Standard Bank Group

Explanation of principal differences between normalised and IFRS results

for financial periods 2004 to 2015

Standard Bank Moving Forward™
Also trading as Stanbic Bank

Purpose of this document

For financial reporting periods 2004 up to the end of December 2015, the Standard Bank Group's (group) financial results presentation, analysis of financial results, selected information in the group's interim financial results, annual integrated report and the segment report in the group's annual and interim financial statements included normalised financial information. The normalised results reflected the basis on which management managed the group.

The group's consolidated financial statements are prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB), its interpretations adopted by the IASB, the South African Institute of Chartered Accountants Financial Reporting Guides as issued by the Accounting Practices Committee and Financial Reporting Pronouncements as issued by the Financial Reporting Standards Council, the JSE Limited Listings Requirements, and the South African Companies Act, 71 of 2008.

While the group also prepared its results on an IFRS basis, the group's results were previously normalised to reflect the group's view of the economics and legal substance of the following deemed treasury share arrangements (the normalised adjustments):

- the group's Black Economic Empowerment (BEE) initiatives (the group's BEE ownership initiatives were entered into in terms of the Financial Sector Charter and included the group's Tutuwa initiative and Liberty's BEE initiative);
- group shares held by Liberty for the benefit of policyholders; and
- group share exposures entered into to facilitate client trading activities.

The purpose of this document is to provide an explanation of the differences between the group's previously reported normalised and IFRS financial results.

Description of normalised adjustments

A common element in the deemed treasury share arrangements, referred to above, related to shares in issue which were deemed by IFRS to be treasury shares. Consequently, in terms of IFRS, the net value of the shares was recognised in equity and the number of shares used for per share calculation purposes (in ratios such as headline earnings per share, basic earnings per share (EPS) and net asset value per share) was materially lower than the economic substance, resulting in inflated per share ratios. With regard to segmental and product reporting, the normalised adjustments were made within the group's segment report within Liberty and Central and other. The results of the other business units remained unaffected.

The normalised results reflected the basis on which management managed the group for financial reporting periods up to the end of December 2015.

Reason for discontinuation of normalised financial reporting

The group's Tutuwa initiative represented the most material normalised adjustment. Between December 2007 and June 2013, transactions were concluded to refinance the group's funding of the Tutuwa initiative with external third-party financing and a portion of the Tutuwa participant's shares were sold to the Industrial and Commercial Bank of China (ICBC). In December 2014 the Tutuwa initiative's lock-in period ended and the Tutuwa participants were able to sell their shares. Following the above transactions, there were an insignificant number of shares being normalised and, as a result, the group's normalised results were materially the same as that of IFRS. Accordingly, with effect from its 2016 financial reporting period the group has reverted to IFRS as its primary reporting basis.

Explanation of the normalised adjustments

Liberty normalised its results for a BEE initiative that was similar to that of the group's Tutuwa initiative and these normalised results were included in the group's normalised results. Refer to Liberty Holdings Limited's (Liberty) financial reports for an explanation of its normalisation adjustments. The group's other normalisation adjustments are detailed below:

Tutuwa initiative

The group concluded its Tutuwa initiative in October 2004 when it sold an effective 10% interest in its South African banking operations to a broad-based grouping of black entities and individuals.

The group obtained financing through the issue of perpetual preference shares. These funds were used to subscribe for 8.5% redeemable, cumulative preference shares (redeemable preference shares) issued by structured entities (SEs) controlled by the group. These SEs then purchased Standard Bank Group Limited (SBG) shares. Subsequently, the SEs containing these shares were sold to black participants. The capital and dividends on the redeemable preference shares issued by the SEs were repayable from future ordinary dividends received, or the proceeds from the disposal of SBG shares held. As a result of SBG's contingent right to receive its own dividends back in the form of yield and capital on the redeemable preference shares, the subsequent sale of the SEs and consequent delivery of the SBG shares to the black participants, although legally effected, was not accounted for as a sale. Consequently, the IFRS accounting treatment until full redemption or third-party financing was obtained was as follows:

- the redeemable preference shares issued by the SEs and subscribed for by SBG were not recognised as financial assets, but eliminated against equity as a negative empowerment reserve;
- the negative empowerment reserve represented SBG shares held by the SEs that were deemed to be treasury shares in terms of IFRS;

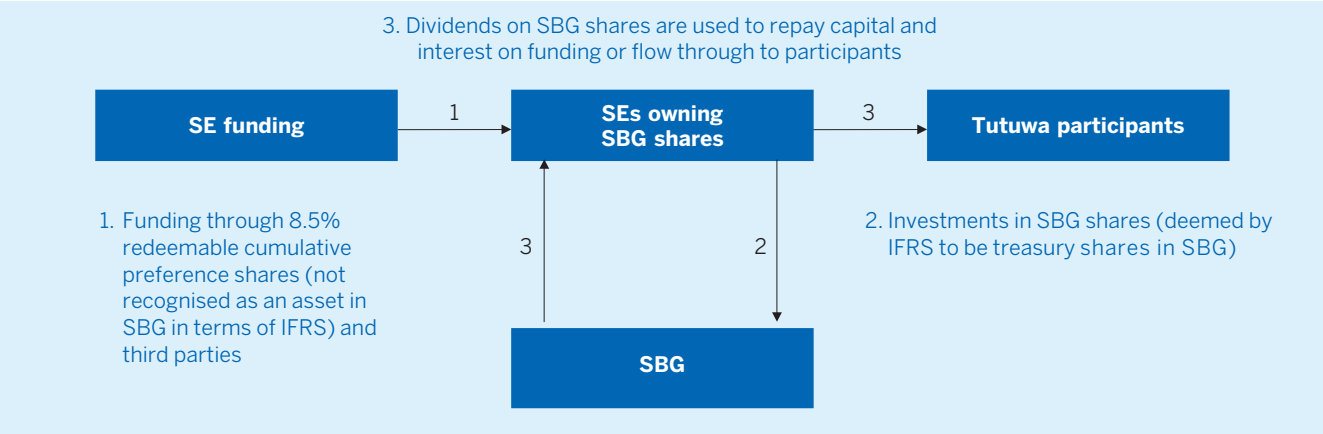
- preference dividends accrued but not received, due to cash distributions paid to participants, increased the empowerment reserve;
- to the extent that preference dividends were received from the SEs, these are eliminated against the ordinary dividends paid on the SBG shares held by the SEs;
- for purposes of the calculation of EPS, the weighted average number of shares in issue was reduced by the number of shares held by those SEs that were sold to the black participants. The shares were restored on full redemption of the preference shares, or to the extent that the preference share capital was financed by a third party; and
- perpetual preference shares issued by SBG for the purposes of financing the transaction were classified as equity. Dividends paid on the perpetual preference shares were accounted for on declaration and not on an accrual basis.

Post the discontinuation of normalised reporting, the group accounts for the Tutuwa initiative on an IFRS basis as described.

The normalised results previously reflected the following adjustments:

- a loan asset was recognised by reversing the elimination of the redeemable preference shares against equity;
- dividends on the redeemable preference shares were accrued on the loan asset within interest income;
- for purposes of calculating normalised per share ratios, the number of shares held by the black participants were added back to the weighted number of shares in issue; and
- dividends declared on perpetual preference shares were adjusted to be accounted for on an accrual basis.

Tutuwa initiative



SBG shares held for the benefit of policyholders or to facilitate client trading activities

The group acquires or sells short shares in SBG for two distinct business reasons:

- SBG shares held by Liberty are invested for the risk and reward of its policyholders, not its shareholders, and consequently the group's shareholders are exposed to an insignificant portion of the fair value changes on these shares; and
- the group enters into transactions in SBG shares to facilitate client trading activities. As part of its normal trading operations, the group offers clients trading positions over listed shares, including SBG's own shares. In order to hedge the risk on these trades, the group buys or sells short SBG shares in the market. The group's shareholders are therefore exposed to an insignificant portion of the fair value changes on these shares.

In terms of IFRS, trades by subsidiaries in SBG's shares held on behalf of policyholders and SBG share exposures to facilitate client trading activities are deemed to be treasury shares for IFRS accounting purposes. Consequently, the IFRS accounting treatment on consolidation is as follows:

- the cost price of shares purchased by subsidiaries as well as any funds received by subsidiaries from selling SBG's shares short are deducted from or added to ordinary shareholders' equity and non-controlling interest respectively in the group's financial statements; and
- dividends received on SBG shares are eliminated against dividends paid.

No corresponding adjustment is made to the policyholders' liabilities or trading positions with clients. The liability to policyholders and client trading positions, along with the change in policyholders' liabilities and profit or loss recognised on the client trading positions, is therefore not eliminated, even though the corresponding interest in the group's shares is eliminated and treated as treasury shares acquired or issued. As a result, the application of IFRS gives rise to a mismatch in the group's overall equity and income statement.

With regard to the SBG shares held for the benefit of Liberty policyholders, the weighted average number of shares in issue for per share purposes is calculated by deducting the full number of group shares held (100%), not the IFRS effective shareholding in Liberty, as IFRS does not contemplate non-controlling interest portions of treasury shares. This treatment exaggerates the reduction in the weighted average number of shares used to calculate per share ratios.

Post the discontinuation of normalised reporting, the group accounts for the SBG shares held for the benefit of policyholders or to facilitate client trading activities on an IFRS basis as described.

The group's normalised results previously reflected the following adjustments:

- the IFRS accounting treatment on consolidation described above was reversed; and
- the SBG shares held on behalf of policyholders and to facilitate client trading activities were treated as issued to parties external to the group.

Group shares held for the benefit of policyholders or to facilitate client trading activities