 9.
	Valuation of level 3 financial instruments *Refer to the key management assumptions note, note 2 – derivative instruments, note 3 – trading assets, note 5 – financial investments, note 13 – trading liabilities, and the market risk section of annexure C: risk and capital management – IFRS disclosures in the consolidated and separate financial statements.*	
	The fair value of financial instruments significantly affects the measurement of profit or loss and disclosures of financial risks in the financial statements. Fair value calculations are dependent on various sources of external and internal data and on sophisticated modelling techniques used to value financial instruments, particularly those disclosed as level 3 in the financial statements, which are evolving as markets become more sophisticated. Level 3 financial instruments measured at fair value for which there are no quoted market prices require significant judgement in the valuation processes. Due to the significance of the judgements made in determining the fair value of level 3 financial instruments and the extent of work required to address this matter, this has been identified as a matter of most significance in the current year audit of the consolidated and separate financial statements.	Our audit effort focussed on the valuation of level 3 financial instruments as follows: We tested the design and effectiveness of the relevant controls relating to the valuation of level 3 financial instruments to ensure that there is appropriate governance over the valuation model development and change control. For a sample of financial instruments, using an independent model we compared the fair value results to management's valuation to assess the reasonableness of management's model methodology and the output of model calculations. We assessed the appropriateness and sensitivity of unobservable market rates, projected cash flows and valuation adjustments with reference to the best available independent information and found them to be reasonable. For our testing approach adopted, we found the data inputs for unobservable market rates, the model methodology applied and the output of the model calculation to be reasonable and we assessed the appropriateness of the disclosures related to level 3 financial instruments to be in accordance with the requirements of IFRS 7 *Financial Instruments: Disclosures* and IFRS 13 *Fair value measurements.*

Other information

The directors are responsible for the other information. The other information comprises the Group secretary's certification, Report of the group audit committee and the Directors' report as required by the Companies Act of South Africa, the Directors' responsibility for financial reporting and the sections marked as 'unaudited' in Annexure C: Risk and capital management – IFRS disclosures, Corporate governance statement, Financial review and the Risk and capital management report. The other information does not include the consolidated and separate financial statements and our auditors' report thereon.

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

In connection with our audit of the consolidated and separate financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated and separate financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the directors for the consolidated and separate financial statements

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

In preparing the consolidated and separate financial statements, the directors are responsible for assessing the group 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 and the company to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

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

Report on other legal and regulatory requirements

In terms of the IRBA Rule published in Government Gazette Number 39475 dated 4 December 2015, we report that based on available statutory records, KPMG Inc. and PricewaterhouseCoopers Inc. have been the joint auditors of The Standard Bank of South Africa Limited for 56 years.

PricewaterhouseCoopers Inc.

PricewaterhouseCoopers Inc.
Director: Gino Fraser
Registered Auditor
Johannesburg
6 March 2019

KPMG Inc

KPMG Inc.
Director: Heather Berrange
Registered Auditor
Johannesburg
6 March 2019

Statements of financial position

as at 31 December 2018

	Note	GROUP 2018 Rm	GROUP 2017 Rm	COMPANY 2018 Rm	COMPANY 2017 Rm
Assets					
Cash and balances with the central bank	1	**34 536**	35 893	**34 536**	35 893
Derivative assets	2	**46 707**	71 542	**46 707**	71 542
Trading assets	3	**153 894**	126 283	**153 590**	126 283
Pledged assets	4	**674**	6 812	**674**	6 812
Financial investments	5	**105 438**	86 344	**105 438**	85 877
Current tax asset		**132**	122	**132**	122
Loans and advances	6	**931 659**	900 895	**919 380**	884 648
Other assets	7	**5 511**	8 492	**5 386**	8 345
Interest in SBG companies, associates and joint ventures – banking activities	8	**52 296**	46 000	**64 424**	59 354
Property and equipment	9	**10 284**	8 448	**10 262**	8 423
Goodwill and other intangible assets	10	**17 106**	17 746	**17 013**	17 652
Deferred tax asset	14	**2 025**	223	**1 962**	161
Total assets		**1 360 262**	1 308 800	**1 359 504**	1 305 112
Equity and liabilities					
Equity		**101 200**	104 338	**97 583**	101 690
Equity attributable to the ordinary shareholder		**97 650**	100 791	**94 039**	98 146
Ordinary share capital	11	**60**	60	**60**	60
Ordinary share premium	12	**44 388**	43 638	**44 388**	43 638
Reserves		**53 202**	57 093	**49 591**	54 448
Other equity instruments	11	**3 544**	3 544	**3 544**	3 544
Non-controlling interest		**6**	3		
Liabilities		**1 259 062**	1 204 462	**1 261 921**	1 203 422
Derivative liabilities	2	**49 546**	72 989	**49 546**	72 989
Trading liabilities	13	**29 704**	38 240	**29 698**	38 240
Current tax liability		**3 758**	3 411	**3 736**	3 403
Deposits and debt funding	15	**1 012 246**	962 920	**1 011 763**	961 650
Liabilities to SBG companies	8	**135 301**	95 416	**139 370**	95 927
Subordinated debt	16	**13 793**	17 287	**13 793**	17 287
Provisions and other liabilities	17	**14 693**	14 184	**14 015**	13 926
Deferred tax liability	14	**21**	15		
Total equity and liabilities		**1 360 262**	1 308 800	**1 359 504**	1 305 112

Income statements

for the year ended 31 December 2018

		GROUP		COMPANY	
	Note	2018 Rm	2017 Rm	2018 Rm	2017 Rm
Net interest income		**39 831**	41 520	**38 616**	40 434
Interest income[1]	25	**102 255**	98 226	**101 108**	96 802
Interest expense[1]	26	**(62 424)**	(56 706)	**(62 492)**	(56 368)
Non-interest revenue		**29 987**	28 480	**29 024**	27 543
Net fee and commission revenue		**21 185**	20 356	**20 096**	19 248
Fee and commission revenue	27	**26 603**	25 306	**25 474**	24 175
Fee and commission expense[2]	28	**(5 418)**	(4 950)	**(5 378)**	(4 927)
Trading revenue	29	**5 358**	5 344	**5 357**	5 345
Other revenue	30	**2 922**	2 780	**3 049**	2 950
Other gains and losses on financial instruments[1]	31	**522**		**522**	
Total income		**69 818**	70 000	**67 640**	67 977
Credit impairment charges[1]	32	**(5 557)**	(7 145)	**(5 569)**	(7 092)
Revenue sharing agreements		**(722)**	(726)	**(722)**	(726)
Net income before operating expenses		**63 539**	62 129	**61 349**	60 159
Operating expenses[2]	33	**(41 660)**	(40 372)	**(40 724)**	(39 423)
Net income before capital items and equity accounted earnings		**21 879**	21 757	**20 625**	20 736
Non-trading and capital related items	34	**(383)**	(191)	**(383)**	(191)
Share of profit from associates and joint ventures	8	**129**	187	**129**	187
Net income before indirect taxation		**21 625**	21 753	**20 371**	20 732
Indirect taxation	35	**(1 418)**	(1 301)	**(1 412)**	(1 295)
Profit before direct taxation		**20 207**	20 452	**18 959**	19 437
Direct taxation	35	**(4 190)**	(4 347)	**(4 041)**	(4 198)
Profit for the year		**16 017**	16 105	**14 918**	15 239
Attributable to non-controlling interest			(1)		
Attributable to other equity instrument holders		**322**	165	**322**	165
Attributable to the ordinary shareholder		**15 695**	15 941	**14 596**	15 074
Basic and diluted earnings per ordinary share (cents)	36	**26 160**	26 570	**24 328**	25 125

[1] The group and company have, as permitted by IFRS 9, elected not to restate their comparative annual financial statements. Therefore, comparability will not be achieved by the fact that the comparative financial information has been prepared on an IAS 39 *Financial Instruments: Recognition and Measurement* (IAS 39) basis. Refer to the accounting policies for more detail on the change in presentation as a result of IFRS 9 and the amendment to IAS 1 *Presentation of Financial Statements* (IAS 1) that requires interest income calculated under the effective interest method to be presented for the year ended 31 December 2018.

[2] Refer to page 56 for details on the restatement to fee and commission expense and operating expenses.

Statements of other comprehensive income

for the year ended 31 December 2018

	GROUP		COMPANY	
	2018 Rm	2017 Rm	**2018 Rm**	2017 Rm
Profit for the year	**16 017**	16 105	**14 918**	15 239
Other comprehensive profit/(loss) – net of taxation[1]	**43**	(389)	**69**	(382)
Items that may be subsequently reclassified to profit and loss				
Exchange differences on translating foreign operations	**419**	(295)	**445**	(288)
Movements in the cash flow hedging reserve	**(259)**	118	**(259)**	118
Change in fair value of cash flow hedges	**(604)**	316	**(604)**	316
Realised fair value adjustments of cash flow hedges transferred to profit or loss	**345**	(198)	**345**	(198)
Net change in fair value of available-for-sale financial assets – IAS 39[2]		25		25
Net change in debt financial assets measured at fair value through other comprehensive income (OCI) – IFRS 9[2]	**(3)**		**(3)**	
Items that may not be reclassified to profit and loss				
Change in own credit risk recognised on financial liabilities designated at fair value through profit or loss – IFRS 9[2]	**7**		**7**	
Defined benefit fund remeasurements	**(45)**	(237)	**(45)**	(237)
Net change in fair value of equity financial assets measured at fair value through OCI – IFRS 9[2]	**(76)**		**(76)**	
Total comprehensive income for the year	**16 060**	15 716	**14 987**	14 857
Attributable to the ordinary shareholder	**15 738**	15 552	**14 665**	14 692
Attributable to other equity instrument holders	**322**	165	**322**	165
Attributable to non-controlling interest		(1)		

1 Income tax relating to each component of other comprehensive income is disclosed in note 35.

2 The group and company have, as permitted by IFRS 9, elected not to restate comparative annual financial statements. Therefore, comparability will not be achieved by the fact that the comparative financial information has been prepared on an IAS 39 basis. Refer to the accounting policy elections, transition and restatement on page 50 for more detail.

Statements of cash flows

for the year ended 31 December 2018

	Note	GROUP 2018 Rm	GROUP 2017 Rm	COMPANY 2018 Rm	COMPANY 2017 Rm
Net cash flows from operating activities		**16 343**	16 035	**16 667**	15 993
Net cash flows used in operations		**(20 023)**	(21 625)	**(18 773)**	(20 736)
Net income before capital items and equity accounted earnings		**21 879**	21 757	**20 625**	20 736
Adjusted for non-cash items and other adjustments included in the income statement	39	**(31 549)**	(30 008)	**(30 485)**	(28 995)
Increase in income-earning assets	39	**(84 170)**	(23 853)	**(86 649)**	(24 415)
Increase in deposits, trading and other liabilities	39	**73 817**	10 479	**77 736**	11 938
Dividends received		**3 509**	4 187	**2 820**	3 543
Interest paid		**(62 567)**	(57 010)	**(62 635)**	(56 672)
Interest received		**99 178**	94 828	**98 876**	94 055
Direct taxation paid		**(3 754)**	(4 345)	**(3 621)**	(4 197)
Net cash flows used in investing activities		**(5 182)**	(2 909)	**(5 532)**	(2 874)
Capital expenditure on property and equipment	9	**(3 602)**	(1 542)	**(3 596)**	(1 535)
Proceeds from sale of property and equipment		**65**	63	**65**	46
Capital expenditure on intangible assets		**(1 745)**	(2 519)	**(1 736)**	(2 474)
Proceeds from sale of intangible assets		**129**	1 080	**129**	1 080
Increase in investments in subsidiaries				**(365)**	
Increase in investments in associates and joint ventures		**(49)**		**(49)**	
Distributions from investments in associates and joint ventures	8	**20**	9	**20**	9
Net cash flows used in financing activities		**(12 937)**	(10 885)	**(12 937)**	(10 885)
Proceeds from issue of share capital to shareholder	11	**750**	2 500	**750**	2 500
Proceeds from issue of additional tier 1 capital to shareholder	11		3 544		3 544
Subordinated debt issued	39	**5 000**		**5 000**	
Subordinated debt redeemed	39	**(3 500)**	(3 000)	**(3 500)**	(3 000)
Dividends paid		**(15 187)**	(13 929)	**(15 187)**	(13 929)
Effects of exchange rate changes		**419**	(295)	**445**	(288)
Net increase in cash and cash equivalents		**(1 357)**	1 946	**(1 357)**	1 946
Cash and cash equivalents at the beginning of the year	1	**35 893**	33 947	**35 893**	33 947
Cash and cash equivalents at the end of the year	1	**34 536**	35 893	**34 536**	35 893

Statements of changes in equity

for the year ended 31 December 2018

GROUP	Note	Ordinary share capital and premium Rm	Foreign currency translation reserve Rm	Cash flow hedging reserve Rm	Available-for-sale reserve Rm
Balance at 1 January 2017		41 198	681	57	202
Total comprehensive (loss)/income for the year			(295)	118	25
Profit for the year					
Other comprehensive (loss)/income after tax for the year			(295)	118	25
Transactions with the shareholder and non-controlling interest, recorded directly in equity		2 500			
Equity-settled share-based payment transactions					
Transactions with non-controlling shareholders					
Issue of share capital and share premium		2 500			
Transfer of vested equity options					
Dividends paid	38				
Balance at 31 December 2017		43 698	386	175	227
IFRS 9 transition adjustment[2]					**(227)**
Balance at 1 January 2018 (restated)		**43 698**	**386**	**175**	
Total comprehensive income/(loss) for the year			**419**	**(259)**	
Profit for the year					
Other comprehensive income/(loss) after tax for the year			**419**	**(259)**	
Transactions with the shareholder and non-controlling interest, recorded directly in equity		**750**			
Equity-settled share-based payment transactions					
Transactions with non-controlling shareholders					
Issue of share capital and share premium		**750**			
Transfer of vested equity options					
Dividends paid	38				
Balance at 31 December 2018		**44 448**	**805**	**(84)**	

1 The fair value through OCI reserve comprises the fair value through OCI reserve for debt financial investments (note 5) and equity financial investments (note 20.2) measured at fair value through OCI.

2 Refer to the accounting policy elections, transition and restatement on page 50 for more detail on the IFRS 9 transition.

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

All balances are stated net of tax where applicable.

Fair value through OCI reserve[1] Rm	Share-based payment reserve Rm	Own credit risk reserve Rm	Retained earnings Rm	Ordinary shareholder's equity Rm	Equity attributable to other equity holders Rm	Non-controlling interest Rm	Total equity Rm
	7		54 140	96 285		5	96 290
			15 704	15 552	165	(1)	15 716
			15 941	15 941	165	(1)	16 105
			(237)	(389)			(389)
	4		(13 550)	(11 046)	3 379	(1)	(7 668)
	7		147	154			154
						(1)	(1)
				2 500	3 544		6 044
	(3)		3				
			(13 700)	(13 700)	(165)		(13 865)
	11		56 294	100 791	3 544	3	104 338
232			(4 897)	(4 892)			(4 892)
232	11		51 397	95 899	3 544	3	99 446
(79)		7	15 650	15 738	322		16 060
			15 695	15 695	322		16 017
(79)		7	(45)	43			43
	(11)		(14 726)	(13 987)	(322)	3	(14 306)
	3			3			3
						3	3
				750			750
	(14)		14				
			(14 740)	(14 740)	(322)		(15 062)
153		7	52 321	97 650	3 544	6	101 200

COMPANY	Note	Ordinary share capital and premium Rm	Foreign currency translation reserve Rm	Cash flow hedging reserve Rm	Available-for-sale reserve Rm
Balance at 1 January 2017		41 198	647	57	202
Total comprehensive (loss)/income for the year			(288)	118	25
Profit for the year					
Other comprehensive (loss)/income after tax for the year			(288)	118	25
Transactions with the shareholder, recorded directly in equity		2 500			
Equity-settled share-based payment transactions					
Issue of share capital and share premium		2 500			
Transfer of vested equity options					
Dividends paid	38				
Balance at 31 December 2017		43 698	359	175	227
IFRS 9 transition adjustment[2]					**(227)**
Balance at 1 January 2018 (restated)		**43 698**	**359**	**175**	
Total comprehensive income/(loss) for the year			**445**	**(259)**	
Profit for the year					
Other comprehensive income/(loss) after tax for the year			**445**	**(259)**	
Transactions with the shareholder, recorded directly in equity		**750**			
Equity-settled share-based payment transactions					
Issue of share capital and share premium		**750**			
Transfer of vested equity options					
Dividends paid	38				
Balance at 31 December 2018		**44 448**	**804**	**(84)**	

1 The fair value through OCI reserve comprises the fair value through OCI reserve for debt financial investments (note 5) and equity financial investments (note 20.2) measured at fair value through OCI.
2 Refer to the accounting policy elections, transition and restatement on page 50 for more detail on the IFRS 9 transition.

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

All balances are stated net of tax where applicable.

	Fair value through OCI reserve[1] Rm	Share-based payment reserve Rm	Own credit risk reserve Rm	Retained earnings Rm	Ordinary shareholder's equity Rm	Equity attributable to other equity holders Rm	Total equity Rm
		7		52 389	94 500		94 500
				14 837	14 692	165	14 857
				15 074	15 074	165	15 239
				(237)	(382)		(382)
		4		(13 550)	(11 046)	3 379	(7 667)
		7		147	154		154
					2 500	3 544	6 044
		(3)		3			
				(13 700)	(13 700)	(165)	(13 865)
		11		53 676	98 146	3 544	101 690
	232			**(4 790)**	**(4 785)**		**(4 785)**
	232	**11**		**48 886**	**93 361**	**3 544**	**96 905**
	(79)		**7**	**14 551**	**14 665**	**322**	**14 987**
				14 596	**14 596**	**322**	**14 918**
	(79)		**7**	**(45)**	**69**		**69**
		(11)		**(14 726)**	**(13 987)**	**(322)**	**(14 309)**
		3			**3**		**3**
					750		**750**
		(14)		**14**			
				(14 740)	**(14 740)**	**(322)**	**(15 062)**
	153		**7**	**48 711**	**94 039**	**3 544**	**97 583**

Accounting policy elections, transition and restatement

The principal accounting policies applied in the presentation of the group and company's annual financial statements are set out below.

Basis of preparation

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

- financial assets classified at fair value through OCI (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)
- intangible assets and property and equipment are accounted for at cost less accumulated amortisation/depreciation and impairment (accounting policy 6)
- the portfolio exception to measure the fair value of certain groups of financial assets and financial liabilities on a net basis (accounting policy 4)
- investments in associates and joint ventures are initially measured at cost and subsequently accounted for using the equity method in the separate financial statements (accounting policy 2).

Functional and presentation currency

The annual financial statements are presented in South African rand, which is the presentation currency of the group and the functional and presentation currency of the company. All amounts are stated in millions of rand (Rm), unless indicated otherwise.

Changes in accounting policies

The accounting policies are consistent with those reported in the previous year except as required in terms of the adoption of the following:

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

IFRS 4 *Insurance Contracts* (amendment) (IFRS 4): the amendment to applying IFRS 9 with IFRS 4 introduced two approaches: an overlay approach and a deferral approach. The amended standard will provide all companies that issue insurance contracts the option to recognise in OCI, rather than profit or loss, the volatility that could arise when IFRS 9 is applied before the new insurance contracts standard is issued; and provide companies whose activities are predominantly connected with insurance an optional temporary exemption from applying IFRS 9 until 2021. The entities that defer the application of IFRS 9 will continue to apply the existing financial instruments standard IAS 39. The amendments to IFRS 4 supplement existing options in the standard that can already be used to address the temporary volatility. The group and company did not apply the optional temporary exemption from applying IFRS 9 until 2021.

IFRS 15 *Revenue from Contracts with Customers* (IFRS 15), with effect from 1 January 2018, replaces the existing revenue standards and the related interpretations. The standard sets out the requirements for recognising revenue that applies to all contracts with customers (except for contracts that are within the scope of the standards on leases, insurance contracts or financial instruments). The core principle of the standard is that revenue recognised reflects the consideration to which the company expects to be entitled in exchange for the transfer of promised goods or services to the customer. The standard incorporates a five-step analysis to determine the amount and timing of revenue recognition. The group adopted IFRS 15 on 1 January 2018 and, as permitted by IFRS 15, did not restate its comparative financial results. The standard does not apply to revenue associated with financial instruments, and therefore does not impact the majority of the group and company's revenue.

The International Financial Reporting Interpretations Committee (IFRIC) *Foreign Currency Transactions and Advance Consideration* (IFRIC 22) provides guidance on how to determine the date of the transaction for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or income (or part of it) on the derecognition of a non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration in a foreign currency.

The above-mentioned standards and interpretation to the IFRS standards, adopted on 1 January 2018, did not effect the group and company's previously reported financial results, disclosures or accounting policies and did not impact the group and company's results upon transition.

IFRS 9, with effect from 1 January 2018, replaced IAS 39. IFRS 9 introduced new requirements which included an ECL impairment model and new requirements for the classification and measurement of financial assets. IFRS 9, adopted on 1 January 2018, impacted the group and company's results upon transition. The impact to the group and company's reserves upon transition to IFRS 9 materially relates to IFRS 9's ECL impairment requirements. IFRS 9's classification and measurement requirements resulted in an immaterial impact to the group and company upon transition.

AR | Refer to the IFRS 9 transition disclosure for more detail.

IFRS 9 – transition

Background

With effect from 1 January 2018, IFRS 9 replaced IAS 39. IFRS 9 introduced new requirements which included an ECL impairment model and new requirements for the classification and measurement of financial assets as follows:

ECL impairment requirements	IFRS 9's ECL impairment model's requirements represented the most material IFRS 9 transition impact for the group. The ECL model applies to financial assets measured at either amortised cost or at fair value through OCI (FVOCI), loan commitments when there is a present commitment to extend credit (unless these are measured at fair value through profit or loss (FVTPL)) and guarantees. ECL is, at a minimum, required to be measured through a loss allowance at an amount equal to the 12-month ECL. However, where the lifetime is less than 12 months, lifetime ECL will be measured for the financial asset. A loss allowance for full lifetime ECL is required for a financial asset if the credit risk of that financial instrument has increased significantly since initial recognition.
Classification and measurement	IFRS 9 requires all financial assets to be classified and measured on the basis of the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets. The accounting for financial assets differs in various other areas to the IAS 39 requirements such as embedded derivatives and the recognition of fair value adjustments in OCI. All changes in the fair value of financial liabilities that are designated at FVTPL due to changes in own credit risk are required to be recognised within OCI.

Adoption of IFRS 9

The group and company retrospectively adopted IFRS 9 on 1 January 2018 with an adjustment to the group and company's opening 1 January 2018 reserves and, as permitted by IFRS 9, did not restate its comparative financial results. Accordingly, the group and company's previously reported financial results up to 31 December 2017 are presented in accordance with the requirements of IAS 39 and for 2018, and future reporting periods, are presented in terms of IFRS 9. However, the group and company have elected to continue to apply the hedge accounting requirements of IAS 39.

IFRS 9's ECL requirements

The most material IFRS 9 transition impact for the group and company is that of IFRS 9's new ECL requirements which results in the earlier recognition of credit impairment provisions primarily as a result of the drivers outlined in the table below. This impact was solely as a result of the adoption of IFRS 9 and is not as a result of changes in the credit quality of the group and company's loan exposures.

12-month ECL for performing loans (stage 1)	IFRS 9 contains a minimum 12-month ECL for exposures for which there has not been a SICR, whereas IAS 39 required credit impairments to be recognised only following the identification of objective evidence of impairment.
SICR (stage 2)	A lifetime ECL is recognised for all exposures for which there has been a SICR, being a material change in the probability of default, since origination.
Off-balance sheet exposures	IFRS 9's scope includes off-balance sheet exposures, such as unutilised loan commitments (except those loan commitments at FVTPL), bankers acceptances, guarantees, and letters of credit.
Lifetime model work out requirement	In terms of determining ECL for stage 1 and 2 exposures where there is a probability of default, the potential loss from a lifetime perspective is considered, which would include the probability of recovery post default and subsequent re-default. For stage 3 exposures, being exposures that are either in default or where default is imminent, this would include consideration of cures and subsequent re-default.
Forward looking economic expectations	IFRS 9 requires an adjustment for forward looking economic expectations in the determination of SICR and in the measurement of the ECL.

IFRS 9 key financial impacts

TABLE 1: IMPACT ON SBSA GROUP'S EXTRACTED STATEMENT OF FINANCIAL POSITION ON 1 JANUARY 2018

SBSA GROUP	IAS 39 at 31 December 2017 Rm	IFRS 9 transition adjustment at 1 January 2018: IFRS 9 ECL Rm	IFRS 9 transition adjustment at 1 January 2018: IFRS 9 classification and measurements Rm	IFRS 9 transition adjustment at 1 January 2018: Total Rm	IFRS 9 at 1 January 2018 Rm
Assets					
Financial investments	86 344	**(3)**	**52**	**49**	**86 393**
Loans and advances	900 895	**(5 846)**	**(81)**	**(5 927)**	**894 968**
Interest in SBG companies, associates and joint ventures – banking activities	46 000	**(318)**		**(318)**	**45 682**
Other financial and non-financial assets[1]	275 561	**1 810**	**100**	**1 910**	**277 471**
Total assets	1 308 800	**(4 357)**	**71**	**(4 286)**	**1 304 514**
Equity and liabilities					
Equity	104 338	**(4 667)**	**(225)**	**(4 892)**	**99 446**
Equity attributable to the ordinary shareholder	100 791	**(4 667)**	**(225)**	**(4 892)**	**95 899**
Equity attributable to other equity holders	3 544				**3 544**
Equity attributable to non-controlling interests	3				**3**
Liabilities[2]	1 204 462	**310**	**296**	**606**	**1 205 068**
Total equity and liabilities	1 308 800	**(4 357)**	**71**	**(4 286)**	**1 304 514**

1 The increase in other financial and non-financial assets relates to the recognition of deferred tax assets following the recognition of the IFRS 9 ECL transition adjustment.
2 Materially relates to the recognition of ECL on off-balance sheet letters of credit, bankers' acceptances and guarantees, as well as classification and measurement changes on financial liabilities.

TABLE 2: IMPACT ON SBSA GROUP'S EXTRACTED STATEMENT OF CHANGES IN EQUITY ON 1 JANUARY 2018

SBSA GROUP	IAS 39 at 31 December 2017 Rm	IFRS 9 transition adjustment at 1 January 2018 Rm	IFRS 9 at 1 January 2018 Rm
Ordinary share capital and share premium	43 698		**43 698**
Retained earnings[1]	56 294	**(4 897)**	**51 397**
Other[2]	799	**5**	**804**
Total ordinary shareholder's equity	100 791	**(4 892)**	**95 899**
Other equity instruments	3 544		**3 544**
Non-controlling interests	3		**3**
Total equity	104 338	**(4 892)**	**99 446**

1 The change in the retained earnings relates to IFRS 9's classification and measurement and ECL changes.
2 Of the R227 million in the group's available-for-sale reserve as at 31 December 2017, R232 million has been reclassified on the adoption of IFRS 9 to the fair value through OCI category and R5 million relates to gains and losses on instruments that were classified as available-for-sale and are now classified as either FVTPL or at amortised cost.

TABLE 3: IMPACT ON FINANCIAL INSTRUMENT CLASSIFICATION (EXCLUDING IMPACT OF IFRS 9 ECL)

SBSA GROUP	IAS 39 at 31 December 2017 Rm	IFRS 9 classification at 1 January 2018[1]						Transitional adjustment Rm
		Held-for-trading Rm	Designated at fair value Rm	Fair value through profit or loss – default Rm	Amortised cost Rm	Fair value through OCI Rm	IFRS 9 at 1 January 2018 Rm	
Financial assets								
Held-for-trading	209 185	209 185					209 185	
Designated at fair value	14 603		14 603				14 603	
Held-to-maturity	72 087			725	71 372		72 097	10
Loans and receivables[2]	981 729			36 183	945 542		981 725	(4)
Available-for-sale	1 599				126	1 480	1 606	7
Total financial assets	1 279 203	209 185	14 603	36 908	1 017 040	1 480	1 279 216	13
Financial liabilities								
Held-for-trading	137 260	137 260					137 260	
Designated at fair value[3]	13 629		5 816		8 009		13 825	196
Other amortised cost	1 049 013				1 049 113		1 049 113	100
Total financial liabilities	1 199 902	137 260	5 816		1 057 122		1 200 198	296

1 The classification changes contained in the table primarily relate to corporate exposures and reserving requirements with the central bank.
2 Cash and balances with the central bank was in terms of IAS 39 measured as loans and receivables. Coins and bank notes and the reserving requirements held with the central bank have been classified as at fair value through profit or loss (default) as the contractual terms do not give rise on specified dates to cash flows that represent solely payments of principal and interest on the principal amount outstanding.
3 The financial instruments no longer designated at fair value through profit or loss are as a result of IFRS 9 designation criteria not being met.

The group applied IFRS 9's classification and measurement requirements based on the facts and circumstances at 1 January 2018 in determining the transition adjustment. As at 1 January 2018 the group determined the classification of financial assets on the basis of the business model for managing the financial assets and the contractual cash flow characteristics of the financial assets. An assessment of the instrument's contractual terms was performed to determine whether the terms give rise on specified dates to cash flows that are solely payments of principal and interest of the principal amount outstanding (referred to as SPPI) and whether there is an accounting mismatch.

For debt financial assets that meet IFRS 9's business model (held to collect and/or held to collect and sell) and the SPPI tests and are to be classified as amortised cost or at fair value through OCI, the group assessed whether there is an accounting mismatch based on the facts and circumstances as at 1 January 2018. From the above table, no mismatches were identified.

The group re-assessed the classification of financial assets that were designated as at fair value through profit or loss in terms of IAS 39 to eliminate or significantly reduce an accounting mismatch based on the facts and circumstances at 1 January 2018. These financial assets continued to be designated as at fair value through profit or loss as illustrated above.

Equity financial assets are elected to be measured as at fair value through OCI where the held-for-trading criteria is not met based on the facts and circumstances as at 1 January 2018.

With the exception of what is noted below, both IAS 39 and IFRS 9 have the same requirements for the classification of financial liabilities. Changes in fair value that are attributable to changes in the credit risk of financial liabilities that have been designated at fair value through profit or loss shall, in terms of IFRS 9, be recognised in OCI with the remaining amount of the change in the fair value of the financial liability being presented in profit or loss. The gains and losses presented in OCI are not subsequently recognised in profit or loss. Where, however, presenting the changes in the fair value of the liability due to changes in credit risk in OCI would create or enlarge an accounting mismatch in profit or loss, IFRS 9 permits the gains and losses due to changes in the credit risk of that liability to be recognised in profit or loss. The group re-assessed its financial liabilities to be designated as at fair value through profit or loss based on the facts and circumstances at 1 January 2018. These financial liabilities are either continued to be designated as at fair value through profit and loss or were reclassified to amortised cost under IFRS 9 as illustrated in the table above.

TABLE 4: THE TRANSITION FROM IAS 39 TO IFRS 9'S IMPAIRMENT REQUIREMENTS BY SEGMENT AND ASSET CLASS

	IAS 39 – 31 December 2017				
SBSA GROUP	Performing portfolio provision Rm	Specific debt provision Rm	Total IAS 39 provision (excluding IIS) Rm	Interest in suspense (IIS) Rm	Total IAS 39 provision (including IIS) Rm
Personal & Business Banking	4 033	10 548	14 581	2 459	17 040
Loans and advances measured at amortised cost	4 033	10 548	14 581	2 459	17 040
Mortgage loans	992	3 738	4 730	1 318	6 048
Vehicle and asset finance	612	1 030	1 642		1 642
Card debtors	658	1 564	2 222		2 222
Other loans and advances	1 771	4 216	5 987	1 141	7 128
Off-balance sheet exposures					
Corporate & Investment Banking	1 120	2 461	3 581	1 037	4 618
Loans and advances measured at amortised cost	1 120	2 461	3 581	1 037	4 618
Corporate	1 120	2 461	3 581	1 037	4 618
Sovereign					
Bank					
Debt financial investments measured at amortised cost					
Corporate					
Sovereign					
Off-balance sheet exposures					
Other services[1]	400		400		400
Interests in SBG companies, associates and joint ventures					
Total provision on-balance sheet	5 553	13 009	18 562	3 496	22 058
Total provision off-balance sheet					
Total	5 553	13 009	18 562	3 496	22 058

1 In terms of IAS 39, the group previously maintained an impairment provision of R400 million within other services which materially related to credit risk pertaining to the group's Africa Regions cross-border exposures. On adoption of IFRS 9 this impairment provision has been recognised in opening retained earnings.

IFRS 9 – 1 January 2018				IFRS 9 – transition adjustment – 1 January 2018		
Stage 1 Rm	Stage 2 Rm	Stage 3 Rm	Total IFRS 9 provision (including IIS) Rm	Gross Rm	Tax Rm	Net Rm
4 293	4 805	13 824	22 922	5 882	(1 645)	4 237
4 241	4 805	13 824	22 870	5 830	(1 631)	4 199
1 067	1 819	5 881	8 767	2 719	(761)	1 958
705	752	1 111	2 568	926	(259)	667
672	768	1 612	3 052	830	(232)	598
1 797	1 466	5 220	8 483	1 355	(379)	976
52			52	52	(14)	38
591	1 173	3 531	5 295	677	(189)	488
569	1 122	3 343	5 034	416	(117)	299
494	1 092	3 343	4 929	311	(88)	223
58	30		88	88	(25)	63
17			17	17	(4)	13
3			3	3		3
1			1	1		1
2			2	2		2
19	51	188	258	258	(72)	186
				(400)	112	(288)
65	6	247	318	318	(88)	230
4 878	5 933	17 414	28 225	6 167	(1 724)	4 443
71	51	188	310	310	(86)	224
4 949	5 984	17 602	28 535	6 477	(1 810)	4 667

Change in accounting policy

Expenses incurred with respect to the group and company's customer loyalty programme (Ucount) have historically been recorded as part of operating expenses in the income statement. During the year, the group and company amended its accounting presentation policy for these expenses to rather be presented as part of net fee and commission revenue (within non-interest revenue). This presentation better aligns to the group and company's presentation policy for recognising expenses within net fee and commission revenue. The impact of the change in the accounting policy on the group and company's financial results is as follows:

	2017		
	As previously presented Rm	Restatement Rm	Restated Rm
GROUP			
Fee and commission expense (note 28)	4 487	463	4 950
Operating expenses (note 33)	40 835	(463)	40 372
COMPANY			
Fee and commission expense (note 28)	4 464	463	4 927
Operating expenses (note 33)	39 886	(463)	39 423

The following primary statements and notes of the group and company, have been impacted by this restatement:

- income statement
- fee and commission expense
- operating expenses
- segment report.

Key management assumptions

In preparing the financial statements, estimates and assumptions are made that could materially affect the reported amounts of assets and liabilities within the next financial year. Estimates and judgements are continually evaluated and are based on factors such as historical experience and current best estimates of future events. Post the implementation of IFRS 9 on 1 January 2018, unless otherwise stated, no material changes to assumptions have occurred during the year. The following represents the most material key management assumptions applied in preparing these financial statements.

ECL on financial assets – IFRS 9 drivers

For the purpose of determining the ECL:

- the PBB portfolios are based on the product categories or subsets of the product categories, with tailored ECL models per portfolio. The IFRS 9 impairment provision calculation excludes post write-off recoveries (PWOR) from the loss given default (LGD) in calculating the expected credit loss. This LGD parameter has been aligned to emerging market practice
- CIB exposures are calculated separately based on rating models for each of the asset classes.

ECL measurement period

- The ECL measurement period for stage 1 exposures is 12-months (or the remaining tenor of the financial asset for CIB exposures if the remaining lifetime is less than 12 months).
- A loss allowance over the full lifetime of the financial asset is required if the credit risk of that financial instrument has increased significantly since initial recognition (stage 2).
- Lifetimes include consideration for multiple default events, i.e. where defaulted exposures cure and then subsequently re-default. This consideration increases the lifetime and the potential ECL.
- A lifetime measurement period is applied to all credit impaired (stage 3) exposures.
- The measurement periods for unutilised loan commitments utilise the same approach as on-balance sheet exposures.

SICR and low credit risk

PBB

In accordance with IFRS 9, all exposures are assessed to determine whether there has been SICR at the reporting date, in which case an impairment provision equivalent to the lifetime expected loss is recognised. SICR thresholds, which are behaviour score based, are derived for each portfolio vintage of exposures with similar credit risk and are calibrated over time to determine which exposures reflect deterioration relative to the originated population and consequently reflect an increase in credit risk.

The group determines the SICR threshold by utilising an appropriate transfer rate of exposures from stage 1 to stage 2. This is done by taking into account the expected levels of arrears status for each portfolio vintage of exposures. The SICR thresholds are reviewed regularly to ensure that they are appropriately calibrated to identify SICR by portfolio vintage and to consequently facilitate appropriate impairment coverage.

Where behaviour scores are not available, historical levels of delinquency are applied in determining whether there has been SICR. For all exposures, IFRS 9's rebuttable presumption of 30 days past due, as well as exposures classified as either debt review or as 'watch-list' are used to classify exposures within stage 2.

CIB (including certain PBB business banking exposures)

The group uses a 25-point master rating scale to quantify the credit risk for each exposure. On origination, each client is assigned a credit risk grade within the group's 25-point master rating scale. Ratings are mapped to PDs by means of calibration formulae that use historical default rates and other data for the applicable portfolio. These credit ratings are evaluated at least annually or more frequently as appropriate.

CIB exposures are evaluated for SICR by comparing the credit risk grade at the reporting date to the origination credit risk grade. Where the relative change in the credit risk grade exceeds certain pre-defined ratings' migration thresholds or, when a contractual payment becomes more than 30 days overdue (IFRS 9's rebuttable presumption), the exposure is classified within stage 2. These pre-defined ratings' migration thresholds have been determined based on historic default experience which indicate that higher rated risk exposures are more sensitive to SICR than lower risk exposures. Based on an analysis of historic default experience, exposures that are classified by the group's master rating scale as investment grade (within credit risk grade 1 – 12 of the group's 25-point master rating scale) are assessed for SICR at each reporting date but are considered to be of a low credit risk for IFRS 9 purposes. To determine whether a client's credit risk has increased significantly since origination, the group would need to determine the extent of the change in credit risk using the table below.

Group master rating scale band	SICR trigger (from origination)
SB 1 – 12	Low credit risk
SB 13 – 20	3 rating or more
SB 21 – 25	1 rating or more

Incorporation of forward-looking information in ECL measurement

The group determines the macroeconomic outlook, over a planning horizon of at least three years, for each country based on the group's global outlook and its global view of commodities.

For PBB, these forward-looking economic expectations are included in the ECL where adjustments are made based on the group's macroeconomic outlook, using models that correlate these parameters with macroeconomic variables. Where modelled correlations are not viable or predictive, adjustments are based on expert judgement to predict the outcomes based on the group's macroeconomic outlook expectations. In addition to forward-looking macroeconomic information, other types of forward-looking information, such as specific event risk, have been taken into account in ECL estimates when required, through the application of out-of-model adjustments. These out-of-model adjustments are subject to group credit governance committee oversight.

The group's macroeconomic outlooks are incorporated in CIB's client rating and include specific forward-looking economic considerations for the individual client. The client rating thus reflects the expected client risk for the group's expectation of future economic and business conditions. Further adjustments, based on point-in-time market data, are made to the PDs assigned to each risk grade to produce PDs and ECL representative of existing market conditions.

Default

The definition of default, which triggers the credit impaired classification (stage 3), is based on the group's internal credit risk management approach and definitions. While the specific determination of default varies according to the nature of the product, it is compliant to the Basel definition of default, and generally determined as occurring at the earlier of:

- where, in the group's view, the counterparty is considered to be unlikely to pay amounts due on the due date or shortly thereafter without recourse to actions such as the realisation of security; or
- when the counterparty is past due for more than 90 days (or, in the case of overdraft facilities in excess of the current limit).

The group has not rebutted IFRS 9's 90 days past due rebuttable presumption.

Write-off policy

An impaired loan is written off once all reasonable attempts at collection have been made and there is no material economic benefit expected from attempting to recover the balance outstanding. The following criteria must be met before a financial asset can be written off:

- the financial asset has been in default for the period defined for the specific product (i.e. mortgage loans, vehicle and asset finance) which is deemed sufficient to determine whether the entity is able to receive any further economic benefit from the impaired loan; and
- at the point of write-off, the financial asset is fully impaired (i.e. 100% allowance) with no reasonable expectations of recovery of the asset, or a portion thereof.

As an exception to the above requirements, where the exposure is secured (or for collateralised structures), the impaired loan can only be written off once the collateral has been realised. Post realisation of the collateral, the shortfall amount can be written off if it meets the second requirement listed above. The shortfall amount does not need to meet the first requirement to be written off.

Curing

Continuous assessment is required to determine whether the conditions that led to a financial asset being considered to be credit impaired (i.e. stage 3) still exist. Distressed restructured financial assets that no longer qualify as credit impaired remain within stage 3 for a minimum period of six months (i.e. six full consecutive monthly payments per the terms and conditions). In the case of financial assets with quarterly or longer-dated repayment terms, the classification of a financial asset out of stage 3 may be made subsequent to an evaluation by the group's CIB or PBB credit governance committee (as appropriate), such evaluation will take into account qualitative factors in addition to compliance with payment terms and conditions of the agreement. Qualitative factors include compliance with covenants and compliance with existing financial asset terms and conditions.

Where it has been determined that a financial asset no longer meets the criteria for SICR, the financial asset will be moved from stage 2 (lifetime expected credit loss model) back to stage 1 (12-month expected credit loss model) prospectively.

Amendments to the estimation technique

Refinements to some of the PBB ECL models have been made during the course of 2018. The amendments include enhancements to certain assumptions within the modelling techniques for the South African ECL calculations.

The group's forward-looking economic expectations were applied in the determination of the ECL at the reporting date

A range of base, bullish and bearish forward-looking economic expectations were determined, as at 31 December 2018, for inclusion in the group's forward-looking process and ECL calculation.

South African economic expectation

- The base case for South Africa is that business and consumer confidence ultimately strengthens, and the policy framework incrementally improves, following the political change that began with the African National Congress' (ANC) leadership election in December 2017. However, this virtuous growth cycle has been slowed by the uncertainty and lack of decisive policy changes ahead of the 2019 elections, as well as elevated uncertainty about property expropriation without compensation. Our forecasts assume sufficient support for the ANC in the election (and for the president within the party) to support a reform mandate. A sovereign credit rating downgrade by Moody's is assumed to be staved off, though there are significant risks to the fiscal forecasts and credit ratings.

- There is a material risk of a more bearish scenario given deep-seated ideological divides within the ANC and the broader society, difficult policy trade-offs, which may complicate and delay substantive policy reforms, and economic growth which may remain too low to reduce unemployment and the fiscal risks. Further fiscal slippage in the October 2018 Medium-Term Budget Policy Statement underscores the elevated fiscal and rating risks, which would affect not only capital flows and financial markets but also confidence and fixed investment if they materialise.
- There is a rather low probability bullish case in which traction with policy reform exceeds expectations, compelling a stronger recovery in employment and fixed investment, supported by significant pent-up demand and strong confidence. This would also alleviate socio-political and fiscal risks.

Main macroeconomic factors

The following table shows the main macroeconomic factors used to estimate the forward-looking impact on the IFRS 9 provision on financial assets. For each scenario, namely the base case, bullish and bearish scenario, the average values of the factors over the next 12 months, and over the remaining forecast period, are presented.

	Base scenario		Bearish scenario		Bullish scenario	
Macroeconomic factors	**Next 12 months**	**Remaining forecast period[1]**	**Next 12 months**	**Remaining forecast period[1]**	**Next 12 months**	**Remaining forecast period[1]**
South Africa						
Inflation (%)	5.5	5.3	6.5	5.8	4.8	5.1
Real GDP[2] (%)	1.8	2.5	0.8	1.0	2.4	2.9
Employment rate growth (%)	1.2	1.3	0.1	0.6	1.4	1.6
Household credit (%)	6.1	7.2	1.8	6.0	6.8	7.7
Exchange rate GBP/USD	13.4	13.8	14.9	14.5	12.1	12.7
Prime lending rate (%)	10.3	10.5	10.5	10.8	10.0	10.0

1 The remaining forecast period is 2020 to 2023.
2 Gross domestic product.

Sensitivity analysis of CIB forward-looking impact on IFRS 9 provision

Management assessed and considered the sensitivity of the IFRS 9 provision against the forward-looking economic conditions at a client level. The reviews and ratings of each client are performed at least annually. This process entails credit analysts completing a credit scorecard and incorporating forward-looking information. The weighting is reflected in both the determination of significant increase in credit risk, as well as the measurement of the resulting IFRS 9 provision for the individual client. Therefore, the impact of forward-looking economic conditions is embedded into the total IFRS 9 provision for each CIB client and cannot be stressed or separated out of the overall CIB IFRS 9 provision.

Sensitivity analysis of PBB forward-looking impact on IFRS 9 provision

The following table shows a comparison of the forward-looking impact on the IFRS 9 provision as at 31 December 2018 based on the probability weightings of the above three scenarios resulting from recalculating each of the scenarios using a 100% weighting of the above factors.

	Rm	% change of total PBB IFRS 9 provision
Forward-looking impact on IFRS 9 provision	1 341	
Scenarios		
Base	1 109	(1)
Bearish	1 798	2
Bullish	921	(2)

AR Refer to note 6 loans and advances, for the carrying amounts of loans and advances and to the credit risk section of the risk and capital management report for the group's assessment of the risk of loss arising out of the failure of counterparties to meet their financial or contractual obligations when due.

Credit impairment losses on loans and advances – IAS 39

Portfolio loan impairments

The group assesses its loan portfolios for impairment at each reporting date. In determining whether an impairment loss should be recognised in profit or loss, the group makes judgements as to whether there is observable data indicating a measurable decrease in the estimated future cash flows from a portfolio of loans before the decrease can be allocated to an individual loan in that portfolio. Estimates are made of the duration between the occurrence of a loss event and the identification of a loss on an individual basis.

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

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

Specific loan impairments

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

The methodology used in determining the specific loan impairment includes modelling with various inputs such as segmentation, levels of loss expectation, recoverability of collateral, potential cash flows and probability of default. Management's estimates of future cash flows on individually impaired loans are based on historical loss experience for assets with similar credit risk characteristics. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

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

	Expected time to recovery Months	Expected recoveries as a percentage of impaired loans %
2017		
Personal & Business Banking	8 – 15	58
Mortgage loans	15	74
Vehicle and asset finance	9	59
Card debtors	8	25
Other lending	13	32
Corporate & Investment Banking	21	32

AR Refer to note 6 loans and advances, for the carrying amounts of loans and advances and to the credit risk section of the risk and capital management report for the group's assessment of the risk of loss arising out of the failure of counterparties to meet their financial or contractual obligations when due.

Impairment of available-for-sale investments – IAS 39

The group determines that available-for-sale investments are impaired and recognised as such in profit or loss when there has been a significant or prolonged decline in the fair value below its cost. The determination of what is significant or prolonged requires judgement. In making this judgement, the group evaluates, among other factors, the normal volatility in the instruments' fair value. In addition, impairment may be appropriate when there is evidence of a deterioration in the financial health of the investee, industry or sector, or operational and financing cash flows or significant changes in technology.

Derivatives held-for-hedging

Interest rate benchmarks and reference interest rate reform

The Financial Stability Board has initiated a fundamental review and reform of the major interest rate benchmarks used globally by financial market participants. This review seeks to replace existing interbank offered rates (IBORs) with alternative risk-free rates (ARRs) to improve market efficiency and mitigate systemic risk across financial markets. This reform is at various stages globally. Accordingly, there is uncertainty surrounding the timing and manner in which the transition would occur and how this would affect various financial instruments held by the group. Consequently, significant judgement is applied in determining whether certain interest rate risk hedge relationships will continue to qualify for hedge accounting. As at 31 December 2018, management's view is that existing hedge relationships referencing IBORs continue to qualify for hedge accounting given market reliance on existing IBORs and the current absence of term structures in ARRs for products that span longer time periods. Management is monitoring market and accounting developments in this regard.

Fair value

Financial instruments

In terms of IFRS, the group and company are either required to or elects to measure a number of its financial assets and financial liabilities at fair value, being the price that would, respectively, be received to sell an asset or paid to transfer a liability in an orderly transaction in the principal (or most advantageous) market between market participants at the measurement date. Regardless of the measurement basis, the fair value is required to be disclosed, with some exceptions, for all financial assets and financial liabilities.

Fair value is a market-based measurement and uses the assumptions that market participants would use when pricing an asset or liability under current market conditions.

When determining fair value it is presumed that the entity is a going concern and is not an amount that represents a forced transaction, involuntary liquidation or a distressed sale. Information obtained from the valuation of financial instruments is used to assess the performance of the group (and company) 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 governs internal control standards, methodologies, and procedures over its valuation processes, which include:

Prices quoted in an active market: The existence of quoted prices in an active market represents the best evidence of fair value. Where such prices exist, they are used in determining the fair value of financial assets and financial liabilities.

Valuation techniques: Where quoted market prices are unavailable, the group establishes fair value using valuation techniques that incorporate observable inputs, either directly, such as quoted prices, or indirectly, such as those derived from quoted prices, for such assets and liabilities. Parameter inputs are obtained directly from the market, consensus pricing services or recent transactions in active markets, whenever possible.

Where such inputs are not available, the group 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 believes that its estimates of fair values are appropriate, changing one or more of these assumptions to reasonably possible alternative values would affect the reported fair values of these financial instruments. Valuation techniques used for financial instruments include the use of financial models that are populated using market parameters that are corroborated by reference to independent market data, where possible, or alternative sources, such as, third party quotes, recent transaction prices or suitable proxies. The fair value of certain financial instruments is determined using industry standard models such as, discounted cash flow analysis and standard option pricing models. These models are generally used to estimate future cash flows and discount these back to the valuation date. For complex or unique instruments, more sophisticated modelling techniques may be required, which require assumptions or more complex parameters such as correlations, prepayment spreads, default rates and loss severity.

Valuation adjustments: Valuation adjustments are an integral part of the valuation process. Adjustments include, but are not limited to: credit spreads on illiquid issuers, implied volatilities on thinly traded instruments, 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; and
- 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. Furthermore, 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 2018 was a net loss of R1 676 million (2017: R3 969 million net gain) for the group and company. Other financial instruments, not at level 3, are utilised to mitigate the risk of these changes in fair value.

AR | 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 structured entities (SEs). Determining whether the group controls another entity requires judgement by identifying an entity's relevant activities, being those activities that significantly affect the investee's returns, and whether the group controls those relevant activities by considering the rights attached to both current and potential voting rights, de facto control and other contractual rights, including whether such rights are substantive.

Interests in unconsolidated SEs that are not considered to be a typical customer-supplier relationship are required to be identified and disclosed. The group regards an 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.

AR | Refer to annexure A for detail on subsidiaries, consolidated and unconsolidated structured entities within the group.

Computer software intangible assets

The group and company review assets under construction and assets brought into use for impairment at each reporting date and tests the carrying value for impairment whenever events or changes in circumstances indicate that the carrying amount (or components of the carrying amount) may not be recoverable. These circumstances include, but are not limited to, new technological developments, obsolescence, changes in the manner in which the software is used or is expected to be used, changes in discount rates or changes in estimates of related future cash benefits. The impairment tests are performed by comparing an asset's recoverable amount to its carrying 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 assets' future cash flows in order to derive the asset's recoverable amount.

The recoverable amount is determined as the higher of an asset's fair value less 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. These impairments are excluded from the group's headline earnings.

During the 2018 financial year, certain of the group and company's computer software assets' recoverable values were determined to be lower than their carrying values and were impaired by an amount of R437 million (pre-tax) for the group and company (2017: R283 million pre-tax). These impairments are excluded from the group and company's headline earnings.

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

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 in 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 35 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 that are used to support the probability assessment that sufficient taxable profits will be generated by the entities in the group in order to utilise the deferred tax assets.

Provisions

The principal assumptions taken into account in determining the value at which provisions are recorded at include determining whether there is an obligation as well as assumptions about the probability of the outflow of resources and the estimate of the amount and timing for the settlement of the obligation. For legal provisions management assesses the probability of the outflow of resources by taking into account historical data and the status of the claim in consultation with the group's legal counsel. In determining the amount and timing of the obligation once it has been assessed to exist, management exercises its judgement by taking into account all available information, including that arising after the reporting date up to the date of the approval of the financial statements.

Post-employment benefits

The group and company's post-employment benefits consist of both post-employment retirement funds and healthcare benefits. The group and company's obligations to fund these benefits are derived from actuarial valuations performed by the appointed actuaries taking into account various assumptions. The funds are subject to a statutory financial review by the group's independent actuaries at intervals of not more than three years. The principal assumptions used in the determination of the group and company's obligations include the following:

The principal assumptions used in the determination of the group's obligations include the following:

	Retirement fund		Post-employment medical aid fund	
	2018	2017	**2018**	2017
Discount rate	**Nominal government bond yield curve**	Nominal government bond yield curve	**Nominal government bond yield curve**	Nominal government bond yield curve
Return on investments	**9.64% – discounted rate of term equal to the discounted mean term of the liabilities**	9.13% – discounted rate of term equal to the discounted mean term of the liabilities	**Not applicable to fund**	Not applicable to fund
Salary/benefit inflation	**Inflation rate plus 1% plus a merit scale**	Inflation rate plus 1% plus a merit scale	**Not applicable to fund**	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	**Difference between nominal and index-linked bond yield curves**	Difference between nominal and index-linked bond yield curves
Medical inflation	**Not applicable to fund**	Not applicable to fund	**Difference between nominal and index-linked bond yield curves plus 1.5%**	Difference between nominal and index-linked bond yield curves plus 1.5%
Provider benefit escalation	**Inflation rate plus 2%**	Inflation rate plus 2%	**Not applicable to fund**	Not applicable to fund
Pension increase in allowance	**Inflation rate**	Inflation rate	**Not applicable to fund**	Not applicable to fund
Remaining service life of employees (years)	**9.33**	9.67	**Not applicable to fund**	Not applicable to fund

Notes to the annual financial statements

1. Cash and balances with the central bank

	GROUP AND COMPANY	
	2018 Rm	2017 Rm
Coins and bank notes	10 445	12 606
Balances with the central bank[1]	24 091	23 287
Total	34 536	35 893

[1] These balances primarily comprise reserving requirements levied by the South African Reserve Bank (SARB). These balances are available for use by the group and company subject to certain restrictions and limitations imposed by the SARB. These balances are held at fair value.

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 as follows:

	Fair value of assets		Fair value of liabilities	
GROUP AND COMPANY	2018 Rm	2017 Rm	2018 Rm	2017 Rm
Held-for-trading	45 934	70 029	(47 887)	(71 425)
Held-for-hedging	773	1 513	(1 659)	(1 564)
Total	46 707	71 542	(49 546)	(72 989)

2.1 Use and measurement of derivative instruments

In the normal course of business, the group and company enter into a variety of foreign exchange, interest rate, commodity, credit and equity derivative transactions for both trading and hedging purposes. 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.

The risks associated with derivative instruments are monitored in the same manner as for the underlying instruments. Risks are also measured across the product range in order to take into account possible correlations.

2.2 Derivatives held-for-trading

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 its own account. Trading derivative products include the following:

	Fair value of assets		Fair value of liabilities		Notional amount[1]	
GROUP AND COMPANY	2018 Rm	2017 Rm	2018 Rm	2017 Rm	2018 Rm	2017 Rm
Foreign exchange derivatives	22 445	33 466	(18 130)	(26 033)	1 352 501	917 859
Interest rate derivatives	19 662	31 672	(23 691)	(38 727)	4 638 723	6 842 681
Commodity derivatives	204	280	(194)	(325)	15 585	10 587
Credit derivatives	1 013	669	(2 814)	(1 696)	77 455	70 248
Equity derivatives	2 610	3 942	(3 058)	(4 644)	234 632	253 109
Total	45 934	70 029	(47 887)	(71 425)	6 318 896	8 094 484

[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 and other financial instruments held-for-hedging (2018)

Where all relevant criteria are met, derivatives are classified as derivatives held-for-hedging and hedge accounting is applied to remove the accounting mismatch between the derivative (hedging instrument) and the underlying instruments (hedged item). All qualifying hedging relationships are designated as either fair value, cash flow, or net investment hedges for recognised financial assets or liabilities, and highly probable forecast transactions. The group and company apply hedge accounting in respect of foreign currency risk, equity price risk and interest rate risk. Refer to annexure F on page 197 for more information on these hedging strategies.

2.3.1 Derivatives designated as hedging instruments in fair value hedging relationships

GROUP AND COMPANY	Fair value of assets Rm	Fair value of liabilities Rm	Net fair value Rm	Less than one year Rm	Between one to five years Rm	Over five years Rm	Contract/ notional amount Rm	Fair value loss Rm
2018								
Interest rate risk fair value hedging relationships								
Interest rate swaps	502	(1 166)	(664)	(20)	(156)	(488)	101 277	(22)

2.3.2 Hedge items classified as fair value hedges

GROUP AND COMPANY	Fair value of assets Rm	Fair value of liabilities Rm	Fair value gain/(loss) Rm	Fair value gain/(loss) used to test hedge ineffectiveness Rm	Accumulated fair value hedge adjustments Rm
2018					
Interest rate risk fair value hedging relationships					
Financial investments	328		34	34	
Loans and advances to customers	26 638		(218)	(218)	644
Deposits and debt funding		(58 500)	199	199	126
Subordinated debt		(2 033)	15	15	19
Total	26 966	(60 533)	30	30	789

2.3.3 Derivatives designated as hedging instruments in cash flow hedging relationships

GROUP AND COMPANY	Fair value of assets Rm	Fair value of liabilities Rm	Net fair value Rm	Less than one year Rm	Between one to five years Rm	Contract/ notional amount Rm	Fair value loss Rm
2018							
Foreign currency risk cash flow hedging relationships	161	(240)	(79)	(73)	(6)	8 913	(279)
Currency forwards	59	(96)	(37)	(31)	(6)	4 932	(81)
Currency swaps	102	(144)	(42)	(42)		3 981	(198)
Equity price risk cash flow hedging relationships	110	(253)	(143)	(106)	(37)	2 890	(560)
Equity forwards	110	(253)	(143)	(106)	(37)	2 890	(560)
Total	271	(493)	(222)	(179)	(43)	11 803	(839)

2. Derivative instruments continued

2.3 Derivatives and other financial instruments held-for-hedging (2018) continued

2.3.4 Hedged items classified as cash flow hedges

GROUP AND COMPANY	Fair value gain used to test hedge ineffectiveness Rm
2018	
Loans and advances	207
Foreign currency risk cash flow hedging relationships	207
Share scheme liabilities (excludes equity deferred bonus scheme)	496
Equity price risk cash flow hedging relationships	496
Other operating expenses	82
Foreign currency risk cash flow hedging relationships	82
Total	785

2.3.5 Hedge ineffectiveness recognised in profit or loss

Hedge ineffectiveness in qualifying hedge relationships arises predominantly due to the presence of costs contained within hedging instruments. This ineffectiveness was recognised in profit or loss together with the gains and losses on the underlying hedged item according to the nature of the risk being hedged as follows:

GROUP AND COMPANY	Other operating expenses loss Rm	Trading revenue gain Rm	Net interest income gain Rm	Total Rm
2018				
Fair value hedges			8	8
Interest rate risk fair value hedging relationships			8	8
Cash flow hedges	(64)	10		(54)
Foreign currency risk cash flow hedging relationships		10		10
Equity price risk cash flow hedging relationships	(64)			(64)
Total	(64)	10	8	(46)

2.3.6 Reconciliation of movements in the cash flow hedging reserve

GROUP AND COMPANY	Foreign currency risk Rm	Equity price risk Rm	Total Rm
Balance at the beginning of the year		175	175
Amounts recognised directly in OCI before tax	(279)	(560)	(839)
Add: amounts released to profit or loss before tax:			
Total income	251	245	496
Interest income	49		49
Trading revenue	158		158
Other operating expenses	44	245	289
Add: deferred tax	9	75	84
Balance at the end of the year	(19)	(65)	(84)

2. Derivative instruments continued

2.3 Derivatives and other financial instruments held-for-hedging (2018) continued

2.3.7 Hedges classified as cash flow hedges

The forecasted timing of the release of net cash flows from the cash flow hedging reserve into profit or loss at 31 December is as follows:

GROUP AND COMPANY	Three months or less Rm	More than three months but within one year Rm	More than one year but less than five years Rm	Total Rm
2018				
Net (outflow)/inflow	**(24)**	**(63)**	**3**	**(84)**

2.4 Derivatives held-for-hedging (2017)

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:

GROUP AND COMPANY	Fair value of assets Rm	Fair value of liabilities Rm	Notional amount[1] Rm
2017			
Derivatives designated as fair value hedges	792	(1 352)	13 472
Derivatives designated as cash flow hedges	721	(212)	9 270
Total	1 513	(1 564)	22 742

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.

2.4.1 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/(losses) arising from fair value hedges during the year were as follows:

GROUP AND COMPANY	2017 Rm
Hedging instruments	243
Hedged items attributable to the hedged risk	(181)

2. Derivative instruments continued

2.4 Derivatives held-for-hedging (2017) continued

2.4.2 Derivatives designated in cash flow hedge relationships

The group and company use currency forwards, swaps and options to mitigate against the risk of changes in future cash flows on its foreign-denominated exposures. Interest rate swaps are primarily used to hedge, by major currency, variable rate financial assets and liabilities with the objective 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 also manage the risks arising from changes in cash flows from cash-settled share incentive schemes by using equity forwards. The equity forwards partially mitigate 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:

GROUP AND COMPANY	Three months or less Rm	More than three months but less than one year Rm	More than one year but less than five years Rm
2017			
Net cash (outflow)/inflow	(4)	105	142

2.4.3 Reconciliation of movements in the cash flow hedging reserve

GROUP AND COMPANY	2017 Rm
Balance at the beginning of the year	57
Amounts recognised directly in OCI before tax	438
Less: amounts released to profit or loss before tax	(274)
Total loss	(248)
Other operating expenses	(26)
Less: deferred tax	(46)
Balance at the end of the year	175

Ineffectiveness that arises from cash flow hedges is recognised immediately in profit or loss. No amounts were recognised in profit or loss during 2017.

3. Trading assets

3.1 Classification

	GROUP		COMPANY	
	2018 Rm	2017 Rm	**2018 Rm**	2017 Rm
Collateral	**3 416**	4 193	**3 371**	4 193
Corporate bonds	**27 180**	15 347	**27 180**	15 347
Government, municipality and utility bonds	**44 896**	43 579	**44 896**	43 579
Listed equities	**28 295**	24 638	**28 036**	24 638
Reverse repurchase and other collateralised agreements	**40 946**	26 243	**40 946**	26 243
Unlisted debt securities	**8 612**	12 282	**8 612**	12 282
Other instruments	**549**	1	**549**	1
Total	**153 894**	126 283	**153 590**	126 283

3. Trading assets continued

3.2 Day one profit or loss – trading assets

The table below sets out the aggregate net day one profit or loss yet to be recognised in profit or loss at the beginning and end of the period with a reconciliation of changes in the balances during the period.

	GROUP AND COMPANY	
	2018 Rm	2017 Rm
Unamortised profit at the beginning of the year	**642**	588
Additional profit on new transactions	**339**	162
Recognised in trading revenue during the year	**(137)**	(108)
Unamortised profit at the end of the year	**844**	642

4. Pledged assets

The following table presents details of other financial assets which have been sold or otherwise transferred, but which have not been derecognised in their entirety 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 AND COMPANY					
2018					
Corporate bonds	**110**	**106**	**94**	**106**	**(12)**
Sovereign bonds	**564**	**564**	**564**	**564**	
Pledged assets (as recognised on the statement of financial position)	**674**	**670**	**658**	**670**	**(12)**
Financial investments[2]	**9 262**	**9 261**	**9 265**	**9 259**	**6**
Total assets pledged[3]	**9 936**	**9 931**	**9 923**	**9 929**	**(6)**
2017					
Corporate bonds	358	358	358	358	
Sovereign bonds	6 454	6 454	6 449	6 449	
Pledged assets (as recognised on the statement of financial position)	6 812	6 812	6 807	6 807	
Financial investments[2]	11 233	11 225	11 233	11 223	10
Total assets pledged[3]	18 045	18 037	18 040	18 030	10

1 Where the company has recourse to the transferred asset.
2 For these financial investments, the counterparty is not permitted to sell or repledge the assets in the absence of default, hence they are not classified as pledged assets.
3 Total amount of financial assets that the group has pledged as collateral for liabilities and contingent liabilities.

The assets pledged by the group 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 repurchase agreements and securities borrowing activities.

The majority of other financial assets that do not qualify for derecognition include debt securities held by counterparties as collateral under repurchase agreements. Risks to which the group and company remain exposed include credit and interest rate risk.

During the current financial year, 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 that were transferred and derecognised where the group had continuing involvement.

4. Pledged assets continued

4.1 Collateral accepted as security for assets

As part of the reverse repurchase and securities borrowing agreements, the group and company have received securities which are not recorded in the statement of financial position that it is allowed to sell or repledge. The fair value of the financial assets accepted as collateral that the group and company are permitted to sell or repledge in the absence of default is R100 791 million (2017: R60 618 million).

The fair value of financial assets accepted as collateral that have been sold, repledged or leased in terms of repurchase agreements or leasing transactions is R11 709 million (2017: R20 271 million). These transactions are conducted under terms that are usual and customary to reverse repurchase and securities borrowing activities.

4.2 Assets transferred not derecognised

Securitisations

The group enters into transactions in the normal course of business by which it transfers recognised financial assets directly to third parties or structured entities. These transfers may give rise to full derecognition 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 interest rate, currency, prepayment and other price risks. However, where the group and company have retained substantially all of the credit risk associated with the transferred assets, it continues to recognise these assets.

The following table analyses the cumulative carrying amount of securitised financial assets that did not qualify for derecognition and the associated liabilities.

GROUP	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
2018					
Mortgage loans[2]	**45 954**		**44 747**		**44 747**
2017					
Mortgage loans[2]	47 740	400	47 848	400	47 448

COMPANY	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
2018					
Mortgage loans[2]	**45 954**	**48 422**	**44 747**	**48 295**	**(3 548)**
2017					
Mortgage loans[2]	46 004	48 704	46 276	46 886	(610)

1 The associated liabilities relating to the transferred assets, at a group level, only include external funding for the assets. The transferred assets are mainly funded by intercompany funding, which has been eliminated at a group level.
2 The group invests in vehicles specifically introduced to provide mortgage lending collateral against the Committed Liquidity Facility (CLF). To access the CLF, the SARB requires a portfolio of collateral, which is identified as a portfolio of mortgage loans. The SARB requires that these assets are ring-fenced in a separate legal entity, supported by a clearly defined note structure. At 31 December 2018, the mortgages within these vehicles, Blue Shield Investments 01 (RF) Limited and Blue Shield Investments 02 (RF) Limited, amounted to R46 billion (2017: R46 billion).

4. Pledged assets continued

4.2 Assets transferred not derecognised continued

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:

COMPANY	Carrying value Rm	Fair value Rm	Maximum exposure to risk Rm
2018			
Mortgage loans	**568**	**568**	**568**
2017			
Mortgage loans	387	387	387

5. Financial investments

	GROUP		COMPANY	
	2018 Rm	2017[1] Rm	**2018 Rm**	2017[1] Rm
Corporate	**19 907**	8 868	**19 907**	8 868
Sovereign	**71 111**	68 792	**71 111**	68 792
Bank	**12 002**	5 441	**12 002**	5 441
Listed equities	**34**	467	**34**	
Unlisted equities	**2 384**	2 560	**2 384**	2 560
Other instruments		216		216
Total	**105 438**	86 344	**105 438**	85 877
Classified as:				
Net debt financial investments measured at amortised cost	**83 298**		**83 298**	
Gross debt financial investments measured at amortised cost	**83 310**		**83 310**	
Less: ECL for debt financial investments measured at amortised cost[2]	**(12)**		**(12)**	
Financial investments measured at fair value	**22 140**		**22 140**	
Financial investments measured at fair value through profit or loss	**20 651**		**20 651**	
Debt financial investments measured at fair value through OCI	**610**		**610**	
Equity financial investments measured at fair value through OCI	**879**		**879**	

1 The group and company have, as permitted by IFRS 9, elected not to restate comparative financial statements. The group and company have aligned their categories for financial investments disclosed in 2017 to those disclosed for 2018. This did not result in a restatement to the group and company's statement of financial position as at 31 December 2017.

2 The group and company recognised ECL of R3 million on debt financial investments measured at amortised cost upon the transition to IFRS 9 on 1 January 2018. Refer to the credit impairment charges note on page 109 for the current year credit impairment charge of R7 million on debt financial investments measured at amortised cost.

5.1 Reconciliation of the FVOCI reserve for debt financial investments

GROUP AND COMPANY	Credit balance at the beginning of the year Rm	Net change in fair value Rm	Debit balance at the end of the year Rm
Sovereign	**2**	**(3)**	**(1)**

6. Loans and advances

	GROUP		COMPANY	
	2018 Rm	2017[1] Rm	2018 Rm	2017[1] Rm
Loans and advances measured at fair value through profit or loss	**968**	100	**968**	100
Net loans and advances measured at amortised cost	**930 691**	900 795	**918 412**	884 548
Gross loans and advances measured at amortised cost[2]	**959 693**	919 357	**947 271**	902 991
Mortgage loans	**342 511**	329 975	**342 353**	327 952
Vehicle and asset finance (note 6.1)	**79 343**	72 759	**79 343**	72 759
Card debtors	**32 608**	31 694	**31 631**	30 592
Corporate and sovereign	**305 169**	293 115	**294 582**	280 478
Bank	**92 168**	91 610	**92 159**	90 990
Other loans and advances	**107 894**	100 204	**107 203**	100 220
Credit impairments on loans and advances (IFRS 9) (note 6.2)[2]	**(29 002)**		**(28 859)**	
Credit impairments on loans and advances (IAS 39) (note 6.3)		(18 562)		(18 443)
Net loans and advances	**931 659**	900 895	**919 380**	884 648

1 The group and company have, as permitted by IFRS9, elected not to restate comparative financial statements. Therefore, comparability will not be achieved by the fact that the comparative financial information has been prepared on an IAS 39 basis. The group and company have, however, aligned their categories for loans and advances disclosed in 2017 to those disclosed in 2018. This did not result in a restatement to the group and company's statement of financial position as at 31 December 2017.
2 For details on the group's accounting policy on interest in suspense in terms of IAS 39 and IFRS 9 refer to page 212.

6.1 Vehicle and asset finance

	GROUP AND COMPANY	
	2018 Rm	2017 Rm
Gross investment in vehicle and asset finance	**97 890**	87 983
Receivable within one year	**30 996**	28 639
Receivable after one year but within five years	**66 624**	59 158
Receivable after five years	**270**	186
Unearned finance charges deducted	**(18 547)**	(15 224)
Net investment in vehicle and asset finance	**79 343**	72 759
Receivable within one year	**23 675**	22 898
Receivable after one year but within five years	**55 430**	49 690
Receivable after five years	**238**	171

Leases entered into are at market-related terms. Under the terms of the lease agreement, 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

6.2 Reconciliation of ECL for loans and advances measured at amortised cost

GROUP	Stage 1 Rm	Stage 2 Rm	Stage 3 (including IIS) Rm	Total Rm
Opening ECL 1 January 2018	4 810	5 927	17 167	27 904
Transfers between stages[1]	1 441	(1 625)	184	
Transfers (to)/from stage 1		(1 225)	(216)	(1 441)
Transfers from/(to) stage 2	1 225		400	1 625
Transfers from/(to) stage 3	216	(400)		(184)
Net ECL (released)/raised	(1 638)	790	6 906	6 058
ECL on new exposures raised[1]	803	658	946	2 407
Subsequent changes in ECL	(2 317)	404	6 311	4 398
Change in ECL due to derecognition	(124)	(272)	(351)	(747)
Impaired accounts written off[2]			(6 338)	(6 338)
Exchange and other movements	34	38	1 306	1 378
Closing ECL 31 December 2018	4 647	5 130	19 225	29 002

A reconciliation of the ECL for loans and advances, by product:

GROUP	Opening ECL 1 January 2018 Rm	Total transfers between stages[1] Rm	Net ECL raised/ (released) Rm	Impaired accounts written off[2] Rm	Exchange and other movements Rm	Closing ECL 31 December 2018 Rm
Mortgage loans	8 767		885	(896)	609	9 365
Stage 1	1 067	455	(557)			965
Stage 2	1 819	(161)	126			1 784
Stage 3 (including IIS)	5 881	(294)	1 316	(896)	609	6 616
Vehicle and asset finance	2 568		781	(703)	78	2 724
Stage 1	705	268	(265)			708
Stage 2	752	(319)	252			685
Stage 3 (including IIS)	1 111	51	794	(703)	78	1 331
Card debtors	3 052		1 172	(1 302)	63	2 985
Stage 1	672	176	(228)			620
Stage 2	768	(108)	287			947
Stage 3 (including IIS)	1 612	(68)	1 113	(1 302)	63	1 418
Corporate	4 929		934	(876)	441	5 428
Stage 1	494	131	(65)		35	595
Stage 2	1 092	(641)	(47)		31	435
Stage 3 (including IIS)	3 343	510	1 046	(876)	375	4 398
Sovereign	88		(36)		1	53
Stage 1	58		(6)		1	53
Stage 2	30		(30)			
Bank	17		(5)		(2)	10
Stage 1	17		(10)		(2)	5
Stage 2			5			5
Other loans and advances	8 483		2 327	(2 561)	188	8 437
Stage 1	1 797	411	(507)			1 701
Stage 2	1 466	(396)	197		7	1 274
Stage 3 (including IIS)	5 220	(15)	2 637	(2 561)	181	5 462
Total	27 904		6 058	(6 338)	1 378	29 002

Refer to footnotes on page 75.

6. Loans and advances continued

6.2 Reconciliation of ECL for loans and advances measured at amortised cost continued

COMPANY	Stage 1 Rm	Stage 2 Rm	Stage 3 (including IIS) Rm	Total Rm
Opening ECL 1 January 2018	4 774	5 889	17 064	27 727
Transfers between stages[1]	1 429	(1 621)	192	
Transfers (to)/from stage 1		(1 214)	(215)	(1 429)
Transfers from/(to) stage 2	1 214		407	1 621
Transfers from/(to) stage 3	215	(407)		(192)
Net ECL (released)/raised	(1 625)	800	6 893	6 068
ECL on new exposures raised[1]	802	654	947	2 403
Subsequent changes in ECL	(2 303)	418	6 297	4 412
Change in ECL due to derecognition	(124)	(272)	(351)	(747)
Impaired accounts written off[2]			(6 306)	(6 306)
Exchange and other movements	34	55	1 281	1 370
Closing ECL 31 December 2018	4 612	5 123	19 124	28 859

Refer to footnotes on the following page.

6. Loans and advances continued

6.2 Reconciliation of ECL for loans and advances measured at amortised cost continued

A reconciliation of the ECL for loans and advances, by product:

COMPANY	Opening ECL 1 January 2018 Rm	Total transfers between stages[1] Rm	Net ECL raised/ (released) Rm	Impaired accounts written-off[2] Rm	Exchange and other movements Rm	Closing ECL 31 December 2018 Rm
Mortgage loans	8 703		909	(884)	590	9 318
Stage 1	1 066	453	(553)			966
Stage 2	1 808	(163)	137			1 782
Stage 3 (including IIS)	5 829	(290)	1 325	(884)	590	6 570
Vehicle and asset finance	2 569		781	(703)	78	2 725
Stage 1	705	268	(265)			708
Stage 2	753	(319)	252			686
Stage 3 (including IIS)	1 111	51	794	(703)	78	1 331
Card debtors	2 961		1 157	(1 282)	57	2 893
Stage 1	661	166	(219)			608
Stage 2	740	(102)	286			924
Stage 3 (including IIS)	1 560	(64)	1 090	(1 282)	57	1 361
Corporate	4 929		934	(876)	458	5 445
Stage 1	494	131	(65)		35	595
Stage 2	1 092	(641)	(47)		48	452
Stage 3 (including IIS)	3 343	510	1 046	(876)	375	4 398
Sovereign	88		(36)		1	53
Stage 1	58		(6)		1	53
Stage 2	30		(30)			
Bank	17		(5)		(2)	10
Stage 1	17		(10)		(2)	5
Stage 2			5			5
Other loans and advances	8 460		2 328	(2 561)	188	8 415
Stage 1	1 773	411	(507)			1 677
Stage 2	1 466	(396)	197		7	1 274
Stage 3 (including IIS)	5 221	(15)	2 638	(2 561)	181	5 464
Total	27 727		6 068	(6 306)	1 370	28 859

1 The group and company's policy is to transfer opening balances based on the ECL stage at the end of the reporting period. Therefore, exposures can be transferred directly from stage 3 to stage 1 as the curing requirements would have been satisfied during the reporting period. Furthermore, the ECL recognised on new exposures originated during the reporting period (which are not included in opening balances) are included within 'ECL on new exposures raised' based on the exposures' ECL stage as at the end of the reporting period.

2 The contractual amount outstanding on loans and advances that were written off during the reporting period that are still subject to enforcement activities is R4.9 billion.

Below is an explanation of significant changes in the gross carrying amount on financial instruments used to determine the above changes in ECL:

- The ECL on new exposures raised of R2.4 billion primarily relates to the growth in gross carrying amount of:
  - mortgage loans of R40 billion
  - vehicle and asset finance of R35 billion
  - corporate of R2 billion.

- The decrease in ECL due to impaired accounts written off of R 6.3 billion resulted in an equal decrease to the gross carrying amount of loans and advances as exposures are fully provided for before being written off.

- The group and company policy is to transfer between stages using opening ECL balances based on the exposures' ECL stage at the end of the reporting period. Therefore, the related gross carrying amount of the significant transfers are as follows:
  - mortgage loans with a gross carrying amount of R7 billion that were in stage 2 and 3 were transferred to stage 1
  - vehicle and asset finance with a gross carrying amount of R4 billion that was in stage 2 was transferred to stage 1
  - corporate with a gross carrying amount of R2 billion that was in stage 2 was transferred to stage 3.

6. Loans and advances continued

6.3 Reconciliation of credit impairments for loans and advances measured at amortised cost

	Mortgage loans Rm	Vehicle and asset finance Rm	Card debtors Rm
2017			
GROUP			
Specific impairments			
Balance at the beginning of the year	3 447	1 123	1 567
Impaired accounts written off	(1 105)	(935)	(1 349)
Discount element recognised in interest income	(315)	(98)	(26)
Net impairments raised/(released)[1]	1 711	940	1 377
Foreign exchange and other movements			(5)
Balance at the end of the year	3 738	1 030	1 564
Portfolio impairments			
Balance at the beginning of the year	1 061	711	641
Net impairments (released)/raised[1]	(69)	(99)	63
Foreign exchange and other movements			(46)
Balance at the end of the year	992	612	658
Total	4 730	1 642	2 222
2017			
COMPANY			
Specific impairments			
Balance at the beginning of the year	3 435	1 123	1 515
Impaired accounts written off	(1 064)	(935)	(1 316)
Discount element recognised in interest income	(309)	(98)	(25)
Net impairments raised/(released)[1]	1 685	940	1 341
Foreign exchange and other movements			(5)
Balance at the end of the year	3 747	1 030	1 510
Portfolio impairments			
Balance at the beginning of the year	1 069	709	622
Net impairments (released)/raised[1]	(68)	(99)	63
Foreign exchange and other movements			(46)
Balance at the end of the year	1 001	610	639
Total	4 748	1 640	2 149

[1] Net impairments raised/(released) disclosed above is before recoveries of amounts written off in previous years. Note 32 contains a reconciliation of the above amounts to the income statement impairment charges.

6.4 Modifications on loans and advances measured at amortised cost

	GROUP AND COMPANY			
	Stage 2		Stage 3	
	Amortised cost (net of ECL) before modification Rm	Net modification loss Rm	Amortised cost (net of ECL) before modification Rm	Net modification loss Rm
2018				
Mortgage loans	908	60	92	2
Vehicle and asset finance			27	4
Card debtors	141	40	11	2
Corporate			499	2
Other loans and advances	88	25	19	2
Total	1 137	125	648	12

The gross carrying amount for modifications during the reporting period that resulted in no economic gain or loss (i.e. no net modification gain or loss) is R14.5 billion.

	Personal unsecured lending Rm	Business lending and other Rm	Corporate lending Rm	Commercial property finance Rm	Total Rm
	3 043	1 172	2 254	156	12 762
	(2 058)	(559)	(57)	(24)	(6 087)
	(231)	(56)	(53)	(5)	(784)
	2 018	956	347	(30)	7 319
	(69)		(148)	21	(201)
	2 703	1 513	2 343	118	13 009
	1 082	1 156	587	96	5 334
	(14)	(53)	521		349
			(84)		(130)
	1 068	1 103	1 024	96	5 553
	3 771	2 616	3 367	214	18 562
	2 994	1 220	2 207	155	12 649
	(2 058)	(559)	(57)	(24)	(6 013)
	(231)	(56)	(53)	(5)	(777)
	2 018	956	347	(30)	7 257
	(69)		(148)	21	(201)
	2 654	1 561	2 296	117	12 915
	1 082	1 171	577	78	5 308
	(14)	(53)	521		350
			(84)		(130)
	1 068	1 118	1 014	78	5 528
	3 722	2 679	3 310	195	18 443

7. Other assets

	GROUP		COMPANY	
	2018 Rm	2017 Rm	**2018 Rm**	2017 Rm
Items in the course of collection	**538**	299	**538**	299
Post-employment benefits (note 41)	**765**	901	**765**	901
Prepayments	**1 639**	1 317	**1 632**	1 315
Trading settlement assets	**1 227**	4 261	**1 133**	4 218
Other debtors	**1 342**	1 714	**1 318**	1 612
Total	**5 511**	8 492	**5 386**	8 345

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

	GROUP		COMPANY	
	2018 Rm	2017 Rm	**2018 Rm**	2017 Rm
Interest in SBG companies (note 8.1)[1]	**51 279**	45 136	**63 407**	58 490
Interest in associates and joint ventures (note 8.2)	**1 017**	864	**1 017**	864
Total	**52 296**	46 000	**64 424**	59 354

1 For information relating to the various SBG counterparties, refer to note 40.

8.1 Interest in SBG companies

	GROUP		COMPANY	
	2018 Rm	2017 Rm	**2018 Rm**	2017 Rm
Ultimate holding company				
– Indebtedness to the group/company	**150**	150	**150**	150
Interest in subsidiary companies			**12 058**	13 241
– Shares at cost (annexure A)			**503**	138
– Indebtedness to SBSA company			**11 555**	13 103
Interest in fellow banking subsidiary companies				
– Indebtedness to the group/company	**51 129**	44 986	**51 199**	45 099
Total	**51 279**	45 136	**63 407**	58 490
Comprising:				
Shares at cost			**503**	138
Derivative assets	**3 764**	2 010	**3 764**	2 010
Financial investments			**894**	3 521
Loans and advances[1]	**34 676**	36 261	**45 311**	46 119
Trading assets	**7 436**	4 741	**7 436**	4 741
Other	**5 403**	2 124	**5 499**	1 961
Total	**51 279**	45 136	**63 407**	58 490

1 The group and company recognised ECL on loans and advances with fellow SBG subsidiary companies of R266 million upon transition to IFRS 9 on 1 January 2018. At 31 December 2018, the ECL for these balances amounted to R266 million. Refer to the credit impairment charges note for the credit impairment charge for the year.

There are no significant restrictions on the ability of subsidiaries to transfer funds to the group in the form of cash or dividends or repayments of loans and advances.

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

8.2 Interest in associates and joint ventures

	GROUP AND COMPANY 2018 Rm	GROUP AND COMPANY 2017 Rm
Carrying value at the beginning of the year	**864**	667
Share of profit for the year	**129**	187
Impairment of associates	**(5)**	
Acquisitions	**49**	19
Distributions received	**(20)**	(9)
Carrying value at the end of the year	**1 017**	864
Comprising:		
Cost of investments	**245**	196
Share of reserves	**795**	686
Cumulative impairments	**(23)**	(18)
Carrying value at the end of the year	**1 017**	864
Amounts recognised in the income statement:		
Share of profit for the year	**129**	187
Impairment of associates (recognised in non-trading and capital related items)	**(5)**	
Share of profit from associates and joint ventures	**124**	187

There are no significant restrictions on the ability of associates and joint ventures to transfer funds to the group in the form of cash or dividends or repayments of loans and advances.

Associates and joint ventures are listed in annexure B.

8.3 Liabilities to SBG companies

	GROUP 2018 Rm	GROUP 2017 Rm	COMPANY 2018 Rm	COMPANY 2017 Rm
Indebtedness by the group/company to:				
Ultimate holding company	**11 246**	2	**11 246**	2
Subsidiaries			**2 106**	1 200
Fellow banking subsidiaries	**124 055**	95 414	**126 018**	94 725
Total	**135 301**	95 416	**139 370**	95 927
Comprising:				
Deposits and debt funding	**96 553**	67 992	**100 456**	68 707
Derivative liabilities	**2 202**	4 676	**2 202**	4 676
Subordinated debt	**5 057**		**5 057**	
Trading liabilities	**29 163**	21 355	**29 163**	21 355
Other[1]	**2 326**	1 393	**2 492**	1 189
Total	**135 301**	95 416	**139 370**	95 927

[1] The group and company recognised ECL on letters of credit and guarantees with fellow SBG banking subsidiary companies of R42 million upon transition to IFRS 9 on 1 January 2018. At 31 December 2018, the ECL for these balances amounted to R17 million. Refer to the credit impairment charges note for the credit impairment charge for the year.

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 1 January 2017	3 026	1 110	2 290	86	270	1 855	8 637
Movements	(58)	19	(30)	(13)	(41)	(66)	(189)
Additions	45	294	834	32	38	299	1 542
Disposals			(19)	(25)		(7)	(51)
Depreciation	(103)	(275)	(845)	(20)	(79)	(358)	(1 680)
Net book value 31 December 2017[1]	**2 968**	**1 129**	**2 260**	**73**	**229**	**1 789**	**8 448**
Cost	**3 685**	**2 931**	**6 487**	**164**	**680**	**3 936**	**17 883**
Accumulated depreciation	**(717)**	**(1 802)**	**(4 227)**	**(91)**	**(451)**	**(2 147)**	**(9 435)**
Movements	**52**	**200**	**(32)**	**1 499**	**(19)**	**136**	**1 836**
Additions	**157**	**454**	**867**	**1 558**	**43**	**523**	**3 602**
Disposals	**(1)**		**(30)**	**(16)**		**(9)**	**(56)**
Depreciation	**(104)**	**(254)**	**(869)**	**(43)**	**(62)**	**(378)**	**(1 710)**
Net book value 31 December 2018[1]	**3 020**	**1 329**	**2 228**	**1 572**	**210**	**1 925**	**10 284**
Cost	**3 839**	**3 375**	**6 696**	**1 677**	**715**	**4 391**	**20 693**
Accumulated depreciation	**(819)**	**(2 046)**	**(4 468)**	**(105)**	**(505)**	**(2 466)**	**(10 409)**

[1] Includes work in progress of R782 million (2017: R311 million) for which depreciation has not yet commenced. Refer to note 24.2 for details regarding capital commitments.

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 1 January 2017	3 024	1 109	2 261	84	270	1 852	8 600
Movements	(58)	19	(19)	(12)	(41)	(66)	(177)
Additions	45	294	827	32	38	299	1 535
Disposals			(5)	(24)		(7)	(36)
Depreciation	(103)	(275)	(841)	(20)	(79)	(358)	(1 676)
Net book value 31 December 2017[1]	**2 966**	**1 128**	**2 242**	**72**	**229**	**1 786**	**8 423**
Cost	**3 683**	**2 930**	**6 431**	**157**	**677**	**3 930**	**17 808**
Accumulated depreciation	**(717)**	**(1 802)**	**(4 189)**	**(85)**	**(448)**	**(2 144)**	**(9 385)**
Movements	**52**	**198**	**(28)**	**1 499**	**(20)**	**138**	**1 839**
Additions	**157**	**451**	**864**	**1 558**	**42**	**524**	**3 596**
Disposals	**(1)**		**(30)**	**(16)**		**(9)**	**(56)**
Depreciation	**(104)**	**(253)**	**(862)**	**(43)**	**(62)**	**(377)**	**(1 701)**
Net book value 31 December 2018[1]	**3 018**	**1 326**	**2 214**	**1 571**	**209**	**1 924**	**10 262**
Cost	**3 837**	**3 371**	**6 647**	**1 672**	**713**	**4 386**	**20 626**
Accumulated depreciation	**(819)**	**(2 045)**	**(4 433)**	**(101)**	**(504)**	**(2 462)**	**(10 364)**

[1] Includes work in progress of R782 million (2017: R311 million) for which depreciation has not yet commenced. Refer to note 24.2 for details regarding capital commitments.

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

9. Property and equipment continued

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 2017 to 2019 period, and was estimated at R5 699 million (2017: R6 061 million) for the group and R5 668 million (2017: R6 059 million) for the company. The previous valuation was performed for the 2014 to 2016 period.

10. Goodwill and other intangible assets

10.1 Group

	Goodwill Rm	Computer software Rm	Total Rm
Net book value – 1 January 2017	42	18 312	18 354
Movements		(608)	(608)
Additions[1]		2 770	2 770
Disposals		(1 000)	(1 000)
Amortisation		(2 095)	(2 095)
Impairments		(283)	(283)
Net book value – 31 December 2017[2]	**42**	**17 704**	**17 746**
Cost	**46**	**28 574**	**28 620**
Accumulated amortisation and impairment	**(4)**	**(10 870)**	**(10 874)**
Movements		**(640)**	**(640)**
Additions[1]		**1 951**	**1 951**
Disposals		**(79)**	**(79)**
Amortisation		**(2 075)**	**(2 075)**
Impairments[3]		**(437)**	**(437)**
Net book value – 31 December 2018[2]	**42**	**17 064**	**17 106**
Cost	**42**	**30 417**	**30 459**
Accumulated amortisation and impairment		**(13 353)**	**(13 353)**

Refer to footnotes below.

10.2 Company

	Computer software Rm	Total Rm
Net book value – 1 January 2017	18 285	18 285
Movements	(633)	(633)
Additions[1]	2 725	2 725
Disposals	(1 000)	(1 000)
Amortisation	(2 077)	(2 077)
Impairments	(281)	(281)
Net book value – 31 December 2017[2]	**17 652**	**17 652**
Cost	**28 488**	**28 488**
Accumulated amortisation and impairment	**(10 836)**	**(10 836)**
Movements	**(639)**	**(639)**
Additions[1]	**1 942**	**1 942**
Disposals	**(79)**	**(79)**
Amortisation	**(2 065)**	**(2 065)**
Impairments[3]	**(437)**	**(437)**
Net book value – 31 December 2018[2]	**17 013**	**17 013**
Cost	**30 321**	**30 321**
Accumulated amortisation and impairment	**(13 308)**	**(13 308)**

1 During 2018, R206 million (2017: R251 million) of interest was capitalised.
2 Includes work in progress of R2 986 million (2017: R4 597 million) for which amortisation has not yet commenced.
3 During the year, the group and company impaired certain intangible assets whose recoverable values were determined to be lower than their carrying values. In addition, certain assets were noted to be obsolescent and required upgrades. The value-in-use of these assets was determined by the percentage of re-usability of components.

10. Goodwill and other intangible assets continued

10.3 Goodwill composition

	2018		2017		
	Gross Rm	**Net Rm**	Gross Rm	Accumulated impairment Rm	Net Rm
GROUP					
eCentric Payment Systems Proprietary Limited	**36**	**36**	36		36
Greystone Technologies Proprietary Limited	**6**	**6**	6		6
LC Golf SA Proprietary Limited			4	(4)	
Total	**42**	**42**	46	(4)	42

11. Share capital and other equity instruments

11.1 Ordinary share capital

Authorised

	GROUP AND COMPANY	
	2018 Rm	2017 Rm
80 000 000 (2017: 80 000 000) ordinary shares	**80**	80
1 000 000 000 (2017: 1 000 000 000) preference shares	**10**	10
Total	**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.

Issued

	GROUP AND COMPANY	
	2018 Rm	2017 Rm
59 997 132 (2017: 59 997 131) ordinary shares	**60**	60

During 2018, one ordinary share (2017: one) of R1 was issued on 20 April 2018 at a premium of R750 million (2017: R2 500 million).

Unissued shares

	GROUP AND COMPANY	
	2018 Rm	2017 Rm
20 002 868 (2017: 20 002 869) ordinary shares	**20**	20
1 000 000 000 (2017: 1 000 000 000) preference shares	**10**	10
Total	**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 29 May 2019.

11. Share capital and other equity instruments continued

11.2 Other equity instruments

GROUP AND COMPANY Bond	Date issued	Redeemable/ repayable date	Interest rate	Notional value 2018 Rm	Carrying value 2018 Rm	Carrying value 2017 Rm
SBT101	30 March 2017	31 March 2022	Three month Jibar + 565 bps	**1 744**	**1 744**	**1 744**
SBT102	21 September 2017	30 September 2022	Three month Jibar + 545 bps	**1 800**	**1 800**	**1 800**
Total				**3 544**	**3 544**	**3 544**

During 2017, the group and company issued Basel III compliant additional tier (AT)1 capital bonds amounting to R3.5 billion to SBG. The capital notes are perpetual, non-cumulative with an issuer call option after a minimum period of five years and one day and on every coupon payment date thereafter. Interest is payable quarterly, subject to declaration. No additional AT1 capital bonds were issued during the current year.

The terms of the Basel III compliant AT1 capital bonds include a regulatory requirement which provides for the write-off, in whole or in part, on the earlier of a decision by the SARB that a write-off without which the issuer would have become non-viable is necessary, or a decision to make a public sector injection of capital or equivalent support, without which the issuer would have become non-viable.

Since the AT1 capital bonds do not have a contractual obligation to pay cash, they have been recognised within equity attributable to other equity instrument holders in the statement of financial position. During 2018, coupons to the value of R447 million (2017: R229 million) were paid to the AT1 capital bond holder. Current tax of R125 million (2017: R64 million) relating to the AT1 capital bonds was recognised directly in equity resulting in an aggregate net equity impact of R322 million (2017: R165 million).

12. Ordinary share premium

	GROUP AND COMPANY	
	2018 Rm	2017 Rm
Share premium on issue of shares	**44 388**	43 638

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	
	2018 Rm	2017 Rm	**2018 Rm**	2017 Rm
Collateral	**730**	822	**730**	822
Corporate bonds	**90**	53	**90**	53
Credit-linked notes	**10 090**	6 573	**10 090**	6 573
Government, municipality and utility bonds	**12 662**	12 764	**12 662**	12 764
Listed equities	**687**	158	**681**	158
Repurchase and other collateralised agreements	**864**	13 154	**864**	13 154
Other instruments	**4 581**	4 716	**4 581**	4 716
Total	**29 704**	38 240	**29 698**	38 240

14. Deferred tax

14.1 Deferred tax analysis

	GROUP		COMPANY	
	2018 Rm	2017 Rm	**2018 Rm**	2017 Rm
Assessed losses	**(11)**	(14)	**(6)**	(11)
Leased assets	**106**	154	**107**	155
Depreciation	**2 786**	2 552	**2 784**	2 552
Other derivatives and financial instruments[1]	**56**	115	**56**	115
Fair value adjustments of financial instruments[2]	**43**	129	**43**	123
Impairment charges on loans and advances	**(2 720)**	(1 004)	**(2 692)**	(973)
Deferred income	**(499)**	(482)	**(499)**	(482)
Share-based payments	**(687)**	(827)	**(687)**	(827)
Other differences	**(1 078)**	(831)	**(1 068)**	(813)
Deferred tax closing balance	**(2 004)**	(208)	**(1 962)**	(161)
Deferred tax asset	**(2 025)**	(223)	**(1 962)**	(161)
Deferred tax liability	**21**	15		

1 Derivatives other than those defined in section 24JB of the Income Tax Act of 1962 of South Africa.
2 Included in the fair value adjustments of financial instruments is a deferred tax credit of R106 million (2017: R51 million credit) relating to OCI. Refer to note 35.2 for more detail.

14. **Deferred tax** continued

14.2 Deferred tax reconciliation

	GROUP		COMPANY	
	2018 Rm	2017 Rm	**2018 Rm**	2017 Rm
Deferred tax balance at the beginning of the year	**(208)**	(547)	**(161)**	(507)
IFRS 9 transition adjustment	**(1 894)**		**(1 897)**	
Deferred tax opening balance after IFRS 9 transition adjustment	**(2 102)**	(547)	**(2 058)**	(507)
Prior year tax adjustment:	**81**	73	**78**	71
Assessed losses	**3**	1	**2**	
Depreciation	**37**	48	**37**	48
Other derivatives and financial instruments[1]	**(14)**		**(14)**	
Fair value adjustments of financial instruments[2]		184		184
Impairment charges on loans and advances	**24**	(248)	**23**	(249)
Share-based payments	**12**	(102)	**12**	(102)
Other differences	**19**	190	**18**	190
Originating temporary differences for the year:	**17**	266	**18**	275
Assessed losses		5	**3**	5
Leased assets	**(48)**	(28)	**(48)**	(27)
Depreciation	**197**	634	**195**	634
Other derivatives and financial instruments[1]	**(45)**	15	**(45)**	15
Fair value adjustments of financial instruments[2]	**(86)**	48	**(80)**	49
Impairment charges on loans and advances	**67**	(6)	**68**	
Deferred income	**(17)**	6	**(17)**	6
Share-based payments	**128**	(223)	**128**	(223)
Other differences	**(179)**	(185)	**(186)**	(184)
Deferred tax balance at the end of the year	**(2 004)**	(208)	**(1 962)**	(161)
Temporary differences for the year comprise:				
Recognised in OCI (note 35.2)	**(124)**	(33)	**(124)**	(40)
Recognised in profit or loss	**222**	372	**220**	386
Recognised in retained earnings – IFRS 9 transition adjustment	**(1 894)**		**(1 897)**	
Total	**(1 796)**	339	**(1 801)**	346

1 Derivatives other than those defined in section 24JB of the Income Tax Act of 1962 of South Africa.
2 Included in the fair value adjustments of financial instruments is a deferred tax credit of R106 million (2017: R51 million credit) relating to OCI. Refer to note 35.2 for more detail.

15. Deposits and debt funding

	GROUP		COMPANY	
	2018 Rm	2017 Rm	**2018 Rm**	2017 Rm
Deposits and debt funding from banks	**96 437**	80 618	**96 430**	80 610
Deposits and debt funding from customers	**915 809**	882 302	**915 333**	881 040
Current accounts	**116 154**	111 598	**116 154**	111 598
Cash management deposits	**171 670**	165 900	**171 670**	165 900
Card creditors	**1 568**	1 435	**1 473**	1 435
Call deposits	**241 857**	216 866	**241 857**	216 866
Savings accounts	**13 559**	13 145	**13 559**	13 145
Term deposits	**211 026**	205 737	**210 986**	204 023
Foreign currency funding	**41 973**	30 950	**41 671**	30 950
Negotiable certificates of deposit	**117 503**	134 147	**117 503**	134 147
Other funding	**499**	2 524	**460**	2 976
Total	**1 012 246**	962 920	**1 011 763**	961 650

16. Subordinated debt

GROUP AND COMPANY	Redeemable/ repayable date	Callable date	Notional value[1] Rm	Carrying value[1] 2018 Rm	Carrying value[1] 2017 Rm
Unsecured, subordinated, redeemable tier II bonds					
SBK16	15 March 2023	15 March 2018	**2 000**		2 008
SBK9	10 April 2023	10 April 2018	**1 500**		1 529
SBK17	30 July 2024	30 July 2019	**2 000**	**2 032**	2 032
SBK19	24 October 2024	24 October 2019	**500**	**509**	509
SBK20[2]	2 December 2024	2 December 2019	**2 250**	**2 269**	2 268
SBK21[2]	28 January 2025	28 January 2020	**750**	**764**	763
SBK22[2]	28 May 2025	28 May 2020	**1 000**	**1 010**	1 010
SBK24[2]	19 October 2025	19 October 2020	**880**	**899**	899
SBK18	24 October 2025	24 October 2020	**3 500**	**3 563**	3 563
SBK26[2]	25 April 2026	25 April 2021	**500**	**511**	506
SBK25[2]	25 April 2026	25 April 2021	**1 200**	**1 225**	1 225
SBK23[2]	28 May 2027	28 May 2022	**1 000**	**1 011**	975
SBT201[3]	13 February 2028	13 February 2023	**3 000**	**3 041**	
SBT202[3]	3 December 2028	3 December 2023	**1 516**	**1 528**	
SBT203[3]	3 December 2028	3 December 2023	**484**	**488**	
Total subordinated debt issued			**22 080**	**18 850**	17 287
Liabilities to SBG companies[3]			**(5 000)**	**(5 057)**	
Total			**17 080**	**13 793**	17 287

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.
3 During the year, the group's shareholder, SBG, issued subordinated tier 2 capital under its domestic medium-term note programme. The group and company on a reciprocal basis entered into subordinated tier 2 capital lending agreements with SBG under identical terms. These exposures have been recognised under liabilities to SBG companies in accordance with the group and company's accounting policy.

17. Provisions and other liabilities

	GROUP		COMPANY	
	2018 Rm	2017 Rm	**2018 Rm**	2017 Rm
Accrued expenses	**2 451**	1 947	**2 451**	1 972
Equity-linked transactions (annexure D)	**2 433**	2 912	**2 433**	2 912
ECL for off-balance sheet exposures[1]	**460**		**460**	
Post-employment benefits (note 41.2)	**634**	601	**634**	601
Staff-related accruals[2]	**4 692**	4 780	**4 635**	4 716
Trading settlement liabilities	**1 569**	1 630	**1 569**	1 630
Accounts payable, other liabilities, accruals and provisions[2]	**2 454**	2 314	**1 833**	2 095
Total	**14 693**	14 184	**14 015**	13 926

1 The group and company recognised ECL of R310 million on off-balance sheet exposures upon the transition to IFRS 9 on 1 January 2018. Refer to the credit impairment charges note on page 109 for the current year credit impairment charge of R150 million on off-balance sheet exposures.

2 In 2017, the group and company erroneously disclosed other liabilities amounting to R1 824 million for group and R1 814 million for company as part of staff-related accruals. This error had no impact on the group and company's primary statements. The amounts have been updated accordingly.

18. Classification of assets and liabilities

Accounting classifications and fair values of assets and liabilities

All financial assets and liabilities have been classified according to their measurement category as per IFRS 9, with disclosure of the fair value being provided for those items.

	Note	Held-for-trading Rm	Designated at fair value Rm	Fair value through profit or loss – default Rm
GROUP				
2018				
Assets				
Cash and balances with the central bank	1			**34 536**
Derivative assets	2	**46 707**		
Trading assets	3	**153 894**		
Pledged assets	4	**568**		
Financial investments	5		**17 254**	**3 397**
Loans and advances	6			**968**
Interest in SBG companies, associates and joint ventures – banking activities	8	**11 970**		
Other financial assets[3]				
Other non-financial assets				
Total		**213 139**	**17 254**	**38 901**
Liabilities				
Derivative liabilities	2	**49 546**		
Trading liabilities	13	**29 704**		
Deposits and debt funding	15		**6 438**	
Subordinated debt	16			
Liabilities to SBG companies	8	**31 365**		
Other financial liabilities[3]				
Other non-financial liabilities				
Total		**110 615**	**6 438**	
COMPANY				
2018				
Assets				
Cash and balances with the central bank	1			**34 536**
Derivative assets	2	**46 707**		
Trading assets	3	**153 590**		
Pledged assets	4	**568**		
Financial investments	5		**17 254**	**3 397**
Loans and advances	6			**968**
Interest in SBG companies, associates and joint ventures – banking activities	8	**11 970**		
Other financial assets[3]				
Other non-financial assets				
Total		**212 835**	**17 254**	**38 901**
Liabilities				
Derivative liabilities	2	**49 546**		
Trading liabilities	13	**29 698**		
Deposits and debt funding	15		**6 438**	
Subordinated debt	16			
Liabilities to SBG companies	8	**31 365**		
Other financial liabilities[3]				
Other non-financial liabilities				
Total		**110 609**	**6 438**	

[1] Includes financial assets and financial liabilities for which the carrying value has been adjusted for changes in fair value due to designated hedged risks.
[2] Carrying value has been used where it closely approximates fair values, excluding non-financial 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.

Fair value through OCI					
Debt instruments Rm	Equity instruments Rm	Amortised cost[1] Rm	Other non-financial assets/ liabilities Rm	Total carrying amount Rm	Fair value[2] Rm
				34 536	34 536
				46 707	46 707
				153 894	153 894
		106		674	658
610	879	83 298		105 438	104 919
		930 691		931 659	933 961
		37 759	2 567	52 296	49 729
		4 107		4 107	
			30 951	30 951	
610	879	1 055 961	33 518	1 360 262	
				49 546	49 546
				29 704	29 704
		1 005 808		1 012 246	1 014 180
		13 793		13 793	14 048
		103 936		135 301	135 301
		4 277		4 277	
			14 195	14 195	
		1 127 814	14 195	1 259 062	
				34 536	34 536
				46 707	46 707
				153 590	153 590
		106		674	658
610	879	83 298		105 438	104 919
		918 412		919 380	919 211
		49 335	3 119	64 424	61 305
		3 998		3 998	
			30 757	30 757	
610	879	1 055 149	33 876	1 359 504	
				49 546	49 546
				29 698	29 698
		1 005 325		1 011 763	1 014 046
		13 793		13 793	14 048
		108 005		139 370	139 370
		4 148		4 148	
			13 603	13 603	
		1 131 271	13 603	1 261 921	

18. Classification of assets and liabilities continued

Accounting classifications and fair values of assets and liabilities continued

	Note	Held-for-trading Rm	Designated at fair value Rm	Held-to-maturity Rm
GROUP				
2017				
Assets				
Cash and balances with the central bank	1			
Derivative assets	2	71 542		
Trading assets	3	126 283		
Pledged assets	4	4 609	1 845	
Financial investments	5		12 658	72 087
Loans and advances to banks	6			
Loans and advances to customers	6		100	
Interest in SBG companies, associates and joint ventures – banking activities	8	6 751		
Other financial assets[3]				
Other non-financial assets				
Total		209 185	14 603	72 087
Liabilities				
Derivative liabilities	2	72 989		
Trading liabilities	13	38 240		
Deposits and debt funding from banks	15			
Deposits and debt funding from customers	15		13 629	
Subordinated debt	16			
Liabilities to SBG companies	8	26 031		
Other financial liabilities[3]				
Other non-financial liabilities				
Total		137 260	13 629	
COMPANY				
2017				
Assets				
Cash and balances with the central bank	1			
Derivative assets	2	71 542		
Trading assets	3	126 283		
Pledged assets	4	4 609	1 845	
Financial investments	5		12 661	71 618
Loans and advances to banks	6			
Loans and advances to customers	6		100	
Interest in SBG companies, associates and joint ventures – banking activities	8	6 751		
Other financial assets[3]				
Other non-financial assets				
Total		209 185	14 606	71 618
Liabilities				
Derivative liabilities	2	72 989		
Trading liabilities	13	38 240		
Deposits and debt funding from banks	15			
Deposits and debt funding from customers	15		13 619	
Subordinated debt	16			
Liabilities to SBG companies	8	26 031		
Other financial liabilities[3]				
Other non-financial liabilities				
Total		137 260	13 619	

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.

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
35 893				35 893	35 893
				71 542	71 542
				126 283	126 283
358				6 812	6 807
	1 599			86 344	86 353
91 610				91 610	91 542
809 185				809 285	807 307
38 005			1 244	46 000	44 756
6 678				6 678	
			28 353	28 353	
981 729	1 599		29 597	1 308 800	
				72 989	72 989
				38 240	38 240
		80 618		80 618	80 898
		868 673		882 302	884 728
		17 287		17 287	17 607
		69 375	10	95 416	95 406
		13 060		13 060	
			4 550	4 550	
		1 049 013	4 560	1 204 462	
35 893				35 893	35 893
				71 542	71 542
				126 283	126 283
358				6 812	6 807
	1 598			85 877	85 864
90 990				90 990	90 998
793 558				793 658	792 026
51 221			1 382	59 354	57 972
6 533				6 533	
			28 170	28 170	
978 553	1 598		29 552	1 305 112	
				72 989	72 989
				38 240	38 240
		80 610		80 610	80 898
		867 421		881 040	882 666
		17 287		17 287	17 607
		69 886	10	95 927	95 917
		12 847		12 847	
			4 482	4 482	
		1 048 051	4 492	1 203 422	

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.

	2018				2017			
GROUP	**Level 1 Rm**	**Level 2 Rm**	**Level 3 Rm**	**Total Rm**	Level 1 Rm	Level 2 Rm	Level 3 Rm	Total Rm
Financial assets								
Measured on a recurring basis[1]								
Cash and balances with the central bank[2]	**34 536**			**34 536**				
Derivative assets	**37**	**44 259**	**2 411**	**46 707**	122	67 282	4 138	71 542
Trading assets	**83 682**	**67 845**	**2 367**	**153 894**	73 959	47 240	5 084	126 283
Pledged assets	**568**			**568**	6 454			6 454
Financial investments	**4 112**	**14 182**	**3 846**	**22 140**		11 633	2 624	14 257
Loans and advances		**968**		**968**		100		100
Interest in SBG companies		**11 970**		**11 970**		6 751		6 751
Total	**122 935**	**139 224**	**8 624**	**270 783**	80 535	133 006	11 846	225 387
Financial liabilities								
Measured on a recurring basis[1]								
Derivative liabilities	**52**	**43 343**	**6 151**	**49 546**	92	67 492	5 405	72 989
Trading liabilities	**14 082**	**12 865**	**2 757**	**29 704**	11 292	23 909	3 039	38 240
Deposits and debt funding		**6 438**		**6 438**	146	13 483		13 629
Liabilities to SBG companies		**31 365**		**31 365**		26 031		26 031
Total	**14 134**	**94 011**	**8 908**	**117 053**	11 530	130 915	8 444	150 889

1 Recurring fair value measurements are on those financial assets and liabilities that IFRS requires or permits to be carried at fair value in the statement of financial position at the end of the reporting period.
2 The group has, as permitted by IFRS 9, elected not to restate comparative financial statements. Therefore, comparability will not be achieved by the fact that the comparative financial information has been prepared on an IAS 39 basis.

The table below sets out the financial assets and liabilities measured at fair value for the company:

	2018				2017			
COMPANY	**Level 1 Rm**	**Level 2 Rm**	**Level 3 Rm**	**Total Rm**	Level 1 Rm	Level 2 Rm	Level 3 Rm	Total Rm
Financial assets								
Measured on a recurring basis[1]								
Cash and balances with the central bank[2]	**34 536**			**34 536**				
Derivative assets	**37**	**44 259**	**2 411**	**46 707**	122	67 282	4 138	71 542
Trading assets	**83 378**	**67 845**	**2 367**	**153 590**	73 959	47 240	5 084	126 283
Pledged assets	**568**			**568**	6 454			6 454
Financial investments	**4 112**	**14 182**	**3 846**	**22 140**		11 634	2 625	14 259
Loans and advances		**968**		**968**		100		100
Interest in SBG companies		**11 970**		**11 970**		6 751		6 751
Total	**122 631**	**139 224**	**8 624**	**270 479**	80 535	133 007	11 847	225 389
Financial liabilities								
Measured on a recurring basis[1]								
Derivative liabilities	**52**	**43 343**	**6 151**	**49 546**	92	67 492	5 405	72 989
Trading liabilities	**14 076**	**12 865**	**2 757**	**29 698**	11 292	23 909	3 039	38 240
Deposits and debt funding		**6 438**		**6 438**	146	13 473		13 619
Liabilities to SBG companies		**31 365**		**31 365**		26 031		26 031
Total	**14 128**	**94 011**	**8 908**	**117 047**	11 530	130 905	8 444	150 879

1 Recurring fair value measurements are on those financial assets and liabilities that IFRS requires or permits to be carried at fair value in the statement of financial position at the end of the reporting period.
2 The group has, as permitted by IFRS 9, elected not to restate comparative financial statements. Therefore, comparability will not be achieved by the fact that the comparative financial information has been prepared on an IAS 39 basis.

Assets and liabilities transferred between level 1 and level 2

During the year, no significant assets or liabilities were transferred between level 1 and level 2 (2017: Rnil).

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).

GROUP	Derivative assets Rm	Trading assets Rm	Financial investments Rm	Interest in SBG companies Rm	Total Rm
Balance at 1 January 2017	2 115	4 751	2 641	9	9 516
Total gains included in profit or loss	2 464	1 000	157		3 621
Interest income			71		71
Trading revenue	2 464	1 000			3 464
Other revenue			86		86
Total gains included in OCI			61		61
Originations and purchases		36	8		44
Sales and settlements	(185)	(74)	(243)		(502)
Transfers into level 3[1]	36				36
Transfers out of level 3[2]	(292)	(629)		(9)	(930)
Balance at 31 December 2017	4 138	5 084	2 624		11 846
Balance at 1 January 2018	**4 138**	**5 084**	**2 624**		**11 846**
IFRS 9 transition adjustment	**(301)**		**932**		**631**
Total (losses)/gains included in profit or loss	**(511)**	**155**	**246**		**(110)**
Trading revenue	**(511)**	**155**			**(356)**
Other revenue			**246**		**246**
Total losses included in OCI			**(96)**		**(96)**
Originations and purchases		**504**	**447**		**951**
Sales and settlements	**(1 250)**	**(3 376)**	**(276)**		**(4 902)**
Transfers into level 3[1]	**418**		**5**		**423**
Transfers out of level 3[2]	**(83)**		**(36)**		**(119)**
Balance at 31 December 2018	**2 411**	**2 367**	**3 846**		**8 624**

1 Transfers of financial assets between levels of the fair value hierarchy are deemed to have occurred at the end of the reporting period. 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 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

COMPANY	Derivative assets Rm	Trading assets Rm	Financial investments Rm	Interest in SBG companies Rm	Total Rm
Balance at 1 January 2017	2 115	4 751	2 641	9	9 516
Total gains included in profit or loss	2 464	1 000	157		3 621
Interest income			71		71
Trading revenue	2 464	1 000			3 464
Other revenue			86		86
Total gains included in OCI			61		61
Originations and purchases		36	8		44
Sales and settlements	(185)	(74)	(242)		(501)
Transfers into level 3[1]	36				36
Transfers out of level 3[2]	(292)	(629)		(9)	(930)
Balance at 31 December 2017	4 138	5 084	2 625		11 847
Balance at 1 January 2018	**4 138**	**5 084**	**2 625**		**11 847**
IFRS 9 transition adjustment	**(301)**		**932**		**631**
Total (losses)/gains included in profit or loss	**(511)**	**155**	**246**		**(110)**
Trading revenue	**(511)**	**155**			**(356)**
Other revenue			**246**		**246**
Total losses included in OCI			**(96)**		**(96)**
Originations and purchases		**504**	**447**		**951**
Sales and settlements	**(1 250)**	**(3 376)**	**(277)**		**(4 903)**
Transfers into level 3[1]	**418**		**5**		**423**
Transfers out of level 3[2]	**(83)**		**(36)**		**(119)**
Balance at 31 December 2018	**2 411**	**2 367**	**3 846**		**8 624**

[1] Transfers of financial assets between levels of the fair value hierarchy are deemed to have occurred at the end of the reporting period. 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] The valuation inputs of certain level 3 financial assets became observable during the year. The fair value of these financial assets was transferred into level 2.

19. Assets and liabilities at fair value continued

19.1 Financial assets and liabilities measured at fair value continued

19.1.2 Reconciliation of level 3 financial liabilities measured on a recurring basis

The following tables provide a reconciliation of the opening to closing balance for all financial liabilities that are measured at fair value based on inputs that are not based on observable market data (level 3).

GROUP AND COMPANY	Derivative liabilities Rm	Trading liabilities Rm	Liabilities to SBG companies Rm	Total Rm
Balance at 1 January 2017	8 554	4 181	11	12 746
Total losses/(gains) included in profit or loss – trading revenue	220	(568)		(348)
Issuances		1 110		1 110
Sales and settlements	(3 212)	(1 684)		(4 896)
Transfers out of level 3[1]	(157)		(11)	(168)
Balance at 31 December 2017	5 405	3 039		8 444
Balance at 1 January 2018	**5 405**	**3 039**		**8 444**
Total losses included in profit or loss – trading revenue	**1 465**	**101**		**1 566**
Issuances		**738**		**738**
Sales and settlements	**(789)**	**(194)**		**(983)**
Transfers into level 3[2]	**104**	**185**		**289**
Transfers out of level 3[1]	**(34)**	**(1 112)**		**(1 146)**
Balance at 31 December 2018	**6 151**	**2 757**		**8 908**

1 Transfers of financial assets between levels of the fair value hierarchy are deemed to have occurred at the end of the reporting period. The valuation inputs of certain level 3 financial liabilities became observable during the year. The fair value of these financial liabilities was transferred into level 2.

2 The valuation inputs of certain financial liabilities became unobservable during the year. The fair value of these financial liabilities was transferred into level 3.

19.1.3 Unrealised (losses)/gains for the year included in profit or loss for level 3 fair value measured financial assets held at the end of the year

GROUP AND COMPANY	Derivative assets Rm	Trading assets Rm	Financial investments Rm	Total Rm
2018				
Trading revenue	**(515)**	**159**		**(356)**
Other revenue			**246**	**246**
Total	**(515)**	**159**	**246**	**(110)**
2017				
Trading revenue	2 387	988		3 375
Other revenue			66	66
Total	2 387	988	66	3 441

19. Assets and liabilities at fair value continued

19.1 Financial assets and liabilities measured at fair value continued

19.1.4 Unrealised 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

GROUP AND COMPANY	Derivative liabilities Rm	Trading liabilities Rm	Total Rm
2018			
Trading revenue	**1 568**	**101**	**1 669**
2017			
Trading revenue	63	(502)	(439)

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.

GROUP AND COMPANY	Change in significant unobservable input	Effect on profit or loss	
		Favourable Rm	(Unfavourable) Rm
2018			
Derivative assets and liabilities	**From (1%) to 1%**	**295**	**(295)**
Financial investments	**From (1%) to 1%**	**59**	**(58)**
Trading assets	**From (1%) to 1%**	**94**	**(94)**
Trading liabilities	**From (1%) to 1%**	**68**	**(68)**
Total		**516**	**(515)**
2017			
Derivative assets and liabilities	From (1%) to 1%	604	(608)
Financial investments	From (1%) to 1%	13	(13)
Trading assets	From (1%) to 1%	216	(216)
Trading liabilities	From (1%) to 1%	290	(290)
Total		1 123	(1 127)

During 2018, a 1% change of the significant unobservable inputs relating to the measurement of a financial investment classified as fair value through OCI would have resulted in a R14 million favourable and unfavourable effect recognised in OCI (2017: Rnil).

AR | Refer to key management assumptions on page 57 and annexure F – Detailed accounting policies 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

The following table discloses the fair values of those financial assets and liabilities which are not measured at fair value.

19.2.1 Fair value hierarchy of items for which fair value is disclosed

	2018				2017			
GROUP	**Level 1 Rm**	**Level 2 Rm**	**Level 3 Rm**	**Total Rm**	Level 1 Rm	Level 2 Rm	Level 3 Rm	Total Rm
Financial assets								
Cash and balances with the central bank[1]					35 893			35 893
Pledged assets		90		90			353	353
Financial investments	75 732	7 047		82 779	14 126	57 965	5	72 096
Loans and advances	5 132	116 459	811 402	932 993	5 582	117 858	775 309	898 749
Interest in SBG companies	2 647	22 039	13 073	37 759	2 035	22 480	13 490	38 005
Total	83 511	145 635	824 475	1 053 621	57 636	198 303	789 157	1 045 096
Financial liabilities								
Deposits and debt funding	514 230	492 585	927	1 007 742	561 107	390 340	550	951 997
Subordinated debt		14 048		14 048		17 607		17 607
Liabilities to SBG companies	5 197	94 582	4 157	103 936	3 749	60 901	4 725	69 375
Total	519 427	601 215	5 084	1 125 726	564 856	468 848	5 275	1 038 979

[1] The group has, as permitted by IFRS 9, elected not to restate comparative financial statements. Therefore, comparability will not be achieved by the fact that the comparative financial information has been prepared on an IAS 39 basis.

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

The following table discloses the fair values of those financial assets and liabilities which are not measured at fair value.

19.2.1 Fair value hierarchy of items for which fair value is disclosed

	2018				2017			
COMPANY	Level 1 Rm	Level 2 Rm	Level 3 Rm	Total Rm	Level 1 Rm	Level 2 Rm	Level 3 Rm	Total Rm
Financial assets								
Cash and balances with the central bank[1]					35 893			35 893
Pledged assets		90		90			353	353
Financial investments	75 732	7 047		82 779	14 126	57 474	5	71 605
Loans and advances	5 125	113 394	799 724	918 243	5 036	117 858	760 030	882 924
Interest in SBG companies	4 340	43 080	1 915	49 335	3 378	44 890	2 953	51 221
Total	85 197	163 611	801 639	1 050 447	58 433	220 222	763 341	1 041 996
Financial liabilities								
Deposits and debt funding	514 136	492 545	927	1 007 608	559 538	390 338	69	949 945
Subordinated debt		14 048		14 048		17 607		17 607
Liabilities to SBG companies	5 682	102 291	32	108 005	4 558	65 287	41	69 886
Total	519 818	608 884	959	1 129 661	564 096	473 232	110	1 037 438

[1] The group has, as permitted by IFRS 9, elected not to restate comparative financial statements. Therefore, comparability will not be achieved by the fact that the comparative financial information has been prepared on an IAS 39 basis.

19.3 Third-party credit enhancements

There were no significant liabilities measured at fair value that existed during the year which had been issued with inseparable third-party credit enhancements.

20. Other financial assets and liabilities fair value disclosures

20.1 Financial liabilities designated at fair value through profit or loss

Financial liabilities GROUP	Current year gain/(loss) on changes in fair value attributable to changes in credit risk Rm	Cumulative gain on changes in fair value attributable to changes in credit risk Rm	Contractual payment required at maturity Rm	Carrying amount Rm	Difference between carrying amount and contractual payment Rm
2018					
Financial liabilities designated at fair value through profit or loss with credit risk recognised in OCI					
Deposits and debt funding	**9**	**9**	**6 234**	**6 438**	**204**
Total	**9**	**9**	**6 234**	**6 438**	**204**
2017					
Financial liabilities designated at fair value through profit or loss with credit risk recognised in profit or loss					
Deposits and debt funding	(16)	21	15 593	13 629	1 964
Total	(16)	21	15 593	13 629	1 964
COMPANY					
2018					
Financial liabilities designated at fair value through profit or loss with credit risk recognised in OCI					
Deposits and debt funding	**9**	**9**	**6 234**	**6 438**	**204**
Total	**9**	**9**	**6 234**	**6 438**	**204**
2017					
Financial liabilities designated at fair value through profit or loss with credit risk recognised in profit or loss					
Deposits and debt funding	(16)	21	15 593	13 619	1 974
Total	(16)	21	15 593	13 619	1 974

The changes in the fair value of the designated financial liabilities attributable to changes in credit risk are calculated by reference to the change in the credit risk implicit in the market value of the bank's senior notes.

20. Other financial assets and liabilities fair value disclosures continued

20.2 Reconciliation of FVOCI reserve for equity financial instruments

GROUP AND COMPANY	Credit opening balance – 1 January 2018 Rm	(Losses)/ gains during the year	Credit closing balance – 31 December 2018 Rm
2018			
Financial investments:			
Strate Limited	205	(87)	118
Other	25	11	36
Total	**230**	**(76)**	**154**

Strategic equity investments are designated at fair value through OCI on initial recognition. No gains and losses were transferred to retained earnings during the year. No dividends were received during the year.

21. Reclassification of financial assets

IFRS 9

There were no IFRS 9 reclassifications in the group and company during the year.

IAS 39

In 2017, the group and company did not reclassify any 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. No financial assets matured in the company in 2017.

GROUP AND COMPANY	2017 Rm
Carrying value of reclassified financial assets at end of the year	1 315
Fair value of reclassified financial assets at end of the year	1 204

In 2017, a fair value gain after tax of R37 million for the group and R51 million for the company would have been recognised in 2017 had these reclassifications not been affected.

The table below sets out the amounts actually recognised in profit or loss.

GROUP AND COMPANY	2017 Rm
Net interest income[1]	111

[1] Included in this are items subject to fair value hedge accounting for interest rate risk only. The total fair value adjustment recognised in net interest income in respect of the hedged items amounted to a gain of R23 million.

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 other instances apart from the cash management accounts, where the group and company have a current legally enforceable right to offset, as well as the intention to settle on a net basis or to realise the asset and settle the liability simultaneously.

The following table sets out the impact of offset, as well as the required disclosures for financial assets and financial liabilities that are subject to enforceable master netting arrangements or similar agreements, irrespective of whether they have been offset in accordance with IFRS. It should be noted that the information below is not intended to represent the group and company's actual credit exposure, nor will it agree to that presented in the statement of financial position.

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 Rm	Collateral received[3] Rm	Net amount Rm
2018					
Assets					
Derivative assets	45 342		45 342	(41 570)	3 772
Trading assets	35 995		35 995	(33 803)	2 192
Loans and advances[4]	66 943	(32 722)	34 221	(31 417)	2 804
Interest in SBG companies, associates and joint ventures	4 866		4 866	(3 750)	1 116
Total	153 146	(32 722)	120 424	(110 540)	9 884

GROUP AND COMPANY	Gross amount of recognised financial liabilities[1] Rm	Financial assets set off in the statement of financial position[2] Rm	Net amounts of financial liabilities subject to netting agreements Rm	Collateral pledged Rm	Net amount Rm
2018					
Liabilities					
Derivative liabilities	47 316		47 316	(40 772)	6 544
Trading liabilities	864		864	(864)	
Deposits and debt funding[4]	38 836	(32 722)	6 114		6 114
Liabilities to SBG companies	1 231		1 231	(1 014)	217
Total	88 247	(32 722)	55 525	(42 650)	12 875

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 Rm	Collateral received[3] Rm	Net amount Rm
2017					
Assets					
Derivative assets	41 925		41 925	(31 240)	10 685
Trading assets	20 483		20 483	(18 608)	1 875
Loans and advances[4]	50 545	(32 864)	17 681	(15 345)	2 336
Total	112 953	(32 864)	80 089	(65 193)	14 896

GROUP AND COMPANY	Gross amount of recognised financial liabilities[1] Rm	Financial assets set off in the statement of financial position[2] Rm	Net amounts of financial liabilities subject to netting agreements Rm	Collateral pledged Rm	Net amount Rm
2017					
Liabilities					
Derivative liabilities	47 732		47 732	(30 185)	17 547
Trading liabilities	23 877		23 877	(23 877)	
Deposits and debt funding[4]	40 420	(32 864)	7 556		7 556
Total	112 029	(32 864)	79 165	(54 062)	25 103

1 Gross amounts are disclosed for recognised financial assets and liabilities that are either offset in the statement of financial position or are subject to a master netting arrangement or a similar agreement, irrespective of whether the 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 This could include financial collateral (whether recognised or unrecognised), cash collateral, as well as exposures that are available to the group and company to be offset in the event of default. In most cases, the group and company are allowed to sell or repledge collateral received.
4 The most material amounts offset in the statement of financial position pertain to cash management accounts. The cash management accounts allow holding companies (or central treasury functions) to manage the cash flows of 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, all repurchase agreements (for financial liabilities) and reverse repurchase agreements (for financial assets), subject to master netting arrangement (or similar agreement), have been included.

The table below sets out the nature of agreements and the types of rights relating to items which do not qualify for offset but that are subject to a master netting arrangement or similar agreement.

	Nature of agreement	Related rights
derivative assets and 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 all applicable laws and regulations
Deposits and debt funding	Customer agreement and Banks Act	In the event of liquidation or bankruptcy, offset shall be enforceable subject to all applicable laws and regulations

23. Maturity analysis

The group and company assess the maturity of financial assets and liabilities external to SBG group at 31 December each year which provides an indication of the remaining contractual life of these assets at that point in time. For the maturity analysis of financial liabilities on a contractual undiscounted basis, refer to the funding and liquidity risk section within annexure C.

23.1 Financial assets and liabilities

The following table discloses the maturity analysis for the group and company's financial assets and liabilities on a contractual discounted basis. Exposures relating to SBG group are managed separately to those of third parties.

GROUP	Note	On demand Rm	Within one year Rm	Within one to five years Rm	After five years Rm	Undated[1] Rm	Total Rm
2018							
Cash and balances with the central bank[2]	1	**10 445**				**24 091**	**34 536**
Trading assets	3	**6 655**	**33 334**	**27 388**	**58 739**	**27 778**	**153 894**
Pledged assets	4			**3**	**671**		**674**
Gross financial investments	5	**1 473**	**67 952**	**27 313**	**5 970**	**2 742**	**105 450**
Gross loans and advances[3]	6	**92 120**	**191 654**	**343 751**	**302 456**	**30 680**	**960 661**
Other financial assets		**1 432**	**2 506**	**32**	**45**	**92**	**4 107**
Interest in SBG companies, associates and joint ventures	8	**43 389**	**5 182**	**454**	**704**		**49 729**
Liabilities to SBG companies	8	**(97 664)**	**(31 697)**	**(5 213)**	**(727)**		**(135 301)**
Net derivative liability	2		**1 712**	**(2 693)**	**(1 858)**		**(2 839)**
Trading liabilities	13	**(1 430)**	**(4 175)**	**(13 104)**	**(10 995)**		**(29 704)**
Deposits and debt funding	15	**(624 856)**	**(232 397)**	**(122 830)**	**(32 163)**		**(1 012 246)**
Subordinated debt[4]	16		**(4 810)**	**(8 983)**			**(13 793)**
Other financial liabilities		**(1 180)**	**(2 504)**	**(229)**	**(238)**	**(126)**	**(4 277)**
2017							
Cash and balances with the central bank[2]	1	12 606				23 287	35 893
Trading assets	3	3 971	22 959	25 818	48 897	24 638	126 283
Pledged assets	4		449	1 043	5 320		6 812
Financial investments	5		45 947	29 689	8 163	2 545	86 344
Gross loans and advances	6	95 697	188 388	321 355	292 327	21 690	919 457
Other financial assets		1 972	4 315		343	48	6 678
Interest in SBG companies, associates and joint ventures	8	42 106	1 434	376	840		44 756
Liabilities to SBG companies	8	(69 006)	(25 521)	(111)	(768)		(95 406)
Net derivative liability	2		3 408	(4 650)	(205)		(1 447)
Trading liabilities	13	(835)	(7 017)	(12 217)	(18 013)	(158)	(38 240)
Deposits and debt funding	15	(560 120)	(246 874)	(115 077)	(40 849)		(962 920)
Subordinated debt[4]	16		(3 537)	(13 750)			(17 287)
Other financial liabilities		(4 947)	(6 452)	(625)		(1 036)	(13 060)

1 Undated maturity category comprises non-contractual or indeterminate maturity, including any item or position in respect of which no right or obligation in respect of maturity exists. This will include deferred tax and provisions for non-performing assets.
2 On demand cash and balances with the central bank includes notes and coins.
3 Includes loans and advances measured at fair value through profit or loss.
4 The maturity analysis for subordinated debt has been determined as the earlier of the contractual repayment date or the option by the issuer to redeem the debt.

23. Maturity analysis continued

23.1 Financial assets and liabilities continued

COMPANY	Note	On demand Rm	Within one year Rm	Within one to five years Rm	After five years Rm	Undated[1] Rm	Total Rm
2018							
Cash and balances with the central bank[2]	1	**10 445**				**24 091**	**34 536**
Trading assets	3	**6 655**	**33 334**	**27 343**	**58 480**	**27 778**	**153 590**
Pledged assets	4			**3**	**671**		**674**
Gross financial investments	5	**1 473**	**67 952**	**27 313**	**5 970**	**2 742**	**105 450**
Gross loans and advances[3]	6	**89 000**	**190 196**	**335 930**	**302 399**	**30 714**	**948 239**
Other financial assets		**1 405**	**2 424**	**32**	**45**	**92**	**3 998**
Interest in SBG companies, associates and joint ventures	8	**54 024**	**5 278**	**1 297**	**706**		**61 305**
Liabilities to SBG companies	8	**(101 567)**	**(31 863)**	**(5 213)**	**(727)**		**(139 370)**
Net derivative liability	2		**1 712**	**(2 693)**	**(1 858)**		**(2 839)**
Trading liabilities	13	**(1 430)**	**(4 169)**	**(13 104)**	**(10 995)**		**(29 698)**
Deposits and debt funding	15	**(624 440)**	**(232 379)**	**(122 785)**	**(32 159)**		**(1 011 763)**
Subordinated debt[4]	16		**(4 810)**	**(8 983)**			**(13 793)**
Other financial liabilities		**(1 078)**	**(2 478)**	**(229)**	**(238)**	**(125)**	**(4 148)**
2017							
Cash and balances with the central bank[2]	1	12 606				23 287	35 893
Trading assets	3	3 971	22 959	25 818	48 897	24 638	126 283
Pledged assets	4		449	1 043	5 320		6 812
Financial investments	5		45 947	29 221	8 163	2 546	85 877
Gross loans and advances	6	94 856	185 540	310 040	290 965	21 690	903 091
Other financial assets		1 930	4 212		343	48	6 533
Interest in SBG companies, associates and joint ventures	8	51 882	4 874	376	840		57 972
Liabilities to SBG companies	8	(69 620)	(25 418)	(111)	(768)		(95 917)
Net derivative liability	2		3 408	(4 650)	(205)		(1 447)
Trading liabilities	13	(835)	(7 017)	(12 217)	(18 013)	(158)	(38 240)
Deposits and debt funding	15	(560 117)	(245 673)	(115 021)	(40 839)		(961 650)
Subordinated debt[4]	16		(3 537)	(13 750)			(17 287)
Other financial liabilities		(4 679)	(6 507)	(625)		(1 036)	(12 847)

1 Undated maturity category comprises non-contractual or indeterminate maturity, including any item or position in respect of which no right or obligation in respect of maturity exists. This will include deferred tax and provisions for non-performing assets.
2 On demand cash and balances with the central bank includes notes and coins.
3 Includes loans and advances measured at fair value through profit or loss.
4 The maturity analysis for subordinated debt has been determined as the earlier of the contractual repayment date or the option by the issuer to redeem the debt.

23. Maturity analysis continued

23.2 Non-financial assets and liabilities

The following table discloses the maturity analysis for the group and company's non-financial assets and liabilities on a contractual discounted basis. Exposures relating to SBG group are managed separately to those of third parties.

GROUP	Note	Less than 12 months after reporting period Rm	More than 12 months after reporting period Rm	Total Rm
2018				
Other assets	7	**798**	**606**	**1 404**
Interest in SBG companies, associates and joint ventures	8	**1 386**	**1 181**	**2 567**
Property and equipment	9		**10 284**	**10 284**
Goodwill and other intangible assets	10		**17 106**	**17 106**
Provisions and other liabilities	17	**(8 756)**	**(1 660)**	**(10 416)**
Current and deferred tax asset		*****	*****	**2 157**
Current and deferred tax liability		*****	*****	**(3 779)**
2017				
Other assets	7	1 431	383	1 814
Interest in SBG companies, associates and joint ventures	8	664	580	1 244
Property and equipment	9		8 448	8 448
Goodwill and other intangible assets	10		17 746	17 746
Liabilities to SBG companies		(10)		(10)
Provisions and other liabilities	17	(612)	(512)	(1 124)
Current and deferred tax asset		*	*	345
Current and deferred tax liability		*	*	(3 426)

* Undated.

COMPANY	Note	Less than 12 months after reporting period Rm	More than 12 months after reporting period Rm	Total Rm
2018				
Other assets	7	**792**	**596**	**1 388**
Interest in SBG companies, associates and joint ventures	8	**1 369**	**1 750**	**3 119**
Property and equipment	9		**10 262**	**10 262**
Goodwill and other intangible assets	10		**17 013**	**17 013**
Provisions and other liabilities	17	**(8 209)**	**(1 658)**	**(9 867)**
Current and deferred tax asset		*****	*****	**2 094**
Current and deferred tax liability		*****	*****	**(3 736)**
2017				
Other assets	7	1 490	322	1 812
Interest in SBG companies, associates and joint ventures	8	769	613	1 382
Property and equipment	9		8 423	8 423
Goodwill and other intangible assets	10		17 652	17 652
Liabilities to SBG companies		(10)		(10)
Provisions and other liabilities	17	(569)	(510)	(1 079)
Current and deferred tax asset		*	*	283
Current and deferred tax liability		*	*	(3 403)

* Undated.

24. Contingent liabilities and commitments

24.1 Contingent liabilities

	GROUP AND COMPANY	
	2018 Rm	2017 Rm
Letters of credit[1]	**13 884**	8 940
Guarantees	**47 384**	43 466
Total	**61 268**	52 406

[1] Includes letters of credit with fellow SBG banking subsidiary companies of R4 403 million (2017: R2 957 million) for the group and company.

Loan commitments of R91 800 million (2017: R71 899 million) in the group and company that are irrevocable over the life of the facility or revocable only in response to material adverse changes are included in annexure C – risk and capital management.

24.2 Commitments

	GROUP AND COMPANY	
	2018 Rm	2017 Rm
Property and equipment	**302**	49
Other intangible assets	**261**	299
Total	**563**	348

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	
	2018 Rm	2017 Rm	**2018 Rm**	2017 Rm
Property and equipment				
Within one year	**1 245**	1 080	**1 245**	1 074
After one year but within five years	**3 257**	2 081	**3 257**	2 078
After five years	**620**	38	**620**	38
Total	**5 122**	3 199	**5 122**	3 190

The commitments comprise a number of separate operating leases.

24.4 Legal proceedings

In the ordinary course of business, the group is involved as a defendant in litigation, lawsuits and other proceedings. Management recognises the inherent difficulty of predicting the outcome of defended legal proceedings. Nevertheless, based on management's knowledge from investigation, analysis and after consulting with legal counsel, management believes that there are no individual legal proceedings that are currently assessed as being 'likely to succeed and material' or 'unlikely to succeed but material should they succeed'. The group is also the defendant in some legal cases for which the group is fully indemnified by external third parties, none of which are individually material. Management is accordingly satisfied that the legal proceedings currently pending against the group should not have a material adverse effect on the group's consolidated financial position and the directors are satisfied that the group has adequate insurance programmes and, where required in terms of IFRS for claims that are probable, provisions in place to meet claims that may succeed.

Competition Commission – trading of foreign currency

On 15 February 2017 South Africa's Competition Commission lodged five complaints with the Competition Tribunal against 18 institutions, including one against The Standard Bank of South Africa Limited (SBSA) and two against a former subsidiary of the Standard Bank Group, Standard New York Securities Inc. (SNYS), in which it alleges unlawful collusion between those institutions in the trading of USD/ZAR. Standard Bank Group has, with the help of external counsel, conducted its own internal investigations and found no evidence that supports the complaints. Both SBSA and SNYS have, together with 12 of the other respondents, applied for dismissal of the complaint referral on various legal grounds. These applications were heard in July 2018 and judgement has been reserved. The allegations against SBSA are confined to USD/ZAR trading activities within SBSA and do not relate to the conduct of the broader SBG group.

25. Interest income

	GROUP		COMPANY	
	2018 Rm	2017 Rm	**2018 Rm**	2017 Rm
Effective interest rate interest income on:				
Loans and advances	**91 164**	84 736	**90 023**	83 963
Financial investments	**10 309**	10 092	**10 309**	10 092
Interest income on credit impaired financial assets	**782**	784	**776**	777
Fair value adjustment on debt financial instruments – IAS 39		(50)		(50)
Dividends on dated securities – IAS 39		2 664		2 020
Total	**102 255**	98 226	**101 108**	96 802
Comprising:				
Interest income on items measured at amortised cost	**102 236**	97 009	**101 089**	95 810
Interest income on items measured at fair value through OCI	**19**		**19**	
Interest income on items measured at fair value through profit or loss – IAS 39		1 217		992

The group and company have, as permitted by IFRS 9, elected not to restate comparative annual financial statements. Therefore, comparability will not be achieved by the fact that the comparative financial information has been prepared on an IAS 39 basis. Refer to the accounting policies for more detail on the change in presentation as a result of IFRS 9 and the amendment to IAS 1 requiring interest income calculated using effective interest rate to be separately presented in the income statement.

26. Interest expense

	GROUP		COMPANY	
	2018 Rm	2017 Rm	**2018 Rm**	2017 Rm
Interest on deposits and debt funding	**59 870**	53 925	**59 938**	53 587
Interest on subordinated debt	**2 554**	2 781	**2 554**	2 781
Total	**62 424**	56 706	**62 492**	56 368
Comprising:				
Interest expense on items measured at amortised cost	**62 424**	56 161	**62 492**	56 006
Interest expense on items measured at fair value through profit and loss – IAS 39		545		362

The group and company have, as permitted by IFRS 9, elected not to restate comparative annual financial statements. Therefore, comparability will not be achieved by the fact that the comparative financial information has been prepared on an IAS 39 basis. Refer to the accounting policies for more detail on the change in presentation as a result of IFRS 9 and the amendment to IAS 1 requiring interest income calculated using effective interest rate to be separately presented in the income statement.

27. Fee and commission revenue

	GROUP		COMPANY	
	2018 Rm	2017 Rm	2018 Rm	2017 Rm
Account transaction fees	9 825	9 766	9 825	9 760
Bancassurance revenue	2 099	2 147	828	794
Card-based commission	5 700	5 568	5 366	5 217
Documentation and administration fees	1 356	1 319	1 338	1 296
Electronic banking fees	3 027	2 723	3 027	2 723
Foreign currency service fees	1 204	1 019	1 204	1 770
Knowledge-based fees and commission	624	756	641	756
Other	2 768	2 008	3 245	1 859
Total	**26 603**	25 306	**25 474**	24 175

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	
	2018 Rm	2017 Rm	2018 Rm	2017 Rm
Account transaction fees	1 322	1 204	1 322	1 204
Bancassurance fees	546	511	514	488
Card-based commission	1 943	1 821	1 927	1 806
Customer loyalty expense[1]	624	463	624	463
Documentation and administration fees	121	121	121	121
Electronic banking fees	653	624	653	624
Other	209	206	217	221
Total	**5 418**	4 950	**5 378**	4 927

1 Refer to the accounting policy elections, transition and restatement on page 50 regarding the detail on the change in accounting presentation policy.

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	
	2018 Rm	2017 Rm	2018 Rm	2017 Rm
Fixed income and currencies	3 385	3 800	3 385	3 800
Equities	1 970	1 523	1 970	1 523
Commodities	48	62	48	62
Other	(45)	(41)	(46)	(40)
Total	**5 358**	5 344	**5 357**	5 345

30. Other revenue

	GROUP		COMPANY	
	2018 Rm	2017 Rm	**2018 Rm**	2017 Rm
Banking and other[1]	**1 158**	942	**1 281**	1 108
Franchise and management fees (note 40.6)	**770**	674	**770**	674
Property-related revenue	**214**	184	**218**	188
Insurance – bancassurance income	**780**	980	**780**	980
Total	**2 922**	2 780	**3 049**	2 950

[1] Included in banking and other income for the company is dividend income from subsidiaries of R150 million (2017: R157 million).

31. Other gains and losses on financial instruments

	GROUP	COMPANY
	2018 Rm	**2018 Rm**
Fair value gains on financial assets measured at fair value through profit or loss – default	**162**	**162**
Fair value gains on financial instruments designated at fair value through profit or loss	**360**	**360**
Total	**522**	**522**

The group and company have, as permitted by IFRS 9, elected not to restate comparative annual financial statements. Therefore, comparability will not be achieved by the fact that the comparative financial information has been prepared on an IAS 39 basis. Refer to the accounting policies for more detail on the change in presentation as a result of IFRS 9.

32. Credit impairment charges

	GROUP		COMPANY	
	2018 Rm	2017 Rm	**2018 Rm**	2017 Rm
Net credit impairments raised and released for loans and advances (note 6) – IAS 39		7 668		7 607
Net ECL raised and released – IFRS 9:	**6 215**		**6 225**	
Financial investments (note 5)	**7**		**7**	
Loans and advances (note 6)	**6 058**		**6 068**	
Letters of credit, bank acceptances and guarantees (note 17)	**150**		**150**	
Recoveries on loans and advances previously written off	**(770)**	(523)	**(768)**	(515)
Modification losses on distressed financial assets	**137**		**137**	
Net ECL released on balances with fellow SBG banking subsidiary companies (note 8)	**(25)**		**(25)**	
Total	**5 557**	7 145	**5 569**	7 092

The group and company have, as permitted by IFRS 9, elected not to restate comparative annual financial statements. Therefore, comparability will not be achieved by the fact that the comparative financial information has been prepared on an IAS 39 basis. Refer to the accounting policies for more detail on the change in presentation as a result of IFRS 9.

33. Operating expenses

	GROUP		COMPANY	
	2018 Rm	2017 Rm	**2018 Rm**	2017 Rm
Amortisation – intangible assets (note 10)	**2 075**	2 095	**2 065**	2 077
Auditors' remuneration	**217**	251	**209**	243
Audit fees – current financial year	**207**	189	**199**	181
Audit fees – other financial years[1]		30		30
Fees for other services[2]	**10**	32	**10**	32
Communication-related expenses	**730**	737	**705**	698
Depreciation (note 9)	**1 710**	1 680	**1 701**	1 676
Property	**358**	378	**357**	378
Equipment	**1 352**	1 302	**1 344**	1 298
Information technology	**5 420**	5 149	**5 365**	5 115
Operating lease charges	**1 655**	1 559	**1 640**	1 542
Premises	**1 247**	1 249	**1 245**	1 246
Professional fees	**1 314**	1 073	**1 296**	1 049
Staff costs	**22 928**	22 039	**22 404**	21 550
Salaries and wages	**20 401**	18 678	**19 877**	18 189
Pension and other post-employment benefit costs (note 41.1)	**975**	887	**975**	887
Equity-linked transactions (annexure D)	**1 552**	2 474	**1 552**	2 474
Transfer pricing agreements (note 40.6)	**1 195**	993	**1 250**	993
Other expenses[3]	**3 169**	3 547	**2 844**	3 234
Total	**41 660**	40 372	**40 724**	39 423

1 This related to IFRS 9 audit services incurred during 2017 in relation to the 2018 financial year, being the financial year in which IFRS 9 becomes effective.
2 All fees for services paid to the group's auditors were considered and approved by the group's audit committee in terms of its non-audit services policy.
3 Refer to the restatement on page 56 regarding the detail on the change in accounting presentation policy.

34. Non-trading and capital related items

	GROUP		COMPANY	
	2018 Rm	2017 Rm	**2018 Rm**	2017 Rm
Impairment of intangible assets (note 10)	**437**	283	**437**	281
Profit on sale of property and equipment	**(9)**	(12)	**(9)**	(10)
Profit on sale of intangible assets	**(50)**	(80)	**(50)**	(80)
Impairment of associates (note 8)	**5**		**5**	
Total	**383**	191	**383**	191

35. Taxation

35.1 Indirect taxation

	GROUP		COMPANY	
	2018 Rm	2017 Rm	**2018 Rm**	2017 Rm
Value added tax (VAT)[1]	**1 205**	1 106	**1 205**	1 106
Other indirect taxes and levies	**213**	195	**207**	189
Total	**1 418**	1 301	**1 412**	1 295

[1] The group and company earn certain amounts of VAT exempt income which result in these amounts of VAT input not being able to be claimed from the revenue authorities.

35.2 Direct taxation

	GROUP		COMPANY	
	2018 Rm	2017 Rm	**2018 Rm**	2017 Rm
South African normal tax	**3 920**	3 924	**3 774**	3 759
Current year	**4 023**	4 145	**3 876**	3 980
Prior year	**(103)**	(221)	**(102)**	(221)
Deferred taxation	**222**	372	**220**	386
Current year	**141**	299	**142**	315
Prior year	**81**	73	**78**	71
Capital gains, foreign and withholding tax	**48**	51	**47**	53
Total	**4 190**	4 347	**4 041**	4 198

Income tax recognised in OCI

The table below sets out the amount of income tax relating to each component within OCI.

	GROUP		COMPANY	
	2018 Rm	2017 Rm	**2018 Rm**	2017 Rm
Items that may be subsequently reclassified to profit or loss:				
Movements in the cash flow hedging reserve	**84**	(46)	**84**	(46)
Net change in fair value of cash flow hedges	**235**	(122)	**235**	(122)
Realised fair value adjustments of cash flow hedges transferred to profit or loss	**(151)**	76	**(151)**	76
Net change in fair value of available-for-sale financial assets – IAS 39		(5)		(5)
Net change in fair value of fair value through OCI financial assets – IFRS 9	**1**		**1**	
Other	**4**	9	**4**	16
Items that may not be reclassified to profit or loss:				
Net change in fair value of equity financial investments measured at fair value through OCI – IFRS 9	**19**		**19**	
Net change in own credit risk recognised on financial liabilities designated at fair value through profit or loss – IFRS 9	**(2)**		**(2)**	
Defined benefit fund remeasurements	**18**	75	**18**	75
Total	**124**	33	**124**	40

35. Taxation continued

35.2 Direct taxation continued

Future tax relief

The group and company have estimated tax losses of R39 million (2017: R50 million) and R21 million (2017: R39 million) 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 F – accounting policy 12 – taxation.

South African tax rate reconciliation

	GROUP		COMPANY	
	2018 %	2017 %	**2018 %**	2017 %
Direct taxation – statutory rate	**28**	28	**28**	28
Prior year tax		(1)		(1)
Direct taxation – current year	**28**	27	**28**	27
Adjustment to direct taxation		1		1
Foreign tax and withholding tax		1		1
Direct taxation – current year – normal	**28**	28	**28**	28
Permanent differences	**(7)**	(7)	**(7)**	(6)
Dividends received	**(6)**	(6)	**(6)**	(6)
Other non-taxable income	**(2)**	(2)	**(2)**	(2)
Other permanent differences	**1**	1	**1**	2
Direct tax charge for the year as a percentage of profit before tax	**21**	21	**21**	22

36. Basic and diluted earnings per ordinary share

	GROUP		COMPANY	
	2018	2017	**2018**	2017
Earnings				
The calculations of basic earnings and headline earnings per ordinary share are as follows:				
Basic earnings (Rm)	**15 695**	15 941	**14 596**	15 074
Headline earnings (Rm) (note 37)	**15 971**	16 078	**14 872**	15 211
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)	**26 160**	26 570	**24 328**	25 125
Headline earnings per ordinary share (cents)	**26 620**	26 798	**24 788**	25 354

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.

37. Headline earnings

	2018				2017				
	Gross Rm	**Tax Rm**	**Other equity instrument holders Rm**	**Net Rm**	Gross Rm	Tax Rm	Non-controlling interest Rm	Other equity instrument holders Rm	Net Rm
GROUP									
Profit for the year	**20 207**	**(4 190)**	**(322)**	**15 695**	20 452	(4 347)	1	(165)	15 941
Headline earnings adjustable items added/(reversed)	**383**	**(107)**		**276**	191	(54)			137
Impairment of intangible assets – IAS 38	**437**	**(122)**		**315**	283	(78)			205
Impairment of associates – IAS 28/IAS 36	**5**	**(1)**		**4**					
Profit on disposal of intangible assets – IAS 38	**(50)**	**14**		**(36)**	(80)	21			(59)
Profit on sale of property and equipment – IAS 16	**(9)**	**2**		**(7)**	(12)	3			(9)
Headline earnings	**20 590**	**(4 297)**	**(322)**	**15 971**	20 643	(4 401)	1	(165)	16 078
COMPANY									
Profit for the year	**18 959**	**(4 041)**	**(322)**	**14 596**	19 437	(4 198)		(165)	15 074
Headline earnings adjustable items added/(reversed)	**383**	**(107)**		**276**	191	(54)			137
Impairment of intangible assets – IAS 38	**437**	**(122)**		**315**	281	(78)			203
Impairment of associates – IAS 28/IAS 36	**5**	**(1)**		**4**					
Profit on disposal of intangible assets – IAS 38	**(50)**	**14**		**(36)**	(80)	21			(59)
Profit on sale of property and equipment – IAS 16	**(9)**	**2**		**(7)**	(10)	3			(7)
Headline earnings	**19 342**	**(4 148)**	**(322)**	**14 872**	19 628	(4 252)		(165)	15 211

Headline earnings is calculated in accordance with the circular titled Headline Earnings issued by SAICA, at the request of the JSE, as amended from time to time. 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.

38. Dividends

	GROUP AND COMPANY	
	2018 Rm	2017 Rm
Ordinary dividends	**14 740**	13 700
Dividend No. 146 of 13 334 cents per share paid on 20 March 2017 to the shareholder registered on 17 March 2017		8 000
Dividend No. 147 of 9 500 cents per share paid on 8 September 2017 to the shareholder registered on 5 September 2017		5 700
Dividend No. 148 of 14 834 cents per share paid on 3 April 2018 to the shareholder registered on 30 March 2018	**8 900**	
Dividend No. 149 of 9 734 cents per share paid on 7 September 2018 to the shareholder registered on 6 September 2018	**5 840**	
Additional tier 1 capital bonds	**322**	165
31 December		
SBT101	**41**	39
SBT102	**42**	44
30 September		
SBT101	**40**	41
SBT102	**40**	
30 June		
SBT101	**39**	41
SBT102	**40**	
30 March		
SBT101	**40**	
SBT102	**40**	
Total	**15 062**	13 865

On 6 March 2019, dividend No. 150 of 13 251 cents per share payable on 28 March 2019 was declared, to the shareholder registered on 22 March 2019, bringing the total dividends declared in respect of 2018 to 22 985 cents per share (2017: 24 334 cents per share).

39. Statement of cash flows notes

39.1 Adjustment for non-cash items and other adjustments included within the income statement

	GROUP		COMPANY	
	2018 Rm	2017 Rm	2018 Rm	2017 Rm
Amortisation of intangible assets (note 10)	**2 075**	2 095	**2 065**	2 077
Depreciation of property and equipment (note 9)	**1 710**	1 680	**1 701**	1 676
ECL raised and released (note 32)	**5 557**	7 145	**5 569**	7 092
Interest income	**(102 255)**	(97 492)	**(101 108)**	(96 075)
Interest expense	**62 424**	56 706	**62 492**	56 368
Equity-linked transactions (annexure D)	**1 552**	2 474	**1 552**	2 474
Indirect taxation (note 35.1)	**(1 418)**	(1 301)	**(1 412)**	(1 295)
Dividends included in non-interest revenue	**(1 214)**	(1 523)	**(1 364)**	(1 523)
Other adjustments	**20**	208	**20**	211
Total	**(31 549)**	(30 008)	**(30 485)**	(28 995)

39. Statement of cash flows notes continued

39.2 Increase in income-earning assets

	GROUP		COMPANY	
	2018 Rm	2017 Rm	**2018 Rm**	2017 Rm
Net derivative liability	**1 049**	(5 419)	**1 049**	(5 419)
Trading assets	**(27 611)**	(18 841)	**(27 307)**	(18 841)
Pledged assets	**6 138**	(4 731)	**6 138**	(4 731)
Financial investments	**(19 151)**	5 242	**(19 618)**	4 982
Loans and advances	**(41 096)**	13 100	**(45 024)**	18 896
Interests in SBG companies, associates and joint ventures	**(6 433)**	(11 015)	**(4 845)**	(17 085)
Other assets	**2 934**	(2 189)	**2 958**	(2 217)
Total	**(84 170)**	(23 853)	**(86 649)**	(24 415)

39.3 Increase in deposits, trading and other liabilities

	GROUP		COMPANY	
	2018 Rm	2017 Rm	**2018 Rm**	2017 Rm
Deposit and debt funding	**49 335**	25 882	**50 122**	26 706
Trading liabilities	**(8 536)**	11 264	**(8 542)**	11 264
Liabilities to SBG companies	**34 828**	(22 567)	**38 386**	(21 987)
Other liabilities	**(1 810)**	(4 100)	**(2 230)**	(4 045)
Total	**73 817**	10 479	**77 736**	11 938

39.4 Reconciliation of subordinated debt

	GROUP AND COMPANY	
	2018 Rm	2017 Rm
Balance at the beginning of the year	**17 287**	20 340
Subordinated debt issued[1]	**5 000**	
Subordinated debt redeemed	**(3 500)**	(3 000)
Accrued finance movements	**63**	(53)
Balance at the end of the year	**18 850**	17 287
Comprising:		
Third-party subordinated debt (note 16)	**13 793**	
Liabilities to group companies[1] (note 8.3)	**5 057**	

[1] During the year, the group's shareholder, SBG, issued subordinated tier 2 capital under its domestic medium-term note programme. The group and company on a reciprocal basis entered into subordinated tier 2 capital lending agreements with SBG under identical terms. These exposures have been recognised under liabilities to SBG companies in accordance with the group and company's accounting policy.

40. Related party transactions

40.1 Parent

SBSA is a wholly-owned subsidiary of SBG.

40.2 Subsidiaries

Details of effective interest, investments in and loans to material subsidiaries are disclosed in annexure A.

40.3 Associates and joint ventures

Details of effective interest, investments in and loans to associates and joint ventures are disclosed in annexure B.

40.4 Key management personnel

Key management personnel has been defined as SBSA board of directors and prescribed officers effective for 2018 and 2017. 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.

GROUP AND COMPANY	2018 Rm	2017 Rm
Key management compensation		
Salaries and other short-term benefits paid	**113**	142
Post-employment benefits	**6**	5
IFRS 2 value of share options and rights expensed	**160**	243
Total	**279**	390
Loans and advances		
Loans outstanding at the beginning of the year	**12**	11
Change in key management structures	**2**	(1)
Net change in loans during the year	**8**	2
Loans outstanding at the end of the year	**22**	12
Interest income	**1**	1
Loans include mortgage loans, vehicle and asset finance and credit cards. No specific impairments have been recognised in respect of loans granted to key management personnel in the current or prior year. The mortgage loans and vehicle and asset finance are secured by the underlying assets. All other loans are unsecured.		
Deposit and debt funding[1]		
Deposits outstanding at the beginning of the year	**80**	26
Change in key management structures	**57**	(4)
Net change in deposits during the year	**4**	58
Deposits outstanding at the end of the year	**141**	80
Net interest expense	**(5)**	(2)
Investment products[2]		
Balance at the beginning of the year	**431**	422
Change in key management structures	**2**	(15)
Net change in investments during the year	**2**	24
Balance at the end of the year	**435**	431
Net investment return to key management personnel	**48**	113

40. Related party transactions continued

40.4 Key management personnel continued

GROUP AND COMPANY	2018 Rm	2017 Rm
Third-party funds under management		
Fund value at the beginning of the year	**224**	239
Change in key management structures		(64)
Net change in deposits during the year	**(2)**	49
Fund value at the end of the year	**222**	224
Net investment return to key management personnel	**(16)**	38
Fee and commission revenue		6
Shares and share options held[3]		
Shares beneficially owned (number)	**1 738 101**	1 578 046
Share options held (number)	**3 569 592**	3 288 492

1 Deposits include cheque, current and savings accounts.
2 In 2017, investment products of R72 million by key management personnel were erroneously excluded from this disclosure; this consisted of a difference of R40 million in the opening balance and R32 million in relation to net changes in investments during the year. The comparatives have been restated accordingly.
3 Aggregate details of SBG shares and share options held by key management personnel.

40.5 Holding company, subsidiaries and fellow subsidiaries

	Holding company		Subsidiaries		Fellow banking subsidiaries[1]	
	2018 Rm	2017 Rm	2018 Rm	2017 Rm	2018 Rm	2017 Rm
Assets						
GROUP						
Assets outstanding at the beginning of the year	**150**	94			**44 986**	34 046
Net movement for the year		56			**6 143**	10 940
Assets outstanding at the end of the year (note 8.1)	**150**	150			**51 129**	44 986
Interest income					**929**	697
Non-interest revenue					**1 409**	1 288
COMPANY						
Assets outstanding at the beginning of the year	**150**	94	**13 103**	7 042	**45 099**	34 141
Net movement for the year		56	**(1 548)**	6 061	**6 100**	10 958
Assets outstanding at the end of the year (note 8.1)	**150**	150	**11 555**	13 103	**51 199**	45 099
Interest income			**198**	499	**402**	707
Non-interest revenue			**652**	732	**1 018**	926
Included in the above are loans issued to subsidiaries and fellow subsidiaries that are repayable on demand. Interest is charged based on the group's internal funding rate. The loans are unsecured.						

1 Fellow banking subsidiaries relates to subsidiaries of the group's parent entity, SBG, which are also primarily involved in banking activities.

40. Related party transactions continued

40.5 Holding company, subsidiaries and fellow subsidiaries continued

	Holding company		Subsidiaries		Fellow banking subsidiaries[1]	
	2018 Rm	2017 Rm	**2018 Rm**	2017 Rm	**2018 Rm**	2017 Rm
Liabilities						
GROUP						
Liabilities outstanding at the beginning of the year	**2**	176			**95 414**	117 807
Net movement for the year	**11 244**	(174)			**28 641**	(22 393)
Liabilities outstanding at the end of the year (note 8.3)	**11 246**	2			**124 055**	95 414
Interest expense					**2 298**	1 540
COMPANY						
Liabilities outstanding at the beginning of the year	**2**	176	**1 200**	147	**94 725**	117 591
Net movement for the year	**11 244**	(174)	**906**	1 053	**31 293**	(22 866)
Liabilities outstanding at the end of the year (note 8.3)	**11 246**	2	**2 106**	1 200	**126 018**	94 725
Interest expense	**350**		**106**	117	**789**	1 531

[1] Fellow banking subsidiaries relate to subsidiaries of the group's parent entity, SBG, which are also primarily involved in banking activities.

Liberty Holdings Limited (Liberty) and its subsidiaries hold the following deposits and debt funding with the group and company:

	Deposit and debt funding		Fee and commission revenue		Interest expense	
	2018 Rm	2017 Rm	**2018 Rm**	2017 Rm	**2018 Rm**	2017 Rm
Banking arrangements debt funding						
Liberty	**130**	72			**4**	3
Liberty subsidiaries	**5 745**	5 102	**64**	53	**131**	80
Total	**5 875**	5 174	**64**	53	**135**	83

40.6 Transactions with fellow 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 licensing 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 2018 amounted to R174 million (2017: R153 million).

Core banking systems

SBSA disposed of certain core banking systems with a carrying value of R44 million (2017: R1 000 million) to fellow subsidiaries in SBG's Africa Regions for a consideration of R94 million (2017: R1 080 million). The profit on disposal of R50 million (2017: R80 million gain) 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 2018 amounted to R249 million (2017: R168 million).

40. Related party transactions continued

40.6 Transactions with fellow subsidiaries continued

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 group and company's income statement, as well as the balances included in the statement of financial position.

GROUP AND COMPANY	2018 Rm	2017 Rm
Franchise and management fee income for the year included in other revenue	770	674
Net franchise and management fee balance owing to SBSA included in interests in SBG companies	261	320
Gross amounts owing to SBSA at the end of the year	428	440
Provisions	(167)	(120)
Provision raised on franchise and management fees during the year	(47)	(294)
Franchise and management fees written off during the year		(748)

Transfer pricing arrangements for 2018 and 2017

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 2018 and 2017 financial years.

The following amounts were recognised in the group and company income statements for the agreements:

	GROUP		COMPANY	
	2018 Rm	2017 Rm	2018 Rm	2017 Rm
Revenue sharing agreements	722	726	722	726
Other operating expenses (note 33)	1 195	993	1 250	993
Total	1 917	1 719	1 972	1 719

40.7 Transactions with Liberty

Information technology outsourcing arrangement

Liberty partially outsources its IT services to the group in terms of various agreements until 30 April 2021. Fees charged for 2018 amounted to R27 million (2017: R28 million). During the year, Liberty outsourced their investment asset replication service to the group. Implementation fees paid to the group were R6 million and replication fees charged were R21 million.

Software development fees

Liberty developed a number of distribution systems on behalf of the group in prior years. For 2018, the annual maintenance fees paid by SBSA to Liberty amounted to R6 million (2017: R10 million). The group has assisted in the development of systems on behalf of Liberty for the short-term insurance operations initiative. This amounted to R8 million in 2018.

Operating leases

The group leases several properties from Liberty, including 50% of its 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 2018 amounted to R94 million (2017: R86 million).

40. Related party transactions continued

40.7 Transactions with Liberty continued

Bancassurance

Liberty has extended the bancassurance business agreements with the group for the manufacture, sale and promotion of insurance, investment and health products through the group's African distribution capability. New business premium income in respect of this business in 2018 amounted to R8 895 million (2017: R9 129 million). In terms of the agreements, Liberty's group subsidiaries pay profit shares to the group'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 group from Liberty for the year to 31 December 2018 is R1 266 million (2017: R948 million).

The bancassurance business agreements are evergreen agreements with a 24-month notice period for termination – as at the date of the approval of these financial statements, neither party had given notice.

A binder agreement was entered into with Liberty effective from 31 December 2012. The binder agreement is associated with the administration of policies sold under the bancassurance business agreement, and shall remain in force for an indefinite period with a 90-day notice period for termination. Fees receivable for the year to 31 December 2018 are R265 million (2017: R206 million).

Insurance

Certain of Liberty's insured risks are included in the group's 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 2018 is R28 million (2017: R46 million).

Asset management fees

Asset management fees of R9 million (2017: R9 million) were paid to STANLIB Asset Management Limited by the Standard Bank Group Retirement Fund.

Derivatives

Certain derivative transactions were entered into between the group and Liberty. Transactions were entered into on an arm's length basis. The group and company held the following derivative balances with Liberty at 31 December.

GROUP AND COMPANY	2018 Rm	2017 Rm
Fair value of derivative assets	**1 758**	1 573
Fair value of derivative liabilities	**(1 228)**	(1 499)
Net derivative asset	**530**	74

As at 31 December 2018, Liberty had collateral deposits receivable of R1 293 million (2017: R486 million) deposited with SBSA as collateral supporting South African Futures Exchange and over-the-counter traded derivatives. Collateral deposits payable amounted to R27 million (2017: R236 million).

Sale and repurchase agreements

The group has entered into certain agreements of sale and repurchase of financial instruments as part of the group's asset/liability matching process. Open contracts totalled R416 million as at 31 December 2018 (2017: R520 million). Income recognised in respect of these agreements for the year ended 31 December 2018 were R41 million (2017: R101 million).

Commission received from Liberty

The group received commission from Liberty for insurance policies sold through the bank's various distribution channels. The commission received for the year to 31 December 2018 is R819 million (2017: R1 009 million). STANLIB also paid commission of R165 million (2017: R169 million) to the group for the year to 31 December 2018 in relation to asset management business.

Advisory fees received in respect of bond issue

During 2018, Liberty issued R1 billion (2017: R2 billion) in subordinated notes. Advisory fees of R5 million (2017: R11 million) were paid to the group in respect of the note issues.

40. Related party transactions continued

40.8 Mutual funds

SBG invests in various mutual funds that are managed by Liberty. Where Liberty has assessed that it has control (as defined by IFRS) over these mutual funds, it accounts for these mutual funds as subsidiaries. Where the Liberty group has assessed that it does not have control over these mutual funds, but has significant influence, it accounts for them as associates.

The following significant balances and transactions were entered into between SBSA and the mutual funds which Liberty has control or significant influence over.

GROUP AND COMPANY	2018 Rm	2017 Rm
Trading liabilities	**(1 365)**	(785)
Deposits and debt funding	**(30 837)**	(19 946)
Trading losses	**(64)**	(91)
Interest expense	**(3 076)**	(908)

40.9 Balances and transactions with ICBCS

The following balances were in place as at 31 December with ICBC Standard Bank Plc (ICBCS), an entity in which SBG has a 40% interest. These transactions have been entered into on market-related terms.

GROUP AND COMPANY	2018 Rm	2017 Rm
Derivative assets	**887**	2 164
Loans and advances	**18 802**	30 521
Other assets		34
Derivative liabilities	**(3 249)**	(2 309)
Deposits and debt funding	**(53)**	(328)
Other liabilities	**(22)**	(373)

In 2018, R17 million (2017: R50 million) in service level agreement (SLA) revenue was recognised for services rendered to ICBCS relating to the support, licensing and maintenance of the financial systems used by ICBCS.

40.10 Shareholder of the parent

The group has several business relationships with the Industrial and Commercial Bank of China (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 balances and transactions with ICBC.

40.10.1 Balances and transactions with ICBC

The group, in the ordinary course of business, receives term funding from, and provides loans and advances to, ICBC for strategic purposes. These monies are renegotiated and settled on an ongoing basis on market-related terms. The following balances have been recognised in the group and company's financial statement; these balances are outstanding between SBSA and ICBC at 31 December, excluding those relating to ICBCS.

GROUP AND COMPANY	2018 Rm	2017 Rm
Loans and advances	**15 266**	1 839
Other assets	**345**	611
Deposits and debt funding	**(3 766)**	(60)

Letters of credit

The group has off-balance sheet letters of credit exposure issued to ICBC as at 31 December 2018 of R418 million (2017: R165 million). The group received R2 million in fee and commission income relating to these transactions (2017: R3 million).

40. Related party transactions continued

40.11 Post-employment benefit plans

Details of transactions between the group and the company's post-employment benefit plans are listed below.

The following amounts have been recognised in the group and company's financial statements.

GROUP AND COMPANY	2018 Rm	2017 Rm
Fee and commission revenue	**8**	5
Deposits and debt funding	**(90)**	(88)
Interest expense	**(1)**	(1)
Financial investments in bonds and money market	**521**	445

In addition to the above, the group manages R6 037 million (2017: R8 621 million) of the post-employment benefit plans' assets.

41. Pensions and other post-employment benefits

41.1 Retirement funds

Membership of the principal fund, the Standard Bank Group Retirement Fund (SBGRF), comprises in excess of 95% (2017: 95%) of SBSA's permanent staff. The fund, one of the ten largest in South Africa, is governed by the Pension Funds Act 24 of 1956. 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.

41. Pensions and other post-employment benefits continued

41.1 Retirement funds continued

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 41.2) 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.

	GROUP AND COMPANY	
	2018 Rm	2017 Rm
The amounts recognised in the statement of financial position in respect of the retirement fund is as follows:		
Present value of funded obligations	**(32 284)**	(33 464)
Fair value of plan assets	**33 049**	34 365
Surplus (included in other assets in the statement of financial position)	**765**	901
Movement in the present value of funded obligations		
Balance at the beginning of the year	**33 464**	31 411
Current service cost	**1 040**	991
Interest cost	**2 985**	3 092
Contributions paid by employees	**841**	798
Actuarial (gains)/losses	**(3 567)**	838
Benefits paid	**(2 479)**	(3 666)
Balance at the end of the year	**32 284**	33 464
Movement in the fair value of plan assets		
Balance at the beginning of the year	**34 365**	32 694
Interest income	**3 050**	3 196
Contributions received	**1 690**	1 606
Actuarial (losses)/gains	**(3 577)**	535
Benefits paid	**(2 479)**	(3 666)
Balance at the end of the year	**33 049**	34 365
Plan assets consist of the following:		
Cash	**476**	1 003
Equities	**14 707**	15 505
Bonds	**8 844**	8 804
Property and other	**9 022**	9 053
Balance at the end of the year	**33 049**	34 365

41. Pensions and other post-employment benefits continued

41.1 Retirement funds continued

The group expects to pay R1 231 million in contributions to SBGRF in 2019 (2018: R887 million).

	GROUP AND COMPANY	
	2018 Rm	2017 Rm
The amounts recognised in profit or loss are determined as follows:		
Current service cost	**(1 040)**	(991)
Net interest income	**65**	104
Included in staff costs	**(975)**	(887)

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	
	2018 Rm	2017 Rm
Components of statement of OCI		
Actuarial (loss)/gain on assets	**(3 577)**	535
Actuarial gain/(loss) on liability	**3 567**	(838)
Gain/(loss) from changes in experience assumptions	**2 602**	(1 385)
Gain from changes in financial assumptions	**965**	547
Decrease in remeasurements recognised in OCI	**(10)**	(303)
Reconciliation of net defined benefit asset		
Net defined benefit asset at the beginning of the year	**901**	1 283
Net expense recognised	**(975)**	(887)
Amounts recognised in OCI	**(10)**	(303)
Company contributions	**849**	808
Net defined benefit asset at the end of the year	**765**	901

Sensitivity analysis for post-retirement fund

	2018		2017	
GROUP AND COMPANY	**1% increase Rm**	**1% decrease Rm**	1% increase Rm	1% decrease Rm
Inflation rate				
Effect on the defined benefit obligation	**370**	**(119)**	273	(224)
Discount rate				
Effect on the defined benefit obligation	**(167)**	**349**	(215)	267

	+10% increase	**-10% decrease**	+10% increase	-10% decrease
Mortality improvements				
Effect on the defined benefit obligation	**(36)**	**39**	(37)	53

Mortality improvements	**+ 1 year**	**- 1 year**	+ 1 year	- 1 year
Effect on the defined benefit obligation	**(36)**	**35**	(76)	11

	2018 Rm	2017 Rm
Historical information		
Experience adjustments arising on plan liabilities	**3 567**	838
Experience adjustments arising on plan assets	**(3 577)**	535

41. Pensions and other post-employment benefits continued

41.2 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 2018. The next actuarial valuation will be performed as at 31 December 2019.

	GROUP AND COMPANY	
	2018 Rm	2017 Rm
The amounts recognised in profit or loss are determined as follows:		
Present value of unfunded defined benefit obligation	**634**	601
Comprising:		
Post-employment medical aid	**634**	601
Movement in the present value of defined benefit obligations		
Balance at the beginning of the year	**601**	641
Interest cost	**49**	56
Actuarial losses/(gains)	**53**	(33)
Benefit payments	**(69)**	(63)
Balance at the end of the year	**634**	601
The amounts recognised in profit or loss are determined as follows:		
Net interest cost	**(49)**	(56)
Components of statement of OCI		
Actuarial gains arising from changes in financial assumptions	**(13)**	(21)
Losses/(gains) arising from experience adjustments	**66**	(12)
Decrease/(increase) in remeasurement recognised in OCI	**53**	(33)

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 2018 and 2017.

	2018		2017	
GROUP AND COMPANY	**1% increase Rm**	**1% decrease Rm**	1% increase Rm	1% decrease Rm
Sensitivity analysis for post-employment medical aid fund				
Effect on the aggregate of the current service cost and interest cost	**4**	**(3)**	4	(3)
Effect on the defined benefit obligation	**43**	**(38)**	42	(37)

	2018 Rm	2017 Rm
Experience adjustments arising on plan liabilities	**53**	(33)

42. 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 are as follows:

Scope of operations

BUSINESS UNITS
AND WHAT WE OFFER

Personal & Business Banking

Banking and other financial services to individual customers and small to medium-sized enterprises. We enable customers to take control of all their financial aspects such as transacting, saving, borrowing or planning by making use of the following product sets either through face-to-face interaction or digitally according to their preference

Transactional products
Comprehensive suite of transactional, saving, investment, trade, foreign exchange, payment and liquidity management solutions made accessible through a range of physical and digital channels.

Mortgage lending
Residential accommodation loans to mainly personal market customers.

Card products
- Credit card facilities to individuals and businesses (credit card issuing)
- Merchant transaction acquiring services (merchant solutions)

Vehicle and asset finance
- Finance of vehicles for retail market customers
- Finance of vehicles and equipment in the business and corporate assets market
- Fleet solutions

Lending products
- Lending products offered to both personal and business markets
- Business lending offerings constitute a comprehensive suite of lending product offerings, structured working capital finance solutions, commercial property finance solutions and trade finance

Wealth
- Short- and long-term insurance products comprising:
  - simple products, including loan protection plans sold in conjunction with related banking products, homeowners' insurance, funeral cover, household contents and vehicle insurance
  - complex insurance products, including life, disability and investment policies sold by qualified intermediaries
- Financial planning and modelling
- Integrated fiduciary services, including fiduciary advice, will drafting and custody services, as well as trust and estates administration
- Tailored banking, wealth management, investment and advisory services solutions for private high net worth individuals
- Investment services, including global asset management

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.

BUSINESS UNITS AND WHAT WE OFFER

Corporate & Investment Banking

Corporate and investment banking services to clients, including governments, parastatals, larger corporates, financial institutions and multinational corporates

Client coverage
- Provide in-depth sector expertise to develop relevant client solutions and foster client relationships

Global markets
- Trading and risk management solutions across financial markets, including foreign exchange, money markets, interest rates, equities, credit and commodities

Transactional products and services
- Comprehensive suite of cash management, international trade finance, working capital and investor service solutions

Investment banking
- Full suite of advisory and financing solutions, from term lending to highly structured and specialised products across the equity and debt capital markets

Other services

Includes the results of support functions, which are either centralised or embedded in the business segments. The direct costs of support functions are recharged to the business segments.

- legal & compliance
- human capital
- finance
- governance
- assurance
- IT
- procurement
- marketing
- real estate
- risk management
- group shared services
- corporate social investment

42. Segment reporting continued

GROUP	Personal & Business Banking 2018 Rm	2017 Rm
Net interest income	**31 518**	31 909
Interest income	**65 144**	64 097
Interest expense	**(33 626)**	(32 188)
Non-interest revenue	**19 707**	19 046
Net fee and commission revenue	**17 956**	17 398
Trading revenue		(15)
Other revenue	**1 751**	1 663
Other gains and losses on financial instruments		
Total income/(loss)	**51 225**	50 955
Credit impairment charges	**(4 530)**	(6 307)
Revenue sharing agreements		
Net income/(loss) before operating expenses	**46 695**	44 648
Operating expenses	**(30 171)**	(28 711)
Net income/(loss) before capital items and equity accounted earnings	**16 524**	15 937
Non-trading and capital related items	**(47)**	(133)
Share of profits from associates and joint ventures	**36**	28
Net income/(loss) before indirect taxation	**16 513**	15 832
Indirect taxation	**(393)**	(370)
Profit/(loss) before direct taxation	**16 120**	15 462
Direct taxation	**(4 181)**	(4 037)
Profit/(loss) for the year	**11 939**	11 425
Attributable to non-controlling interest		(1)
Attributable to other equity instrument holders	**142**	83
Attributable to the ordinary shareholder	**11 797**	11 343
Headline earnings	**11 831**	11 439
Operating information		
Total assets	**569 401**	540 653
Total liabilities	**514 145**	487 655
Other information		
Interest in associates and joint ventures	**388**	318
Depreciation and amortisation	**2 097**	2 062
Impairments of intangible assets	**44**	135

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

Corporate & Investment Banking		Other services		Total	
2018 Rm	2017 Rm	**2018 Rm**	2017 Rm	**2018 Rm**	2017 Rm
9 149	10 172	**(836)**	(561)	**39 831**	41 520
54 317	48 572	**(17 206)**	(14 443)	**102 255**	98 226
(45 168)	(38 400)	**16 370**	13 882	**(62 424)**	(56 706)
10 135	9 381	**145**	53	**29 987**	28 480
3 480	3 326	**(251)**	(368)	**21 185**	20 356
5 335	5 365	**23**	(6)	**5 358**	5 344
798	690	**373**	427	**2 922**	2 780
522				**522**	
19 284	19 553	**(691)**	(508)	**69 818**	70 000
(1 027)	(839)		1	**(5 557)**	(7 145)
(722)	(726)			**(722)**	(726)
17 535	17 988	**(691)**	(507)	**63 539**	62 129
(12 627)	(12 050)	**1 138**	389	**(41 660)**	(40 372)
4 908	5 938	**447**	(118)	**21 879**	21 757
(343)	(63)	**7**	5	**(383)**	(191)
93	159			**129**	187
4 658	6 034	**454**	(113)	**21 625**	21 753
(144)	(107)	**(881)**	(824)	**(1 418)**	(1 301)
4 514	5 927	**(427)**	(937)	**20 207**	20 452
(81)	(467)	**72**	157	**(4 190)**	(4 347)
4 433	5 460	**(355)**	(780)	**16 017**	16 105
					(1)
144	76	**36**	6	**322**	165
4 289	5 384	**(391)**	(786)	**15 695**	15 941
4 536	5 405	**(396)**	(766)	**15 971**	16 078
776 407	742 935	**14 454**	25 212	**1 360 262**	1 308 800
728 291	670 789	**16 626**	46 018	**1 259 062**	1 204 462
629	546			**1 017**	864
337	63	**1 351**	1 650	**3 785**	3 775
392	148	**1**		**437**	283

Annexure A – Subsidiaries, consolidated and unconsolidated structured entities

Subsidiaries

	Nature of operation	Issued share capital Rm
Blue Managers Limited	Participation mortgage bond finance	*
Blue Granite Investments No. 1 (RF) Limited[1]	Securitisation vehicle	
Blue Granite Investments No. 2 (RF) Proprietary Limited[1]	Securitisation vehicle	
Blue Granite Investments No. 3 (RF) Proprietary Limited[1]	Securitisation vehicle	
Blue Granite Investments No. 4 (RF) Proprietary Limited[1]	Securitisation vehicle	
Blue Shield Investments 01 (RF) Limited[1]	Securitisation vehicle	
Blue Shield Investments 02 (RF) Limited[1]	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	
Rapvest Investments Proprietary Limited	Financing company	*
Siyakha Fund (RF) Limited[1]	Securitisation vehicle	
Standard Bank Insurance Brokers Proprietary Limited	Insurance broking	*
STANLIB Targeted Return Fund[2]	Equity fund	
Miscellaneous	Finance companies	
Total		

1 SE, no shareholding.
2 During the year, the company purchased 100% of the shareholding in STANLIB Targeted Return Fund for a cash consideration of R365 million.
* Issued share capital less than R1 million.
** Book value less than R1 million.
*** Held indirectly.
**** Various holdings.

The principal place of business and country of incorporation for all subsidiaries is 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 structured entities

The structured entities 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 entities 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 structured entities. The company also makes decisions regarding advances to be included in the securitisation portfolio and, hence, directs the structured entities' relevant activities. Accordingly, the company is considered, for IFRS purposes, to control these structured entities and, hence, the structured entities' results are consolidated into the group's results.

Effective holding		Book value of shares		Net indebtedness (by)/ to SBSA company	
2018 %	2017 %	**2018 Rm**	2017 Rm	**2018 Rm**	2017 Rm
100	100	**	**		
				(68)	391
				27	32
				167	357
				158	178
				501	329
				(384)	(75)
				(118)	233
100	100	**	**	**366**	448
				(5)	(5)
100	100	***	***	**9 790**	10 055
				392	720
100	100	***	***	**(571)**	(352)
100		**365**		**(64)**	
****	****	**138**	138	**(742)**	(408)
		503	138	**9 449**	11 903

Consolidated structured entities

The following table discloses the consolidated SEs to which the group provides financial support[1].

Name of entity	Nature of operations	Amount of support provided as at[2,4] 2018 Rm	Amount of support provided as at[2,4] 2017 Rm	Type of support[3] 2018 Rm	Type of support[3] 2017 Rm
Blue Granite Investments No. 1 (RF) Limited (BG1)	Facilitates mortgage-backed securitisations. SBSA is the primary funder to BG1.		1	**Subordinated loan**	Subordinated loan
			554	**Mortgage – backed notes**	Mortgage – backed notes
Blue Granite Investments No. 2 (RF) Proprietary Limited (BG2)	Facilitates mortgage-backed securitisations. SBSA is the primary liquidity facility provider to BG2.	**28**	27	**Subordinated loan**	Subordinated loan
Blue Granite Investments No. 3 (RF) Proprietary Limited (BG3)	Facilitates mortgage-backed securitisations. The group is the primary funder to BG3.	**59**	217	**Subordinated loan**	Subordinated loan
Blue Granite Investments No. 4 (RF) Proprietary Limited (BG4)	Facilitates mortgage-backed securitisations. SBSA is the primary funder to BG4.	**18**	16	**Subordinated loan**	Subordinated loan
Blue Shield Investments 01 (RF) Limited (Blue Shield 01)	Facilitates mortgage-backed securitisations. SBSA is the primary funder to Blue Shield 01.	**504**	504	**Subordinated loan**	Subordinated loan
		16 162	16 163	**Mortgage-backed notes**	Mortgage-backed notes
Blue Shield Investments 02 (RF) Limited (Blue Shield 02)	Facilitates mortgage-backed securitisations. SBSA is the primary funder to Blue Shield 02.	**1 350**	1 314	**Subordinated loan**	Subordinated loan
		30 708	30 722	**Mortgage-backed notes**	Mortgage-backed notes

Refer to footnotes on the following page.

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. The loan incurs interest at a rate of JIBAR plus 8% per annum and is only payable to the extent of available cash reserves. During the 2018 financial year, all subordinated loans and mortgage-backed notes were settled and the assets bought back by SBSA.	Should BG1's customers be unable to meet their contractual obligations under the mortgage loan agreement and the loans be classified as non-performing.
The group holds the class A4, A6, B, C, D, E and F notes. Interest for the different classes of notes accrues at the three month JIBAR rate plus a margin ranging between 0.55% to 8%. Interest is payable quarterly. The notes' maturity date is 21 November 2032. During the 2018 financial year, all subordinated loans and mortgage-backed notes were settled and the assets bought back by SBSA.	Should BG1's customers be unable to meet their contractual obligations under the mortgage loan agreement and the loans be classified as non-performing.
The loan does not have a fixed term or repayment date. Payment of interest will be determined on interest payment date at the lower of cash available or an amount calculated such that the rate will be equal to prime plus 5% or an amount equal to the notional net income as reflected in the management accounts, after taking into account all income and expenses.	Should BG2's customers be unable to meet their contractual obligations under the mortgage loan agreement and the loans be classified as non-performing.
The loan does not have a fixed term or repayment date. Payment of interest will be determined on interest payment date at the lower of cash available or an amount calculated such that the rate will be equal to prime plus 5% or an amount equal to the notional net income as reflected in the management accounts, after taking into account all income and expenses.	Should BG3's customers be unable to meet their contractual obligations under the mortgage loan agreement and the loans be classified as non-performing.
The loan does not have a fixed term or repayment date. Payment of interest will be determined on interest payment date at the lower of cash available or an amount calculated such that the rate will be equal to prime plus 5% or an amount equal to the notional net income as reflected in the management accounts, after taking into account all income and expenses.	Should BG4's customers be unable to meet their contractual obligations under the mortgage loan agreement and the loans be classified as non-performing.
The subordinated loan is provided by the group. Interest is charged at the lower of prime plus 10% or net profit after tax or cash balance available in Blue Shield 01.	Should Blue Shield 01's customers be unable to meet their contractual obligations under the mortgage loan agreement and the loans be classified as non-performing.
The group holds class A1, A2, A3 and C notes. Interest for the different classes of notes accrues at the three-month JIBAR rate plus a margin ranging between 1.55% and 4.00%. Interest is payable quarterly. The notes' maturity date is 21 November 2019.	
The subordinated loan is provided by the group. Interest is charged at 11.25%.	Should Blue Shield 02's customers be unable to meet their contractual obligations under the mortgage loan agreement and the loans are classified as non-performing.
The group holds class A1, A2, B and C notes. Interest for the different classes of notes accrues at prime rate less a margin ranging between 1% and 1.9%. Interest is payable quarterly. The notes' maturity date is 1 December 2055.	

Consolidated structured entities continued

Name of entity	Nature of operations	Amount of support provided as at[2,4] 2018 Rm	Amount of support provided as at[2,4] 2017 Rm	Type of support[3] 2018 Rm	Type of support[3] 2017 Rm
Blue Titanium Conduit (RF) Limited (BTC)	Purchases eligible term assets and funds such as investments through the issuance of commercial paper. SBSA is the primary liquidity facility provider to BTC.			**Liquidity facility – undrawn**	Liquidity facility – undrawn
			306	**Commercial paper**	Commercial paper
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.	**9 790**	10 055	**Loan**	Loan
Siyakha Fund (RF) Limited (Siyakha)	Facilitates mortgage-backed securitisations. SBSA is the primary funder to Siyakha.	**462**	45	**Subordinated loan**	Subordinated loan
			836	**Mortgage-backed notes**	Mortgage-backed notes
DAF Financial Services (RF) Proprietary Limited (DFS)	The structure is an asset-backed funding solution. The financial assets, the truck finance receivables, are transferred to DFS and funding is provided by SBSA on a limited-recourse basis secured by the receivables.	**301**		**Loan**	

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 2018.
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 2018 and 2017 respectively. For credit facilities, the amount shown is the drawn balance as at the reporting date.

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 liquidity facility is limited to the value of the underlying assets in BTC. As at 31 December 2018, the liquidity facility limit was Rnil (2017: R1 961 million).	In the event that the underlying assets are classified as non-performing loans.
The group periodically invests in commercial paper (CP) issued by BTC. The CP is typically short term in nature (92 days), and issued at arm's length. During the year ended 31 December 2018, SBSA held no investments in commercial paper issued by BTC.	
OTB applies for the necessary overdraft facility as and when it originates loans. The drawn amount is settled once the originated loan is sold to BTC. The terms are negotiated and agreed upon at the time of granting of the overdraft facility. During the year, OTB did not apply for an overdraft facility. As at 31 December 2018, the outstanding balance on the overdraft facility was Rnil (2017: Rnil).	This SE does not expose the group to a risk of loss as it acts as a conduit between 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 loan does not have a fixed term or repayment date. Payment of interest will be determined on interest payment date at the lower of cash available or an amount calculated such that the rate will be equal to prime plus 5% or an amount equal to the notional net income as reflected in the management accounts, after taking into account all income and expenses.	Should Siyakha's customers be unable to meet their contractual obligations under the mortgage loan agreement and the loans be classified as non-performing.
The group holds class A1 notes for which interest accrues at the three-month JIBAR rate plus 1.10%. The group also holds class A2, B, C and D notes for which interest accrues at a rate from prime less 2.1% to prime plus 2%. Interest is payable quarterly. The notes' maturity date is 11 February 2045.	
The loan bears interest at a rate of prime plus 1%. The maturity date of the loan is 30 September 2022.	SBSA is exposed to the first-loss risk in the structure as well as potential losses that may be incurred on the receivables as a result of residual asset value risk. The residual asset value risk is, however, limited due to a put option that is in place.

Unconsolidated structured entities

The following table discloses the unconsolidated SEs in which the group has an interest.

Name of entity	Nature and purpose of entity	Principal nature of funding	Principal nature of assets
Blue Diamond Investments No. 1 (RF) Limited (BD)1 **Blue Diamond Investments No. 2 (RF) Limited (BD)2** **Blue Diamond Investments No. 3 (RF) Limited (BD)3**	These structures have been designed to provide third-party investors indirect exposure to corporate names. The group obtains credit protection from BD1, BD2 and BD3 in the form of issuing credit-linked notes on single or multiple corporate names. BD then obtains credit protection from third-party investors by issuing notes to third-party investors on single or multiple corporate names.	Credit-linked notes issued to third-party investors	Credit-linked notes issued by the group
Blue Diamond X Investments (RF) Limited	Loans purchased from SBSA and the issuance of notes to third-party investors	Commercial paper issued to third-party investors	Loans and advances to various counterparties
Africa ETF Issuer Limited offering the following: **• Africa Palladium ETF (JSE code: ETFPLD)** **• Africa Platinum ETF (JSE code: ETFPLT)** **• Africa Rhodium ETF (JSE code: ETFRHO)** **• Africa Gold ETF (JSE code: ETFGLD)**	The palladium, platinum, gold and rhodium exchange traded funds (ETFs) have been established for investors to participate in changes in the spot price of underlying commodities. The ETFs issue debentures to investors with each debenture backed by the respective physical commodity. On issuance each debenture is based on 1/100th of a troy ounce of the respective commodity. The physical commodities are stored at recognised custodian storage vaults in London. The ETFs are denominated in rands and are classified as domestic assets. The ETFs are regulated by the Financial Markets Act and the JSE's Listings Requirements.	The unconsolidated structured entity is funded by the issue of non-interest-bearing debentures that are 100% backed by the underlying physical commodity	Physical commodities (palladium, platinum, gold and rhodium)

The following represents the group's interest in these entities.

	2018 Rm	2017 Rm
Trading assets	**31**	57
Deposits and debt funding	**(2 324)**	(1 770)
Net carrying amount	**(2 293)**	(1 713)

Information relating to the size of these entities has not been provided as the information is not readily available to the group.

Weighted average remaining useful life of assets	Terms of contractual arrangements	Events/circumstances that could expose the group to a loss	Types of income received by the group
12 years	The group settles BD's operating expenses as and when necessary, typically in the event that BD has liquidity constraints. Any payment for such amounts is to be refunded by BD to the group.	In the event of a credit event, the third-party investors will suffer a loss. The group is only exposed to the risk of loss should it be unable to recover any unexpected operating expenses from BD.	Once-off fee and commission income earned for structuring the SE.
15 years	SBSA acts as the administrator and identifies and invests in suitable financial assets and facilitates the execution and settlement of trades.	None	Administration fee and upfront fees for originating the assets
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[1]	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 2018	31 December 2018	31 December 2018

	Safika 2018	Safika 2017	Other 2018	Other 2017	Total 2018	Total 2017
Effective holding (%)	**20**	20	**Various**	Various	**Various**	Various

	Safika 2018 Rm	Safika 2017 Rm	Other 2018 Rm	Other 2017 Rm	Total 2018 Rm	Total 2017 Rm
Income statement						
Total comprehensive income	**465**	795	**170**	106	**635**	901
Dividends received from associates	**20**			9	**20**	9
Statement of financial position[2]						
Non-current assets	**3 005**	2 623				
Current assets	**207**	162				
Non-current liabilities	**(117)**					
Current liabilities		(56)				
Net asset value attributed to the equity holders of the associate	**3 095**	2 729				
Proportion of net asset value based on effective holding	**619**	546				
Carrying value	**619**	546	**344**	264	**963**	810
Share of total comprehensive income from associates	**93**	159	**31**	20	**124**	179

1 This investment in associate was made by the group's private equity operations and has been ring-fenced for headline earnings purposes. On the disposal of this associate held by the private equity division of the group, the gain or loss on the disposal will be included in headline earnings.
2 Summarised financial information of the associates is provided based on the latest available management accounts received.

	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 2018**		**31 December 2018**	

	2018	2017	2018	2017
Effective holding (%)	**Various**	Various	**Various**	Various

	Rm	Rm	Rm	Rm
Income statement				
Total comprehensive income	**8**	15	**643**	916
Dividends received from associates and joint ventures			**20**	9
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	**54**	54	**1 017**	864
Share of total comprehensive income from associates and joint ventures	**5**	8	**129**	187

1 Summarised financial information of the associates is provided based on the latest available management accounts received.

Annexure C – Risk and capital management – IFRS disclosures

Group[1]

Overview

Enterprise risk management

The group's activities give rise to various financial and non-financial risks. Financial risks are categorised into credit, funding and liquidity and market risk.

The group's approach to managing risk and capital is set out in the group's enterprise risk (ERM) governance framework approved by the group risk and capital management committee (GRCMC).

Capital management

The group's capital management function is designed to ensure that regulatory requirements are met at all times and that the group and its principal subsidiaries are capitalised in line with the group's risk appetite and target ratios, both of which are approved by the board.

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

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

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

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

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

Common equity tier 1 (CET 1): ordinary share capital, share premium, retained earnings, other reserves and qualifying non-controlling interest less impairments divided by total risk-weighted assets (RWA).

Tier 1: CET 1 and other qualifying non-controlling interest plus perpetual, non-cumulative instruments with either contractual or statutory principal loss absorption features that comply with the Basel III rules divided by total RWA. Perpetual non-cumulative preference shares that comply with Basel I and Basel II rules are included in tier I capital but are currently subject to regulatory phase-out requirements over a ten-year period, which commenced on 1 January 2013.

Total capital adequacy: tier 1 plus other items such as general credit impairments and subordinated debt with either contractual or statutory principal loss absorption features that comply with the Basel III rules divided by total RWA. Subordinated debt that complies with Basel I and Basel II rules is included in total capital but is currently subject to regulatory phase-out requirements, over a ten-year period, which commenced on 1 January 2013.

1 The group's IFRS disclosures that follow also materially represent those of the company.

QUALIFYING CAPITAL, EXCLUDING UNAPPROPRIATED PROFITS

	2018 Rm	2017 Rm
IFRS ordinary shareholders' equity#	**44 448**	43 698
Retained earnings#	**52 321**	56 294
Other reserves#	**881**	799
Less: regulatory adjustments	**(12 420)**	(17 929)
Goodwill	**(42)**	(42)
Other intangible assets	**(14 337)**	(15 346)
Shortfall of provisions to expected losses		(2 084)
Deferred tax asset	**(11)**	(14)
Other	**1 970**	(443)
Unappropriated profits	**(11 966)**	(11 010)
Common equity tier 1 capital	**73 264**	71 852
Qualifying other equity instruments#	**3 504**	3 544
Tier 1 capital	**76 768**	75 396
Qualifying tier II subordinated debt#	**18 580**	17 080
General allowance for credit impairments	**781**	461
Less: regulatory adjustments – investment in tier II instruments in other banks	**(3 187)**	(2 341)
Tier II capital	**16 174**	15 200
Total regulatory capital	**92 942**	90 596
Total capital requirement	**74 652**	65 608
Total RWA	**669 386**	610 314

The table above is not audited unless it is denoted with #.

Credit risk

Definition

Credit risk is the risk of loss arising out of the failure of obligors to meet their financial or contractual obligations when due. It is composed of obligor risk (including borrowers and trading counterparties), concentration risk and country risk.

Approach to managing and measuring credit risk

The group's credit risk is a function of its business model and arises from wholesale and retail loans and advances, underwriting and guarantee commitments, as well as from the counterparty credit risk arising from derivative and securities financing contracts entered into with our customers and trading counterparties. To the extent equity risk is held on the banking book, it is also managed under the credit risk governance framework, except in so far as approval authority rests with the group equity risk committee (ERC). The management of credit risk is aligned to the group's three lines of defence framework. The business 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 group internal audit (GIA), under its mandate from the group audit committee (GAC). The fourth line of defence is provided by external audit.

Credit risk is managed through:

- maintaining a culture of responsible lending and a robust risk policy and control framework
- identifying, assessing and measuring credit risk across the group, from an individual facility level through to an aggregate portfolio level
- defining, implementing and continually re-evaluating risk appetite under actual and stressed conditions
- monitoring the group's credit risk exposure relative to approved limits
- ensuring that there is expert scrutiny and approval of credit risk and its mitigation independently of the business functions.

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

Credit risk mitigation

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

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

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

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

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

- mortgage bonds over residential, commercial and industrial properties
- cession of book debts
- pledge and cession of financial assets
- bonds over plant and equipment
- the underlying movable assets financed under leases and
- instalment sales.

Reverse repurchase agreements and commodity leases customers are collateralised by the underlying assets.

Guarantees and related legal contracts are often required, particularly in support of credit extension to groups of companies and weaker obligors. Guarantors include banks, parent companies, shareholders and associated obligors. Creditworthiness is established for the guarantor as for other obligor credit approvals.

For trading and derivative transactions where collateral support is considered necessary, the group typically uses internationally recognised and enforceable International Swaps and Derivatives Association (ISDA) agreements, with a credit support annexure (CSA).

Netting agreements, such as collateral under the CSA of an ISDA agreement, are only obtained where the group firstly, has a legally enforceable right to offset credit risk by way of such an agreement, and secondly, where the group has the intention of utilising such agreement to settle on a net basis.

Credit risk continued

Credit risk mitigation continued

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

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

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

Credit portfolio characteristics and metrics in terms of IFRS 9

Maximum exposure to credit risk

Debt financial assets at amortised cost and FVOCI, as well as off-balance sheet exposure subject to an ECL are analysed and categorised based on credit quality using the group's master rating scale. Exposures within stage 1 and 2 are rated between 1 to 25 in terms of the group's master rating scale. The group uses a 25-point master rating scale to quantify the credit risk for each borrower (corporate asset classes) or facility (specialised lending and retail asset classes), as illustrated in the following table. These ratings are mapped to PDs by means of calibration formulae that use historical default rates and other data from the applicable PBB portfolios. The group distinguishes between through-the-cycle PDs and point-in-time PDs, and utilises both measures in decision-making, managing credit risk exposures and measuring impairments against credit exposures. Exposures which are in default are not considered in the 1 to 25-point master rating scale.

Default

The group's definition of default has been aligned to its internal credit risk management definitions and approaches. While the specific determination of default varies according to the nature of the product, it is generally determined (aligned to the Basel definition) as occurring at the earlier of:

- where, in the group's view, the counterparty is considered to be unlikely to pay amounts due on the due date or shortly thereafter without recourse to actions such as the realisation of security; or
- when the counterparty is past due for more than 90 days (or, in the case of overdraft facilities in excess of the current limit).

The group will not rebut IFRS 9's 90 days past due rebuttable presumption.

A financial asset is considered to be in default when there is objective evidence of impairment. The following criteria are used in determining whether there is objective evidence of impairment for financial assets or groups of financial assets:

- significant financial difficulty of borrower and/or modification (i.e. known cash flow difficulties experienced by the borrower)
- a breach of contract, such as default or delinquency in interest and/or principal payments
- disappearance of active market due to financial difficulties
- it becomes probable that the borrower will enter bankruptcy or other financial reorganisation
- where the group, for economic or legal reasons relating to the borrower's financial difficulty, grants the borrower a concession that the group would not otherwise consider.

Exposures which are overdue for more than 90 days are also considered to be in default.

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Performing loans

Performing loans are classified into two categories, namely:

- Neither past due nor specifically impaired loans: these loans are current and fully compliant with all contractual terms and conditions. Normal monitoring loans within this category are generally rated 1 to 21, and close monitoring loans are generally rated 22 to 25 using the group's master rating scale.
- Early arrears but not specifically impaired loans: early arrears but not specifically impaired loans include those loans where the counterparty has failed to make contractual payments and payments are less than 90 days past due, but it is expected that the full carrying value will be recovered when considering future cash flows, including collateral. Ultimate loss is unlikely but could occur if the adverse conditions persist.

Non-performing loans

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

Non-performing but not specifically impaired loans are not specifically impaired due to the expected recoverability of the full carrying value when considering the recoverability of future cash flows, including collateral. Non-performing specifically impaired loans are those loans that are regarded as non-performing and for which there has been a measurable decrease in estimated future cash flows.

Specifically impaired loans are further analysed into the following categories:

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

Credit risk continued

Credit portfolio characteristics and metrics in terms of IFRS 9 continued

		SB 1 – 12		SB 13 – 20	
	Gross carrying amount Rm	Stage 1 Rm	Stage 2 Rm	Stage 1 Rm	Stage 2 Rm
2018					
Loans and advances measured at amortised cost					
Personal & Business Banking	562 356	129 107	1 796	346 038	7 049
Mortgage loans	342 511	108 494	1 767	182 640	4 327
Vehicle and asset finance	79 343	1 028	11	68 242	1 210
Card debtors	32 608	1 604	8	24 915	174
Other loans and advances	107 894	17 981	10	70 241	1 338
Personal unsecured lending	40 960	1 125		29 671	6
Business lending and other	66 934	16 856	10	40 570	1 332
Corporate & Investment Banking	397 337	236 034	4 780	133 079	15 477
Corporate	300 914	144 718	4 671	128 188	15 370
Sovereign	4 255	2 138	109	2 008	
Bank	92 168	89 178		2 883	107
Gross carrying amount	959 693	365 141	6 576	479 117	22 526
Less: total ECL on loans and advances	(29 002)				
Net carrying amount	930 691				
Financial investments measured at amortised cost					
Corporate	14 038	13 708		330	
Sovereign	69 272	66 659		2 613	
Gross carrying amount	83 310	80 367		2 943	
Less: total ECL on financial investments	(12)				
Net carrying amount	83 298				
Financial investments measured at FVOCI					
Corporate	282	282			
Sovereign	329	329			
Gross carrying amount	611	611			
Add: fair value adjustment	(1)				
Total financial investment measured at FVOCI	610				
Off-balance sheet exposures					
Letters of credit and bankers' acceptances	2 678	1 442		956	267
Guarantees	26 579	20 852	66	3 511	1 621
Unutilised facilities	162 742	141 004	1 223	17 890	2 620
Total exposure to off-balance sheet credit risk	191 999	163 298	1 289	22 357	4 508
Less: ECL on off-balance sheet exposures	(460)				
Total exposure to credit risk on financial assets subject to ECL	1 206 138				
Add the following exposures not subject to ECL:					
Other loans and advances measured at fair value through profit or loss	968				
Cash and balances with the central bank – held at fair value[1]	34 536				
Derivative assets	46 707				
Other financial investments	21 530				
Trading assets	153 894				
Pledged assets	674				
Interests in SBG companies, associates and joint ventures[2]	49 729				
Other financial assets[3]	4 107				
Total exposure to credit risk	1 518 283				

[1] Balances with the central bank are not subjected to ECL considerations due to the rigorous regulatory requirements of these transactions and its link to the underlying entities' ability to operate as a bank. Amount represents deposits placed in currencies as issued by the central banks with which they are stored.
[2] Due to historical experience interests in SBG companies, associates and joint ventures measured at amortised cost are regarded as a low probability of default.
[3] Due to the short term nature of these financial assets and historical experience, other amortised cost financial assets are regarded as having a low probability of default.

SB 21 – 25		Default				
Stage 1 Rm	Stage 2 Rm	Stage 3 Rm	Securities and expected recoveries on default exposures Rm	Balance sheet expected credit loss and interest in suspense on default exposures Rm	Gross default coverage %	Non-performing exposures %
8 207	40 609	29 550	14 723	14 827	50	5.3
4 259	24 125	16 899	10 283	6 616	39	4.9
347	5 574	2 931	1 600	1 331	45	3.7
317	3 772	1 818	400	1 418	78	5.6
3 284	7 138	7 902	2 440	5 462	69	7.3
1 556	4 437	4 165	838	3 327	80	10.2
1 728	2 701	3 737	1 602	2 135	57	5.6
723	802	6 442	2 044	4 398	68	1.6
723	802	6 442	2 044	4 398	68	2.1
8 930	41 411	35 992	16 767	19 225	53	3.8
3	8	2				
	58	471				
4	1					
7	67	473				

Credit risk continued

Credit portfolio characteristics and metrics in terms of IFRS 9 continued

IFRS: MAXIMUM EXPOSURE TO CREDIT RISK BY CREDIT QUALITY

		Performing loans			
		Neither past due nor specifically impaired		Not specifically impaired	
	Gross advances Total Rm	Normal monitoring Rm	Close monitoring Rm	Early arrears Rm	Non-performing[1] Rm
2017					
Personal & Business Banking	536 491	472 998	13 630	24 597	
Mortgage loans	329 975	290 979	7 250	17 294	
Instalment sale and finance leases	72 727	65 131	1 838	3 234	
Card debtors	31 694	26 764	1 341	1 505	
Other loans and advances	102 095	90 124	3 201	2 564	
– Personal unsecured lending	36 649	30 040	1 676	1 616	
– Business lending and other	65 446	60 084	1 525	948	
Corporate & Investment Banking	356 523	352 296	608	1	25
Corporate loans	293 148	289 141	608		
Commercial property finance	63 375	63 155		1	25
Other services	26 443	26 443			
Gross loans and advances	919 457	851 737	14 238	24 598	25
Less: Impairments for loans and advances	(18 562)				
Net loans and advances	900 895				
Add the following other banking activities exposures:					
Cash and balances with central banks	35 893				
Derivative assets	71 542				
Financial investments	86 344				
Trading assets	126 283				
Pledged assets	6 812				
Other financial assets	6 678				
Interest in financial instruments of group companies	44 756				
Total on-balance sheet exposure	1 279 203				
Off-balance sheet exposure					
Letters of credit and bankers' acceptances	8 940				
Guarantees	43 466				
Irrevocable unutilised facilities	71 899				
Total exposure to credit risk	1 403 508				

1 Included loans of R25 million that are past due but not specifically impaired.

Non-performing loans									
Specifically impaired loans									
Sub-standard Rm	Doubtful Rm	Loss Rm	Total Rm	Securities and expected recoveries on specifically impaired loans Rm	Net after securities and expected recoveries on specifically impaired loans Rm	Balance sheet impairments for non-performing specifically impaired loans Rm	Gross specific impairment coverage %	Total non-performing loans Rm	Non-performing loans %
6 076	13 682	5 508	25 266	14 720	10 546	10 546	41.74	25 266	4.7
3 994	10 409	49	14 452	10 714	3 738	3 738	25.86	14 452	4.4
251	1 287	986	2 524	1 494	1 030	1 030	40.81	2 524	3.5
537	405	1 142	2 084	520	1 564	1 564	75.05	2 084	6.6
1 294	1 581	3 331	6 206	1 992	4 214	4 214	67.90	6 206	6.1
235	1 158	1 924	3 317	874	2 443	2 443	73.65	3 317	9.1
1 059	423	1 407	2 889	1 118	1 771	1 771	61.30	2 889	4.4
1 154	2 289	150	3 593	1 132	2 461	2 461	68.49	3 618	1.0
1 117	2 132	150	3 399	1 056	2 343	2 343	68.93	3 399	1.2
37	157		194	76	118	118	60.82	219	0.3
7 230	15 971	5 658	28 859	15 852	13 007	13 007	45.07	28 884	3.1

Credit risk continued

Concentration risk

Concentration risk is the risk of loss arising from an excessive concentration of exposure to a single counterparty, an industry, a product, a geography, maturity, or collateral. The group's credit risk portfolio is well-diversified. The group's management approach relies on the reporting of concentration risk along key dimensions, the setting of portfolio limits and stress testing.

IFRS: INDUSTRY SEGMENTAL ANALYSIS OF GROSS LOANS AND ADVANCES

	2018 Rm	2017 Rm
Agriculture	22 216	24 403
Construction	9 228	9 133
Electricity	16 629	14 702
Finance, real estate and other business services	288 153	256 491
Individuals[1]	424 854	425 048
Manufacturing	54 307	40 500
Mining	25 367	20 688
Transport[2]	30 089	19 041
Wholesale[2]	46 664	15 232
Other services[2]	43 154	94 219
Gross loans and advances	**960 661**	**919 457**

1 Include mortgages.
2 In the prior year, the balance relating to transport was erroneously disclosed as wholesale and wholesale was erroneously disclosed as other services. This had no impact on the total gross loans and advances and these balances have been updated accordingly.

IFRS: GEOGRAPHIC SEGMENTAL ANALYSIS OF GROSS LOANS AND ADVANCES

	2018		2017	
	%	Rm	%	Rm
South Africa	83	797 918	86	788 214
Sub-Saharan Africa	7	69 734	8	78 041
Other countries	10	93 009	6	53 202
Gross loans and advances	**100**	**960 661**	**100**	**919 457**

IFRS: INDUSTRY SEGMENTAL ANALYSIS OF STAGE 3/NON-PERFORMING LOAN CREDIT IMPAIRMENTS OF LOANS AND ADVANCES

	2018 Rm	2017 Rm
Agriculture	671	505
Construction	716	199
Electricity	467	232
Finance, real estate and other business services	1 209	986
Individuals	11 813	8 703
Manufacturing	1 173	113
Mining	145	1 485
Transport	390	272
Wholesale	2 515	79
Other services	126	435
Gross loans and advances	**19 225**	**13 009**

Collateral

The table below shows the financial effect that collateral has on the group's maximum exposure to credit risk. The table is presented according to Basel asset categories and includes collateral that may not be eligible for recognition under Basel but that management takes into consideration in the management of the group's exposures to credit risk. All on- and off-balance sheet exposures that are exposed to credit risk, including NPL, have been included.

Collateral includes:

- financial securities that have a tradable market, such as shares and other securities
- physical items, such as property, plant and equipment
- financial guarantees, suretyships and intangible assets.

Netting agreements, which do not qualify for offset under IFRS but which are nevertheless enforceable, are included as part of the group's collateral for risk management purposes. All exposures are presented before the effect of any impairment provisions. In the retail portfolio, 61% (2017: 60%) is fully collateralised.

The R404 million (2017: R362 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% (2017: 95%).

Of the group's total exposure, 54% (2017:52%) is unsecured and mainly reflects exposures to well-rated corporate counterparties, bank counterparties and sovereign entities.

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

COLLATERAL

						Collateral coverage – Total collateral		
	Total exposure (a+b) Rm	Unsecured (a) Rm	Secured (b) Rm	Netting agree-ments (c) Rm	Secured exposure after netting (b-c) Rm	1% to 50% Rm	50% to 100% Rm	Greater than 100% Rm
2018								
Corporate	527 037	408 079	118 958	11 154	107 804	6 718	83 646	17 440
Sovereign	131 248	128 905	2 343	2 265	78	1		77
Bank	263 892	145 869	118 023	47 666	70 357	45 517	19 502	5 338
Retail	519 938	95 264	424 674		424 674	404	104 440	319 830
Retail mortgage	343 559		343 559		343 559	404	28 632	314 523
Other retail	176 379	95 264	81 115		81 115		75 808	5 307
Total	**1 442 115**	**778 117**	**663 998**	**61 085**	**602 913**	**52 640**	**207 588**	**342 685**

Add: financial assets not exposed to credit risk	16 970
Add: interest in group companies	49 729
Less: impairments for loans and advances	(29 002)
Less: off balance sheet items	(153 068)
Total	**1 326 744**
Comprising:	
Cash and balances with the central bank	34 536
Derivative assets	46 707
Trading assets	153 894
Pledged assets	674
Financial investments	105 438
Loans and advances	931 659
Other financial assets	4 107
Interest in group companies	49 729
Total	**1 326 744**

Collateral continued

	Total exposure (a+b) Rm	Unsecured (a) Rm	Secured (b) Rm	Netting agree-ments (c) Rm	Secured exposure after netting (b-c) Rm	Collateral coverage – Total collateral 1% to 50% Rm	50% to 100%	Greater than 100% Rm
2017								
Corporate	476 577	348 612	127 965	8 660	119 305	9 560	93 479	16 266
Sovereign	144 192	134 503	9 689	6 327	3 362	2 812	510	40
Bank	236 992	138 319	98 673	54 211	44 462	32 909	5 498	6 055
Retail	497 241	89 910	407 331		407 331	362	101 182	305 787
Retail mortgage	330 852		330 852		330 852	362	29 342	301 148
Other retail	166 389	89 910	76 479		76 479		71 840	4 639
Total	1 355 002	711 344	643 658	69 198	574 460	45 643	200 669	328 148
Add: financial assets not exposed to credit risk	22 312							
Add: Interest in group companies	44 756							
Less: impairments for loans and advances	(18 562)							
Less: unrecognised off balance sheet items	(124 305)							
Total exposure	1 279 203							
Cash and balances with the central bank	35 893							
Derivative assets	71 542							
Trading assets	126 283							
Pledged assets	6 812							
Financial investments	86 344							
Loans and advances	900 895							
Other financial assets	6 678							
Interest in group companies	44 756							
Total	1 279 203							

Funding and liquidity risk

Definition

Liquidity risk is defined as the risk that an entity, although solvent, cannot maintain or generate sufficient cash resources to meet its payment obligations in full as they fall due, or can only do so at materially disadvantageous terms.

Approach to managing liquidity risk

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

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

Maturity analysis of financial liabilities by contractual maturity

The following table analyses cash flows on a contractual, undiscounted basis based on the earliest date on which the group can be required to pay (except for trading liabilities and derivative liabilities, which are presented as redeemable on demand) and will, therefore, not agree directly to the balances disclosed in the consolidated statement of financial position (SOFP).

Derivative liabilities are included in the maturity analysis on a contractual, undiscounted basis when contractual maturities are essential for an understanding of the derivatives' future cash flows. Management considers only contractual maturities to be essential for understanding the future cash flows of derivative liabilities that are designated as hedging instruments in effective hedge accounting relationships. All other derivative liabilities, together with trading liabilities, are treated as trading and are included at fair value in the redeemable on demand bucket since these positions are typically held for short periods of time.

Funding and liquidity risk continued

Maturity analysis of financial liabilities by contractual maturity continued

The table also includes contractual cash flows with respect to off-balance sheet items. Where cash flows are exchanged simultaneously, the net amounts have been reflected.

	Redeemable on demand Rm	Maturing within one month Rm	Maturing between one to six months Rm	Maturing between six to 12 months Rm	Maturing after 12 months Rm	Total Rm
2018						
Financial liabilities						
Derivative financial instruments	**49 546**	**1**	**191**	**137**	**198**	**50 073**
Instruments settled on a net basis	**30 923**	**1**	**104**	**40**	**114**	**31 182**
Instruments settled on a gross basis	**18 623**		**87**	**97**	**84**	**18 891**
Trading liabilities	**29 704**					**29 704**
Deposits from customers and banks	**624 856**	**46 748**	**126 007**	**70 878**	**177 598**	**1 046 087**
Subordinated debt		**58**	**411**	**5 439**	**10 030**	**15 938**
Other		**4 277**				**4 277**
Total	**704 106**	**51 084**	**126 609**	**76 454**	**187 826**	**1 146 079**
Off-balance sheet exposures						
Letters of credit and bankers' acceptances	**13 884**					**13 884**
Guarantees	**47 384**					**47 384**
Irrevocable unutilised facilities	**91 800**					**91 800**
Total	**153 068**					**153 068**
2017						
Financial liabilities						
Derivative financial instruments	71 425		38	115	256	71 834
Instruments settled on a net basis[1]	45 742		(3)	2		45 741
Instruments settled on a gross basis[1]	25 683		41	113	256	26 093
Trading liabilities	38 240					38 240
Deposits from customers and banks	560 120	210	2 537	250 543	162 690	976 100
Subordinated debt			134	344	18 040	18 518
Other		13 060				13 060
Total	669 785	13 270	2 709	251 002	180 986	1 117 752
Off-balance sheet exposures						
Letters of credit and bankers' acceptances	8 940					8 940
Guarantees	43 466					43 466
Irrevocable unutilised facilities	71 899					71 899
Total	124 305					124 305

1 The prior year amounts in the 'one to six months', 'six to 12 months' and 'after 12 months' maturity brackets have been restated as the signage was erroneously transposed.

Market risk

Definition

Market risk is the risk of a change in the market value, actual or effective earnings, or future cash flows of a portfolio of financial instruments, including commodities, caused by adverse movements in market variables such as equity, bond and commodity prices, currency exchange and interest rates, credit spreads, recovery rates, correlations and implied volatilities in all of these variables.

The group's key market risks are:

- trading book market risk
- interest rate in the banking book (IRRBB)
- equity risk in the banking book
- foreign currency risk
- own equity-linked transactions
- post-employment obligation risk.

Trading book market risk

Definition

Trading book market risk is represented by financial instruments, including commodities, held in the trading book, arising out of normal global markets' trading activity.

Approach to managing market risk in the trading book

The group's policy is that all trading activities are undertaken within the group's global markets' operations.

The market risk functions are independent of the group's trading operations and are overseen by the market risk committee which is 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.

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 an 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 movements.

Market risk continued

Trading book portfolio characteristics

VaR for the year under review

Trading book market risk exposures arise mainly from residual exposures from client transactions and limited trading for the group's own account. In general, the group's trading desks have run similar levels of market risk throughout the year when compared to 2017 aggregate normal VaR, and reduced levels when compared to aggregate SVaR.

TRADING BOOK NORMAL VAR ANALYSIS BY MARKET VARIABLE

	Normal VaR			
	Maximum[1] Rm	Minimum[1] Rm	Average Rm	Closing Rm
2018				
Commodities risk	**3**	**0.2**	**1**	**2**
Foreign exchange risk	**17**	**6**	**10**	**10**
Equity position risk	**12**	**2**	**6**	**8**
Debt securities	**26**	**9**	**14**	**15**
Diversification benefits[2]			**(9)**	**(14)**
Aggregate	**35**	**14**	**22**	**21**
2017				
Commodities risk	2	0.05	0.3	0.7
Foreign exchange risk	37	10	21	11
Equity position risk	12	3	6	5
Debt securities	20	9	13	10
Diversification benefits[2]			(12)	(10)
Aggregate	45	13	29	17

1 The maximum and minimum VaR figures reported for each market variable do not necessarily occur on the same day. As a result, the aggregate VaR will not equal the sum of the individual market VaR values, and it is inappropriate to ascribe a diversification effect to VaR when these values may occur on different days.
2 Diversification benefit is the benefit of measuring the VaR of the trading portfolio as a whole, that is, the difference between the sum of the individual VaRs and the VaR of the whole trading portfolio.

TRADING BOOK SVAR ANALYSIS BY MARKET VARIABLE

	SVaR			
	Maximum Rm	Minimum Rm	Average Rm	Closing Rm
2018				
Commodities risk	**81**	**5**	**18**	**51**
Foreign exchange risk	**339**	**106**	**165**	**196**
Equity position risk	**310**	**39**	**108**	**121**
Debt securities	**360**	**118**	**214**	**219**
Diversification benefits[1]			**(250)**	**(249)**
Aggregate	**428**	**101**	**255**	**337**
2017				
Commodities risk	69	0.31	9	28
Foreign exchange risk	303	94	188	159
Equity position risk	394	58	185	167
Debt securities	294	104	200	136
Diversification benefits[1]			(307)	(154)
Aggregate	503	117	275	335

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.

Market risk continued

Approach to managing IRRBB

Banking book-related market risk exposure principally involves managing the potential adverse effect of interest rate movements on banking book earnings (net interest income and banking book mark-to-market profit or loss) and the economic value of equity.

The group's approach to managing IRRBB is governed by applicable regulations and is influenced by the competitive environment in which the group operates. The group's treasury and capital management team monitors banking book interest rate risk on a monthly basis operating under the oversight of group ALCO.

Measurement

The analytical techniques used to quantify IRRBB include both earnings- and valuation-based measures. The analysis takes into account embedded optionality such as loan prepayments and accounts where the account behaviour differs from the contractual position.

The results obtained from forward-looking dynamic scenario analyses, as well as Monte Carlo simulations, assist in developing optimal hedging strategies on a risk-adjusted return basis.

INTEREST RATE SENSITIVITY ANALYSIS[1]

		ZAR	USD	GBP	Euro	Other	Total
2018							
Increase in basis points		**200**	**100**	**100**	**100**	**100**	
Sensitivity of annual net interest income	Rm	**2 210**	**(25)**	**(6)**	**(24)**		**2 155**
Decrease in basis points		**200**	**100**	**100**	**100**	**100**	
Sensitivity of annual net interest income	Rm	**(2 251)**	**25**	**5**			**(2 221)**
2017							
Increase in basis points		200	100	100	100	100	
Sensitivity of annual net interest income	Rm	2 294	(20)	(4)	(15)		2 255
Decrease in basis points		200	100	100	100	100	
Sensitivity of annual net interest income	Rm	(2 324)	20	2			(2 302)

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, enterprise value of the issuing entity, or by a decline in the market price of the equity or instrument itself.

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

Approach to managing equity risk in the banking book

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

For the avoidance of doubt, equity risk in the banking book excludes strategic investments in the group's subsidiaries, associates and joint ventures deployed in delivering the group's business and service offerings unless the group financial director and group chief risk officer deem such investments to be subject to the consideration and approval by the group enterprise risk committee.

Market risk continued

Approach to managing equity risk in the banking book continued

MARKET RISK SENSITIVITY OF NON-TRADING EQUITY INVESTMENTS

	10% reduction in fair value Rm	Fair value Rm	10% increase in fair value Rm
2018			
Equity securities listed and unlisted	**2 176**	**2 418**	**2 660**
Listed		**34**	
Unlisted		**2 384**	
Impact on profit and loss	**(242)**		**242**
Impact on equity			
2017			
Equity securities listed and unlisted	2 724	3 027	3 330
Listed		467	
Unlisted		2 560	
Impact on profit and loss	(297)		297
Impact on equity	(6)		6

Foreign currency risk

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.

Foreign currency risk sensitivity analysis

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

FOREIGN CURRENCY RISK SENSITIVITY IN ZAR EQUIVALENTS[1]

		USD	Euro	GBP	NGN	Other	Total
2018							
Total net long/(short) position	Rm	**80**	**9**	**10**		**(2)**	**97**
Sensitivity (ZAR depreciation)	%	**10**	**10**	**10**	**10**	**10**	
Impact on profit or loss	Rm	**(8)**	**(1)**	**(1)**		**22**	**12**
2017							
Total net long/(short) position	Rm	57	6	14	2	(1)	78
Sensitivity (ZAR depreciation)	%	10	10	10	10	10	
Impact on profit or loss	Rm	(6)	(1)	(1)		18	10

[1] Before tax.

Own equity-linked transactions

Definition

The group has exposure to changes in its 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[1]	Hedged risk
Equity growth scheme (EGS)	Income statement risk	The EGS is an equity-settled share scheme that is settled through the issuance of new shares. The scheme is, however, accounted for as a cash-settled share scheme at an SBSA level. Increases in the group's share price results in losses being recognised in the income statement.	No, given that the share scheme is settled through the issuance of new shares at an SBG level, the share scheme is not hedged.	N/A
Equity-settled deferred bonus scheme (DBS) and performance reward plan (PRP)	Income statement risk	The DBS and PRP awards that are equity-settled, are settled through the purchase of shares from the open market. The share scheme is, however, accounted for as a cash-settled share scheme at an SBSA level. Increases in the group's share price above the grant price will result in losses being recognised in the group's income statement.	Yes	SBK share price risk
Cash-settled DBS and PRP	Income statement risk	The DBS and PRP awards that are cash-settled result in losses being recognised in the income statement as a result of increases in the group's share price.	Yes	SBK share price risk
Share appreciation rights scheme (SARP) – equity settled	Income statement risk	The SARP is an equity-settled share scheme that is settled through the purchase of shares from the open market. The share scheme is, however, accounted for as a cash-settled share scheme at an SBSA level. Increases in the group's share price above the grant price will result in losses being recognised in the group's income statement.	No, given the current number of awards that have been issued to date. The number of awards are, however, monitored to evaluate for future hedging considerations.	N/A

1 The group partially hedges these exposures.

Annexure D – Equity-linked transactions

GROUP AND COMPANY	2018 Rm	2017 Rm
Expenses recognised in staff cost:		
Equity growth scheme	(20)	459
Share appreciation rights scheme	13	11
Deferred bonus scheme	1 078	1 396
Performance reward plan	384	538
Cash-settled deferred bonus scheme (CSDBS)	93	59
Other share schemes	4	11
Total expenses recognised in staff costs[1]	1 552	2 474
Summary of liabilities recognised in other liabilities:		
Equity growth scheme	465	848
Share appreciation rights scheme	23	11
Deferred bonus scheme	1 173	1 218
Performance reward plan	662	770
Cash-settled deferred bonus scheme	110	61
Other share schemes		4
Total liability recognised in other liabilities	2 433	2 912

1 Excluding gains and losses from hedges in terms of IFRS.

Equity growth scheme

The EGS is an equity-settled share scheme and represents appreciation rights allocated to employees that are based on SBG's share price. The converted value of the rights is settled by the issue of new SBG shares equivalent to the value of the rights. The EGS is classified as a cash-settled share scheme from an SBSA group and company perspective. The SARP has replaced the EGS and hence no further EGS awards will be granted. The scheme has five different subtypes of vesting categories as follows:

	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	
	2018	2018	2017
Movement summary			
Rights outstanding at beginning of the year		9 886 429	17 707 281
Exercised	62.39 – 156.96	(3 170 979)	(6 510 390)
Lapsed	97.80 – 156.96	(16 772)	(230 767)
Net transfers from/(to) other group companies	62.39 – 156.96	293 412	(1 079 695)
Rights outstanding at the end of the year		6 992 090	9 886 429

Equity growth scheme continued

During the year, 1 278 721 (2017: 1 945 375) SBG shares were issued to settle the appreciated rights value. At the end of the year, SBG would need to issue 2 291 144 (2017: 9 217 449) SBG shares to settle the outstanding appreciated rights value. The EGS rights were only awarded to individuals in the employment of a group entity domiciled in South Africa and is cash-settled on a company level.

The group is required to ensure that employees' tax arising from benefits due in terms of the scheme is paid in accordance with the Fourth Schedule of the Income Tax Act of South Africa. Where employees have elected not to fund the tax from their own resources the tax due is treated as a diminution of the gross benefits due under the scheme. No SBG shares were issued or sold to settle the employees' tax due during the year (2017:0). This reduces the liability to the employee in respect of the outstanding appreciated rights value.

Share options were exercised regularly throughout the year. The weighted average share price for the year was R192.35 (2017: R157.29).

The following rights granted to employees, including executive directors, had not been exercised at year end:

Number of ordinary shares	**Option price range (rand)**	**Weighted average price (rand)**	**Option expiry period**
189 475	**62.39 – 95.50**	**64.93**	**Year to 31 December 2019**
1 893 837	**102.39 – 114.69**	**111.82**	**Year to 31 December 2020**
1 733 671	**96.73 – 103.03**	**98.94**	**Year to 31 December 2021**
225 962	**98.75 – 108.90**	**107.42**	**Year to 31 December 2022**
250 761	**115.51**	**115.51**	**Year to 31 December 2023**
515 358	**126.87**	**126.87**	**Year to 31 December 2024**
1 002 503	**156.96**	**156.96**	**Year to 31 December 2025**
1 180 523	**122.24**	**122.24**	**Year to 31 December 2026**
6 992 090			

The following rights granted to employees, including executive directors, had not been exercised at the 31 December 2017 year end:

Number of ordinary shares	Option price range (rand)	Weighted average price (rand)	Option expiry period
60 800	83.10 – 92.00	90.91	Year to 31 December 2018
1 108 741	62.39 – 95.50	63.37	Year to 31 December 2019
2 161 851	102.00 – 114.69	111.81	Year to 31 December 2020
2 607 266	92.79 – 107.55	98.72	Year to 31 December 2021
217 026	98.75 – 108.90	107.36	Year to 31 December 2022
481 593	115.51	115.51	Year to 31 December 2023
668 607	126.87	126.87	Year to 31 December 2024
1 177 632	156.96	156.96	Year to 31 December 2025
1 402 913	122.24	122.24	Year to 31 December 2026
9 886 429			

Shares appreciation rights scheme

The SARP is a long-term equity-settled share scheme and represents appreciation rights allocated to employees based on SBG's share price. The converted value of the rights is settled by shares that are purchased by SBG from the market at a value that is equivalent to the value of rights. The SARP is classified as a cash-settled share scheme from an SBSA group and company perspective. The vesting and expiry dates of the rights are as follows:

	Year	% vesting	Expiry
SARP	2,3,4	33,67,100	4,5,6

A reconciliation of the movement of appreciation rights is detailed below:

	Average price range (rand) 2018	Number of rights 2018	Average price range (rand) 2017	Number of rights 2017
Movement summary				
Rights outstanding at beginning of the year		626 918		
Granted	220.97	649 999	155.95	677 317
Lapsed			155.95	(50 399)
Net transfers to other group companies		(14 509)		
Rights outstanding at the end of the year		1 262 408		626 918

At the end of the year, the group would need to purchase 78 339 (2017:136 370) SBG shares to settle the outstanding appreciated rights value.

The following rights granted to employees, including executive directors, had not been exercised as at 31 December 2018.

Number of rights	Option price range (rand)	Weighted average price (rand)	Option expiry period
2018			
204 130	155.95	155.95	Year to 31 December 2021
420 776	155.95 – 220.97	189.43	Year to 31 December 2022
420 795	155.95 – 220.97	189.43	Year to 31 December 2023
216 707	220.97	220.97	Year to 31 December 2024
1 262 408			
2017			
208 966	155.95	155.95	Year to 31 December 2021
208 966	155.95	155.95	Year to 31 December 2022
208 986	155.95	155.95	Year to 31 December 2023
626 918			

The share appreciation rights granted during the year were valued using a Black-Scholes option pricing model. Each grant was valued separately. The weighted fair value of the options granted per vesting and the assumptions utilised are illustrated below:

	2018			2017		
	Tranche 1	Tranche 2	Tranche 3	Tranche 1	Tranche 2	Tranche 3
Number of appreciation rights granted	216 646	216 646	216 707	208 966	208 966	208 986
Weighted average fair value at grant date (rand)	52.90	58.66	63.13	35.32	39.44	43.06
The principal inputs are as follows:						
Weighted average share price (rand)	220.97	220.97	220.97	155.95	155.95	155.95
Weighted average exercise price (rand)	220.97	220.97	220.97	155.95	155.95	155.95
Expected life (years)	4.00	5.00	6.00	3.67	4.67	5.67
Expected volatility (%)	29.19	29.19	29.19	27.93	27.93	27.93
Risk-free interest rate (%)	8.21	8.40	8.55	8.13	8.34	8.51
Dividend yield (%)	4.6	4.48	4.42	4.46	4.41	4.32

Deferred bonus scheme

All employees granted an annual performance award over a threshold have part of their award deferred. In addition, the group makes special awards to qualifying employees in employment of a group entity. The awards are indexed to SBG's share price and accrue notional dividends during the vesting period, which are payable on vesting. Awards vest in three equal amounts at 18, 30 and 42 months from the date of the award. The maturity value is determined with reference to SBG's share price on the vesting date. These awards are classified as cash-settled awards from an SBSA group and company perspective, and have been partially hedged through the use of equity forwards.

	Units	
	2018	2017
Movement summary		
Units outstanding at beginning of the year	**13 365 219**	13 672 693
Granted	**5 601 539**	6 907 216
Exercised	**(5 494 487)**	(5 543 947)
Lapsed	**(617 115)**	(598 188)
Net transfers to other group companies	**(615 443)**	(1 072 555)
Units outstanding at end of the year	**12 239 713**	13 365 219
Weighted average fair value at grant date (rand)	**218.59**	155.86
Expected life (years)	**2.51**	2.51

Performance reward plan

The performance reward plan is settled in SBG's shares to qualifying employees on the applicable vesting dates together with notional dividends that are settled in cash. Shares that vest (if any), and that are delivered to the employee, are conditional on pre-specified performance metrics being SBG's ROE and headline earnings. These awards are classified as cash-settled awards at an SBSA group and company perspective, and have been partially hedged through the use of equity forwards.

	Units	
	2018	2017
Movement summary		
Units outstanding at beginning of the year	**6 103 839**	6 753 333
Granted	**1 917 528**	2 207 100
Exercised	**(2 005 929)**	(1 437 364)
Performance condition uplift/(lapse)	**300 327**	(671 536)
Lapsed	**(7 833)**	(208 394)
Net transfers from/(to) other group companies	**92 332**	(539 300)
Units outstanding at the end of the year	**6 400 264**	6 103 839
Weighted average fair value at grant date (rand)	**220.97**	155.95
Expected life (years)	**3**	3

Cash-settled deferred bonus scheme

Effective for awards made in 2017, employees granted an annual performance award over a threshold and who are in employment in South Africa and meet other specific criteria have part of their award deferred. This replaces the DBS from 2017 for these employees. In addition, employees who are assigned to SBSA from other SBG group companies (from the Africa Regions and International operations), and for whom an annual performance award over a threshold is granted, have part of their award deferred. For employees who are awarded CSDBS, and who qualify, the group may award additional special awards.

Awards in rand are indexed to SBG's share price and accrue notional dividends during the vesting period, which are payable on vesting. Awards vest in three equal amounts at 18, 30 and 42 months from the date of the award. The maturity value is determined with reference to the SBG share price on the vesting date. These awards are classified as cash settled from an SBSA group and company perspective. Awards in currencies other than rand (being the employee's host country) are denominated in that currency with the same terms as Rand denominated awards with the value of the awards, in foreign currency, moving in parallel with changes in the SBG share price. These awards have been partially hedged through the use of equity forwards.

	Currency									
	BWP	**Euro**	**GBP**	**HKD**	**KES**	**MUR**	**NGN**	**UGX**	**USD**	**ZAR**
Movement summary 2018										
Units outstanding at beginning of the year			**1 205**	**5 136**			**720 551**	**298 821**		**810 282**
Granted	**453**	**46**	**623**		**84 252**	**1 132**	**748 152**	**382 878**	**292**	**640 984**
Exercised			**(422)**		**(28 021)**		**(8 986)**	**(99 607)**		**(269 545)**
Lapsed										**(5 904)**
Net transfers			**(162)**		**84 065**					**3 752**
Outstanding at the end of the year	**453**	**46**	**1 244**	**5 136**	**140 296**	**1 132**	**1 459 717**	**582 092**	**292**	**1 179 569**
Weighted average fair value at grant date	**220.97**	**220.97**	**220.97**	**220.97**	**220.97**	**220.97**	**220.97**	**220.97**	**220.97**	**220.97**
Expected life at grant date (years)	**2.51**	**2.51**	**2.51**	**2.51**	**2.51**	**2.51**	**2.51**	**2.51**	**2.51**	**2.51**
2017										
Granted			757	5 136			720 551	298 821		810 282
Exercised			(224)							
Net transfers			672							
Outstanding at the end of the year			1 205	5 136			720 551	298 821		810 282
Weighted average fair value at grant date			155.95	167.43			155.95	155.95		155.95
Expected life at grant date (years)			2.51	2.51			2.51	2.51		2.51

Other share schemes

SCHEME	DESCRIPTION	CLASSIFICATION	STOCK SYMBOL	2018 Outstanding Units	2017 Outstanding Units
Quanto awards (Quanto)	Since 2007, the group's international operations have operated a deferred incentive arrangement in the form of the quanto stock unit plan. All employees granted an annual performance award over a threshold, have a part of their award deferred. The award units are denominated in USD, the value of which moves in parallel to the change in the SBG share price. These awards relate to employees who have transferred employment from SBG's International operations to SBSA. No awards were issued during the current or prior year by SBSA.	Cash-settled scheme	SBK		2 169
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 share scheme has various vesting periods and expires ten years after grant date. No awards were issued during the current or prior year by SBSA.	Equity-settled scheme	SBK	**278 351**	400 159

Annexure E – Emoluments and share incentives of directors and prescribed officers

Executive directors' and prescribed officers' emoluments

	SK Tshabalala		BJ Kruger	
	2018 R'000	2017 R'000	2018 R'000	2017 R'000
Cost to company package	**9 987**	9 103	**9 906**	9 079
Cash package paid during the year	**8 636**	7 899	**8 480**	7 847
Retirement contributions paid during the year	**1 222**	1 076	**1 159**	1 076
Other allowances	**129**	128	**267**	156
Once-off allowances/payments[5]	**632**		**3 022**	
Short-term incentive	**25 400**	25 400	**24 950**	24 950
Short-term incentive (cash)[6]	**11 350**	11 350	**11 125**	11 125
Short-term incentive (share-linked deferral)[7]	**14 050**	14 050	**13 825**	13 825
Total reward (excluding conditional long-term incentive awards)	**36 019**	34 503	**37 878**	34 029
EGS awards vesting[8]		4 312		3 934
PRP awards vesting[9]	**20 228**	14 658	**20 228**	14 658
PRP notional dividend[10]	**2 818**	1 643	**2 818**	1 643
Total reward (including conditional long-term incentive awards)	**59 065**	55 116	**60 924**	54 264

Executive directors' and prescribed officers' emoluments – former prescribed officer

	PL Schlebusch[11]		DC Munro
	2018 R'000	2017 R'000	2017 R'000
Cost to company package	**1 786**	6 950	2 844
Cash package paid during the year	**1 602**	5 951	2 399
Retirement contributions paid during the year	**136**	704	334
Other allowances	**48**	295	111
Short-term incentive	**6 750**	27 000	13 100
Short-term incentive (cash)[6]	**2 175**	12 150	7 700
Short-term incentive (share-linked deferral)[7]	**4 575**	14 850	5 400
Total reward (excluding conditional long-term incentive awards)	**8 536**	33 950	15 944
EGS awards vesting[8]		2 723	3 101
PRP awards vesting[9]	**19 781**	14 658	20 526
PRP notional dividend[10]	**1 403**	1 643	2 301
Five-year long-term incentive			20 000
Total reward (including conditional long-term incentive awards)	**29 720**	52 974	61 872

1 AKL Fihla was appointed as a prescribed officer on 1 June 2017. His fixed remuneration is shown from that date. The short-term incentive is for the full performance year 2017.
2 ZN Manyathi was appointed as a prescribed officer on 1 April 2018. His fixed remuneration is shown from that date. The short-term incentive is for the full performance year 2018.
3 M Nienaber was appointed as a prescribed officer on 1 January 2017.
4 L Fuzile was appointed as the chief executive of The Standard Bank of South Africa Limited on 15 January 2018. His fixed remuneration is shown from that date.
5 Includes a once-off payment made in respect of Death in Service and Permanent Health Insurance benefits. In the case of BJ Kruger, this also includes a once-off payment in respect of retirement benefits. In the case of L Fuzile, a guaranteed sign-on incentive of R5 million (cash of R3.6 million and share-linked deferral of R1.4 million).
6 These are performance-related short-term incentive payments in respect of the financial year under review.
7 These are deferred bonus scheme awards issued in March 2019 (for the performance year 2018) which are subject to choice. Participants can elect to have the value of the deferred awards, or part thereof, invested in the SARP rather than the default DBS. To the extent that the SARP is selected, a 10% premium of the value of the award is added. Deferred bonus amounts not invested in SARP will be unitised with respect to the group's closing share price on 7 March 2019. The award will be updated in the group's 2019 annual financial statements to reflect the choices made and units/rights awarded.
8 EGS vesting in March 2018 (disclosed in 2017) were awarded in March 2011 and 2013. Relevant performance conditions were met as at 31 December 2017.
9 PRP units vesting were awarded in March 2015 (disclosed for the performance year 2017) and in March 2016 (disclosed for the performance year 2018). The PRP value delivered is calculated based on the group's closing share price of R178.81 as at 31 December 2018 (R195.66 for 2017) after calculating the delivery percentage based on the three-year performance conditions (110.58% delivery on the 2016 awards and 117.61% delivery on the 2015 awards). The amount included in the single figure will not be updated in the 2018 remuneration report but rather included at payment value in the settlement schedule. In the case of PL Schlebusch, the PRP value of the March 2016 award is based on the group's closing share price of R218.68 as at 31 March 2018.
10 PRP notional dividend is calculated by multiplying the vesting PRP units by the cumulative notional dividend incurred between the grant date and vesting date. The amount included in the single figure will not be updated in the 2018 remuneration report but rather included at payment value in the settlement schedule.
11 PL Schlebusch stepped down as a prescribed officer on 1 April 2018. His fixed remuneration and short-term incentive award disclosed is for the performance period 1 January to 31 March 2018.

A Daehnke		AKL Fihla[1]		ZN Manyathi[2]	M Nienaber[3]		L Fuzile[4]
2018 R'000	2017 R'000	**2018 R'000**	2017 R'000	**2018 R'000**	**2018 R'000**	2017 R'000	**2018 R'000**
6 294	5 697	**7 588**	4 015	**5 634**	**6 257**	5 517	**5 787**
5 570	5 084	**6 506**	3 507	**5 039**	**5 497**	4 829	**5 298**
704	610	**853**	444	**467**	**589**	542	**481**
20	3	**229**	64	**128**	**171**	146	**8**
111		**710**			**78**		**5 000**
16 750	16 750	**19 000**	20 000	**21 500**	**15 125**	14 000	**14 000**
8 025	8 025	**8 650**	9 150	**9 900**	**7 212**	6 650	**6 650**
8 725	8 725	**10 350**	10 850	**11 600**	**7 913**	7 350	**7 350**
23 155	22 447	**27 298**	24 015	**27 134**	**21 460**	19 517	**24 787**
11 330	8 790	**9 709**	10 263	**9 709**	**5 655**	4 395	
1 578	985	**1 353**	1 150	**1 353**	**788**	493	
36 063	32 222	**38 360**	35 428	**38 196**	**27 903**	24 405	**24 787**

Non-executive directors

		Fixed remuneration				
		Services as directors of Standard Bank Group R'000	Standard Bank Group Committee fees R'000	Services as directors of group subsidiaries R'000	Other benefits R'000	Total compensation for the year R'000
TS Gcabashe[1]	**2018**	**6 622**			**503**	**7 125**
	2017	6 306			503	6 809
RMW Dunne[2]	**2018**	**110**	**535**	**110**		**755**
	2017	263	1 280	263		1 806
GJ Fraser-Moleketi	**2018**	**277**	**714**	**277**		**1 268**
	2017	263	644	263		1 170
S Gu	**2018**					
	2017	365	248	110		723
H Hu	**2018**	**919**	**625**	**919**		**2 463**
	2017	511	347	511		1 369
GMB Kennealy	**2018**	**277**	**1 195**	**277**		**1 749**
	2017	263	904	263		1 430
JH Maree[3]	**2018**	**277**	**1 255**	**3 170**		**4 702**
	2017	263	921	3 023		4 207
NNA Matyumza	**2018**	**277**	**718**	**277**		**1 272**
	2017	263	639	263		1 165
Adv KD Moroka	**2018**	**277**	**857**	**277**		**1 411**
	2017	263	818	263		1 344
Dr. ML Oduor-Otieno	**2018**	**919**	**492**	**919**		**2 330**
	2017	876	526	876		2 278
AC Parker	**2018**	**277**	**670**	**277**		**1 224**
	2017	263	676	263		1 202
ANA Peterside CON	**2018**	**919**	**676**	**919**		**2 514**
	2017	876	655	1 483		3 014
MJD Ruck[4]	**2018**	**277**	**1 886**	**1 733**		**3 896**
	2017	263	1 393	1 722		3 378
PD Sullivan	**2018**	**919**	**1 492**	**919**		**3 330**
	2017	876	1 381	876		3 133
BS Tshabalala	**2018**					
	2017	226	690	226		1 142
JM Vice	**2018**	**277**	**1 233**	**277**		**1 787**
	2017	263	1 274	263		1 800
L Wang	**2018**	**277**	**334**	**277**		**888**
	2017	154	157	154		465
W Wang	**2018**					
	2017	110	52	110		272
EM Woods	**2018**					
	2017	106	316	106		528
Total	**2018**	**12 901**	**12 682**	**10 628**	**503**	**36 714**
Total	**2017**	12 773	12 921	11 038	503	37 235

1 TS Gcabashe other benefits relate to use of motor vehicle.
2 RMW Dunne retired on 24 May 2018.
3 JH Maree's fees for services as a director of group subsidiaries include fees paid by Liberty Holdings Limited.
4 MJD Ruck's fees for services as a director of group subsidiaries include fees paid by Industrial and Commercial Bank of China (Argentina) S.A.

Fees are excluding VAT.

Share incentives

Standard Bank equity growth scheme

The EGS represents participation rights in the future growth of the Standard Bank Group share price. The eventual value of the right is settled by the receipt of Standard Bank Group shares equivalent to the full value of the participation rights. Certain EGS awards issued prior to March 2014 included performance conditions.

Deferred bonus scheme

Employees are awarded a deferred bonus, as a mandatory deferral of their short-term incentive or as discretionary award, into the deferred bonus scheme. The deferred bonus is unitised into a number of units with respect to the group's share price on the date of award. The shares are delivered to the employee on the vesting date for equity-settled share incentives. The cash-settled deferred bonus scheme awards are settled in cash on the vesting date. Notional dividends on the units are paid to the employees on the vesting date

Performance reward plan

The group's PRP, effective from March 2014, is an equity-settled share scheme with a three-year vesting period and is designed to incentivise the group's senior executives whose roles enable them to contribute to and influence the group's long-term decision-making and performance results. The PRP seeks to promote the achievement of the group's strategic long-term objectives and to align the interests of those executives with overall group performance in both earnings growth and ROE. These are the most important financial metrics to create shareholder value and, therefore aligns the interests of management and shareholders. The awards are subject to the achievement of performance conditions set at award date and that determine the number of shares that ultimately vest. The awards will only vest in future in terms of the rules of the PRP. The shares, subject to meeting the pre-specified conditions, are delivered to the employee on vesting date. Notional dividends accrue during the vesting period and will be payable on vesting date.

Wealth and investment medium-term investment

Selected employees are awarded an incentive award into the Wealth and investment medium-term investment scheme. The incentive awards are unitised into a number of units with respect to the selected Melville Douglas funds. The incentive awards are settled in cash or units at the election of the employee.

Share incentives continued

SK Tshabalala[5]

Performance year	Issue date	Award price	Value at grant date (R'000)	Vesting date/ vesting category	Expiry date/ final vesting date
Deferred bonus schemes					
2014	2015/03/05	156.96	2 679	2018/09/30	
2015	2016/03/03	122.24	3 950	2018/09/30	
2015	2016/03/03	122.24	3 950	2019/09/30	
2016	2017/03/02	155.95	1 667	2018/09/30	
2016	2017/03/02	155.95	1 667	2019/09/30	
2016	2017/03/02	155.95	1 667	2020/09/30	
2016*	2017/03/02	155.95	2 597	2018/09/30	
2016*	2017/03/02	155.95	2 597	2019/09/30	
2016*	2017/03/02	155.95	2 597	2020/09/30	
2017	**2018/03/08**	**220.97**	**1 667**	**2019/09/30**	
2017	**2018/03/08**	**220.97**	**1 667**	**2020/09/30**	
2017	**2018/03/08**	**220.97**	**1 667**	**2021/09/30**	
2017*	**2018/03/08**	**220.97**	**3 017**	**2019/09/30**	
2017*	**2018/03/08**	**220.97**	**3 017**	**2020/09/30**	
2017*	**2018/03/08**	**220.97**	**3 017**	**2021/09/30**	
Performance reward plan					
2014	2015/03/05	156.96	10 000	2018/03/31	
2015	2016/03/03	122.24	12 500	2019/03/31	
2016	2017/03/02	155.95	12 500	2020/03/31	
2017	**2018/03/08**	**220.97**	**14 009**	**2021/03/31**	
Equity growth scheme (vested)					
2010	2011/03/04	98.80		C	2021/03/04
2012	2013/03/07	115.51		E	2023/03/07
2012	2013/03/07	115.51		D	2023/03/07
2012	2013/03/07	115.51		E	2023/03/07
Totals for 2018			**86 432**		

* Cash-settled deferred bonus scheme.

Refer to page 180 for footnotes.

Units						Value on settlement		Fair value at year end	
Opening balance	Awards made during the year	Number of awards exercised during the year	Number of awards forfeited during the year	Balance of awards 31 December 2018	Exercise date share price	Award[1] (R'000)	Notional dividend[2] (R'000)	Award[3] (R'000)	Notional dividend[4] (R'000)
17 070		17 070			175	2 987	535		
32 313		32 313			175	5 655	805		
32 315				32 315				5 778	805
10 687		10 687			175	1 870	190		
10 687				10 687				1 911	190
10 688				10 688				1 911	190
16 650		16 650			175	2 914	296		
16 650				16 650				2 977	296
16 652				16 652				2 978	296
	7 542			7 542				1 349	71
	7 542			7 542				1 349	71
	7 544			7 544				1 349	71
	13 652			13 652				2 441	128
	13 652			13 652				2 441	128
	13 652			13 652				2 441	128
74 916		74 916			219	16 383	1 643		
102 300	10 828			113 128				20 228	2 818
80 200				80 200				14 341	1 428
	63 400			63 400				11 337	596
25 000		25 000			224	3 126			
35 371		35 371			224	3 832			
231 367		231 367			224	25 064			
23 581		23 581			224	2 555			
						64 386	3 469	72 831	7 216

Share incentives continued

BJ Kruger

Performance year	Issue date	Award price	Value at grant date (R'000)	Vesting date/ vesting category	Expiry date/ final vesting date
Deferred bonus schemes					
2014	2015/03/05	156.96	1 658	2018/09/30	
2015	2016/03/03	122.24	3 950	2018/09/30	
2015	2016/03/03	122.24	3 950	2019/09/30	
2016	2017/03/02	155.95	1 667	2018/09/30	
2016	2017/03/02	155.95	1 667	2019/09/30	
2016	2017/03/02	155.95	1 667	2020/09/30	
2016*	2017/03/02	155.95	2 597	2018/09/30	
2016*	2017/03/02	155.95	2 597	2019/09/30	
2016*	2017/03/02	155.95	2 597	2020/09/30	
2017	**2018/03/08**	**220.97**	**1 667**	**2019/09/30**	
2017	**2018/03/08**	**220.97**	**1 667**	**2020/09/30**	
2017	**2018/03/08**	**220.97**	**1 667**	**2021/09/30**	
2017*	**2018/03/08**	**220.97**	**2 942**	**2019/09/30**	
2017*	**2018/03/08**	**220.97**	**2 942**	**2020/09/30**	
2017*	**2018/03/08**	**220.97**	**2 942**	**2021/09/30**	
Performance reward plan					
2014	2015/03/05	156.96	10 000	2018/03/31	
2015	2016/03/03	122.24	12 500	2019/03/31	
2016	2017/03/02	155.95	12 500	2020/03/31	
2017	**2018/03/08**	**220.97**	**12 507**	**2021/03/31**	
Equity growth scheme (vested)					
2010	2011/03/04	98.80		B	2021/03/04
2012	2013/03/07	115.51		E	2023/03/07
2013	2014/03/06	126.87		D	2024/03/06
Totals for 2018			**83 684**		

* Cash-settled deferred bonus scheme.

Refer to page 180 for footnotes.

Units: Opening balance	Units: Awards made during the year	Units: Number of awards exercised during the year	Units: Number of awards forfeited during the year	Units: Balance of awards 31 December 2018	Exercise date share price	Value on settlement: Award[1] (R'000)	Value on settlement: Notional dividend[2] (R'000)	Fair value at year end: Award[3] (R'000)	Fair value at year end: Notional dividend[4] (R'000)
10 566		10 566			175	1 849	331		
32 313		32 313			175	5 655	805		
32 315				32 315				5 778	805
10 687		10 687			175	1 870	190		
10 687				10 687				1 911	190
10 688				10 688				1 911	190
16 650		16 650			175	2 914	296		
16 650				16 650				2 977	296
16 652				16 652				2 978	296
	7 542			7 542				1 349	71
	7 542			7 542				1 349	71
	7 544			7 544				1 349	71
	13 312			13 312				2 380	125
	13 312			13 312				2 380	125
	13 314			13 314				2 380	125
74 916		74 916			219	16 383	1 643		
102 300	10 828			113 128				20 228	2 818
80 200				80 200				14 341	1 428
	56 600			56 600				10 121	532
25 000		25 000			215	2 910			
18 865		18 865			215	1 880			
105 442		105 442			215	9 312			
						42 773	3 265	71 432	7 143

Share incentives continued

A Daehnke

Performance year	Issue date	Award price	Value at grant date (R'000)	Vesting date/vesting category	Expiry date/final vesting date
Deferred bonus schemes					
2014	2015/03/05	156.96	1 800	2018/09/30	
2015	2016/03/03	122.24	2 072	2018/09/30	
2015	2016/03/03	122.24	2 073	2019/09/30	
2016	2017/03/02	155.95	1 000	2018/09/30	
2016	2017/03/02	155.95	1 000	2019/09/30	
2016	2017/03/02	155.95	1 000	2020/09/30	
2016*	2017/03/02	155.95	1 700	2018/09/30	
2016*	2017/03/02	155.95	1 700	2019/09/30	
2016*	2017/03/02	155.95	1 700	2020/09/30	
2017	**2018/03/08**	**220.97**	**1 000**	**2019/09/30**	
2017	**2018/03/08**	**220.97**	**1 000**	**2020/09/30**	
2017	**2018/03/08**	**220.97**	**1 000**	**2021/09/30**	
2017*	**2018/03/08**	**220.97**	**1 908**	**2019/09/30**	
2017*	**2018/03/08**	**220.97**	**1 908**	**2020/09/30**	
2017*	**2018/03/08**	**220.97**	**1 909**	**2021/09/30**	
Performance reward plan					
2014	2015/03/05	156.96	5 996	2018/03/31	
2015	2016/03/03	122.24	7 004	2019/03/31	
2016	2017/03/02	155.95	7 002	2020/03/31	
2017	**2018/03/08**	**220.97**	**10 010**	**2021/03/31**	
Equity growth scheme (vested)					
Vested					
2008	2009/03/06	62.39		A	2019/03/06
2008	2009/03/06	62.39		B	2019/03/06
2009	2010/03/05	111.94		A	2020/03/05
2009	2010/03/05	111.94		B	2020/03/05
2010	2011/03/04	98.80		A	2021/03/04
2010	2011/03/04	98.80		B	2021/03/04
2010	2011/03/04	98.80		B	2021/03/04
2013	2014/03/06	126.87		D	2024/03/06
2013	2014/03/06	126.87		D	2024/03/06
Totals for 2018			**52 782**		

* Cash-settled deferred bonus scheme.

Refer to page 180 for footnotes.

Units						Value on settlement		Fair value at year end	
Opening balance	Awards made during the year	Number of awards exercised during the year	Number of awards forfeited during the year	Balance of awards 31 December 2018	Exercise date share price	Award[1] (R'000)	Notional dividend[2] (R'000)	Award[3] (R'000)	Notional dividend[4] (R'000)
11 468		11 468			175	2 007	359		
16 954		16 954			175	2 967	422		
16 956				16 956				3 032	422
6 412		6 412			175	1 122	114		
6 412				6 412				1 147	114
6 413				6 413				1 147	114
10 901		10 901			175	1 908	194		
10 901				10 901				1 949	194
10 901				10 901				1 949	194
	4 525			4 525				809	43
	4 525			4 525				809	43
	4 527			4 527				809	43
	8 636			8 636				1 544	81
	8 636			8 636				1 544	81
	8 637			8 637				1 544	81
44 926		44 926			219	9 824	985		
57 300	6 065			63 365				11 330	1 578
44 900				44 900				8 029	799
	45 300			45 300				8 100	426
12 500		12 500			180	1 472			
12 500		12 500			180	1 472			
12 500				12 500					
12 500				12 500					
12 500				12 500					
9 375				9 375					
3 125				3 125					
45 832				45 832					
22 918				22 918					
						20 772	2 074	43 742	4 213

Share incentives continued

AKL Fihla[6]

Performance year	Issue date	Award price	Value at grant date (R'000)	Vesting date/ vesting category	Expiry date/ final vesting date
Deferred bonus schemes					
2014	2015/03/05	156.96	1 617	2018/09/30	
2015	2016/03/03	122.24	2 450	2018/09/30	
2015	2016/03/03	122.24	2 450	2019/09/30	
2016	2017/03/02	155.95	833	2018/09/30	
2016	2017/03/02	155.95	833	2019/09/30	
2016	2017/03/02	155.95	834	2020/09/30	
2016*	2017/03/02	155.95	2 033	2018/09/30	
2016*	2017/03/02	155.95	2 033	2019/09/30	
2016*	2017/03/02	155.95	2 034	2020/09/30	
2017	**2018/03/08**	**220.97**	**1 333**	**2019/09/30**	
2017	**2018/03/08**	**220.97**	**1 333**	**2020/09/30**	
2017	**2018/03/08**	**220.97**	**1 334**	**2021/09/30**	
2017*	**2018/03/08**	**220.97**	**2 283**	**2019/09/30**	
2017*	**2018/03/08**	**220.97**	**2 283**	**2020/09/30**	
2017*	**2018/03/08**	**220.97**	**2 284**	**2021/09/30**	
Performance reward plan					
2014	2015/03/05	156.96	7 000	2018/03/31	
2015	2016/03/03	122.24	6 002	2019/03/31	
2016	2017/03/02	155.95	6 004	2020/03/31	
2017	**2018/03/08**	**220.97**	**10 010**	**2021/03/31**	
Equity growth scheme (vested)					
2008	2009/03/06	62.39		A	2019/03/06
2008	2009/03/06	62.39		B	2019/03/06
2009	2010/03/05	111.94		A	2020/03/05
2009	2010/03/05	111.94		B	2020/03/05
2010	2011/03/04	98.80		A	2021/03/04
2010	2011/03/04	98.80		B	2021/03/04
2010	2011/03/04	98.80		B	2021/03/04
Totals for 2018			**54 983**		

* Cash-settled deferred bonus scheme.

Refer to page 180 for footnotes.

Units						Value on settlement		Fair value at year end	
Opening balance	Awards made during the year	Number of awards exercised during the year	Number of awards forfeited during the year	Balance of awards 31 December 2018	Exercise date share price	Award[1] (R'000)	Notional dividend[2] (R'000)	Award[3] (R'000)	Notional dividend[4] (R'000)
10 300		10 300			175	1 803	323		
20 042		20 042			175	3 507	499		
20 044				20 044				3 584	499
5 343		5 343			175	935	95		
5 343				5 343				955	95
5 345				5 345				956	95
13 038		13 038			175	2 282	232		
13 038				13 038				2 331	232
13 040				13 040				2 332	232
	6 034			6 034				1 079	57
	6 034			6 034				1 079	57
	6 035			6 035				1 079	57
	10 333			10 333				1 848	97
	10 333			10 333				1 848	97
	10 334			10 334				1 848	97
52 452		52 452			219	11 470	1150		
49 100	5 197			54 297				9 709	1 353
38 500				38 500				6 884	685
	45 300			45 300				8 100	426
10 000		10 000			180	1 178			
10 000		10 000			180	1 178			
12 500				12 500					
12 500				12 500					
13 750				13 750					
10 312				10 312					
3 438				3 438					
						22 353	2 299	43 632	4 079

Share incentives continued

M Nienaber

Performance year	Issue date	Award price	Value at grant date (R'000)	Vesting date/ vesting category	Expiry date/ final vesting date
Deferred bonus schemes					
2014	2015/03/05	156.96	1 283	2018/09/30	
2015	2016/03/03	122.24	1 267	2018/09/30	
2015	2016/03/03	122.24	1 267	2019/09/30	
2016	2017/03/02	155.95	1 000	2018/09/30	
2016	2017/03/02	155.95	1 000	2019/09/30	
2016	2017/03/02	155.95	1 000	2020/09/30	
2016*	2017/03/02	155.95	1 283	2018/09/30	
2016*	2017/03/02	155.95	1 283	2019/09/30	
2016*	2017/03/02	155.95	1 283	2020/09/30	
2017	**2018/03/08**	**220.97**	**1 000**	**2019/09/30**	
2017	**2018/03/08**	**220.97**	**1 000**	**2020/09/30**	
2017	**2018/03/08**	**220.97**	**1 000**	**2021/09/30**	
2017*	**2018/03/08**	**220.97**	**1 450**	**2019/09/30**	
2017*	**2018/03/08**	**220.97**	**1 450**	**2020/09/30**	
2017*	**2018/03/08**	**220.97**	**1 450**	**2021/09/30**	
Performance reward plan					
2014	2015/03/05	156.96	2 998	2018/03/31	
2015	2016/03/03	122.24	3 496	2019/03/31	
2016	2017/03/02	155.95	9 996	2020/03/31	
2017	**2018/03/08**	**220.97**	**10 010**	**2021/03/31**	
Equity growth scheme (vested)					
2010	2011/03/04	98.80		C	2021/03/04
Totals for 2018			**44 516**		

* Cash-settled deferred bonus scheme.

Refer to page 180 for footnotes.

Units						Value on settlement		Fair value at year end	
Opening balance	Awards made during the year	Number of awards exercised during the year	Number of awards forfeited during the year	Balance of awards 31 December 2018	Exercise date share price	Award[1] (R'000)	Notional dividend[2] (R'000)	Award[3] (R'000)	Notional dividend[4] (R'000)
8 177		8 177			175	1 431	256		
10 362		10 362			175	1 813	258		
10 363				10 363				1 853	258
6 412		6 412			175	1 122	114		
6 412				6 412				1 147	114
6 413				6 413				1 147	114
8 229		8 229			175	1 440	146		
8 229				8 229				1 471	146
8 230				8 230				1 472	146
	4 525			4 525				809	43
	4 525			4 525				809	43
	4 527			4 527				809	43
	6 562			6 562				1 173	62
	6 562			6 562				1 173	62
	6 562			6 562				1 173	62
22 462		22 462			219	4 912	493		
28 600	3 028			31 628				5 655	788
64 100				64 100				11 462	1 141
	45 300			45 300				8 100	426
3 125		3 125			224	391			
						11 109	1 267	38 253	3 448

Share incentives continued

ZN Manyathi

Performance year	Issue date	Award price	Value at grant date (R'000)	Vesting date/ vesting category	Expiry date/ final vesting date
Deferred bonus schemes					
2015	2016/03/03	122.24	2 650	2018/09/30	
2015	2016/03/03	122.24	2 650	2019/09/30	
2016	2017/03/02	155.95	1 250	2018/09/30	
2016	2017/03/02	155.95	1 250	2019/09/30	
2016	2017/03/02	155.95	1 250	2020/09/30	
2016*	2017/03/02	155.95	1 617	2018/09/30	
2016*	2017/03/02	155.95	1 617	2019/09/30	
2016*	2017/03/02	155.95	1 617	2020/09/30	
2017	**2018/03/08**	**220.97**	**1 333**	**2019/09/30**	
2017	**2018/03/08**	**220.97**	**1 333**	**2020/09/30**	
2017	**2018/03/08**	**220.97**	**1 334**	**2021/09/30**	
2017*	**2018/03/08**	**220.97**	**1 617**	**2019/09/30**	
2017*	**2018/03/08**	**220.97**	**1 617**	**2020/09/30**	
2017*	**2018/03/08**	**220.97**	**1 617**	**2021/09/30**	
Performance reward plan					
2015	2016/03/03	122.24	6 002	2019/03/31	
2016	2017/03/02	155.95	6 503	2020/03/31	
2017	**2018/03/08**	**220.97**	**10 010**	**2021/03/31**	
Equity growth scheme (vested)					
2013	2014/03/06	126.87		D	
2013	2014/03/06	126.87		D	
2013	2014/03/06	126.87		D	
2014	2015/03/05	156.96		D	
2014	**2015/03/05**	**156.96**		**D**	
Unvested rights					
2014	2015/03/05	156.96	8 904	2019/03/05	2025/03/05
Totals for 2018			**54 171**		

L Fuzile

Performance year	Issue date	Award price	Value at grant date (R'000)	Vesting date/ vesting category	Expiry date/ final vesting date
Deferred bonus schemes					
2017*	**2018/03/08**	**220.97**	**467**	**2019/09/30**	
2017*	**2018/03/08**	**220.97**	**467**	**2020/09/30**	
2017*	**2018/03/08**	**220.97**	**467**	**2021/09/30**	
Performance reward plan					
2017	**2018/03/08**	**220.97**	**10 010**	**2021/09/30**	
Totals for 2018			**11 411**		

* Cash-settled deferred bonus scheme.

Refer to page 180 for footnotes.

Units					Exercise date share price	Value on settlement		Fair value at year end	
Opening balance	Awards made during the year	Number of awards exercised during the year	Number of awards forfeited during the year	Balance of awards 31 December 2018		Award[1] (R'000)	Notional dividend[2] (R'000)	Award[3] (R'000)	Notional dividend[4] (R'000)
21 678		21 678			175	3 794	540		
21 680				21 680				3 877	540
8 015		8 015			175	1 403	143		
8 015				8 015				1 433	143
8 017				8 017				1 434	143
10 366		10 366			175	1 814	185		
10 366				10 366				1 854	185
10 368				10 368				1 854	185
6 034				6 034				1 079	57
6 034				6 034				1 079	57
6 035				6 035				1 079	57
7 316				7 316				1 308	69
7 316				7 316				1 308	69
7 317				7 317				1 308	69
49 100	5 197			54 297				9 709	1 353
41 700				41 700				7 456	742
45 300				45 300				8 100	426
43 696				43 696					
43 696				43 696					
43 697				43 697					
56 725				56 725					
56 725				56 725					
56 725				56 725				1 239[7]	
						7 011	868	44 117	4 095

Units					Exercise date share price	Value on settlement		Fair value at year end	
Opening balance	Awards made during the year	Number of awards exercised during the year	Number of awards forfeited during the year	Balance of awards 31 December 2018		Award[1] (R'000)	Notional dividend[2] (R'000)	Award[3] (R'000)	Notional dividend[4] (R'000)
	2 112			2 112				378	20
	2 112			2 112				378	20
	2 112			2 112				378	20
	45 300			45 300				8 100	426
								9 234	486

Share incentives continued

PL Schlebusch

Performance year	Issue date	Award price	Value at grant date (R'000)	Vesting date/ vesting category	Expiry date/ final vesting date
Deferred bonus schemes					
2014	2015/03/05	156.96	2 883	2018/09/30[7]	
2015	2016/03/03	122.24	4 117	2018/09/30[7]	
2015	2016/03/03	122.24	4 117	2019/09/30	
2016	2017/03/02	155.95	1 667	2018/09/30[7]	
2016	2017/03/02	155.95	1 667	2019/09/30	
2016	2017/03/02	155.95	1 667	2020/09/30	
2016*	2017/03/02	155.95	2 950	2018/09/30[7]	
2016*	2017/03/02	155.95	2 950	2019/09/30	
2016*	2017/03/02	155.95	2 950	2020/09/30	
2017	**2018/03/08**	**220.97**	**1 667**	**2019/09/30**	
2017	**2018/03/08**	**220.97**	**1 667**	**2020/09/30**	
2017	**2018/03/08**	**220.97**	**1 667**	**2021/09/30**	
2017*	**2018/03/08**	**220.97**	**3 283**	**2019/09/30**	
2017*	**2018/03/08**	**220.97**	**3 283**	**2020/09/30**	
2017*	**2018/03/08**	**220.97**	**3 283**	**2021/09/30**	
Performance reward plan					
2014	2015/03/05	156.96	9 998	2018/03/31	
2015	2016/03/03	122.24	9 999	2019/03/31	
2016	2017/03/02	155.95	9 996	2020/03/31	
2017	**2018/03/08**	**220.97**	**10 010**	**2021/03/08**	
Equity growth scheme (vested)					
2010	2011/03/04	98.80		B	2021/03/04
2012	2013/03/07	115.51		E	2023/03/07
Totals for 2018			**79 821**		

JH Maree

Performance year	Issue date	Award price	Value at grant date (R'000)	Vesting date/ vesting category	Expiry date/ final vesting date
Equity growth scheme					
Vested					
2008	2009/03/06	62.39		A	2019/03/06
2009	2010/03/05	111.94		A	2020/03/05
2011	2012/03/08	108.90		A	2022/03/08
2012	2013/03/07	115.51		A	2023/03/07
2014	2015/03/05	156.96		D	2025/03/05
2012	2013/03/07	115.51		A	2023/03/07
2014	2015/03/05	156.96		D	2025/03/05
Unvested rights					
2014	2015/03/05	156.96		2019/03/05	2025/03/05
Totals for 2018					

* Cash-settled deferred bonus scheme
1 Value on settlement is calculated by multiplying the vesting share/settlement price by the total units vesting and applying performance conditions (where applicable). Performance conditions applied to the 2016 PRP award issued in March 2015 that vested in March 2018 was 117.61%, against the performance conditions as explained in the remuneration structure section of the group's remuneration report within the governance and remuneration report.
2 Value is calculated by multiplying the notional dividend per unit with the total vesting units and applying performance conditions (where applicable).
3 Value is calculated by multiplying the year end SBK share price of R178.81 by the total outstanding units and applying performance conditions (where applicable).
4 Value is calculated by multiplying the notional dividend (accumulated from grant date to year end) with the total outstanding units and applying performance conditions (where applicable). Notional dividends are subject to the vesting conditions.
5 As at 31 December 2018, SK Tshabalala has a right to 418 814 (2017: 418 814) shares as a beneficiary of Tutuwa Managers' Trust. At 31 December 2018, the debt per share was R53.49 (2017:R54.62).
6 As at 31 December 2018, AKL Fihla has a right to 134 232 (2017: 134 232) shares as a beneficiary of Tutuwa Managers' Trust. At 31 December 2018, the debt per share was R53.49 (2017:R54.62).
7 In March 2015, deferred bonus scheme awards were converted into equity growth scheme (EGS) awards (without conditions) and are now vesting in March 2019.

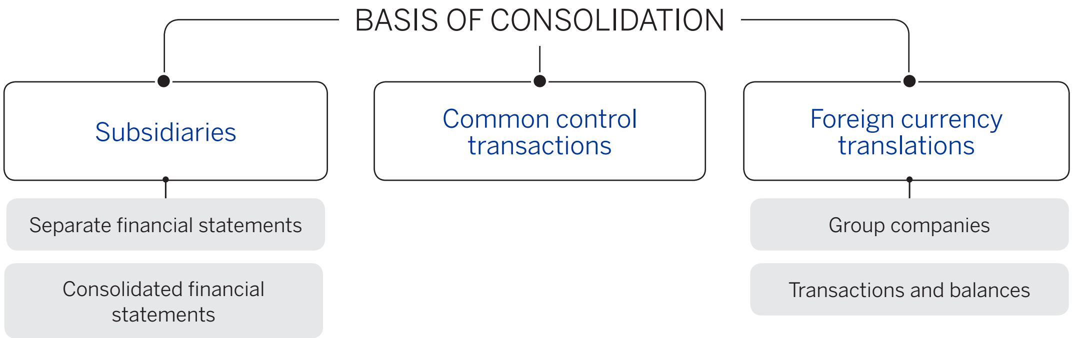
Units: Opening balance	Units: Awards made during the year	Units: Number of awards exercised during the year	Units: Number of awards forfeited during the year	Units: Balance of awards 31 December 2018	Exercise date share price	Value on settlement: Award[1] (R'000)	Value on settlement: Notional dividend[2] (R'000)	Fair value at year end: Award[3] (R'000)	Fair value at year end: Notional dividend[4] (R'000)
18 370				18 370				4 017	403
33 677				33 677				7 364	522
33 677				33 677				7 364	522
10 687				10 687				2 337	90
10 687				10 687				2 337	90
10 688				10 688				2 337	90
18 916				18 916				4 137	159
18 916				18 916				4 137	159
18 917				18 917				4 137	159
	7 542			7 542				1 649	
	7 542			7 542				1 649	
	7 544			7 544				1 650	
	14 859			14 859				3 249	
	14 859			14 859				3 249	
	14 859			14 859				3 249	
74 916		74 916			219	16 383	1 643		
81 800	8 658			90 458				19 781	1 403
64 100				64 100				14 017	538
	45 300			45 300				9 906	
12 500		12 500			224	1 563			
18 865		18 865			224	2 044			
						19 990	1 643	96 566	4 135

Units: Opening balance	Units: Awards made during the year	Units: Number of awards exercised during the year	Units: Number of awards forfeited during the year	Units: Balance of awards 31 December 2018	Exercise date share price	Value on settlement: Award[1] (R'000)	Value on settlement: Notional dividend[2] (R'000)	Fair value at year end: Award[3] (R'000)	Fair value at year end: Notional dividend[4] (R'000)
62 500		62 500			180	7 360			
500 000				500 000					
61 471				61 471					
37 729				37 729					
26 148				26 148					
18 865				18 865					
26 148				26 148					
26 149				26 149				571	
						7 360		571	

Annexure F – Detailed accounting policies

The following accounting policies were applied in the preparation of the group and company financial statements, a copy of the full set of accounting policies is available at the company's registered office.

1. Basis of consolidation



Subsidiaries

Separate financial statements

Investments in subsidiaries are accounted for at cost less accumulated impairment losses (where applicable) in the separate financial statements. The carrying amounts of these investments are reviewed annually for impairment indicators and, where an indicator of impairment exists, are impaired to the higher of the investment's fair value less costs to sell or value in use.

Consolidated financial statements

The accounting policies of subsidiaries that are consolidated by the group conform to the group's accounting policies. Intragroup transactions, balances and unrealised gains/(losses) are eliminated on consolidation. Unrealised losses are eliminated in the same manner as unrealised gains, but only to the extent that there is no evidence of impairment. The proportion of comprehensive income and changes in equity allocated to the group and non-controlling interest are determined on the basis of the group's present ownership interest in the subsidiary.

Subsidiaries are consolidated from the date on which the group acquires control up to the date that control is lost. Control is assessed on a continuous basis. For mutual funds the group further assesses its control by considering the existence of either voting rights or significant economic power.

Common control transactions

Common control transactions, in which the company is the ultimate parent entity both before and after the transaction, are accounted for at book value.

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 rate; and
- 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).

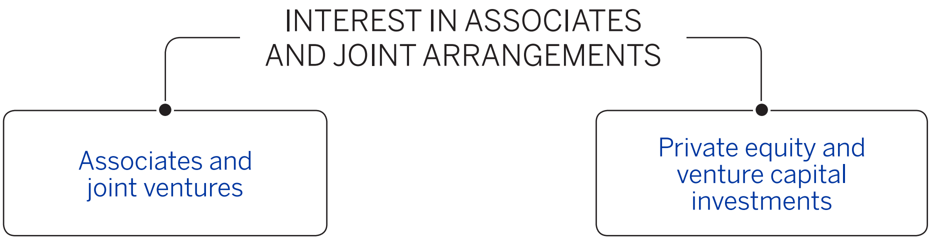
Non-monetary assets and liabilities denominated in foreign currencies that are measured at historical cost are translated using the exchange rate at the transaction date, and those measured at fair value are translated at the exchange rate at the date that the fair value was determined. Exchange rate 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 fair value through OCI are recognised in the fair value through OCI reserve in OCI (trading revenue) whereas the exchange differences on equities (debt) that are classified as held at fair value through profit or loss are reported as part of non-interest revenue (trading revenue). [IFRS 9]

Foreign exchange gains and losses on equities (debt) classified as available-for-sale financial assets are recognised in the available-for-sale reserve in OCI (interest income) whereas the exchange differences on equities (debt) that are classified as held at fair value through profit or loss are reported as part of other revenue (interest income). [IAS 39]

Foreign currency gains and losses on intragroup loans are recognised in profit or loss except where the settlement of the loan is neither planned nor likely to occur in the foreseeable future. In these cases the foreign currency gains and losses are recognised in the group's FCTR.

2. Interest in associates and joint arrangements



Associates and joint ventures

Associates and joint ventures are initially measured at cost and subsequently accounted for using the equity method at an amount that reflects the group's share of the net assets of the associate or joint venture (including goodwill).

Equity accounting is applied from the date on which the entity becomes an associate or joint venture up to the date on which the group ceases to have significant influence or joint control.

Equity accounting of losses is restricted to the interests in these entities, including unsecured receivables or other commitments, unless the group has an obligation or has made payments on behalf of the associate or joint ventures.

Unrealised profits from transactions are eliminated in determining the group's share of equity accounted profits. Unrealised losses are eliminated in the same way as unrealised gains (but only to the extent that there is no evidence of impairment).

Where there is an indicator of impairment the carrying amount of the investment is tested for impairment by comparing its recoverable amount with its carrying amount.

Impairment losses are recognised through non-trading and capital related items. Impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists.

An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount, but only to the extent that the investment's carrying amount does not exceed the carrying amount that would have been determined, net of equity accounted losses, if no impairment loss had been recognised.

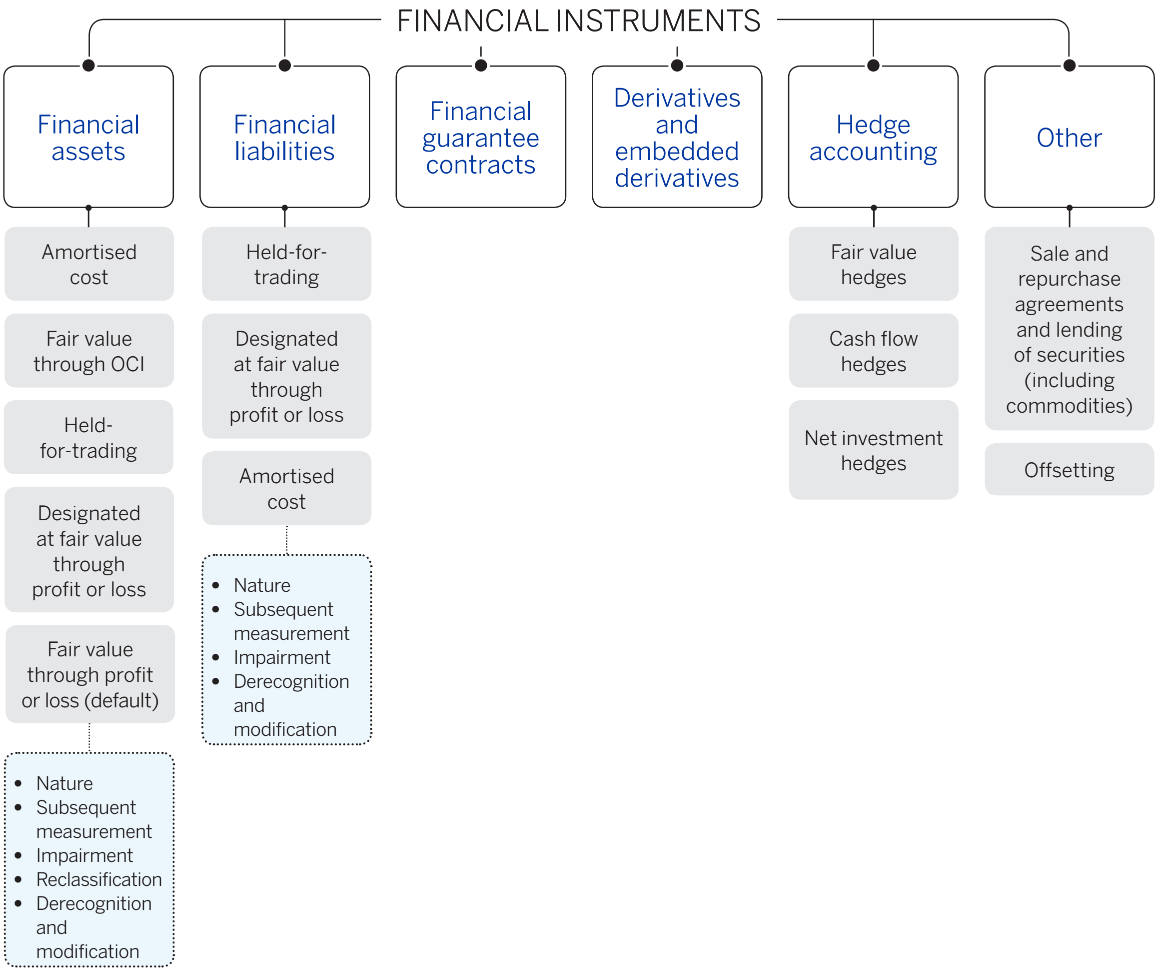
For a disposal of an associate or joint venture, being where the group loses significant influence over an associate or loses joint control over a joint venture, the difference between the sales proceeds and any retained interest and the carrying value of the equity accounted investment is recognised as a gain or loss in non-trading and capital related items. Any gains or losses in OCI reserves that relate to the associate or joint venture are reclassified to non-trading and capital related items at the time of the disposal.

The accounting policies of associates and joint ventures have been changed where necessary to ensure consistency with the policies of the group.

Private equity and venture capital investments

Private equity and venture capital investments, including mutual funds held by investment-linked insurance funds that are associates. These associates are either designated on initial recognition at fair value through profit or loss, or are equity accounted.

3. Financial instruments



Initial measurement – financial instruments (IFRS 9 and IAS 39)

All financial instruments are measured initially at fair value plus directly attributable transaction costs and fees, except for those financial instruments that are subsequently measured at fair value through profit or loss where such transaction costs and fees are immediately recognised in profit or loss. Financial instruments are recognised (derecognised) on the date the group commits to purchase (sell) the instruments (trade date accounting).

3. Financial instruments continued

IFRS 9 – accounting policies for financial instruments

Financial assets

Nature

Amortised cost	A debt instrument that meets both of the following conditions (other than those designated at fair value through profit or loss): • Held within a business model whose objective is to hold the debt instrument (financial asset) in order to collect contractual cash flows; and • The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding. This assessment includes determining the objective of holding the asset and whether the contractual cash flows are consistent with a basic lending arrangement. Where the contractual terms introduce exposure to risk or volatility that are not considered de minimis and are inconsistent with a basic lending arrangement, the financial asset is classified as fair value through profit or loss – default.
Fair value through OCI	A debt instrument that meets both of the following conditions (other than those designated at fair value through profit or loss): • Held within a business model in which the debt instrument (financial asset) is managed to both collect contractual cash flows and sell financial assets; and • The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding. This assessment includes determining the objective of holding the asset and whether the contractual cash flows are consistent with a basic lending arrangement. Where the contractual terms introduce exposure to risk or volatility that are not considered de minimis and are inconsistent with a basic lending arrangement, the financial asset is classified as fair value through profit or loss – default. Equity financial assets which are not held for trading and are irrevocably elected (on an instrument-by-instrument basis) to be presented at fair value through OCI.
Held-for-trading	Those financial assets acquired principally for the purpose of selling in the near term (including all derivative financial assets) and those that form part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit taking. Included are commodities that are acquired principally for the purpose of selling in the near future or generating a profit from fluctuations in price or broker-trader margin.
Designated at fair value through profit or loss	Financial assets are designated to be measured at fair value through profit or loss to eliminate or significantly reduce an accounting mismatch that would otherwise arise.
Fair value through profit or loss – default	Financial assets that are not classified into one of the above-mentioned financial asset categories.

3. Financial instruments continued

Subsequent measurement

Subsequent to initial measurement, financial assets are classified in their respective categories and measured at either amortised cost or fair value as follows:

Amortised cost	Amortised cost using the effective interest method with interest recognised in interest income, less any expected credit impairment losses which are recognised as part of credit impairment charges. Directly attributable transaction costs and fees received are capitalised and amortised through interest income as part of the effective interest rate.
Fair value through OCI	**Debt instrument:** Fair value, with gains and losses recognised directly in the fair value through OCI reserve. When a debt financial asset is disposed of, the cumulative fair value adjustments, previously recognised in OCI, are reclassified to the other gains and losses on financial instruments within non-interest revenue. Expected credit impairment losses are recognised as part of credit impairment charges. However, for these FVOCI debt instruments the expected credit loss is recognised in OCI and does not reduce the carrying amount of the financial asset in the statement of financial position. Interest income on a debt financial asset is recognised in interest income in terms of the effective interest rate method. Dividends received are recognised in interest income within profit or loss. **Equity instrument:** Fair value, with gains and losses recognised directly in the fair value through OCI reserve. When equity financial assets are disposed of, the cumulative fair value adjustments in OCI are reclassified within reserves to retained income. Dividends received on equity instruments are recognised in other revenue within non-interest income.
Held-for-trading	Fair value, with gains and losses arising from changes in fair value (including interest and dividends) recognised in trading revenue.
Designated at fair value through profit or loss	Fair value gains and losses (including interest and dividends) on the financial asset are recognised in the income statement as part of other gains and losses on financial instruments within non-interest revenue.
Fair value through profit or loss – default	Fair value gains and losses (including interest and dividends) on the financial asset are recognised in the income statement as part of other gains and losses on financial instruments within non-interest revenue.

Impairment

ECL is recognised on debt financial assets classified as at either amortised cost or fair value through OCI, financial guarantee contracts that are not designated at fair value through profit or loss, as well as loan commitments that are neither measured at fair value through profit or loss nor are used to provide a loan at a below market interest rate.

The measurement basis of the ECL of a financial asset includes assessing whether there has been a SICR at the reporting date which includes forward-looking information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions. The measurement basis of the ECL, which is set out in the table that follows, is measured as the unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes, the time value of money and forward-looking information.

Stage 1	A 12-month ECL is calculated for financial assets which are neither credit-impaired on origination nor for which there has been a SICR.
Stage 2	A lifetime ECL allowance is calculated for financial assets that are assessed to have displayed a SICR since origination and are not considered low credit risk.
Stage 3 (credit impaired assets)	A lifetime ECL is calculated for financial assets that are assessed to be credit impaired. The following criteria are used in determining whether the financial asset is impaired: • default • significant financial difficulty of borrower and/or modification • probability of bankruptcy or financial reorganisation • disappearance of an active market due to financial difficulties.

3. Financial instruments continued

The key components of the impairment methodology are described as follows:

Significant increase in credit risk	At each reporting date the group assesses whether the credit risk of its exposures has increased significantly since initial recognition by considering the change in the risk of default occurring over the expected life of the financial asset. Credit risk of exposures which are overdue for more than 30 days are also considered to have increased significantly.
Low credit risk	Exposures are generally considered to have a low credit risk where there is a low risk of default, the exposure has a strong capacity to meet its contractual cash flow obligations and adverse changes in economic and business conditions may not necessarily reduce the exposure's ability to fulfil its contractual obligations.
Default	The group's definition of default has been aligned to its internal credit risk management definitions and approaches. A financial asset is considered to be in default when there is objective evidence of impairment. The following criteria are used in determining whether there is objective evidence of impairment for financial assets or groups of financial assets: • significant financial difficulty of borrower and/or modification (i.e. known cash flow difficulties experienced by the borrower) • a breach of contract, such as default or delinquency in interest and/or principal payments • disappearance of active market due to financial difficulties • it becomes probable that the borrower will enter bankruptcy or other financial reorganisation • where the group, for economic or legal reasons relating to the borrower's financial difficulty, grants the borrower a concession that the group would not otherwise consider. Exposures which are overdue for more than 90 days are also considered to be in default.
Forward-looking information	Forward-looking information is incorporated into the group's impairment methodology calculations and in the group's assessment of SICR. The group includes all forward-looking information which is reasonable and available without undue cost or effort. The information will typically include expected macroeconomic conditions and factors that are expected to impact portfolios or individual counterparty exposures.
Write-off	Financial assets are written off when there is no reasonable expectation of recovery. Financial assets which are written off may still be subject to enforcement activities.

ECLs are recognised within the statement of financial position as follows:

Financial assets measured at amortised cost (including loan commitments)	Recognised as a deduction from the gross carrying amount of the asset (group of assets). Where the impairment allowance exceeds the gross carrying amount of the asset (group of assets), the excess is recognised as a provision within other liabilities.
Off-balance sheet exposures (excluding loan commitments)	Recognised as a provision within other liabilities.
Financial assets measured at fair value through OCI	Recognised in the fair value reserve within equity. The carrying value of the financial asset is recognised in the statement of financial position at fair value.

3. Financial instruments continued

Financial liabilities

Nature

Held-for-trading	Those financial liabilities incurred principally for the purpose of repurchasing in the near term (including all derivative financial liabilities) and those that form part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit taking.
Designated at fair value through profit or loss	Financial liabilities are designated to be measured at fair value in the following instances: • to eliminate or significantly reduce an accounting mismatch that would otherwise arise where the financial liabilities are managed and their performance evaluated and reported on a fair value basis • where the financial liability contains one or more embedded derivatives that significantly modify the financial liability's cash flows.
Amortised cost	All other financial liabilities not included in the above categories.

Subsequent measurement

Subsequent to initial measurement, financial liabilities are classified in their respective categories and measured at either amortised cost or fair value as follows:

Held-for-trading	Fair value, with gains and losses arising from changes in fair value (including interest and dividends) recognised in trading revenue.
Designated at fair value through profit or loss	Fair value, with gains and losses arising from changes in fair value (including interest and dividends but excluding fair value gains and losses attributable to own credit risk) are recognised in the other gains and losses on financial instruments as part of non-interest revenue. Fair value gains and losses attributable to changes in own credit risk are recognised within OCI, unless this would create or enlarge an accounting mismatch in which case the own credit risk changes are recognised within trading revenue.
Amortised cost	Amortised cost using the effective interest method recognised in interest expense.

3. Financial instruments continued

Derecognition and modification of financial assets and liabilities

Financial assets and liabilities are derecognised in the following instances:

	Derecognition	Modification
Financial assets	Financial assets are derecognised when the contractual rights to receive cash flows from the financial assets have expired, or where the group has transferred its contractual rights to receive cash flows on the financial asset such that it has transferred substantially all the risks and rewards of ownership of the financial asset. Any interest in the transferred financial assets that is created or retained by the group is recognised as a separate asset or liability. The group enters into transactions whereby it transfers assets, recognised in its statement of financial position, but retains either all or a portion of the risks or rewards of the transferred assets. If all or substantially all risks and rewards are retained, then the transferred assets are not derecognised. Transfers of assets with the retention of all or substantially all risks and rewards include securities lending and repurchase agreements. When assets are sold to a third party with a concurrent total rate of return swap on the transferred assets, the transaction is accounted for as a secured financing transaction, similar to repurchase transactions. In transactions where the group neither retains nor transfers substantially all the risks and rewards of ownership of a financial asset, the asset is derecognised if control over the asset is lost. The rights and obligations retained in the transfer are recognised separately as assets and liabilities as appropriate. In transfers where control over the asset is retained, the group continues to recognise the asset to the extent of its continuing involvement, determined by the extent to which it is exposed to changes in the value of the transferred asset.	Where an existing financial asset or liability is replaced by another with the same counterparty on substantially different terms, or the terms of an existing financial asset or liability are substantially modified, such an exchange or modification is treated as a derecognition of the original asset or liability and the recognition of a new asset or liability at fair value, including calculating a new effective interest rate, with the difference in the respective carrying amounts being recognised in other gains and losses on financial instruments within non-interest revenue. The date of recognition of a new asset is consequently considered to be the date of initial recognition for impairment calculation purposes. If the terms are not substantially different for financial assets or financial liabilities, the group recalculates the new gross carrying amount by discounting the modified cash flows of the financial asset or financial liability using the original effective interest rate. The difference between the new gross carrying amount and the original gross carrying amount is recognised as a modification gain or loss within credit impairments (for distressed financial asset modifications) or in other gains and losses on financial instruments within non-interest revenue (for all other modifications).
Financial liabilities	Financial liabilities are derecognised when the financial liabilities' obligation is extinguished, that is, when the obligation is discharged, cancelled or expires.	

Financial guarantee contracts

A financial guarantee contract is a contract that requires the group (issuer) to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument.

Financial guarantee contracts are initially recognised at fair value, which is generally equal to the premium received, and then amortised over the life of the financial guarantee. Financial guarantee contracts (that are not designated at fair value through profit or loss) are subsequently measured at the higher of the:

- ECL calculated for the financial guarantee; or
- unamortised premium.

3. Financial instruments continued

IAS 39 – Accounting policies for financial instruments

Financial assets

Nature

Held-to-maturity

Non-derivative financial assets with fixed or determinable payments and fixed maturities that management has both the positive intent and ability to hold-to-maturity.

Loans and receivables

Non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than those classified as at fair value through profit or loss or available-for-sale.

Held-for-trading

Those financial assets acquired principally for the purpose of selling in the near term (including all derivative financial assets), those that form part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit taking.

Included are commodities that are acquired principally for the purpose of selling in the near future or generating profit from fluctuations in price or broker-traders' margin.

Designated at fair value through profit or loss

Financial assets are designated to be measured at fair value in the following instances:

- to eliminate or significantly reduce an accounting mismatch that would otherwise arise
- where the financial assets are managed and their performance evaluated and reported on a fair value basis
- where the financial asset contains one or more embedded derivatives that significantly modify the financial asset's cash flows.

Available-for-sale

Financial assets that are not classified into one of the above-mentioned financial asset categories.

Subsequent measurement

Subsequent to initial measurement, financial assets are classified in their respective categories and measured at either amortised cost or fair value as follows:

Held-to-maturity and loans and receivables

Amortised cost using the effective interest method with interest recognised in interest income, less any impairment losses which are recognised as part of credit impairment charges. Directly attributable transaction costs and fees received are capitalised and amortised through interest income as part of the effective interest rate.

Available-for-sale

Fair value, with gains and losses recognised directly in the available-for-sale reserve until the financial asset is derecognised or impaired.

Interest income on debt financial assets is recognised in interest income in terms of the effective interest rate method. Dividends received on debt (equity) available-for-sale financial assets are recognised in interest income (other revenue) within profit or loss.

When debt (equity) available-for-sale financial assets are disposed of, the cumulative fair value adjustments in OCI are reclassified to interest income (other revenue).

Held-for-trading

Fair value, with gains and losses arising from changes in fair value (including interest and dividends) recognised in trading revenue.

Designated at fair value through profit or loss

Fair value, with gains and losses recognised in interest income/(other revenue) for all debt/(equity) financial assets.

3. Financial instruments continued

IAS 39 – Accounting policies for financial instruments

Financial assets

Impairment

A financial asset is impaired if objective evidence indicates that a loss event has occurred after initial recognition which has a negative effect on the estimated future cash flows of the financial asset that can be estimated reliably. The group assesses at each reporting date whether there is objective evidence that a financial asset which is either carried at amortised cost or classified as available-for-sale is impaired as follows:

Held-to-maturity and loans and receivables (amortised cost)

The following criteria are used in determining whether there is objective evidence of impairment for loans or groups of loans:

- known cash flow difficulties experienced by the borrower
- a breach of contract, such as default or delinquency in interest and/or principal payments
- breaches of loan covenants or conditions
- it becomes probable that the borrower will enter bankruptcy or other financial reorganisation
- where the group, for economic or legal reasons relating to the borrower's financial difficulty, grants the borrower a concession that the group would not otherwise consider.

The group first assesses whether there is objective evidence of impairment individually for loans that are individually significant, and individually or collectively for loans that are not individually significant. Non-performing loans include those loans for which there is identified objective evidence of impairment, such as a breach of a material loan covenants or condition, as well as those loans for which instalments are due and unpaid for 90 days or more. The impairment of non-performing loans takes into account past loss experience adjusted for changes in economic conditions and the nature and level of risk exposure since the recording of the historic losses.

When a loan carried at amortised cost has been identified as specifically impaired, the carrying amount of the loan is reduced to an amount equal to the present value of its estimated future cash flows, including the recoverable amount of any collateral, discounted at the financial asset's original effective interest rate. The carrying amount of the loan is reduced through the use of a specific credit impairment account and the loss is recognised as a credit impairment charge in profit or loss.

Increases in loan impairments and any subsequent reversals thereof, or recoveries of amounts previously impaired (including loans that have been written off), are reflected within credit impairment charges in profit or loss. Subsequent to impairment, the effects of discounting unwind over time as interest income.

The calculation of the present value of the estimated future cash flows of collateralised financial assets recognised on an amortised cost basis includes cash flows that may result from foreclosure less costs of obtaining and selling the collateral, whether or not foreclosure is probable.

If the group determines that no objective evidence of impairment exists for an individually assessed loan, whether significant or not, it includes the loan in a group of financial loans with similar credit risk characteristics and collectively assesses for impairment. Loans that are individually assessed for impairment and for which an impairment loss is recognised are not included in a collective assessment for impairment.

Impairment of groups of loans that are assessed collectively is recognised where there is objective evidence that a loss event has occurred after the initial recognition of the group of loans but before the reporting date. In order to provide for latent losses in a group of loans that have not yet been identified as specifically impaired, a credit impairment for incurred but not reported losses is recognised based on historic loss patterns and estimated emergence periods (time period between the loss event and the date on which the group identifies the losses). Groups of loans are also impaired when adverse economic conditions develop after initial recognition, which may impact future cash flows. The carrying amount of groups of loans is reduced through the use of a portfolio credit impairment account and the loss is recognised as a credit impairment charge in profit or loss.

Previously impaired loans are written off once all reasonable attempts at collection have been made and there is no realistic prospect of recovering outstanding amounts.

3. Financial instruments continued

IAS 39 – Accounting policies for financial instruments

Financial assets

Available-for-sale

Available-for-sale debt instruments are impaired when there has been a significant or prolonged decline in the fair value of the instrument below its cost and for equity instruments where there is information about significant changes with an adverse effect on the environment in which the issuer operates that indicates that the cost of the investment in the equity instrument may not be recovered.

When an available-for-sale asset has been identified as impaired, the cumulative loss, measured as the difference between the acquisition price and the current fair value, less any previously recognised impairment losses on that financial asset, is reclassified from OCI to profit or loss, within interest income (other revenue) for debt (equity) instruments. If, in a subsequent period, the amount relating to an impairment loss decreases and the decrease can be linked objectively to an event occurring after the impairment loss was recognised, the impairment loss is reversed through interest income for available-for-sale debt instruments. Any reversal of an impairment loss in respect of an available-for-sale equity instrument is recognised directly in OCI.

Reclassification of financial assets are permitted only in the following instances:

Reclassifications are made at fair value as of the reclassification date. Effective interest rates for financial assets reclassified to loans and receivables, held-to-maturity and available-for-sale categories are determined at the reclassification date. Subsequent changes in estimates of cash flows (other than credit impairment changes) adjust the financial asset's effective interest rates prospectively. On reclassification of a trading asset, all embedded derivatives are reassessed and, if necessary, accounted for separately.

Held-to-maturity

Where the group is to sell more than an insignificant amount of held-to-maturity investments, the entire category would be tainted and reclassified as available-for-sale assets with the difference between amortised cost and fair value being accounted for in OCI.

Available-for-sale

The group may choose to reclassify financial assets that would meet the definition of loans and receivables if the group, at the date of reclassification, has the intention and ability to hold these financial assets for the foreseeable future or until maturity.

Held-for-trading

The group may elect to reclassify non-derivative financial assets out of held-for-trading category in the following instances:

If the financial asset is no longer held for the purpose of selling it in the near term and the financial asset would not otherwise have met the definition of loans and receivables, it is permitted to be reclassified only in rare circumstances if the financial asset is no longer held for the purpose of selling it in the near team and the financial asset would have met the definition of loans and receivables, it is permitted to be reclassified if the group, at the date of reclassification, has the intention and ability to hold these financial assets for the foreseeable future or until maturity.

Financial liabilities

Nature

Held-for-trading

Those financial liabilities incurred principally for the purpose of repurchasing in the near term (including all derivative financial liabilities) and those that form part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit taking.

Designated at fair value through profit or loss

Financial liabilities are designated to be measured at fair value in the following instances:

- to eliminate or significantly reduce an accounting mismatch that would otherwise arise
- where the financial liabilities are managed and their performance evaluated and reported on a fair value basis
- where the financial liability contains one or more embedded derivatives that significantly modify the financial asset's cash flows.

At amortised cost

All other financial liabilities not included in the above categories.

3. Financial instruments continued

Financial liabilities continued

Subsequent measurement

Subsequent to initial measurement, financial liabilities are classified in their respective categories and measured at either amortised cost or fair value as follows:

Held-for-trading

Fair value, with gains and losses arising from changes in fair value (including interest and dividends) recognised in trading revenue.

Designated at fair value through profit or loss

Fair value, with gains and losses arising from changes in fair value (including interest and dividends) recognised in interest expense.

Amortised cost

Amortised cost using the effective interest method with interest recognised in interest expense.

Derecognition and modification of financial assets and liabilities

Financial assets and liabilities are derecognised in the following instances:

	Derecognition	Modification
Financial assets	Financial assets are derecognised when the contractual rights to receive cash flows from the financial assets have expired, or where the group has transferred its contractual rights to receive cash flows on the financial asset such that it has transferred substantially all the risks and rewards of ownership of the financial asset. Any interest in the transferred financial assets that is created or retained by the group is recognised as a separate asset or liability. The group enters into transactions whereby it transfers assets recognised in its statement of financial position, but retains either all or a portion of the risks or rewards of the transferred assets. If all or substantially all risks and rewards are retained, then the transferred assets are not derecognised. Transfers of assets with the retention of all or substantially all risks and rewards include securities lending and repurchase agreements. When assets are sold to a third party with a concurrent total rate of return swap on the transferred assets, the transaction is accounted for as a secured financing transaction, similar to repurchase transactions. In transactions where the group neither retains nor transfers substantially all the risks and rewards of ownership of a financial asset, the asset is derecognised if control over the asset is lost. The rights and obligations retained in the transfer are recognised separately as assets and liabilities as appropriate. In transfers where control over the asset is retained, the group continues to recognise the asset to the extent of its continuing involvement, determined by the extent to which it is exposed to changes in the value of the transferred asset.	Where an existing financial asset or liability is replaced by another with the same counterparty on substantially different terms, or the terms of an existing financial asset or liability are substantially modified, such an exchange or modification is treated as a derecognition of the original asset or liability and the recognition of a new asset or liability, with the difference in the respective carrying amounts being recognised in profit or loss. In all other instances, the renegotiated asset or liability's effective interest rate is redetermined at date of modification taking into account the renegotiated terms.
Financial liabilities	Financial liabilities are derecognised when the financial liabilities' obligation is extinguished, that is, when the obligation is discharged, cancelled or expires.	

3. Financial instruments continued

Financial guarantee contracts

A financial guarantee contract is a contract that requires the group (issuer) to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument.

Financial guarantee contracts are initially recognised at fair value, which is generally equal to the premium received, and then amortised over the life of the financial guarantee. Financial guarantee contracts are subsequently measured at the higher of the:

- present value of any expected payment, when a payment under the guarantee has become probable; or
- unamortised premium.

Derivatives and embedded derivatives (IFRS 9 and IAS 39)

In the normal course of business, the group enters into a variety of derivative transactions for both trading and hedging purposes. Derivative financial instruments are entered into for trading purposes and for hedging foreign exchange, interest rate, inflation, credit, commodity and equity exposures. Derivative instruments used by the group in both trading and hedging activities include swaps, options, forwards, futures and other similar types of instruments based on foreign exchange rates, credit risk, inflation risk, interest rates and the prices of commodities and equities.

Derivatives are initially recognised at fair value. Derivatives that are not designated in a qualifying hedge accounting relationship are classified as held-for-trading with all changes in fair value being recognised within trading revenue. This includes forward contracts to purchase or sell commodities, where net settlement occurs or where physical delivery occurs and the commodities are held to settle another derivative contract. All derivative instruments are carried as financial assets when the fair value is positive and as financial liabilities when the fair value is negative.

In terms on IFRS 9 embedded derivatives included in hybrid instruments, where the host is a financial asset, is assessed in terms of the accounting policy on financial assets. In all other instances (being non-financial host contracts and financial liabilities), the embedded derivatives are treated and disclosed as separate derivatives when their economic characteristics and risks are not closely related to those of the host contract, the terms of the embedded derivative are the same as those of a stand-alone derivative and the combined contract is not measured at fair value through profit or loss. The host contract is accounted for and measured applying the relevant group accounting policy.

In terms of IAS 39 embedded derivatives included in hybrid instruments are treated and disclosed as separate derivatives when their economic characteristics and risks are not closely related to those of the host contract, the terms of the embedded derivative are the same as those of a stand-alone derivative and the combined contract is not measured at fair value through profit or loss. The host contract is accounted for and measured applying the relevant group accounting policy.

The method of recognising fair value gains and losses on derivatives designated as a hedging instrument depends on the nature of the hedge relationship.

3. Financial instruments continued

Hedge accounting

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 profit or loss. If the derivative expires, is sold, terminated, exercised, no longer meets the criteria for fair value hedge accounting, or the designation is revoked, then hedge accounting is discontinued. The adjustment to the carrying amount of a hedged item measured at amortised cost, for which the effective interest method is used, is amortised to profit or loss as part of the hedged item's recalculated effective interest rate over the period to maturity.
Cash flow hedges	Hedges of highly probable future cash flows attributable to a recognised asset or liability, a forecasted transaction, or a highly probable forecast intragroup transaction.	The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in the cash flow hedging reserve. The ineffective part of any changes in fair value is recognised immediately in profit or loss. Amounts recognised in OCI are transferred to profit or loss in the periods in which the hedged forecast cash flows affect profit or loss. However, when the forecast transaction that is hedged results in the recognition of a non-financial asset or a non-financial liability, the cumulative gains or losses recognised previously in OCI are transferred and included in the initial measurement of the cost of the asset or liability. If the derivative expires, is sold, terminated, exercised, no longer meets the criteria for cash flow hedge accounting, or the designation is revoked, then hedge accounting is discontinued. The cumulative gains or losses recognised in OCI remain in OCI until the forecast transaction is recognised in the case of a non-financial asset or a non-financial liability, or until the forecast transaction affects profit or loss in the case of a financial asset or a financial liability. If the forecast transaction is no longer expected to occur, the cumulative gains and losses recognised in OCI are immediately reclassified to profit or loss.
Net investment hedges	Hedges of net investments in a foreign operation.	The designated component of the hedging instrument that relates to the effective portion of the hedge, is recognised directly in the foreign currency hedge of net investment reserve. The ineffective part of any changes in fair value is recognised immediately in profit or loss. The cumulative gains and losses in OCI are accounted for similarly to cash flow hedges.

3. Financial instruments continued

Hedge accounting risk management strategy

Where all relevant criteria are met, derivatives are classified as derivatives held-for-hedging and hedge accounting is applied to remove the accounting mismatch between the derivative (hedging instrument) and the underlying instruments (hedged item). All qualifying hedging relationships are designated as either fair value, cash flow, or net investment hedges for recognised financial assets or liabilities, and highly probable forecast transactions. The group and company apply hedge accounting in respect of the following risk categories.

Foreign currency risk

The group and company operate internationally and are exposed to foreign exchange risk and translation risk.

Foreign exchange risk arises from recognised assets and liabilities and future highly probable forecast commercial transactions denominated in a currency that is not the functional currency of the group and company. The risk is evaluated by measuring and monitoring the net foreign monetary asset value and the forecast highly probable foreign currency income and expenditures of the relevant group entity for each respective currency. Foreign currency risk is hedged with the objective of minimising the earnings volatility associated with assets, liabilities, income and expenditure denominated in a foreign currency.

Translation risk arises on consolidation from recognised assets and liabilities denominated in a currency that is not the reporting currency of the group and company. The risk is evaluated by measuring and monitoring the net foreign non-monetary asset value of the relevant group entity for each respective currency.

The group and company use a combination of currency forwards, swaps and foreign-denominated cash balances to mitigate against the risk of changes in the future cash flows and functional currency value on its foreign-denominated exposures. Under the group's policy, the critical terms of these instruments must align with the foreign currency risk of the hedged item and is hedged on a 1:1 hedge ratio.

The group and company elect for each foreign currency hedging relationship, using either foreign currency forwards and swaps, to include the currency forward points (basis) contained in the derivative instrument from the hedging relationship.

Hedge effectiveness between the hedging instrument and the hedged item is determined at the inception of the hedge relationship and through periodic effectiveness assessments to ensure that an economic relationship exists. For hedges of foreign currency risk, the group and company enter hedge relationships where the critical terms of the hedging instrument match exactly with the terms of the hedged item. If changes in circumstances affect the terms of the hedged item such that the critical terms no longer match exactly with the critical terms of the hedging instrument, the group and company use the hypothetical derivative method to assess effectiveness.

In hedges of foreign currency risk of highly probable forecast commercial transactions, ineffectiveness may arise if the amount of the forecast transaction changes from what was originally estimated. Ineffectiveness relating to highly probable forecast transactions no longer expected to occur during 2018 amounted to Rnil. The extent of hedge ineffectiveness as a result of fair value foreign currency risk hedges is disclosed in note 2.3.5.

Equity price risk

The group and company operate share incentive schemes that enable key management personnel and senior employees to benefit from the performance of SBG's share price. For further detail regarding the share schemes, refer to annexure D – equity-linked transactions and the group's governance and remuneration report. These share incentive schemes expose the group and company to equity price risk due to volatility in the share price of SBG (SBK:SJ). The group and company have in place appropriate risk management strategies and reporting processes in respect of this risk.

The group and company use of equity forwards to mitigate against the risk of changes in the future cash flows associated with certain cash-settled schemes on a post attrition and vesting assumption basis. The following scheme exposures are subject to cash flow hedge accounting, the deferred bonus scheme, cash-settled deferred bonus scheme and performance reward plan. Cash flow hedge accounting is applied to align the timing mismatch of the derivative hedging instruments to the vesting period of the underlying awards (hedged items) over the applicable vesting period.

Under the group's policy the critical terms of these instruments must align with equity price risk of the hedged item and is hedged on a 1:1 hedge ratio. The group and company elect for each hedging relationship, to include the forward points (basis) contained in the derivative instrument from the hedging relationship.

Hedge effectiveness between the hedging instrument and the hedged item is determined at the inception of the hedge relationship and through periodic effectiveness assessments to ensure that an economic relationship exists. For hedges of equity price risk, the group and company enter hedge relationships where the critical terms of the hedging instrument match exactly with the terms of the hedged item. If changes in circumstances affect the terms of the hedged item such that the critical terms no longer match exactly with the critical terms of the hedging instrument, the group and company use the hypothetical derivative method to assess effectiveness. Ineffectiveness arises where the basis is included in the hedging relationship or critical terms do not align perfectly. The extent of hedge ineffectiveness as a result of fair value equity price risk hedges is disclosed in note 2.3.5.

3. Financial instruments continued

Hedge accounting risk management strategy continued

Interest rate risk

Banking book-related market risk exposure principally involves managing the potential adverse effect of interest rate movements on banking book earnings (IRRBB) (net interest income and banking book mark-to-market profit or loss). The group and company's approach to managing IRRBB is governed by applicable regulations and is influenced by the competitive environment in which the group and company operate.

The group and company's treasury and capital management team monitors banking book interest rate risk on a monthly basis operating under the oversight of group ALCO. The group and company's interest rate risk management is predominantly controlled by a central treasury department (group treasury) under approved policies. Group treasury identifies, evaluates and hedges financial risks in close cooperation with the group's operating units. ALCO provides written principles for overall risk management, as well as policies covering specific areas, such as foreign exchange risk, interest rate risk, credit risk, use of derivative financial instruments and non-derivative financial instruments, and investment of excess liquidity.

In adherence to policies regarding interest rate risk management the group applies fair value hedge accounting in respect of the interest rate risk element only, present within the following exposures:

- Specifically identified long-term fixed interest rate loans and advances and deposits and debt funding and subordinated debt. To manage the risk associated with such risk exposures the group uses one or more cash collateralised fix for floating interest rate swaps that matches the critical terms or that exhibits the same duration as the of the underlying risk exposure.
- Specifically identified long-term interest rate basis risk (CPI vs. JIBAR) inherent in loans and advances. To manage the basis risk associated with such risk exposures the group uses one or more cash collateralised floating for floating basis interest rate swaps that matches the critical terms or that exhibits the same duration as the of the underlying risk exposure and
- Portfolio interest rate risk present within a designated portfolio of loans and advances and deposits and debt funding. Portfolio interest rate risk hedging is conducted on an aggregate asset and liability portfolio basis. The hedge ratio and rebalancing frequency of portfolio hedges is determined using a dynamic approach reflecting the duration of portfolio exposure in accordance with a exposure bucketing approach.

The group and company observe interest rate risk in respect of these exposures using an unfunded cash collateralised interest rate derivatives discount curve. Hedge effectiveness between the hedging instrument and the hedged item is determined at the inception of the hedge relationship and through periodic effectiveness assessments to ensure that an economic relationship exists using regression analysis between the hedged items and the hedging instruments for sensitivity of changes to changes in interest rate risk only.

The group and company use a combination of interest rate swaps and interest rate basis swaps to mitigate against the risk of changes in market value of hedged items for changes in interest rates. The group elects for each fair value interest rate risk hedging relationship, using swaps, to include forward points (basis) contained in the derivative instrument in the hedging relationship. Where the basis is included in the hedging relationship this exposes the hedge relationship to hedge ineffectiveness. The extent of hedge ineffectiveness as a result of fair value interest rate risk hedges is disclosed in note 2.3.5.

The group continues to apply IAS 39 hedge accounting requirements for 2018 and 2017.

Other (IFRS 9 and IAS 39)

Sale and repurchase agreements and lending of securities (including commodities)

Securities sold subject to linked repurchase agreements (repurchase agreements) are reclassified in the statement of financial position as pledged assets when the transferee has the right by contract or custom to sell or repledge the collateral. The liability to the counterparty is included under deposits and current accounts or trading liabilities, as appropriate.

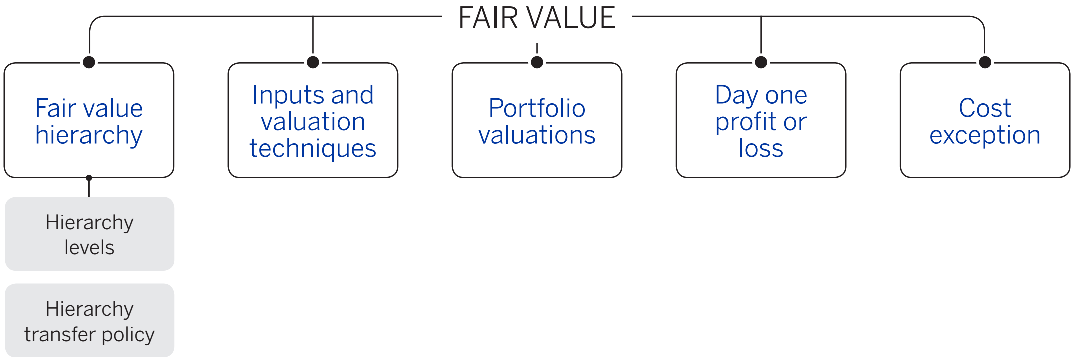
Securities purchased under agreements to resell (reverse repurchase agreements), at either a fixed price or the purchase price plus a lender's rate of return, are recorded as loans and included under trading assets or loans and advances, as appropriate. For repurchase and reverse repurchase agreements measured at amortised cost, the difference between the purchase and sales price is treated as interest and amortised over the expected life using the effective interest method.

Securities lent to counterparties are retained in the annual financial statements. Securities borrowed are not recognised in the annual financial statements unless sold to third parties. In these cases, the obligation to return the securities borrowed is recorded at fair value as a trading liability. Income and expenses arising from the securities borrowing and lending business are recognised over the period of the transactions.

Offsetting (IFRS 9 and IAS 39)

Financial assets and liabilities are offset and the net amount reported in the statement of financial position when there is a legally enforceable right to set off the recognised amounts and there is an intention to settle the asset and the liability on a net basis, or to realise the asset and settle the liability simultaneously. The legally enforceable right must not be contingent on future events and must be enforceable in the normal course of business and in the event of default, insolvency or bankruptcy of the counterparties to the transaction.

4. Fair value



In terms of IFRS, the group is either required to or elects to measure a number of its financial assets and financial liabilities at fair value. Regardless of the measurement basis, the fair value is required to be disclosed, with some exceptions, for all financial assets and financial liabilities.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction in the principal (or most advantageous) market between market participants at the measurement date under current market conditions. Fair value is a market-based measurement and uses the assumptions that market participants would use when pricing an asset or liability under current market conditions. When determining fair value it is presumed that the entity is a going concern and is not an amount that represents a forced transaction, involuntary liquidation or a distressed sale. In estimating the fair value of an asset or a liability, the group takes into account the characteristics of the asset or liability that market participants would take into account when pricing the asset or liability at the measurement date.

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.

4. Fair value continued

Inputs and valuation techniques

Fair value is measured based on quoted market prices or dealer price quotations for identical assets and liabilities that are traded in active markets, which can be accessed at the measurement date, and where those quoted prices represent fair value. If the market for an asset or liability is not active or the instrument is not quoted in an active market, the fair value is determined using other applicable valuation techniques that maximise the use of relevant observable inputs and minimise the use of unobservable inputs. These include the use of recent arm's length transactions, discounted cash flow analyses, pricing models and other valuation techniques commonly used by market participants.

Fair value measurements are categorised into level 1, 2 or 3 within the fair value hierarchy based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement.

Where discounted cash flow analyses are used, estimated future cash flows are based on management's best estimates and a market-related discount rate at the reporting date for an asset or liability with similar terms and conditions.

If an asset or a liability measured at fair value has both a bid and an ask price, the price within the bid-ask spread that is most representative of fair value is used to measure fair value.

The group's valuation control framework governs internal control standards, methodologies, and procedures over its valuation processes, which include the following valuation techniques and main inputs and assumptions per type of instrument:

Item and description	Valuation technique	Main inputs and assumptions
Derivative financial instruments Derivative financial instruments comprise foreign exchange, interest rate, commodity, credit and equity derivatives that are either held-for-trading or designated as hedging instruments in hedge relationships.	Standard derivative contracts are valued using market accepted models and quoted parameter inputs. More complex derivative contracts are modelled using more sophisticated modelling techniques applicable to the instrument. Techniques include: • discounted cash flow model • Black-Scholes model • combination technique models.	For level 2 and 3 fair value hierarchy items: • discount rate* • spot prices of the underlying • correlation factors • volatilities • dividend yields • earnings yield • valuation multiples.
Trading assets and trading liabilities Trading assets and liabilities comprise instruments which are part of the group's underlying trading activities. These instruments primarily include sovereign and corporate debt, commodities, collateral, collateralised lending agreements and equity securities.	Where there are no recent market transactions in the specific instrument, fair value is derived from the last available market price adjusted for changes in risks and information since that date. Where a proxy instrument is quoted in an active market, the fair value is determined by adjusting the proxy fair value for differences between the proxy instrument and the financial investment being fair valued. Where proxies are not available, the fair value is estimated using more complex modelling techniques. These techniques include discounted cash flow and Black-Scholes models using current market rates for credit, interest, liquidity, volatility and other risks. Combination techniques are used to value unlisted equity securities and include inputs such as earnings and dividend yields of the underlying entity.	
Pledged assets Pledged assets comprise instruments that may be sold or repledged by the group's counterparty in the absence of default by the group. Pledged assets include sovereign and corporate debt, equities, commodities pledged in terms of repurchase agreements and commodities that have been leased to third parties.		
Financial investments Financial investments are non-trading financial assets and primarily comprise of sovereign and corporate debt, listed and unlisted equity instruments, investments in debentures issued by the SARB, investments in mutual fund investments and unit-linked investments.		

4. **Fair value** continued

Inputs and valuation techniques continued

Item and description	Valuation technique	Main inputs and assumptions
Loans and advances to banks and customers Loans and advances comprise: Loans and advances to banks: call loans, loans granted under resale agreements and balances held with other banks Loans and advances to customers: mortgage loans (home loans and commercial mortgages), other asset-based loans, including collateralised debt obligations (instalment sale and finance leases), and other secured and unsecured loans (card debtors, overdrafts, other demand lending, term lending and loans granted under resale agreements).	For certain loans fair value may be determined from the market price of a recently occurring transaction adjusted for changes in risks and information between the transaction and valuation dates. Loans and advances are reviewed for observed and verified changes in credit risk and the credit spread is adjusted at subsequent dates if there has been an observable change in credit risk relating to a particular loan or advance. In the absence of an observable market for these instruments, discounted cash flow models are used to determine fair value. Discounted cash flow models incorporate parameter inputs for interest rate risk, foreign exchange risk, liquidity and credit risk, as appropriate. For credit risk, probability of default and loss given default parameters are determined using credit default swaps (CDS) markets, where available and appropriate, as well as the relevant terms of the loan and loan counterparty such as the industry classification and subordination of the loan.	For level 2 and 3 fair value hierarchy items: • discount rate*
Deposits and debt funding Deposits 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*
Third-party financial liabilities arising on the consolidation of mutual funds (included in other liabilities) These are liabilities that arise on the consolidation of mutual funds.	The fair values of third-party financial liabilities arising on the consolidation of mutual funds are determined using the quoted put (exit) price provided by the fund manager and discounted for the applicable notice period. The fair value of a financial liability with a demand feature is not less than the amount payable on demand, discounted from the first date on which the amount could be required to be paid.	For level 2 and 3 fair value hierarchy items: • discount rate*

* Discount rates, where applicable, include the risk-free rate, risk premiums, liquidity spreads, credit risk (own and counterparty as appropriate), timing of settlement, storage/service costs, prepayment and surrender risk assumptions and recovery rates/loss given default.

4. Fair value continued

Portfolio valuations

The group has elected the portfolio exception to measure the fair value of certain groups of financial assets and financial liabilities. This exception permits the group of financial assets and financial liabilities to be measured at fair value on a net basis, with the net fair value being allocated to the financial assets and financial liabilities.

Day one profit or loss

For financial instruments, where the fair value of the financial instrument differs from the transaction price, the difference is commonly referred to as day one profit or loss. Day one profit or loss is recognised in profit or loss immediately where the fair value of the financial instrument is either evidenced by comparison with other observable current market transactions in the same instrument, or is determined using valuation models with only observable market data as inputs.

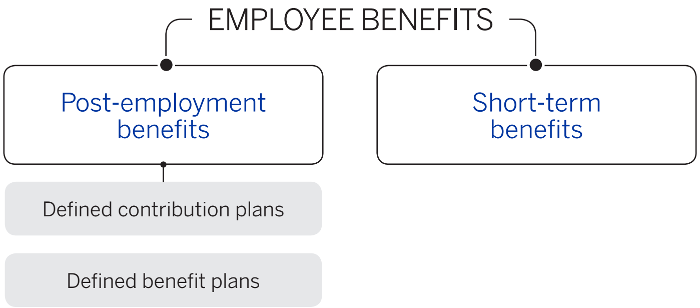
Day one profit or loss is deferred where the fair value of the financial instrument is not able to be evidenced by comparison with other observable current market transactions in the same instrument, or is determined using valuation models that utilise non-observable market data as inputs.

The timing of the recognition of deferred day one profit or loss is determined individually depending on the nature of the instrument and availability of market observable inputs. It is either amortised over the life of the transaction, deferred until the instrument's fair value can be determined using market observable inputs, or realised through settlement.

Cost exception (IAS 39)

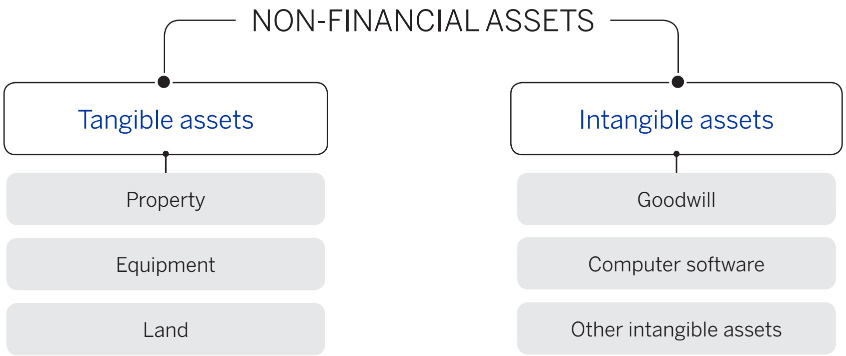
Where the fair value of investments in equity instruments or identical instruments do not have a quoted price in an active market, and derivatives that are linked to and must be settled by delivery of such equity instruments, are unable to be reliably determined, those instruments are measured at cost less impairment losses. Impairment losses on these financial assets are not reversed.

5. Employee benefits



Type and description	Statement of financial position	Statement of other comprehensive income	Income statement
Defined contribution plans The group operates a number of defined contribution plans. Refer to note 41 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. Refer to note 41 for more information.	Assets or liabilities measured at the present value of the estimated future cash outflows, using interest rates of government bonds denominated in the same currency as the defined benefit plan (corporate bonds are used for currencies for which there is a deep market of high-quality corporate bonds), with maturity dates that approximate the expected maturity of the obligations, less the fair value of plan assets. A net defined benefit asset is only recognised to the extent that economic benefits are available to the group from reductions in future contributions or future refunds from the plan.	Remeasurements of the net defined benefit obligation, including actuarial gains and losses, the return on plan assets (excluding interest calculated) and the effect of any asset ceiling are recognised within OCI.	Net interest income/(expense) is determined on the defined benefit asset/(liability) by applying the discount rate used to measure the defined benefit obligation at the beginning of the annual period to the net defined benefit asset/(liability). Other expenses related to the defined benefit plans are also recognised in operating expenses. When the benefits of a plan are changed or when a plan is curtailed, the resulting change in benefit that relates to past service or the gain or loss on curtailment is recognised immediately in operating expenses. The group recognises gains and losses on the settlement of a defined benefit plan when the settlement occurs.
Short-term benefits Short-term benefits consist of salaries, accumulated leave payments, profit share, bonuses and any non-monetary benefits such as medical aid contributions.	A liability is recognised for the amount expected to be paid under short-term cash bonus plans or accumulated leave if the group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.	No direct impact.	Short-term employee benefit obligations are measured on an undiscounted basis and are expensed in operating expenses as the related service is provided.

6. Non-financial assets

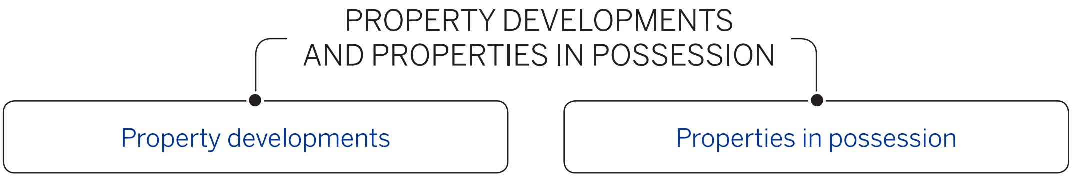


Type and initial and subsequent measurement	Useful lives, depreciation/ amortisation method or fair value basis	Impairment
Tangible assets (property, equipment and land) Property and equipment are measured at cost less accumulated depreciation and accumulated impairment losses. Cost includes expenditure that is directly attributable to the acquisition of the asset. Land is measured at cost less accumulative impairment losses. Costs that are subsequently incurred are included in the asset's related carrying amount or are recognised as a separate asset, as appropriate, only when it is probable that future economic benefits will flow to the group and the cost of the item can be measured reliably. Expenditure, which does not meet these criteria, is recognised in operating expenses as incurred. Where significant parts of an item of property or equipment have different useful lives, they are accounted for as separate major components of property and equipment.	Property and equipment are depreciated on the straight-line basis over estimated useful lives (see below) of the assets to their residual values. Land is not depreciated. Buildings 40 years Computer equipment 3 – 5 years Motor vehicles 4 – 5 years Office equipment 5 – 10 years Furniture 5 – 13 years Leased assets Shorter of useful life or lease term The residual values, useful lives and the depreciation method applied are reviewed, and adjusted if appropriate, at each financial year end.	These assets are reviewed for impairment at each reporting date and tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised in non-trading and capital related items for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is determined as the higher of an asset's fair value less costs to sell and value in use. Fair value less costs to sell is determined by ascertaining the current market value of an asset and deducting any costs related to the realisation of the asset. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For the purposes of assessing impairment, assets that cannot be tested individually are grouped at the lowest CGUs. Impairment losses recognised in respect of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to the CGU, and then to reduce the carrying amounts of the other assets in the CGU on a pro rata basis. The carrying amount of these other assets may, however, not be reduced below the higher of the CGU's fair value less costs to sell and its value in use. Impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed through non-trading and capital related items only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

6. **Non-financial assets** continued

Type and initial and subsequent measurement	Useful lives, depreciation/ amortisation method or fair value basis	Impairment
Goodwill Goodwill represents the excess of the consideration transferred and the acquisition date fair value of any previously held equity interest over the group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities of the acquired subsidiary, associate or joint venture at the date of the acquisition. The group's interest in acquired subsidiaries takes into account any non-controlling interest. Goodwill arising on the acquisition of subsidiaries (associates or joint ventures) is reported in the statement of financial position as part of 'Goodwill and other intangible assets' ('Interest in associates and joint ventures').	Not applicable.	The accounting treatment is generally the same as that for tangible assets except as noted below. Goodwill is tested annually for impairment and additionally when an indicator of impairment exists. An impairment loss in respect of goodwill is not reversed.
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



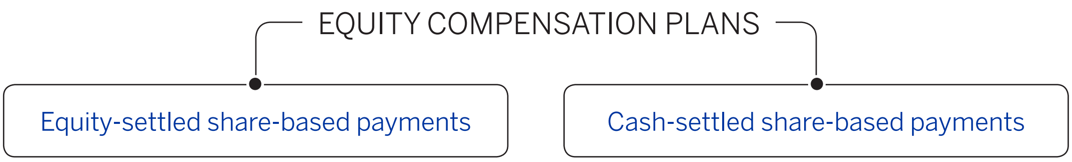
Property developments

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.

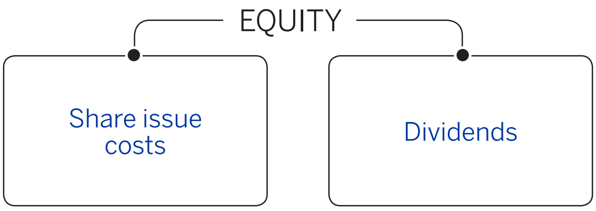
Cash-settled share-based payments

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

Type and description	Statement of financial position	Income statement
Finance leases – lessee Leases, where the group assumes substantially all the risks and rewards incidental to ownership, are classified as finance leases.	The leased asset is capitalised at the inception of the lease at the lower of the fair value of the leased asset and the present value of the minimum lease payments together with an associated liability to the lessor. Refer to non-financial assets' accounting policy for the treatment of the leased asset. Lease payments less the interest component, which is calculated using the interest rate implicit in the lease or the group's incremental borrowing rate, are recognised as a capital repayment which reduces the liability to the lessor.	A lease finance cost, determined with reference to the interest rate implicit in the lease or the group's incremental borrowing rate, is recognised within interest expense over the lease period.
Finance leases – lessor Leases, where the group transfers substantially all the risks and rewards incidental to ownership, are classified as finance leases.	Finance lease receivable, including initial direct costs and fees, are primarily accounted for as financing transactions in banking activities, with rentals and instalments receivable, less unearned finance charges, being included in loans and advances.	Finance charges earned within interest income are computed using the effective interest method, which reflects a constant periodic rate of return on the investment in the finance lease. The tax benefits arising from investment allowances on assets leased to clients are accounted for within direct taxation.
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



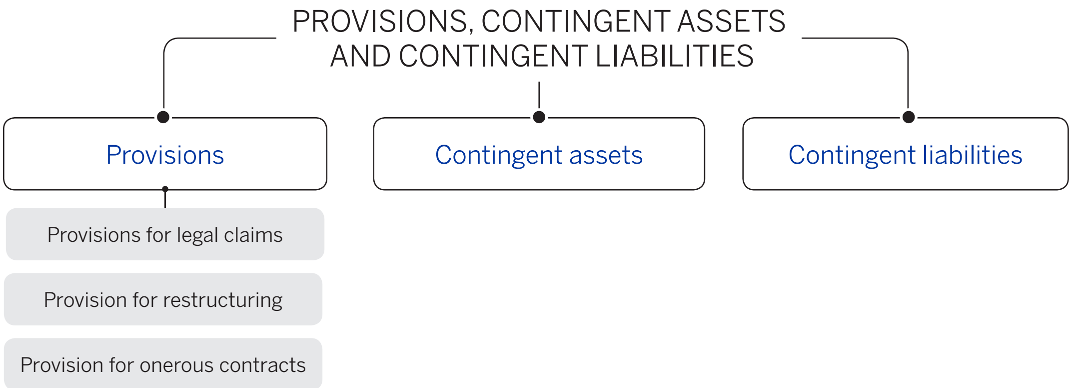
Share issue costs

Incremental external costs directly attributable to a transaction that increases or decreases equity are deducted from equity, net of related tax. All other share issue costs are expensed.

Dividends

Distributions are recognised in equity in the period in which they are declared. Distributions declared after the reporting date are disclosed in the distributions note to the annual financial statements.

11. Provisions, contingent assets and contingent liabilities



Provisions

Provisions are recognised when the group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate of the amount of the obligation can be made. Provisions are determined by discounting the expected future cash flows using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the liability. The group's provisions typically (when applicable) include the following:

Provisions for legal claims

Provisions for legal claims are recognised on a prudent basis for the estimated cost for all legal claims that have not been settled or reached conclusion at the reporting date. In determining the provision management considers the probability and likely settlement (if any). Reimbursements of expenditure to settle the provision are recognised when and only when it is virtually certain that the reimbursement will be received.

Provision for restructuring

A provision for restructuring is recognised when the group has approved a detailed formal plan, and the restructuring either has commenced or has been announced publicly. Future operating costs or losses are not provided for.

Provision for onerous contracts

A provision for onerous contracts is recognised when the expected benefits to be derived by the group from a contract are lower than the unavoidable cost of meeting its obligations under the contract. The provision is measured at the present value of the lower of the expected cost of terminating the contract and the expected net cost of continuing with the contract. Before a provision is established, the group recognises any impairment loss on the assets associated with that contract.

11. Provisions, contingent assets and contingent liabilities continued

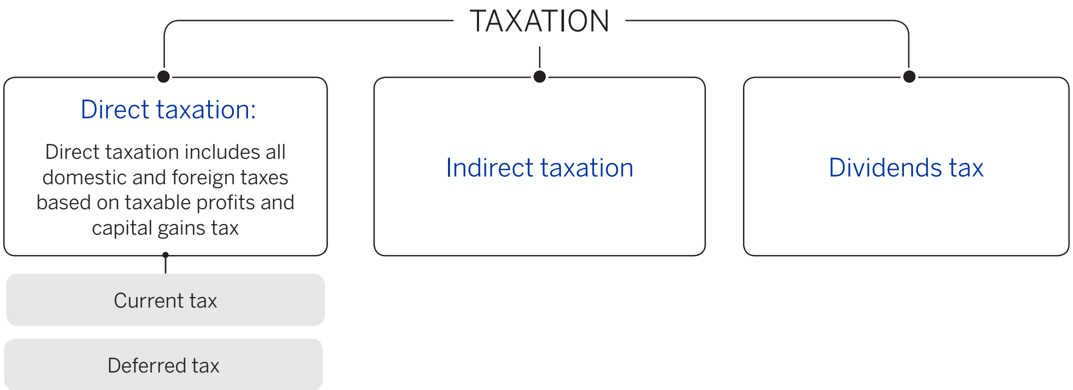
Contingent assets

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; and • 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 (VAT), skills development levies and other duties for banking activities, are recognised in the indirect taxation line in the income statement.	Not applicable
Dividend tax	Taxes on dividends declared by the group are recognised as part of the dividends paid within equity as dividend tax represents a tax on the shareholder and not the group. 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

Description	Recognition and measurement
Net interest income	Interest income and expense (with the exception of borrowing costs that are capitalised on qualifying assets, that is assets that necessarily take a substantial period of time to get ready for their intended use or sale and which are not measured at fair value) are recognised in net interest income using the effective interest method for all interest-bearing financial instruments. In terms of the effective interest method, interest is recognised at a rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, where appropriate, a shorter period, to the net carrying amount of the financial asset or financial liability. Direct incremental transaction costs incurred and origination fees received, including loan commitment fees, as a result of bringing margin-yielding assets or liabilities into the statement of financial position, are capitalised to the carrying amount of financial instruments that are not at fair value through profit or loss and amortised as interest income or expense over the life of the asset or liability as part of the effective interest rate. Where the estimates of payments or receipts on financial assets or financial liabilities are subsequently revised, the carrying amount of the financial asset or financial liability is adjusted to reflect actual and revised estimated cash flows. The carrying amount is calculated by computing the present value of the adjusted cash flows at the financial asset or financial liability's original effective interest rate. Any adjustment to the carrying value is recognised in net interest income. When a financial asset is classified as specifically impaired (before 1 January 2018) or as Stage 3 impaired (after 1 January 2018), interest income is calculated on the impaired value (gross carrying amount less specific impairment) based on the original effective interest rate. The contractual interest income on the gross exposure is suspended and is only recognised in interest income (before 1 January 2018) and credit impairments (after 1 January 2018) when the financial asset is no longer specifically impaired (before 1 January 2018) or is reclassified out of Stage 3 (after 1 January 2018). Dividends received on preference share investments classified as debt form part of the group's lending activities and are included in interest income. Before the adoption of IFRS 9 on 1 January 2018, the following additional amounts were recognised in net interest income: • fair value gains and losses on debt financial assets that were designated at fair value through profit or loss, • the gain or loss on the derecognition of a financial asset classified as available-for-sale • gains and losses arising from the derecognition of financial assets and financial liabilities classified as at amortised cost • fair value gains and losses on financial liabilities (including changes as a result of own credit risk) that were designated at fair value through profit or loss.
Net fee and commission revenue	Fee and commission revenue, including accounting transaction fees, card-based commission, documentation and administration fees, electronic banking fees, foreign currency service fees, insurance based fees and commissions, and knowledge-based fees and commissions are recognised as the related services are performed. Loan commitment fees for loans that are not expected to be drawn down are recognised on a straight-line basis over the commitment period. Loan syndication fees, where the group does not participate in the syndication or participates at the same effective interest rate for comparable risk as other participants, are recognised as revenue when the syndication has been completed. Syndication fees that do not meet these criteria are capitalised as origination fees and amortised to the income statement as interest income. The fair value of issued financial guarantee contracts on initial recognition is amortised as income over the term of the contract. Fee and commission expenses, included in net fee and commission revenue, are mainly transaction and service fees relating to financial instruments, which are expensed as the services are received. Expenditure is presented as fee and commission expenses where the expenditure is linked to the production of fee and commission revenue.
Trading revenue	Trading revenue comprises all gains and losses from changes in the fair value of trading assets and liabilities, together with related interest income, expense and dividends.

13. Revenue and expenditure continued

Description	Recognition and measurement
Customer loyalty programmes	The group's banking activities operate a customer loyalty programme in terms of which it undertakes to provide goods and services to certain customers. The reward credits are accounted for as a separately identifiable component of the fee and commission income transactions of which they form a part. The consideration allocated to the reward credits is measured at the fair value of the reward credit and is recognised over the period in which the customer utilises the reward credits. Expenses relating to the provision of the reward credits are recognised in fee and commission expenses as and when they are incurred.
Dividend income	Dividends are recognised in interest income (other revenue) for debt (equity instruments) when the right to receipt is established. Scrip dividends are recognised as dividends received where the dividend declaration allows for a cash alternative.
Other gains/losses on financial instruments	After 1 January 2018, includes: • fair value gains and losses on financial assets that are at fair value through profit or loss • the gain or loss on the derecognition of a debt financial asset classified as at fair value through OCI • gains and losses arising from the derecognition/realisation of financial assets and financial liabilities classified as at amortised cost • gains and losses arising from the reclassification of a financial asset from amortised cost to fair value • gains and losses arising from the modification of a financial asset (which is not distressed) and financial liability as at amortised cost • fair value gains and losses on designated financial instruments.
Other revenue	Other revenue includes dividends on equity financial assets, underwriting profit from the group's short-term insurance operations and related insurance activities and re-measurement gains and losses from contingent consideration on disposals and purchases. Before 1 January 2018, gains and losses on equity instruments designated at fair value through profit or loss are recognised within other revenue. Gains and losses on equity instruments classified as available-for-sale financial assets are reclassified from OCI to other revenue on derecognition or impairment.

Offsetting

Income and expenses are presented on a net basis only when permitted by IFRS, or for gains and losses arising from a group of similar transactions.

Interest in suspense

In addition to the above identified changes between IAS 39 and IFRS 9, interest in suspense (refers to contractual interest which accrues on financial assets which are classified as non-performing) is presented as follows:

IAS 39 accounting treatment

Up to 31 December 2017, IAS 18 Revenue required interest income to be recognised only when it was probable that the economic benefits associated with a transaction would flow to the entity. The group, in line with these requirements, suspended the recognition of contractual interest income on all exposures where it was determined that future economic benefits were not probable. The accounting presentation policy for this suspended contractual interest was to present the balance sheet interest in suspense account as part of the gross carrying amount of the financial asset (i.e. gross carrying amount net of interest in suspense). In addition, upon the curing of the non-performing financial asset, the group elected an accounting presentation policy to recognise this suspended contractual interest (previously unrecognised interest) within net interest income line within the income statement. This policy was elected on the basis that the presentation best represented the nature of the amount in terms of IAS 1.

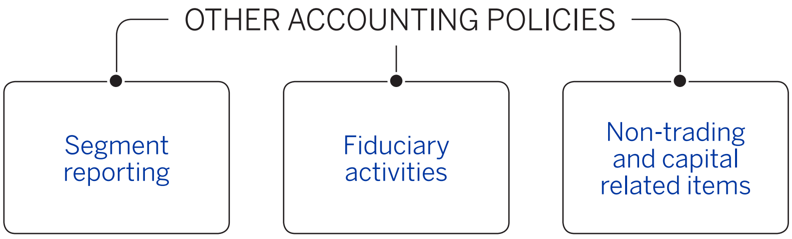
13. Revenue and expenditure continued

IFRS 9 accounting treatment

IFRS 9 requires that interest income for financial assets classified as Stage 3 be calculated on the net carrying amount (after deducting credit impairments), which will result in a portion of contractual interest being suspended. IFRS 9 requires that this suspended contractual interest be presented as part of the financial assets' gross carrying amount. The group has applied this requirement by presenting balance sheet suspended contractual interest as a separate reconciling item when calculating the financial assets' net carrying amount. Hence, suspended contractual interest does not impact the net carrying amount of the financial asset as presented on the statement of financial position. However, this change in presentation has resulted in an increased gross carrying amount of financial assets when compared to IAS 39.

The group presents previously unrecognised interest earned on curing of a financial asset out of Stage 3 within credit impairment charges. This presentation is consistent with the IFRIC clarification issued in December 2018.

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 and equipment and intangible assets
- Impairment and reversals of impairments of joint ventures and associates
- impairment of investments in subsidiaries, property and equipment, and intangible assets
- other items of a capital related nature.

15. New standards and interpretations not yet adopted

The following new or revised standards, amendments and interpretations are not yet effective for the year ended 31 December 2018 and have not been applied in preparing these annual financial statements.

Title: IFRS 3 Business combinations (amendment)

Effective date: 1 January 2020 with earlier application permitted

The amendments clarify the definition of a business, with the objective of assisting entities to determine whether a transaction should be accounted for as a business combination or as an asset acquisition. The amendment is not expected to have a material impact on the group.

Title: IFRS 9 Financial instruments (amendment)

Effective date: 1 January 2019 with earlier application permitted

The amendment allows financial assets with prepayment features that permit or require a party to a contract either to pay or receive reasonable compensation for the early termination of the contract (so that, from the perspective of the holder of the asset there may be 'negative compensation'), to be measured at amortised cost or at fair value through other comprehensive income. The amendment is required to be applied retrospectively. The amendment is not expected to have a material impact on the group.

Title: IFRS 10 and IAS 28 (amendments) Sale or contribution of assets between an investor and its associate or joint venture

Effective date: To be determined

The amendments address an inconsistency between the requirements in IFRS 10 and those in IAS 28, in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The main consequence of the amendments is that a full gain or loss is recognised when a transaction involves a business (whether it is housed in a subsidiary or not). A partial gain or loss is recognised when a transaction involves assets that do not constitute a business, even if these assets are housed in a subsidiary.

The amendments will be applied prospectively and are not expected to have a material impact on the group's financial statements.

Title: IFRS 16 Leases

Effective date: 1 January 2019 with earlier application permitted

This standard will replace the IAS 17 Leases, as well as the related interpretations and sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract, being the lessee (customer) and the lessor (supplier).

The core principle of this standard is that the lessee and lessor should recognise all rights and obligations arising from leasing arrangements on balance sheet.

The most significant change pertaining to the accounting treatment for operating leases is from the lessees' perspective. IFRS 16 eliminates the classification of leases as either operating or finance leases as is required by IAS 17 and introduces a single lessee accounting model, where a right of use (ROU) asset together with a liability for the future payments is to be recognised for all leases with a term of more than 12 months, unless the underlying asset is of low value.

The lessor accounting requirements in IAS 17 have not changed substantially in terms of this standard. A lessor, hence, continues to classify its leases as operating leases or finance leases and accounts for these as is currently done in terms of IAS 17. In addition, the standard requires lessors to provide enhanced disclosures about its leasing activities and, in particular, about its exposure to residual value risk and how it is managed.

Estimated impact assessment

The group has elected to apply IFRS 16 retrospectively without restating comparative periods, which will continue to be presented in terms of IAS 17, with a transition adjustment as at 1 January 2019. The single lessee accounting model which comprises IFRS 16's most material impact for the group is expected to result in an increase of approximately R4.2 billion gross up in total asset, R3.9 billion gross up in total liabilities and an increase in reserves of approximately R240 million.

Title: IFRS 17 Insurance contracts

Effective date: 1 January 2021 with earlier application permitted (proposed one-year deferral)

This standard replaces IFRS 4 Insurance Contracts which provided entities with dispensation to account for insurance contracts (particularly measurement) using local actuarial practice, resulting in a multitude of different approaches.

The overall objective of IFRS 17 is to provide a more useful and consistent accounting model for insurance contracts among entities issuing insurance contracts globally. The standard requires an entity to measure insurance contracts using updated estimates and assumptions that reflect the timing of cash flows and any uncertainty relating to insurance contracts. A general measurement model (GMM) will be applied to long-term insurance contracts, and is based on a fulfilment objective (risk-adjusted present value of best estimate future cash flows) and uses current estimates, informed by actual trends and investment markets. IFRS 17 establishes what is called a contractual service margin (CSM) in the initial measurement of the liability which represents the unearned profit on the contract and results in no gain on initial recognition. The CSM is released over the life of the contract, but interest on the CSM is locked in at inception rates. The CSM will be utilised as a 'shock absorber' in the event of changes to best estimate cash flows. On loss making (onerous) contracts, no CSM is set up and the full loss is recognised at the point of contract inception. The GMM is modified for contracts which have participation features.

An optional simplified premium allocation approach (PAA) is available for all contracts that are less than 12 months at inception. The PAA is similar to the current unearned premium reserve profile over time.

The requirement to eliminate all treasury shares has been amended such that treasury shares held for a group of direct participating contracts or investment funds are not required to be eliminated and can be accounted for as financial assets.

These requirements will provide transparent reporting about an entity's financial position and risk and will provide metrics that can be used to evaluate the performance of insurers and how that performance changes over time. An entity may re-assess its classification and designation of financial instruments under IFRS 9, on adoption of IFRS 17.

The standard will be applied retrospectively. The impact on the annual financial statements has not yet been fully determined.

Title: IAS 1 Presentation of financial statements and accounting policies, changes in accounting estimates and errors (amendments)

Effective date: 1 January 2020 with earlier application permitted

The amendments clarify the definition of material and how it should be applied by including in the definition guidance that until now has featured elsewhere in IFRS Standards. In addition, the explanations accompanying the definition have been improved. The amendments ensure that the definition of material is consistent across all IFRS Standards. The amendments will be applied prospectively. The amendment is not expected to have a significant impact on the annual financial statements.

Title: IAS 19 Employee benefits (amendments)

Effective date: 1 January 2019 with earlier application permitted

The amendments require a company to use the updated assumptions when a change to a plan either an amendment, curtailment or settlement, takes place to determine current service cost and net interest for the remainder of the reporting period after the change to the plan. Until now, IAS 19 did not specify how to determine these expenses for the period after the change to the plan. By requiring the use of updated assumptions, the amendments are expected to provide useful information to users of financial statements. The amendment will be applied retrospectively. The impact on the annual financial statements has not yet been fully determined.

Title: IAS 28 Interest in associates and joint ventures (amendment)

Effective date: 1 January 2019 with earlier application permitted

This amendment clarifies that an entity should apply IFRS 9, including its impairment requirements, to long-term interests in an associate or joint venture that form part of the net investment in the associate or joint venture only when the equity method is not applied. The amendments will be applied retrospectively. The amendment is not expected to have a significant impact on the annual financial statements.

Title: Annual improvements 2015-2017 cycle

Effective date: 1 January 2019 with earlier application permitted

The IASB has issued various amendments and clarifications to existing IFRS, none of which is expected to have a significant impact on the group's annual financial statements.

Title: IFRIC 23 Uncertainty over income tax treatments

Effective date: 1 January 2019 with earlier application permitted

This Interpretation clarifies how to apply the recognition and measurement requirements in IAS 12 when there is uncertainty over income tax treatments. In such a circumstance, an entity shall recognise and measure its current or deferred tax asset or liability applying the requirements in IAS 12 based on taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates determined by applying this interpretation. This interpretation addresses: whether an entity considers uncertain tax treatments separately; the assumptions an entity makes about the examination of tax treatments by taxation authorities; how an entity determines taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates; and how an entity considers changes in facts and circumstances. The IFRIC will be applied retrospectively. The impact on the annual financial statements has not yet been fully determined.

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