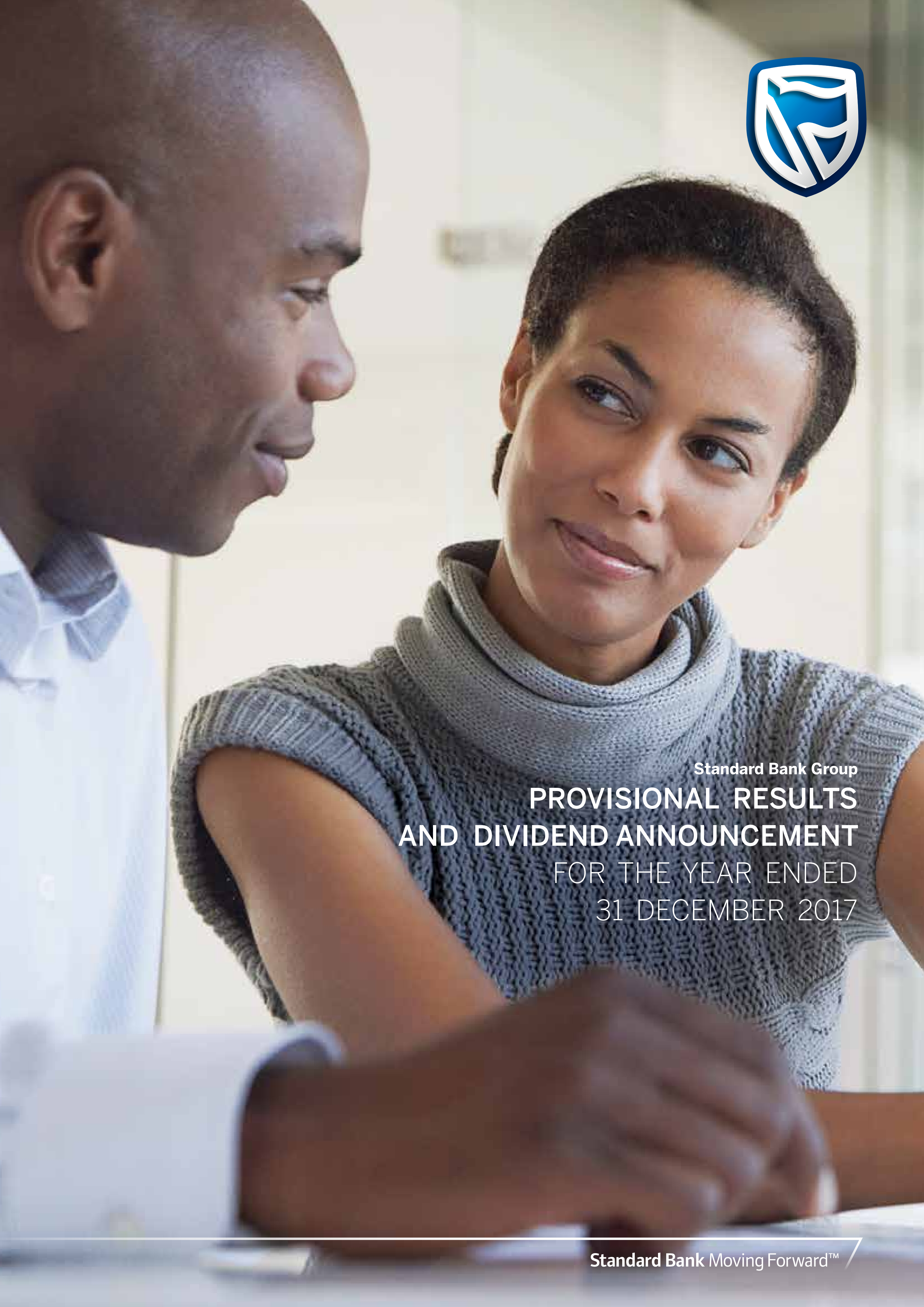

Standard Bank Group

PROVISIONAL RESULTS AND DIVIDEND ANNOUNCEMENT

FOR THE YEAR ENDED 31 DECEMBER 2017

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OVERVIEW

PROVISIONAL RESULTS

OTHER INFORMATION

The Standard Bank Group Limited's (group) summary consolidated financial statements, for the year ended 31 December 2017 (results) are prepared in accordance with the requirements of the JSE Limited (JSE) Listings Requirements for provisional reports, the requirements of International Financial Reporting Standards (IFRS) and its interpretations as adopted by the International Accounting Standards Board, the South African Institute of Chartered Accountants' (SAICA) Financial Reporting Guides as issued by the Accounting Practices Committee and Financial Pronouncements as issued by the Financial Reporting Standards Council, the presentation requirements of IAS 34 *Interim Financial Reporting* (IAS 34) and the requirements of the South African Companies Act, 71 of 2008 applicable to summary financial statements.

The accounting policies applied in the preparation of these summarised consolidated financial statements from which the results have been derived are in terms of IFRS and are consistent with the accounting policies applied in the preparation of the group's previous consolidated annual financial statements with the exception of changes referred to on page 35.

While this report is itself not audited, the consolidated annual financial statements from which the summary consolidated annual financial statements on pages 9 to 35 have been derived were audited by KPMG Inc. and PricewaterhouseCoopers Inc., who expressed an unmodified opinion thereon. That audit report does not necessarily report on all of the information contained in this report.

Shareholders are therefore advised that, in order to obtain a full understanding of the nature of the auditors' engagement and, more specifically, the nature of the information that has been audited, they should obtain a copy of the auditors' report together with the accompanying audited consolidated annual financial statements, both of which are available for inspection at the company's registered office. The group's reporting suite, including the Standard Bank Group's annual integrated report and annual financial statements will be made available during April 2018. Copies can be requested from our registered office or downloaded from the company's website following the announcement in April 2018 on the JSE's Stock Exchange News Service (SENS).

The directors (the board) of Standard Bank Group Limited take full responsibility for the preparation of this report and that the selected financial information has been correctly extracted from the underlying audited consolidated annual financial statements.

The preparation of the group's results was supervised by the group financial director, Arno Daehnke BSc, MSc, PhD, MBA, AMP.

The results were made publicly available on 8 March 2018.

This report contains *pro forma* constant currency financial information. For further details refer to page 36.

In terms of the JSE's Listings Requirements, the group no longer posts a physical copy of this announcement to its shareholders. Investors are referred to www.standardbank.com/reporting where a detailed analysis of the group's financial results, including an income statement and a statement of financial position for The Standard Bank of South Africa Limited, can be found. Scan the image on the inside back cover of this report to be taken there directly.

Shareholders are reminded that should they wish to make use of the group's electronic communication notification system to receive all shareholder entitled communication electronically as opposed to delivery through physical mail and have not already done so, this option can still be elected by advising the group's transfer secretaries at the following email address: ecomms@computershare.co.za or fax to +27 688 5248 or contact the call centre on +27 861 100 933. Other related queries can be sent to electroniccommunication@standardbank.co.za.

HIGHLIGHTS

▲ 14%

R26 270 million

HEADLINE EARNINGS

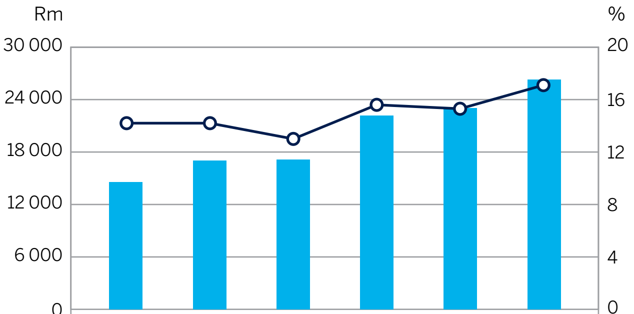
2016: R23 009 million

14% ▲	17% ▲	▲
1 640 cents	**910 cents**	**17.1%**
HEADLINE EARNINGS PER SHARE	DIVIDEND PER SHARE	RETURN ON EQUITY
2016: 1 440 cents	2016: 780 cents	2016: 15.3%

◀▶	▲	▼	▼
0.86%	**1.0%**	**55.7%**	**13.5%**
CREDIT LOSS RATIO	JAWS	COST-TO-INCOME RATIO	COMMON EQUITY TIER 1 RATIO
2016: 0.86%	2016: 0.3%	2016: 56.3%	2016: 13.9%

Headline earnings

CAGR[1] (2012 – 2017): 13%



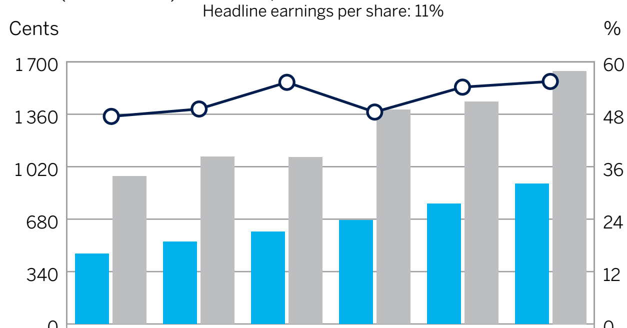
	2012	2013	2014	2015	2016	2017
Headline earnings	14 564	16 986	17 137	22 187	23 009	26 270
Return on equity (ROE)	14.2	14.2	13.0	15.6	15.3	17.1

Headline earnings
Return on equity (ROE)

[1] Compound annual growth rate.

Headline earnings and dividend per share

CAGR (2012 – 2017): Dividend per share: 15%
Headline earnings per share: 11%



	2012	2013	2014	2015	2016	2017
Dividend per share	455	533	598	674	780	910
Headline earnings per share	957	1 084	1 081	1 389	1 440	1 640
Dividend payout ratio	47.5	49.2	55.3	48.5	54.2	55.5

Dividend per share
Headline earnings per share
Dividend payout ratio

Overview of financial results

Group results

Standard Bank Group's financial performance for the year ended 31 December 2017 was strong. The group delivered a 14% growth in headline earnings to R26.3 billion and ROE improved to 17.1% from 15.3% in 2016. The group's capital position remained robust, with a common equity tier 1 (CET1) ratio of 13.5%. Accordingly, a final dividend of 510 cents per share has been declared, resulting in a total dividend of 910 cents per share, an increase of 17% on the prior year.

Banking revenue growth remained subdued, credit impairment charges were broadly flat and costs were well managed to deliver positive jaws of 1.0%. Banking activities headline earnings grew 10% to R24.3 billion and ROE improved to 18.0% from 16.8% in 2016. Group headline earnings growth was boosted by an improved contribution from ICBC Standard Bank Plc (ICBCS) and Liberty.

Although less marked than in the first half of the year, currency movements continued to adversely impact the group's reported results, reducing group and banking headline earnings growth by four percentage points year on year. On a constant currency basis, group headline earnings grew by 18%. Despite the dilution impact from a strengthening Rand, Africa Regions still increased its contribution to banking headline earnings to 28% from 26% in 2016, and contributed positively to group headline earnings per share growth and ROE. The top five contributors to Africa Regions' headline earnings were Angola, Ghana, Mozambique, Nigeria and Uganda.

Operating environment

Global macroeconomic conditions were positive during 2017, supporting increased trade volumes and underpinning global growth of 3.7% for the year. A benign inflation environment and low wage growth across most advanced economies resulted in slower than expected monetary policy tightening. Continued capital flows to emerging markets supported emerging market funding costs and currencies.

Economic growth in sub-Saharan Africa rebounded from 1.4% in 2016 to 2.7% in 2017, underpinned by improving commodity prices and trade. Across many of our key countries inflation began to ease, stemming interest rate hikes and, in certain countries, provided scope for rate cuts in the second half of the year. Although exchange rates largely stabilised in the second half, many were weaker year on year against the strengthening Rand.

The recovery in the West Africa region was supported by higher oil prices and production volumes, together with higher business and consumer confidence levels. Foreign currency liquidity constraints in Nigeria eased, following the introduction of the NAFEX rate in the second quarter of the year.

East Africa started to emerge from the drought conditions. In Kenya specifically, higher food price inflation, political uncertainty as a result of the disputed electoral process, and the impact of the regulatory caps and floors introduced in September 2016, resulted in a slow-down in economic activity and credit growth.

The South & Central Africa region was supported by improved commodity prices, however those surrounding South Africa continued to feel the effects of low South African demand. In Mozambique, some sectors of the economy improved during 2017, mainly on account of higher coal prices. Monetary policy tightening helped rebalance the foreign exchange market and resulted in the Metical appreciating in the second half of the year, but was 16% weaker on average against the Rand compared to 2016. Inflation declined, despite a large increase in fuel prices.

Growth in South Africa remained weak at 1.3%, continuing its deviation from the global trend. During the year, consumer and business confidence remained low as a result of the poor macro environment and heightened political and policy uncertainties. This was exacerbated by successive downgrades by the three credit rating agencies. As a consequence, demand for credit remained lacklustre, moderating from the already subdued levels in 2016. Despite local sentiment, South Africa emerged from a technical recession in the second quarter and inflation re-entered the 3 - 6% target range, providing scope for a 25 basis point (bps) interest rate cut in July. The Rand, although volatile, was on average stronger against the major currencies, as well as those of our key countries in Africa Regions.

Revenue

Our banking activities achieved revenue growth of 3%. This growth rate was 9% in constant currency, which is a testament to our solid client franchises.

Net interest income (NII) increased 6%, assisted by margin expansion of 26 bps to 474 bps. Average interest earning assets were flat on the prior year. The yield on the client lending book expanded mainly as a result of higher average interest rates in Angola, Mozambique and Nigeria, partly offset by an increase in the yield on the client funding portfolio in these countries. In South Africa, the combination of an improved yield on the mortgage lending portfolio and enhanced risk-based pricing of new loans in the personal unsecured and business lending portfolios also provided a benefit. A small positive endowment impact on capital and transactional balances in Africa Regions was achieved.

Non-interest revenue was flat on 2016, with the largest component, net fee and commission revenue, remaining at the same level as the prior year. Trading revenue declined 2% and other revenue grew by 7%.

On a constant currency basis, net fee and commission revenue grew 7%. This was the result of healthy volume-based increases in both card-based commissions and electronic banking fees as well as higher documentation and administration fees. Our Africa Regions showed strong growth of 20%.

Trading revenue grew 8% in constant currency off the back of a strong performance in Africa Regions, which contributed 45% of the group's trading revenues. Fixed income and currencies (FIC) trading revenue grew 15% in constant currency, with strong growth in fixed income driven by increased client activity. Foreign exchange trading was impacted by liquidity shortages and regulatory constraints in some key markets in Africa Regions. Equity trading revenue experienced lower trading volumes, and was negatively impacted by the elimination, in terms of IFRS, of gains on SBK shares held by the group to facilitate client trading activities, following a significantly higher SBK share price and long client positions.

Credit impairment charges

Credit impairment charges of R9.4 billion were 1% lower than the prior year, while gross average loans and advances fell by 2%. This resulted in the group credit loss ratio remaining flat at 86 bps.

In Personal & Business Banking (PBB), impairment charges declined 3% year on year, mainly as a result of a lower portfolio impairment charge. This was driven by a decline in early arrears from continued improvements in early stage collections and payment methods. Impairment charges for vehicle and asset finance (VAF) and mortgage loans in South Africa declined as the quality of the books continued to improve, with a concomitant decline in credit loss ratios for these portfolios. Higher specific impairment charges were raised mainly against business lending, both in South Africa, following the migration of a few larger exposures to NPLs, as well as in Africa Regions, driven predominantly by increased charges in Nigeria, following an accelerated write-off of NPLs, and a single counterparty write-off in Malawi. Overall, coverage levels were maintained.

Corporate & Investment Banking's (CIB) impairment charges rose 1% on the prior year. Combined with a flat gross average customer loan book, the credit loss ratio to customers was 44 bps (2016: 44 bps). Specific impairment provision adequacy increased from 56% in the prior year to 60%, to account for stress in the Power & Infrastructure and Oil & Gas sectors in Kenya and Nigeria. A decline in portfolio impairments in Africa Regions from elevated levels recorded in the prior year was largely offset by an increase in South Africa.

Operating expenses

Operating expenses grew 2% year on year, and in constant currency were up 8%. This reflects inflationary growth in South Africa of 5%, while in Africa Regions, costs were up 18% in constant currency due to higher inflation and continued investment. The cost-to-income ratio for the year was 55.7%, an improvement on the 56.3% in the prior year.

Staff costs were up 8% in constant currency. Following a year of disciplined focus on headcount, the overall staff complement remained at a similar level to 2016, declining 1% in South Africa with a marginal increase in Africa Regions to support business growth.

Other operating expenses grew 9% on a constant currency basis despite an 18% higher amortisation charge relating to IT intangible assets. After many years of double digit growth, the total IT function spend was well contained, growing 5% in Rand. A higher marketing cost was incurred, mainly for the "What's your next" and Shyft campaigns in South Africa. The growth rate was assisted by the non-recurrence of an operational loss of R300 million in the prior year related to the Japan fraud incident.

Loans and advances

Gross loans and advances to customers grew by 1% year on year, of which PBB's advances to customers grew by 3% and CIB's declined by 2%.

Within PBB, mortgage lending grew 3%. New business disbursements of R42.4 billion were made in South Africa during the year despite the number of registrations falling 14% compared to 2016. During the year, PBB continued to write the largest proportion of new mortgage business in South Africa and maintained its leading market share at the end of 2017. VAF lending showed a modest 1% growth, as new business disbursements only slightly exceeded the run off in this book in South Africa, while the book in Africa Regions contracted. Credit card balances rose 3% while other personal unsecured lending fell by 2%. Business lending grew by 7%, with PBB Africa Regions showing good growth on a constant currency basis.

In CIB, term loans extended to clients to support their growth ambitions grew by a muted 2%, as new business was offset by maturities and early repayments by clients. Loans granted under resale agreements, used primarily for liquidity management purposes, declined as other high quality liquid assets increased to meet higher regulatory liquidity requirements.

Funding and liquidity

The group's liquidity position remained strong and within approved risk appetite and tolerance limits. The group's fourth quarter average Basel III LCR amounted to 135%, exceeding the minimum phased-in Basel III LCR requirement of 80%. The group successfully achieved compliance with the minimum Basel III net stable funding ratio requirements with effect 1 January 2018.

Despite the downgrades of the SA sovereign credit ratings during the year, the market cost of liquidity widened only marginally. A number of key debt capital market and term loan funding transactions were executed, taking advantage of pockets of relatively well-priced liquidity as investor appetite for capital markets' issuances remained robust. The group successfully increased its longer term funding during 2017, raising R32.4 billion through a combination of senior debt and syndicated loans. An additional R24.6 billion was raised through negotiable certificates of deposit with tenors in excess of 12 months.

Deposits from customers grew 5% year on year. The group's most stable source of funding, retail deposits from PBB customers, increased 6% in Rand and 9% in constant currency. The bank maintained its leading retail deposit market share in South Africa, growing retail-priced deposits by 8%, and continued to grow its franchise in Africa Regions, where retail-priced deposits grew 4% (15% in constant currency). The group's offshore operations in the Isle of Man and Jersey continue to be an important source of USD and GBP funding, growing 4% in Rand and 6% on a constant currency basis. CIB's focus on transactional banking clients assisted growth in current accounts and cash management deposits of 2% in Rand and 5% in constant currency.

Capital management

The group maintained strong capital adequacy ratios, with a CET1 ratio of 13.5% (2016: 13.9%) and a total capital adequacy ratio of 16.0% (2016: 16.6%). In line with the group's objective to optimise its capital stack, SBG successfully executed two Basel III compliant Additional Tier 1 (AT1) bond issues in March and September 2017, raising R3.5 billion, the proceeds of which have been invested in The Standard Bank of South Africa (SBSA).

In December 2017, the Basel Committee on Banking Supervision published the finalised Basel III reforms, which aim to reduce excessive variability of risk-weighted assets and improve the comparability of banks' capital ratios. The regulations will be implemented on 1 January 2022 with a transitional arrangement for phasing in the aggregate output floor until 2027. Going forward we will plan and manage the business with the new requirements and deadlines in mind.

IFRS 9 became effective on 1 January 2018. The group will provide a transition report with its first quarter results for 2018. The day one impact of implementing IFRS 9's expected credit loss impairment requirements, which comprise the most material impact, is expected to reduce the group's CET 1 ratio by approximately 70 bps, which will be phased in over three years. We expect an increase of approximately R8.7 billion in balance sheet impairments; an increase of 32% on IAS 39's balance sheet impairments (including interest in suspense).

Headline earnings by business unit

	CCY %	Change %	2017 Rm	2016 Rm
Personal & Business Banking	12	10	**14 008**	12 724
Corporate & Investment Banking	17	11	**11 506**	10 339
Central and other	22	24	**(1 246)**	(1 001)
Banking activities	14	10	**24 268**	22 062
Other banking interests	>100	>100	**567**	(8)
Liberty	50	50	**1 435**	955
Standard Bank Group	18	14	**26 270**	23 009

Overview of business unit performance

Personal & Business Banking

PBB's headline earnings of R14.0 billion were 10% higher than the prior year, driven by growth in pre-provision operating profit and lower credit impairment charges as a result of improved collections strategies. An ROE of 20.0% was achieved, an improvement on the 18.8% recorded in the prior year.

PBB in South Africa delivered a strong performance with headline earnings of R13.2 billion up 11%. Total income grew by 6%, supported by good volume-based increases in target customer segments. Operating expenses were 6% higher, despite incurring an extra R289 million amortisation charge on strategic IT investments such as core banking, and increased spending on marketing campaigns. PBB SA delivered positive jaws of 0.4%. Credit impairment charges declined by 4% leading to a lower credit loss ratio of 119 bps (2016: 129 bps). An improved performance in both secured and personal unsecured lending (including card debtors) was partially offset by a higher impairment charge for business lending. Impairment charges for mortgages were R355 million lower than the prior year. This was driven by an improvement across the mortgage portfolio in South Africa, particularly in the older vintages. Within South Africa, mortgages written post 2008, which have a lower average credit loss ratio and better margin, now represent approximately 70% of the book (2016: 64%).

As our journey to digitise the group and deliver an always-on experience to customers continues to progress, PBB SA's staff complement declined by 1%, while the total square meterage of the branch network declined by a further 3% to 375 000 square metres. This footprint has been reduced by more than 15% since 2010, without a material change in the number of branches. PBB SA now has almost 2.2 million unique customers actively using digital channels as their preference, with more of these choosing to use our mobile banking offering than internet banking. Mobile banking transactions processed were 32% higher than in 2016. By contrast, teller and enquiry volumes in branches declined by 14% and 13% respectively.

Results from PBB Africa Regions and Wealth International were impacted by the strengthening Rand on average in 2017 compared to 2016. To reflect the underlying trends in these businesses, the commentary that follows refers to the constant currency changes of PBB Africa Regions and Wealth International.

Headline earnings from PBB Africa Regions improved by 9% to R202 million. Customer loans expanded by 11%, mainly in Kenya and Namibia, and deposits from customers grew by 15%, with particularly pleasing growth in Nigeria, Kenya and Uganda. PBB Africa Regions' result was underpinned by customer acquisition in key markets, with a focus on delivering digital solutions. The number of active customers grew by more than 20% in Nigeria, Kenya, Tanzania, and Zambia. Customers in PBB Africa Regions performed more than 27 million transactions on mobile banking, up from approximately 10 million in 2016.

Net interest income grew by 9%, benefiting from balance growth, and the positive endowment impact of higher average interest rates in Mozambique and Nigeria. Non-interest revenue grew by 13%, underpinned by higher transaction volumes and an increase in the account base. PBB Africa Regions comprises almost half of the Africa Regions legal entities' total income. The credit loss ratio increased to 253 bps from 228 bps in the prior year, driven predominantly by increased charges in Nigeria and Malawi. Excluding these, the credit loss ratio for PBB Africa Regions declined to 152 bps.

Wealth International grew headline earnings by 32%, supported by growth in USD, GBP and EUR denominated client deposit balances to GBP5.1 billion (2016: GBP4.8 billion) in our operations in the Isle of Man and Jersey during the year and margin expansion following interest rate increases in the US and UK.

Corporate & Investment Banking

CIB's headline earnings of R11.5 billion were up 11% on the prior year, and 17% on a constant currency basis. Continued cost discipline and improvements in productivity and efficiency metrics resulted in positive jaws of 4.6%. The credit loss ratio to customers of 44 bps was within CIB's target range of 40 to 60 bps. Higher headline earnings, together with disciplined capital utilisation, delivered an ROE of 22.2%, an improvement from 19.5% in 2016.

Due to the impact of currency on CIB's results, the commentary that follows refers to the constant currency changes. CIB delivered strong revenue growth of 13%, with sectoral, geographic and product diversity supporting the performance. This reflects our focus on strengthening our capabilities and improving co-ordination to better serve our clients across Africa. CIB recorded strong performances from multinational corporates and large domestic clients in the Financial Institutions, Industrials, Telecoms & Media and Oil & Gas sectors. Revenues in the CIB SA franchise were up 4%. The West Africa franchise delivered a resounding turn around, with revenues up by more than 30%. South & Central Africa continued to be a steady performer, delivering revenue growth of 13%. Following focused attention on East Africa, this region delivered strong revenue growth of 14%.

Transactional Products and Services (TPS) was the outstanding performer, with headline earnings up 32%. TPS plays a core role across the wider CIB franchise, being critical to the wholesale client franchise across the African continent. Revenues grew by 18%, with NII well ahead of the prior year. Africa Regions delivered a strong performance, underpinned by increased client activity, good deposit growth and supported by the positive endowment effect from higher interest rates. Continued investment in key electronic platform capability resulted in a higher amortisation charge. Credit impairment charges declined from elevated levels in the prior year.

Global Markets delivered a resilient performance, growing headline earnings by 13% to R4.6 billion. In South Africa, foreign exchange and equities trading slowed, with equities impacted by the low market volatility experienced in most global markets. Liquidity shortages and regulatory constraints negatively impacted trading activity in Africa Regions, particularly in Angola and Mozambique. The introduction of the new, more flexible forex regime in Nigeria assisted forex flows in the second half.

Investment Banking revenues were up 6%, reflecting fees earned on a number of landmark transactions and client activity in both debt and equity capital markets. Loans in the Investment Banking portfolio grew a subdued 4% on average and 2% on year-end balances. Competition for high quality clients caused margin compression. As a result, NII remained at a similar level to the prior year. Credit impairments increased as a result of a small number of impairments in stressed sectors in the Africa Regions, as well as higher portfolio provisions following the downgrade of the South African sovereign risk.

Central and other

This segment includes costs associated with corporate functions, as well as the group's treasury and capital requirements, and central hedging activities. In 2017, the segment recorded a loss of R1 246 million, 24% higher than the prior year. The primary driver of the increased loss was the elimination, in terms of IFRS, of gains on SBK shares referred to earlier.

Other banking interests

Other banking interests recorded headline earnings of R567 million, compared to a loss of R8 million in 2016.

The group's 40% stake in ICBCS contributed R152 million, a significant improvement on the R591 million loss recorded in the prior year. The FIC and equities businesses delivered a strong result and higher commodity prices assisted the commodities business. Of the R152 million contribution, approximately R100 million relates to a UK consortium tax relief credit. Adjusted for this, ICBCS effectively broke even at an operational level in the second half of the year.

ICBC Argentina delivered growth in revenues on an improving macro-economic environment, particularly in the second half, to report earnings after tax that were marginally lower than 2016. The headline earnings contribution from the group's 20% stake in ICBC Argentina declined 29% to R415 million off a high base set in 2016. On a constant currency basis, earnings were down 11%.

Liberty

The financial results reported are the consolidated results of the group's 55.5% investment in Liberty, adjusted for SBK shares held by Liberty for the benefit of Liberty policyholders which are deemed to be treasury shares in the group's consolidated accounts.

Liberty's normalised headline earnings for the year improved by 8% to R2.7 billion, supported by improving SA retail insurance earnings and higher returns from investment markets. Liberty's capital position remains strong. Liberty's IFRS headline earnings, after the adjustments for the impact of the BEE preference share income and the Liberty Two Degrees listed Real Estate Investment Trust accounting mismatch, rose to R3.3 billion from R2.2 billion in the prior year. Investors are referred to the full Liberty announcement dated 2 March 2018 for further detail.

Headline earnings attributable to the Standard Bank Group, adjusted by R369 million for the impact of the deemed treasury shares, were R1.4 billion, 50% higher than in the prior year.

Prospects

The global growth outlook remains positive and relatively synchronised, with recent momentum in advanced economies expected to continue. China's growth is expected to remain robust. Although upside inflationary pressures are emerging, particularly in the US, monetary policies in the advanced economies are expected to maintain a moderate pace of tightening, which should help sustain capital flows to emerging markets. From a 22-year low in 2016, growth in sub-Saharan Africa is expected to accelerate to 3.3% in 2018, supported by a world-wide economic upswing, and slightly rising commodity prices. In general, economic prospects across our network of countries are expected to improve, providing a favourable backdrop for our business.

We are also optimistic about the prospects in our home market of South Africa. We believe that the positive steps taken already by the ruling party subsequent to its leadership conference will improve business and consumer confidence. This positive sentiment, as well as pent-up demand, should begin to reflect in key economic indicators.

In the face of fast-growing competition from established banks and new competitors, we have a relentless focus on three immediate priorities - to transform into a client-centred, digitally enabled, and integrated universal financial services organisation.

We are in the final stages of our core banking journey and, by the end of the first quarter of 2018, 93% of our transactional accounts in South Africa will have been migrated onto our core banking platform. With this modernised platform in place, we will increasingly focus on front-end solutions and innovations, the benefit of which will be experienced directly by our customers.

We support faster, more inclusive and more sustainable economic growth and human development in South Africa and throughout the continent we are proud to call our home. At the same time, we are focused on improving the returns we deliver to our shareholders. Accordingly, we have lifted our medium-term ROE target range from 15% - 18% to 18% - 20%. We will continue to focus on the levers available to deliver on our targets, including positive jaws, efficient capital allocation and improving returns from PBB Africa Regions. We stand ready to serve our customers with consistent excellence, wherever they are and whatever financial services they require, online or in person.

Stakeholders should note that any forward-looking information in this announcement has not been reviewed and reported on by the group's external auditors.

Sim Tshabalala
Group chief executive

Thulani Gcabashe
Chairman

7 March 2018

Declaration of dividends

Shareholders of Standard Bank Group Limited (the company) are advised of the following dividend declarations out of income reserves in respect of ordinary shares and preference shares.

Ordinary shares

Ordinary shareholders are advised that the board of directors has resolved to declare a final gross cash dividend No. 97 of 510 cents (gross) per ordinary share (the cash dividend) to ordinary shareholders recorded in the register of the company at the close of business on Friday, 13 April 2018. The last day to trade to participate in the dividend is Tuesday, 10 April 2018. Ordinary shares will commence trading *ex* dividend from Wednesday, 11 April 2018.

The salient dates and times for the cash dividend are set out in the table that follows.

Ordinary share certificates may not be dematerialised or rematerialised between Wednesday, 11 April 2018 and Friday, 13 April 2018, both days inclusive. Ordinary shareholders who hold dematerialised shares will have their accounts at their Central Securities Depository Participant (CSDP) or broker credited on Monday, 16 April 2018.

Where applicable, dividends in respect of certificated shares will be transferred electronically to shareholders' bank accounts on the payment date. In the absence of specific mandates, dividend cheques will be posted to shareholders.

Preference shares

Preference shareholders are advised that the board has resolved to declare the following dividends:

- 6.5% first cumulative preference shares (first preference shares) dividend No. 97 of 3.25 cents (gross) per first preference share, payable on Monday, 9 April 2018, to holders of first preference shares recorded in the books of the company at the close of business on the record date, Friday, 6 April 2018. The last day to trade to participate in the dividend is Tuesday, 3 April 2018. First preference shares will commence trading *ex* dividend from Wednesday, 4 April 2018.
- Non-redeemable, non-cumulative, non-participating preference shares (second preference shares) dividend No. 27 of 398.92 cents (gross) per second preference share, payable on Monday, 9 April 2018, to holders of second preference shares recorded in the books of the company at the close of business on the record date, Friday, 6 April 2018. The last day to trade to participate in the dividend is Tuesday, 3 April 2018. Second preference shares will commence trading *ex* dividend from Wednesday, 4 April 2018.

The salient dates and times for the preference share dividends are set out in the table that follows.

Preference share certificates (first and second) may not be dematerialised or rematerialised between Wednesday, 4 April 2018 and Friday,6 April 2018, both days inclusive. Preference shareholders (first and second) who hold dematerialised shares will have their accounts at their CSDP or broker credited on Monday, 9 April 2018.

Where applicable, dividends in respect of certificated shares will be transferred electronically to shareholders' bank accounts on the payment date. In the absence of specific mandates, dividend cheques will be posted to shareholders.

The relevant dates for the payment of dividends are as follows:

	Ordinary shares	6.5% cumulative preference shares (First preference shares)	Non-redeemable, non-cumulative, non-participating preference shares (Second preference shares)
JSE Limited			
Share code	SBK	SBKP	SBPP
ISIN	ZAE000109815	ZAE000038881	ZAE000056339
Namibian Stock Exchange (NSX)			
Share code	SNB		
ISIN	ZAE000109815		
Dividend number	97	97	27
Gross dividend per share (cents)	510	3.25	398.92
Last day to trade in order to be eligible for the cash dividend	Tuesday, 10 April 2018	Tuesday, 3 April 2018	Tuesday, 3 April 2018
Shares trade *ex* the cash dividend	Wednesday, 11 April 2018	Wednesday, 4 April 2018	Wednesday, 4 April 2018
Record date in respect of the cash dividend	Friday, 13 April 2018	Friday, 6 April 2018	Friday, 6 April 2018
Dividend cheques posted and CSDP/broker account credited/updated (payment date)	Monday, 16 April 2018	Monday, 9 April 2018	Monday, 9 April 2018

The above dates are subject to change. Any changes will be released on the SENS and published in the South African and Namibian press.

Tax implications

The cash dividend received under the ordinary shares and the preference shares is likely to have tax implications for both resident and non-resident ordinary and preference shareholders. Such shareholders are therefore encouraged to consult their professional tax advisers.

In terms of the South African Income Tax Act, 58 of 1962, the cash dividend will, unless exempt, be subject to dividends tax that was introduced with effect from 1 April 2012. South African resident ordinary and preference shareholders that are not exempt from dividends tax, will be subject to dividends tax at a rate of 20% of the cash dividend, and this amount will be withheld from the cash dividend with the result that they will receive a net amount of 408 cents per ordinary share, 2.6 cents per first preference share and 319.136 cents per second preference share. Non-resident ordinary and preference shareholders may be subject to dividends tax at a rate of less than 20% depending on their country of residence and the applicability of any double tax treaty between South Africa and their country of residence.

The issued share capital of the company, as at the day before declaration, is as follows:

- 1 619 268 169 ordinary shares
- 8 000 000 first preference shares
- 52 982 248 second preference shares.

The company's tax reference number is 9800/211/71/7 and its registration number is 1969/017128/06.

Financial statistics

for the year ended 31 December 2017

	Change %	2017	2016
Number of ordinary shares in issue (000's)			
End of year		**1 597 371**	1 596 583
Weighted average		**1 601 855**	1 597 739
Diluted weighted average		**1 621 921**	1 619 444
Cents per ordinary share			
Basic earnings	18	**1 637.8**	1 389.8
Diluted earnings	18	**1 617.5**	1 371.2
Headline earnings	14	**1 640.0**	1 440.1
Diluted headline earnings	14	**1 619.7**	1 420.8
Dividend	17	**910**	780
Net asset value	4	**9 830**	9 442
Financial performance (%)			
ROE		**17.1**	15.3
Net interest margin on banking activities[1]		**4.74**	4.48
Credit loss ratio on banking activities		**0.86**	0.86
Cost-to-income ratio on banking activities		**55.7**	56.3
Jaws on banking activities		**1.0**	0.3
Capital adequacy ratios (%)			
Common equity tier 1 capital adequacy ratio		**13.5**	13.9
Tier 1 capital adequacy ratio		**14.2**	14.3
Total capital adequacy ratio		**16.0**	16.6

[1] The comparative has been updated in line with changes in methodology.

Condensed consolidated statement of financial position

as at 31 December 2017

	2017 Rm	2016[1] Rm	2015[1] Rm
Assets			
Cash and balances with central banks	**75 310**	77 474	75 112
Derivative assets	**75 610**	66 304	107 189
Trading assets	**160 894**	129 845	86 219
Pledged assets	**20 785**	18 777	34 429
Financial investments	**533 314**	483 774	486 704
Current and deferred tax assets	**2 109**	2 467	2 415
Loans and advances	**1 048 027**	1 065 405	1 076 917
Policyholders' assets	**7 484**	7 314	7 579
Other assets	**22 996**	21 547	24 552
Interest in associates and joint ventures	**9 665**	8 196	9 703
Investment property	**32 226**	31 155	30 508
Property and equipment	**16 179**	16 041	17 670
Goodwill and other intangible assets	**23 329**	23 675	24 031
Total assets	**2 027 928**	1 951 974	1 983 028
Equity and liabilities			
Equity	**190 017**	179 359	178 908
Equity attributable to ordinary shareholders	**157 020**	150 757	151 069
Equity attributable to other equity instrument holders[2]	**9 047**	5 503	5 503
Equity attributable to non-controlling interests	**23 950**	23 099	22 336
Liabilities	**1 837 911**	1 772 615	1 804 120
Derivative liabilities	**76 896**	72 767	130 058
Trading liabilities	**62 855**	47 867	43 304
Current and deferred tax liabilities	**8 614**	8 317	9 398
Deposits and debt funding	**1 243 911**	1 213 621	1 186 514
Policyholders' liabilities	**322 918**	307 230	305 194
Subordinated debt	**24 289**	25 997	27 141
Provisions and other liabilities	**98 428**	96 816	102 511
Total equity and liabilities	**2 027 928**	1 951 974	1 983 028

1 Refer to the accounting policy elections for details of the restatement to derivative assets and derivative liabilities.

2 Other equity instruments comprise: preference share capital of R5 503 million (2016: R5 503 million) and AT1 capital of R3 544 million (2016: Rnil). Refer to the AT1 capital paragraph within other reportable items for further details.

Condensed consolidated income statement

for the year ended 31 December 2017

	2017 Rm	2016 Rm
Income from banking activities	**103 162**	99 857
Net interest income	**60 125**	56 892
Non-interest revenue	**43 037**	42 965
Income from investment management and life insurance activities	**24 394**	21 365
Total income	**127 556**	121 222
Credit impairment charges	**(9 410)**	(9 533)
Net income before operating expenses	**118 146**	111 689
Operating expenses in banking activities	**(57 512)**	(56 235)
Operating expenses in investment management and life insurance activities	**(17 800)**	(17 374)
Net income before capital items and equity accounted earnings	**42 834**	38 080
Non-trading and capital related items	**(261)**	(1 123)
Share of post tax profit from associates and joint ventures	**1 102**	187
Net income before indirect taxation	**43 675**	37 144
Indirect taxation	**(2 481)**	(2 418)
Profit before direct taxation	**41 194**	34 726
Direct taxation	**(10 479)**	(8 932)
Profit for the year	**30 715**	25 794
Attributable to ordinary shareholders	**26 235**	22 206
Attributable to other equity instrument holders	**594**	406
Attributable to non-controlling interests	**3 886**	3 182
Earnings per share (cents)		
Basic earnings per ordinary share	**1 637.8**	1 389.8
Diluted earnings per ordinary share	**1 617.5**	1 371.2

Condensed consolidated statement of other comprehensive income

for the year ended 31 December 2017

	2017 Rm	2016 Rm
Profit for the year	30 715	25 794
Other comprehensive loss after tax for the year	(5 940)	(14 647)
Items that may be subsequently reclassified to profit and loss	(5 607)	(14 773)
Exchange differences on translating foreign operations	(6 180)	(14 680)
Movement in the cash flow and net investment hedging reserve	111	30
Net change in fair value of cash flow hedges and net investment in foreign operations' hedges	111	(1 319)
Realised fair value adjustments of cash flow hedges transferred to profit or loss		1 349
Movements in the available-for-sale revaluation reserve	462	(123)
Items that may not be reclassified to profit and loss		
Defined benefit fund remeasurements and other remeasurements	(333)	126
Total comprehensive income for the year	24 775	11 147
Attributable to ordinary shareholders	21 514	10 882
Attributable to other equity instrument holders	594	406
Attributable to non-controlling interests	2 667	(141)

Condensed consolidated statement of changes in equity

for the year ended 31 December 2017

	Ordinary shareholders' equity Rm	Other equity instrument holders Rm	Non-controlling interest Rm	Total equity Rm
Balance at 1 January 2016	151 069	5 503	22 336	178 908
Total comprehensive income for the year	10 882	406	(141)	11 147
Transactions with shareholders and non-controlling interest recorded directly in equity	(11 194)	(406)	1 123	(10 477)
Equity-settled share-based payment transactions	126		48	174
Deferred tax on share-based payment transactions	207			207
Transactions with non-controlling shareholders	(648)		2 105	1 457
Net dividends paid	(11 463)	(406)	(1 098)	(12 967)
Net decrease in treasury shares	741		68	809
Other equity movements	(157)			(157)
Unincorporated property partnerships' capital reductions and distributions			(219)	(219)
Balance at 31 December 2016	150 757	5 503	23 099	179 359
Balance at 1 January 2017	**150 757**	**5 503**	**23 099**	**179 359**
Total comprehensive income for the year	**21 514**	**594**	**2 667**	**24 775**
Transactions with shareholders and non-controlling interest recorded directly in equity	**(15 251)**	**2 950**	**(1 665)**	**(13 966)**
Equity-settled share-based payment transactions	**(885)**		**29**	**(856)**
Deferred tax on share-based payment transactions	**276**			**276**
Transactions with non-controlling shareholders	**(54)**		**160**	**106**
Net dividends paid	**(13 552)**	**(594)**	**(1 364)**	**(15 510)**
Net increase in treasury shares	**(1 153)**		**(490)**	**(1 643)**
Other equity movements	**117**	**3 544**		**3 661**
Unincorporated property partnerships' capital reductions and distributions			**(151)**	**(151)**
Balance at 31 December 2017	**157 020**	**9 047**	**23 950**	**190 017**

Condensed consolidated statement of cash flows

for the year ended 31 December 2017

	2017 Rm	2016 Rm
Net cash flows from operating activities	**24 137**	40 255
Direct taxation paid	**(10 078)**	(9 232)
Cash inflows from other operating activities	**34 215**	49 487
Net cash flows used in investing activities	**(8 415)**	(13 377)
Cash outflow from capital expenditure	**(5 451)**	(7 537)
Cash outflow from other investing activities	**(2 964)**	(5 840)
Net cash flows used in financing activities	**(12 674)**	(12 030)
Cash inflow from equity transactions with non-controlling interests	**1 173**	1 575
Cash outflow from subordinated debt instruments redeemed	**(4 180)**	(3 175)
Cash inflow from subordinated debt instruments issued	**2 246**	2 694
Issuance of other equity instruments[1]	**3 544**	
Cash outflow from dividends paid[2]	**(15 574)**	(12 967)
Cash inflow/(outflow) from other financing activities	**117**	(157)
Effect of exchange rate changes on cash and cash equivalents	**(5 212)**	(12 486)
Net (decrease)/increase in cash and cash equivalents	**(2 164)**	2 362
Cash and cash equivalents at the beginning of the year	**77 474**	75 112
Cash and cash equivalents at the end of the year	**75 310**	77 474
Comprising:		
Cash and balances with central banks	**75 310**	77 474

[1] Refer to AT1 capital paragraph within other reportable items for further details.

[2] During 2017, coupons to the value of R229 million were paid to AT1 capital bond holders. Current tax of R64 million relating to the AT1 capital bonds was recognised directly in equity resulting in an aggregate net equity impact of R165 million.

Notes

Condensed segment report

For the year ended 31 December 2017

The group's primary segments comprise the group's banking activities (comprising PBB, CIB and central and other), the group's other banking interests (comprising the group's interest in ICBC Argentina and ICBCS) and Liberty (comprising the group's investment management and life insurance activities).

	2017 Rm	2016[1] Rm
Revenue contribution by business unit		
Personal & Business Banking	69 526	67 635
Corporate & Investment Banking	37 251	35 420
Central and other	(3 615)	(3 198)
Banking activities	103 162	99 857
Liberty	24 394	21 365
Standard Bank Group	127 556	121 222
Profit or loss attributable to ordinary shareholders		
Personal & Business Banking	13 927	12 613
Corporate & Investment Banking	11 392	10 239
Central and other	(1 045)	(1 593)
Banking activities	24 274	21 259
Other banking interests	600	(8)
Liberty	1 361	955
Standard Bank Group	26 235	22 206
Total assets by business unit		
Personal & Business Banking	705 232	689 183
Corporate & Investment Banking	905 138	897 565
Central and other	(12 402)	(42 990)
Banking activities	1 597 968	1 543 758
Other banking interests	7 493	6 445
Liberty[2]	422 467	401 771
Standard Bank Group	2 027 928	1 951 974
Total liabilities by business unit		
Personal & Business Banking	630 796	618 113
Corporate & Investment Banking	841 785	842 751
Central and other	(29 846)	(62 425)
Banking activities	1 442 735	1 398 439
Liberty[2]	395 176	374 176
Standard Bank Group	1 837 911	1 772 615

1 Where responsibility for individual cost centres and divisions within business units change, the comparative figures have been reclassified accordingly.
2 Refer to the accounting policy elections for details of the restatement.

Headline earnings

for the year ended 31 December 2017

	2017 Rm	2016 Rm
Profit for the year	**26 235**	22 206
Headline adjustable items added/(reversed)	**187**	989
IAS 16 – Loss on sale of property and equipment	**10**	50
IAS 21 – Realised foreign currency profit on foreign operations	**(214)**	(62)
IAS 27/IAS 28 – Losses/(gains) on disposal of businesses	**18**	(11)
IAS 28/IAS 36 – Impairment of associate		10
IAS 36 – Impairment of intangible assets	**447**	654
IAS 36 – Goodwill impairment		482
IAS 39 – Realised gains on available-for-sale assets	**(74)**	(134)
Taxation on headline earnings adjustable items	**(94)**	(178)
Non-controlling interests' share of headline earnings adjustable items	**(58)**	(8)
Standard Bank Group headline earnings	**26 270**	23 009
Headline earnings per ordinary share (cents)		
Headline earnings per ordinary share	**1 640.0**	1 440.1
Diluted headline earnings per ordinary share	**1 619.7**	1 420.8

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

Private equity associates and joint ventures

as at 31 December 2017

The following table provides disclosure of those private equity associates and joint ventures that are equity accounted in terms of IAS 28 *Investments in Associates and Joint Ventures* and have been ring-fenced in terms of the requirements of the circular titled *Headline Earnings* issued by SAICA, and amended from time to time. On the disposal of these associates and joint ventures held by the group's private equity division, the gain or loss on the disposal will be included in headline earnings.

	2017 Rm	2016 Rm
Cost	**48**	48
Carrying value	**546**	389
Fair value	**546**	389
Realised gains on disposal for the year included in headline earnings		45
Attributable income before impairment	**159**	3

Contingent liabilities and commitments

	2017 Rm	2016 Rm
Letters of credit and bankers' acceptances	**13 413**	12 607
Guarantees	**63 761**	64 076
Contingent liabilities	**77 174**	76 683
Investment property	**385**	633
Property and equipment	**94**	315
Other intangible assets	**299**	399
Commitments	**778**	1 347

Notes continued

Day one profit or loss

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

	Derivative instruments Rm	Trading assets Rm	Total Rm
Balance as at 1 January 2016	295	582	877
Additional net profit on new transactions during the year	2	137	139
Recognised in trading revenue during the year	(16)	(131)	(147)
Exchange differences	(120)		(120)
Balance as at 31 December 2016	161	588	749
Balance as at 1 January 2017	**161**	**588**	**749**
Additional net profit on new transactions during the year	**544**	**162**	**706**
Recognised in trading revenue during the year	**(508)**	**(108)**	**(616)**
Exchange differences	**(37)**		**(37)**
Balance as at 31 December 2017	**160**	**642**	**802**

Related party transactions

Tutuwa related parties

Tutuwa participants were allowed to access their underlying equity value post the expiry of the lock-in period on 31 December 2014. For both 2017 as well as 2016 the shares in issue financed by the group had an opening and closing balance of 5 750 291 shares, with no movements in these shares for both years. The weighted number of shares thus also equated to 5 750 291 for both periods.

Post-employment benefit plans

The group manages R11 864 million (2016: R11 918 million) of the post-employment benefit plans' assets. Other significant balances between the group and the group's post-employment benefit plans are listed below:

	2017 Rm	2016 Rm
Financial investments held in the group's bonds and money market instruments	**1 089**	947
Value of ordinary SBG shares held	**2 157**	570

Balances and transactions with ICBCS

The following balances and transactions were entered into between the group and ICBCS, an associate of the group.

Amounts included in the group's statement of financial position	2017 Rm	2016 Rm
Derivative assets	**2 227**	1 856
Trading assets	**7**	24
Loans and advances	**31 413**	30 111
Other assets	**590**	232
Derivative liabilities	**(2 340)**	(2 271)
Deposits and debt funding	**(1 050)**	(1 315)
Provisions and other liabilities	**(759)**	(287)

Services

The group entered into certain transitional service level arrangements with ICBCS in order to manage the orderly separation of ICBCS from the group post the sale of 60% of Standard Bank Plc (SB Plc) (now ICBCS). In terms of these arrangements, services are delivered to and received from ICBCS for the account of each respective party. As at 31 December 2017 the expense recognised by the group in respect of these arrangements amounted to R277 million (2016: R202 million).

Tax consortium relief

The UK's tax legislation creates UK tax groups that allow for consortium relief in terms of which UK tax losses arising in one eligible consortium company are offset against UK tax profits arising in the same tax year in other eligible consortium companies. ICBCS, the group's UK subsidiary Standard Advisory London Limited (SALL) and ICBC's UK subsidiary ICBC (London) Plc are eligible companies of the same consortium group, and are therefore able to take advantage of the consortium relief rules. During 2015 and 2016, ICBCS made taxable losses, whilst SALL and ICBC (London) Plc made taxable profits. As such ICBCS, SALL and ICBC (London) Plc agreed to offset ICBCS's taxable losses against SALL and ICBC (London) Plc's taxable profits. During the year ICBCS recognised a tax credit of USD19.4 million for consortium relief, of which an amount of USD7.1 million was payable by SALL to ICBCS in 2018.

Balances and transactions with the Industrial and Commercial Bank of China (ICBC)

The following balances and transactions were entered into between the group and ICBC, a 20.1% shareholder of the group, excluding those with ICBCS:

Amounts included in the group's statement of financial position	2017 Rm	2016 Rm
Loans and advances	**2 939**	246
Other assets[1]	**611**	656
Deposits and debt funding	**(91)**	(6 583)

[1] The group recognised losses in respect of certain commodity reverse repurchase agreements with third parties prior to 1 February 2015, being the date of conclusion of the sale and purchase agreement, relating to SB Plc (now ICBCS) with ICBC. As a consequence of the sale and purchase agreement, the group holds the right to recover from ICBC 60% of insurance and other recoveries, net of costs, relating to claims for those recognised losses prior to the date of conclusion of the transaction. Settlement of these amounts will occur based on audited information on pre-agreed anniversaries of the completion of the transaction and the full and final settlement of all claims in respect of losses incurred. As at 31 December 2017, a balance of USD50 million (R611 million) is receivable from ICBC in respect of this arrangement (2016: USD48 million; R656 million).

Mutual funds

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

The following significant balances and transactions were entered into between the group and the mutual funds which the group does not control:

Amounts included in the group's statement of financial position and income statement	2017 Rm	2016 Rm
Trading liabilities	**(275)**	(397)
Deposits and debt funding	**(15 706)**	(15 700)
Trading (losses)/gains	**(101)**	51
Interest expense	**(695)**	(1 017)

Changes in group directorate

The following changes in directorate took place during the 2017 financial year up to 7 March 2018:

Appointments		
Dr H Hu	As joint deputy chairman	1 June 2017
L Wang	As non-executive director	1 June 2017
Resignations		
Dr S Gu	As joint deputy chairman	1 June 2017
Dr W Wang	As non-executive director	1 June 2017
BS Tshabalala	As non-executive director	10 November 2017
Retirement		
EM Woods	As non-executive director	26 May 2017

Notes continued

Fair value disclosures

Financial assets and liabilities measured at fair value

Fair value is a market-based measurement and uses the assumptions that market participants would use when pricing an asset or liability under current market conditions. When determining fair value it is presumed that the entity is a going concern and is not an amount that represents a forced transaction, involuntary liquidation or a distressed sale. Information obtained from the valuation of financial instruments is used to assess the performance of the group and, in particular, provides assurance that the risk and return measures that the group has taken are accurate and complete.

Valuation process

The group's valuation control framework governs internal control standards, methodologies, and procedures over its valuation processes, which include:

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

Valuation techniques: Where quoted market prices are unavailable, the group establishes fair value using valuation techniques that incorporate observable inputs, either directly, such as quoted prices, or indirectly, such as those derived from quoted prices, for such assets and liabilities. Parameter inputs are obtained directly from the market, consensus pricing services or recent transactions in active markets, whenever possible. Where such inputs are not available, the group makes use of theoretical inputs in establishing fair value (unobservable inputs). Such inputs are based on other relevant input sources of information and incorporate assumptions that include prices for similar transactions, historic data, economic fundamentals, and research information, with appropriate adjustments to reflect the terms of the actual instrument being valued and current market conditions. Changes in these assumptions would affect the reported fair values of these financial instruments.

Valuation techniques used for financial instruments include the use of financial models that are populated using market parameters that are corroborated by reference to independent market data, where possible, or alternative sources, such as third-party quotes, recent transaction prices or suitable proxies. The fair value of certain financial instruments is determined using industry standard models such as discounted cash flow analysis and standard option pricing models. These models are generally used to estimate future cash flows and discount these back to the valuation date. For complex or unique instruments, more sophisticated modelling techniques may be required, which require assumptions or more complex parameters such as correlations, prepayment spreads, default rates and loss severity.

Valuation adjustments: Valuation adjustments are an integral part of the valuation process. Adjustments include, but are not limited to:
- credit spreads on illiquid issuers
- implied volatilities on thinly traded instruments
- correlation between risk factors
- prepayment rates and
- other illiquid risk drivers.

In making appropriate valuation adjustments, the group applies methodologies that consider factors such as bid-offer spreads, liquidity, counterparty and own credit risk. Exposure to such illiquid risk drivers is typically managed by:
- using bid-offer spreads that are reflective of the relatively low liquidity of the underlying risk driver
- raising day one profit and loss provisions in accordance with IFRS
- quantifying and reporting the sensitivity to each risk driver
- limiting exposure to such risk drivers and analysing exposure on a regular basis.

Validation and control: All financial instruments carried at fair value, regardless of classification, and for which there are no quoted market prices for that instrument, are fair valued using models that conform to international best practice and established financial theory. These models are validated independently by the group's model validation unit and formally reviewed and approved by the market risk methodologies committee. This control applies to both off-the-shelf models as well as those developed internally by the group. Further, all inputs into the valuation models are subject to independent price validation procedures carried out by the group's market risk unit. Such price validation is performed on at least a monthly basis, but daily where possible given the availability of the underlying price inputs. Independent valuation comparisons are also performed and any significant variances noted are appropriately investigated. Less liquid risk drivers, which are typically used to mark level 3 assets and liabilities to model, are carefully validated and tabled at the monthly price validation forum to ensure that these are reasonable and used consistently across all entities in the group. Sensitivities arising from exposures to such drivers are similarly scrutinised, together with movements in level 3 fair values. They are also disclosed on a monthly basis at the market risk and asset and liability committees.

Portfolio exception: The group has, on meeting certain qualifying criteria, elected the portfolio exception to measure the fair value of certain groups of financial assets and financial liabilities on a net basis.

Notes continued

Accounting classifications and fair values of financial assets and liabilities

The table below categorises the group's assets and liabilities as at 31 December 2017 between that which is financial and non-financial. All financial assets and liabilities have been classified according to their measurement category with disclosure of the fair value being provided for those items.

	Held-for-trading Rm	Designated at fair value Rm
2017		
Assets		
Cash and balances with central banks		
Derivative assets	75 610	
Trading assets	160 894	
Pledged assets	4 978	13 751
Financial investments		395 595
Loans and advances to banks		
Loans and advances to customers		110
Policyholders' assets		
Interest in associates and joint ventures		
Investment property		
Other financial assets[3]		
Other non-financial assets		
Total assets	241 482	409 456
Liabilities		
Derivative liabilities	76 896	
Trading liabilities	62 855	
Deposits and debt funding from banks		
Deposits and debt funding from customers		13 847
Policyholders' liabilities[4]		100 519
Subordinated debt		
Other financial liabilities[3]		58 810
Other non-financial liabilities		
Total liabilities	139 751	173 176

1 Includes financial assets and financial liabilities for which the carrying value has been adjusted for changes in fair value due to designated hedged risks.
2 Carrying value has been used where it closely approximates fair values, excluding non-financial assets and liabilities.
3 The fair value of the other financial assets and liabilities approximates the carrying value due to their short-term nature.
4 The fair value has been provided for financial liabilities under investment contracts which have been designated at fair value. The remaining liabilities for which fair value disclosure has not been provided relate to insurance contracts and investment contracts with discretionary participation features that are not financial instruments as defined.

Held-to-maturity Rm	Loans and receivables[1] Rm	Available-for-sale Rm	Other amortised cost[1] Rm	Other assets/ liabilities Rm	Total carrying amount Rm	Fair value[2] Rm
	75 310				75 310	75 310
					75 610	75 610
					160 894	160 894
181	358	1 517			20 785	20 780
81 426	12 661	43 632			533 314	533 235
	117 935				117 935	117 867
	929 982				930 092	928 673
				7 484	7 484	
				9 665	9 665	
				32 226	32 226	32 226
	6 185				6 185	
				58 428	58 428	
81 607	1 142 431	45 149		107 803	2 027 928	
					76 896	76 896
					62 855	62 855
			91 794		91 794	91 619
			1 138 270		1 152 117	1 168 549
				222 399	322 918	100 519
			24 289		24 289	24 863
			30 484		89 294	
				17 748	17 748	
			1 284 837	240 147	1 837 911	

Notes continued

Accounting classifications and fair values of financial assets and liabilities (continued)

	Held-for-trading Rm	Designated at fair value Rm
2016		
Assets		
Cash and balances with central banks		
Derivative assets[3]	66 304	
Trading assets	129 845	
Pledged assets	1 178	16 169
Financial investments		352 445
Loans and advances to banks		
Loans and advances to customers		96
Policyholders' assets[4]		
Interest in associates and joint ventures		
Investment property		
Other financial assets[6]		
Other non-financial assets		
Total assets	197 327	368 710
Liabilities		
Derivative liabilities[3]	72 767	
Trading liabilities	47 867	
Deposits and debt funding from banks		
Deposits and debt funding from customers		13 627
Policyholders' liabilities[5]		91 613
Subordinated debt		
Other financial liabilities[6]		55 794
Other non-financial liabilities		
Total liabilities	120 634	161 034

1 Includes financial assets and financial liabilities for which the carrying value has been adjusted for changes in fair value due to designated hedged risks.
2 Carrying value has been used where it closely approximates fair values, excluding non-financial assets and liabilities.
3 Refer to the accounting policy elections for details of the restatement to derivative assets and derivative liabilities.
4 Policyholders' assets which are insurance contracts were erroneously classified as designated at fair value in 2016, have been reclassified to other assets. This did not change the group's statement of financial position.
5 The fair value has been provided for financial liabilities under investment contracts which have been designated at fair value. The remaining liabilities for which fair value disclosure has not been provided relate to insurance contracts and investment contracts with discretionary participation features that are not financial instruments as defined.
6 The fair value of the other financial assets and liabilities approximates the carrying value due to their short-term nature.

Held-to-maturity Rm	Loans and receivables[1] Rm	Available-for-sale Rm	Other amortised cost[1] Rm	Other assets/ liabilities Rm	Total carrying amount Rm	Fair value[2] Rm
	77 474				77 474	77 474
					66 304	66 304
					129 845	129 845
	198	1 232			18 777	18 779
75 201	17 252	38 876			483 774	484 163
	143 788				143 788	143 674
	921 521				921 617	913 949
				7 314	7 314	
				8 196	8 196	
				31 155	31 155	31 155
	11 843				11 843	
				51 887	51 887	
75 201	1 172 076	40 108		98 552	1 951 974	
					72 767	72 767
					47 867	47 867
			119 246		119 246	118 909
			1 080 748		1 094 375	1 111 276
				215 617	307 230	91 613
			25 997		25 997	26 384
			22 333		78 127	
				27 006	27 006	
			1 248 324	242 623	1 772 615	

Notes continued

Financial assets and liabilities measured at fair value

as at 31 December 2017

Fair value hierarchy

The table that follows analyses the group's financial instruments carried at fair value, by level of fair value hierarchy. The different levels are based on the extent that available market data is used in the calculation of the fair value of the financial instruments. 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.

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.

Level 3 – fair value is determined through valuation techniques using significant unobservable inputs.

	2017				2016			
	Level 1 Rm	Level 2 Rm	Level 3 Rm	Total Rm	Level 1 Rm	Level 2 Rm	Level 3 Rm	Total Rm
Assets								
Measured on a recurring basis[1]								
Derivative assets[2]	120	71 140	4 350	75 610	183	64 006	2 115	66 304
Trading assets	95 654	60 156	5 084	160 894	54 635	70 459	4 751	129 845
Pledged assets	18 516	1 730		20 246	16 829	1 750		18 579
Financial investments	243 968	184 673	10 586	439 227	214 451	168 915	7 955	391 321
Loans and advances to customers		110		110		96		96
Total assets at fair value	358 258	317 809	20 020	696 087	286 098	305 226	14 821	606 145
Liabilities								
Measured on a recurring basis[1]								
Derivative liabilities[2]	93	71 397	5 406	76 896	145	64 068	8 554	72 767
Trading liabilities	33 433	26 383	3 039	62 855	26 995	16 691	4 181	47 867
Deposits and debt funding from customers	146	13 701		13 847		13 627		13 627
Policyholders' liabilities		100 519		100 519		91 613		91 613
Other financial liabilities[3]		57 581	1 229	58 810		54 523	1 271	55 794
Total liabilities at fair value	33 672	269 581	9 674	312 927	27 140	240 522	14 006	281 668

1 Recurring fair value measurements of assets or liabilities are those assets and liabilities that IFRS require or permit to be carried at fair value in the statement of financial position at the end of each reporting period.
2 Refer to the accounting policy elections for details on the restatement of derivative assets and derivative liabilities. The restatement has impacted the level 2 hierarchy above.
3 During 2016, other financial liabilities of R1 271 million were erroneously classified as level 2. Other financial liabilities of R11 748 million were erroneously classified as other liabilities, rather than designated at fair value. The comparative information has been reclassified with no impact on the group's statement of financial position.

Level 2 and 3 – valuation techniques and inputs

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 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 yields • valuation multiples
Trading assets and trading liabilities Trading assets and liabilities comprise instruments which are part of the group's underlying trading activities. These instruments primarily include sovereign and corporate debt, commodities, collateral, collateralised lending agreements and equity securities. **Pledged assets** Pledged assets comprise instruments that the group has provided to its lending conterparty as collateral and that may be sold or repledged by the group's counterparty in the absence of default by the group. **Financial investments** Financial investments are non-trading financial assets and primarily comprise sovereign and corporate debt, listed and unlisted equity instruments, listed sovereign or corporate debt, investments in debentures issued by the SARB, investments in mutual fund investments and unit-linked investments.	Where there are no recent market transactions in the specific instrument, fair value is derived from the last available market price adjusted for changes in risks and information since that date. Where a proxy instrument is quoted in an active market, the fair value is determined by adjusting the proxy fair value for differences between the proxy instrument and the instrument 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. Combination techniques are used to value unlisted equity securities and include inputs such as earnings and dividend yields of the underlying entity.	
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*

* Discount rates, where applicable, include the risk-free rate, risk premiums, liquidity spreads, credit risk (own and counterparty as appropriate), timing of settlement, storage or service costs, prepayment and surrender risk assumptions and recovery rates/loss given default.

Notes continued

ITEM AND DESCRIPTION	VALUATION TECHNIQUE	MAIN INPUTS AND ASSUMPTIONS
Deposits and debt funding from banks and customers Deposits from banks and customers comprise amounts owed to banks and customers, deposits under repurchase agreements, negotiable certificates of deposit, credit-linked deposits and other deposits.	For certain deposits, fair value is determined from the market price of 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 market risk parameters are valued consistently to similar instruments held as assets stated in the section on loans and advances. 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*
Policyholder liabilities Policyholder liabilities comprise unit-linked policies and annuity certains.	**Unit-linked policies:** assets which are linked to the investment contract liabilities are owned by the group. The investment contract obliges the group to use these assets to settle these liabilities. The fair value of investment contract liabilities is therefore determined with reference to the fair value of the underlying assets (i.e. amount payable on surrender of the policies). **Annuity certains:** discounted cash flow models are used to determine the fair value of the stream of future payments.	**For level 2 and 3 fair value hierarchy items** • discount rate* • spot price of underlying
Third-party financial liabilities arising on the consolidation of mutual funds (included in other liabilities) These are liabilities that arise on the consolidation of mutual funds.	The fair values of third-party financial liabilities arising on the consolidation of mutual funds are determined using the quoted put (exit) price provided by the fund manager and discounted for the applicable notice period. The fair value of a financial liability with a demand feature is not less than the amount payable on demand, discounted from the first date on which the amount could be required to be paid.	**For level 2 and 3 fair value hierarchy items** • discount rate*

* Discount rates, where applicable, include the risk-free rate, risk premiums, liquidity spreads, credit risk (own and counterparty as appropriate), timing of settlement, storage or service costs, prepayment and surrender risk assumptions and recovery rates/loss given default.

Reconciliation of level 3 financial assets

The following table provides a reconciliation of the opening to closing balance for all financial assets that are measured at fair value and incorporate inputs that are not based on observable market data (level 3):

	Measured on a recurring basis			
	Derivative assets Rm	Trading assets Rm	Financial investments Rm	Total Rm
Balance at 1 January 2016	2 457	8 942	10 013	21 412
Total gains/(losses) included in profit or loss	960	(469)	(1 055)	(564)
Net interest income			30	30
Non-interest revenue	960	(469)	(35)	456
Loss from investment management and life insurance activities			(1 050)	(1 050)
Total gains included in other comprehensive income			117	117
Issuances and purchases	23	393	2 417	2 833
Sales and settlements	(1 575)	(3 846)	(3 000)	(8 421)
Transfers into level 3[1]	249	359	13	621
Transfers out of level 3[2]		(516)	(502)	(1 018)
Reclassifications[3]		(112)		(112)
Exchange movement gains/(losses)	1		(48)	(47)
Balance at 31 December 2016	2 115	4 751	7 955	14 821
Balance at 1 January 2017	**2 115**	**4 751**	**7 955**	**14 821**
Total gains/(losses) included in profit or loss	**2 464**	**1 000**	**(203)**	**3 261**
Net interest income			**171**	**171**
Non-interest revenue	**2 464**	**1 000**	**85**	**3 549**
Loss from investment management and life insurance activities			**(459)**	**(459)**
Total gains included in other comprehensive income			**213**	**213**
Issuances and purchases	**241**	**36**	**4 272**	**4 549**
Sales and settlements	**(185)**	**(74)**	**(1 436)**	**(1 695)**
Transfers into level 3[1]	**36**		**34**	**70**
Transfers out of level 3[2]	**(291)**	**(629)**		**(920)**
Exchange movement losses	**(30)**		**(249)**	**(279)**
Balance at 31 December 2017	**4 350**	**5 084**	**10 586**	**20 020**

1 Transfers of financial assets between levels of the fair value hierarchy are deemed to have occurred at the end of the reporting period. During the year, the valuation inputs of certain financial assets became unobservable. The fair value of these assets was transferred into level 3.
2 During the year, the valuation inputs of certain level 3 financial assets became observable. The fair value of these financial assets was transferred into level 2.
3 Level 3 financial assets were reclassified from held-for-trading to loans and receivables at amortised cost in terms of IFRS.

Notes continued

Level 3 financial assets

The following table below provides disclosure of the unrealised gains/(losses) included in profit or loss for level 3 financial assets that are held at the end of the respective reporting years:

	Measured on a recurring basis			
	Derivative assets Rm	Trading assets Rm	Financial investments Rm	Total Rm
2017				
Non-interest revenue	**2 387**	**988**	**66**	**3 441**
Total	**2 387**	**988**	**66**	**3 441**
2016				
Net interest income			47	47
Non-interest revenue	1 043	(469)	(588)	(14)
Total	1 043	(469)	(541)	33

Reconciliation of level 3 liabilities

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

	Measured on a recurring basis			
	Derivative liabilities Rm	Trading liabilities Rm	Other financial liabilities[1] Rm	Total Rm
Balance at 1 January 2016	14 641	2 484	1 002	18 127
Total (gains)/losses included in profit or loss – non-interest revenue[2]	(4 896)	310		(4 586)
Issuances and purchases		1 804	269	2 073
Sales and settlements	(1 193)	(416)		(1 609)
Transfers into level 3[3]	1			1
Exchange movements – losses/(gains)	1	(1)		
Balance at 31 December 2016	8 554	4 181	1 271	14 006
Balance at 1 January 2017	**8 554**	**4 181**	**1 271**	**14 006**
Total losses/(gains) included in profit or loss – non-interest revenue[2]	**220**	**(568)**		**(348)**
Issuances and purchases		**1 110**		**1 110**
Sales and settlements	**(3 211)**	**(1 684)**	**(42)**	**(4 937)**
Transfers out of level 3[3]	**(157)**			**(157)**
Balance at 31 December 2017	**5 406**	**3 039**	**1 229**	**9 674**

1 These other financial liabilities were erroneously classified as level 2 and thus omitted from this reconciliation. The comparative financial information has been updated to include these liabilities. This had no impact on the group's statement of financial position.
2 The change in fair value has been materially offset by changes in the fair value of financial assets and liabilities classified as level 2 in the fair value hierarchy which economically hedge this position.
3 Transfers of financial liabilities between the levels of the fair value hierarchy are deemed to have occurred at the end of the reporting period. During 2017, the valuation inputs of certain financial liabilities became observable, the fair value of these liabilities were transferred out of level 3. During 2016, the valuation inputs of certain financial liabilities became unobservable, the fair value of these liabilities was transferred into level 3.

Level 3 financial liabilities continued

The following table provides disclosure of the unrealised losses included in profit or loss for level 3 financial liabilities that are held at the end of the respective reporting years:

	Measured on a recurring basis		
	Derivative liabilities Rm	Trading liabilities Rm	Total Rm
2017			
Trading revenue	**63**	**(502)**	**(439)**
2016			
Trading revenue	(6 309)	26	(6 283)

Sensitivity and interrelationships of inputs

The behaviour of the unobservable parameters used to fair value level 3 assets and liabilities is not necessarily independent, and may often hold a relationship with other observable and unobservable market parameters. Where material and possible, such relationships are captured in the valuation by way of correlation factors, though these factors are, themselves, frequently unobservable. In such instances, the range of possible and reasonable fair value estimates is taken into account when determining appropriate model adjustments.

The table that follows indicates the effect that a significant change in one or more of the inputs to a reasonably possible alternative assumption would have on total comprehensive income at the reporting date (where the change in the unobservable input would change the fair value of the asset or liability significantly). The changes in the inputs that have been used in the analysis have been determined taking into account several considerations such as the nature of the asset or liability and the market within which the asset or liability is transacted. Stress tests have been conducted by only flexing/stressing a major significant unobservable input or risk factor (i.e. assumes that all risks are mutually exclusive).

The valuation techniques used in determining the fair value of financial assets and liabilities classified within level 3

		Effect on profit and loss	
	Change in significant unobservable inputs	Favourable Rm	(Unfavourable) Rm
2017			
Derivative instruments	**From (1%) to 1%**	**444**	**(440)**
Trading assets	**From (1%) to 1%**	**216**	**(216)**
Financial investments	**From (1%) to 1%**	**41**	**(37)**
Trading liabilities	**From (1%) to 1%**	**290**	**(290)**
Total		**991**	**(983)**
2016			
Derivative instruments	From (1%) to 1%	606	(605)
Trading assets	From (1%) to 1%	578	(578)
Financial investments	From (1%) to 1%	79	(77)
Trading liabilities	From (1%) to 1%	260	(260)
Total		1 523	(1 520)

The other financial liabilities categorised as level 3 relate to third party financial liabilities arising on the consolidation of mutual funds. A sensitivity analysis is therefore not provided since a similar sensitivity would arise on the assets that relate to these liabilities.

In 2017, a 1% change of the significant unobservable inputs relating to the measurement of an equity investment classified as available-for-sale resulted in a R113 million favourable and unfavourable effect recognised in other comprehensive income (2016: R120 million).

Notes continued

Offsetting and other similar arrangements

Financial instruments subject to offsetting, enforceable master netting arrangements or similar agreements

IFRS requires a financial asset and a financial liability to be offset and the net amount presented in the statement of financial position when, and only when, the group has a current legally enforceable right to set off recognised amounts, as well as the intention to settle on a net basis or to realise the asset and settle the liability simultaneously. There are no instances where the group has a current legally enforceable right to offset without the intention to settle on a net basis or to realise the asset and settle the liability simultaneously.

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

	Gross amount of recognised financial assets[1] Rm	Financial liabilities set off in the statement of financial position[2] Rm	Net amount of financial assets subject to netting agreements[3] Rm	Collateral received[4] Rm	Net amount Rm
Assets					
31 December 2017					
Derivative assets	**46 323**	**(5)**	**46 318**	**(35 281)**	**11 037**
Trading assets	**21 219**		**21 219**	**(19 344)**	**1 875**
Loans and advances[5]	**50 545**	**(32 864)**	**17 681**	**(15 345)**	**2 336**
Total	**118 087**	**(32 869)**	**85 218**	**(69 970)**	**15 248**
31 December 2016					
Derivative assets	45 972	(38)	45 934	(41 316)	4 618
Trading assets	48 153		48 153	(45 370)	2 783
Loans and advances[5]	111 072	(33 190)	77 882	(76 589)	1 293
Total	205 197	(33 228)	171 969	(163 275)	8 694

	Gross amount of recognised financial liabilities[1] Rm	Financial assets set off in the statement of financial position[2] Rm	Net amount of financial liabilities subject to netting agreements[3] Rm	Collateral pledged[6] Rm	Net amount Rm
Liabilities					
31 December 2017					
Derivative liabilities	**52 418**	**(5)**	**52 413**	**(34 628)**	**17 785**
Trading liabilities	**32 425**		**32 425**	**(32 425)**	
Deposits and debt funding[5]	**40 420**	**(32 864)**	**7 556**		**7 556**
Total	**125 263**	**(32 869)**	**92 394**	**(67 053)**	**25 341**
31 December 2016					
Derivative liabilities	53 915	(38)	53 877	(46 424)	7 453
Trading liabilities	31 147		31 147	(31 147)	
Deposits and debt funding[5]	39 374	(33 190)	6 184		6 184
Total	124 436	(33 228)	91 208	(77 571)	13 367

1 Gross amounts are disclosed for recognised financial assets and financial liabilities that are either offset in the statement of financial position or are subject to a master netting arrangement or a similar agreement, irrespective of whether the offsetting criteria is met.
2 Gross amounts of recognised financial assets or financial liabilities that qualify for offset in accordance with the criteria per IFRS.
3 Related amounts not offset in the statement of financial position that are subject to a master netting arrangement or similar agreement. This could include financial collateral (whether recognised or unrecognised) and cash collateral.
4 In most cases, the group is allowed to sell or repledge collateral received.
5 The most material amounts offset in the statement of financial position pertain to cash management accounts. The cash management accounts allow holding companies (or central treasury functions) to manage the cash flows of a group by linking the current accounts of multiple legal entities within a group. It allows for cash balances of the different legal entities to be offset against each other to arrive at a net balance for the whole group. In addition, all repurchase agreements (for financial liabilities) and reverse repurchase agreements (for financial assets), subject to master netting arrangement (or similar agreement), have been included.
6 In most instances, the counterparty may not sell or repledge collateral pledged by the group.

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

FINANCIAL ASSET/LIABILITY	NATURE OF AGREEMENT	RELATED RIGHTS TO OFFSET
Derivative assets and liabilities	International swaps and derivatives association	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 agreements and Banks Act	In the event of liquidation or bankruptcy, offset shall be enforceable subject to Banks Act requirements being met.
Deposits and debt funding	Customer agreements and Banks Act	In the event of liquidation or bankruptcy, offset shall be enforceable subject to Banks Act requirements being met.

Notes continued

Other reportable items

Additional Tier 1 capital

During the year the group issued its debut Basel III compliant AT1 capital bond that qualifies as Tier 1 capital amounting R3.5 billion nominal value. The proceeds of the bond issuance have been invested in SBSA on the same terms and conditions as those applicable to the AT1 notes issued by SBG. The capital notes are perpetual, non-cumulative with an issuer call option after a minimum period of five years and one day and on every coupon payment date thereafter. During 2017, coupons to the value of R229 million were paid to AT1 capital bond holders. Current tax of R64 million relating to the AT1 capital bonds was recognised directly in equity resulting in an aggregate net equity impact of R165 million.

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

The AT1 capital bonds have been recognised within other equity instruments in the statement of financial position.

Equity securities

During the year, 2 877 827 (2016: 2 646 456) ordinary shares were issued in terms of the group's equity compensation plans, notably the equity growth scheme (EGS) and group share incentive scheme (GSIS). Surplus capital was used to purchase 2 030 824 (2016: 2 477 472) ordinary shares to counteract the dilutive impact of the shares issued under the equity compensation plans. Effective from 2017, the group no longer issues EGS and GSIS awards. The last awards for the GSIS were issued in 2011 and for the EGS, the last award was made in 2016. Awards are now provided in terms of the group's other share schemes, notably the deferred bonus scheme and the share appreciation rights plan, both of which are settled by the group to employees with shares that the group purchases from the open market, and the cash-settled deferred bonus scheme, which is settled in cash. At the end of the year, the group would need to issue 6 159 744 (2016: 5 306 247) SBG ordinary shares to settle the outstanding GSIS options and EGS rights that were awarded to participants in previous years. The shares issued to date for the EGS and GSIS together with the expected number of shares to settle the outstanding options and rights as a percentage of the total number of shares in issue is 2.2% (2016: 2.0%).

The total equity securities held as treasury shares at the end of the year was 16 213 766 shares (2016: 16 086 916 shares). These treasury shares exclude group shares that are held by certain structured entities (SEs) relating to the group's Tutuwa initiative (refer to the related party transaction note for more detail) since those SEs hold the voting rights on such shares and are accordingly not treasury shares as defined by the JSE Listings Requirements.

Foreign currency translation reserve

During the year ended 31 December 2017 the group's FCTR decreased by R4.9 billion (2016: decrease of R11.4 billion). This decrease was partly attributable to the weakening of the US dollar (10%), Nigerian naira (21%), and Argentine peso (23%) against the South African rand which resulted in an FCTR loss of R1.2 billion, R1.0 billion and R0.5 billion respectively.

IFRS 9 financial instruments (IFRS 9)

Background

IFRS 9 Financial Instruments (IFRS 9) will replace IAS 39 Financial Instruments: Recognition and Measurement (IAS 39) from 1 January 2018.

IFRS 9 consists of the following key areas which represent changes from that of IAS 39:

- Revised requirements for the classification and measurement of financial assets and consequential changes in the classification and measurement of financial liabilities, mainly relating to the recognition of changes in fair value due to changes in own credit risk on fair value designated financial liabilities in OCI as opposed to the income statement
- An expected credit loss (ECL) impairment model
- Revised requirements and simplifications for hedge accounting

Comparative financial results and elections

The group has elected not to restate its comparative financial statements. Accordingly, the difference between the previous IAS 39 and new IFRS 9 carrying values will be recognised in the group's opening retained earnings as at 1 January 2018.

The group's date of adoption of the IFRS 9 revised hedge accounting requirements will be based on further IFRS developments with respect to the IASB's macro hedge accounting project or on the group deeming it opportune to adopt the revised requirements. The group has elected to continue with IAS 39's hedge accounting requirements, but will implement IFRS 9's revised hedge accounting disclosures.

Impact – qualitative assessment

The ECL impairment requirements, which comprise IFRS 9's most material impact for the group is expected to result in an increase of approximately R8.7 billion in balance sheet impairments; an increase of 32% on IAS 39 balance sheet impairments (including interest in suspense). Whilst IFRS 9's classification and measurement requirements are expected to have a negligible net impact on the group's reserves as at 1 January 2018, there were instances in which the measurement of certain financial assets and liabilities changed from amortised cost to fair value or vice versa due to the business model implementation within underlying business portfolios.

The following table outlines the key drivers of the estimated impact:

IFRS 9 DRIVER	REASON
Minimum of a 12-month expected credit loss for performing exposures	The existing emergence period is between three to six months for PBB exposures and 12 months for CIB exposures. The change to a 12-month expected loss requirement will result in an increase in impairments for PBB.
Lifetime credit losses for exposures that exhibit a significant increase in credit risk	IFRS 9 requires a lifetime loss to be recognised for exposures for which there has been a significant increase in credit risk. This requirement will affect both PBB and CIB.
ECL held for unutilised client exposures and guarantees	The IFRS 9 requirement for impairments for unutilised client facilities and guarantees results in additional balance sheet impairments for both PBB and CIB.
Longer outlook period for exposures that are expected to default	Measurement of ECL over a longer time horizon results in the potential for higher loss outcomes which has a greater impact for PBB than CIB.
Forward looking economic expectations for ECL	The inclusion of forward-looking economic information is expected to increase the level of provisions as a result of the nature and timing of both current and forecast economic assumptions as at 1 January 2018.

Tax implications

Within South Africa, National Treasury released a Taxation Laws Amendment Bill which contained requirements for the deductibility of impairments in accordance with IFRS 9 being a 25% allowance for impairment provisions for all performing exposures that have not demonstrated a significant increase in credit risk (stage 1), a 40% allowance for performing exposures that have demonstrated a significant increase in credit risk (stage 2) and an 85% allowance for impairment provisions for exposures that are in default (stage 3). The change in the timing of the deductibility of the impairments for tax purposes will result in a higher deferred tax asset balance which will have a negative impact on the group's capital ratios.

Capital implications

IFRS 9 (including the related tax consequences) will have consequential impacts on the group's regulatory capital adequacy. The expected increase in impairment provisions, together with the increase in the group's deferred tax asset carrying value and changes in the level of the threshold deduction for investments in financial entities, will reduce qualifying CET1 capital. This reduction in qualifying CET1 capital will, however, be partially offset by the release of the existing deduction against qualifying CET1 for the excess of regulatory expected losses over the IAS 39 impairments (R2.1 billion). IFRS 9's ECL requirements are expected to reduce the group's CET 1 ratio by approximately 70 bps and will be phased in over three years.

Project governance

The group structured its IFRS 9 implementation project in such a way as to effectively enable the delivery of the IFRS 9 requirements across the group. The IFRS 9 implementation project board provided strategic direction to the project, monitored the project's progress, and identified required interventions and project interdependencies with other group initiatives. In addition, an overall project steering committee and Africa Regions' country steering committees were established. In order to ensure appropriate oversight, the IFRS 9 project board reported on its activities, status and outcomes to the group audit committee.

Communication of transition impact

The group will, together with its Q1:2018 SENS announcement regarding the group's quarterly statement of changes in equity, release a transition report which will outline the impact of the transition to IFRS 9 on the group's financial results.

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

In April 2015, the South African Competition Commission announced that it had initiated a complaint against Standard New York Securities Inc. (SNYS) and 21 other institutions concerning possible contravention of the Competition Act in relation to USD/ZAR trading between 2007 and 2013. No mention was made of SBSA. On 15 February 2017 the Competition Commission lodged five complaints with the Competition Tribunal against 18 institutions, including one against SBSA and two against SNYS, in which it alleges unlawful collusion between those institutions in the trading of USD/ZAR. The group only learned of the complaints at this time. The group has conducted its own internal investigations and found no evidence that supports the complaint. Both SBSA and SNYS have, together with 12 of the other respondents, applied for dismissal of the complaint referral on various legal grounds. These applications are due to be heard in July 2018. The group considers these allegations in an extremely serious light and remains committed to maintaining the highest levels of control and compliance with all relevant regulations. The allegations, against SBSA, are confined to USD/ZAR trading activities within SBSA and do not relate to the conduct of the group more broadly.

Notes continued

Indemnities granted following disposal of Standard Bank Plc

Under the terms of the disposal of SB Plc on 1 February 2015, the group provided ICBC with certain indemnities to be paid in cash to ICBC or, at ICBC's direction, to any SB Plc (now ICBCS) group company, a sum equal to the amount of losses suffered or incurred by ICBC arising from certain circumstances. Where an indemnity payment is required to be made by the group to the ICBCS group, such payment would be grossed up from ICBC's shareholding at the time in ICBCS to 100%. These payments may, inter alia, arise as a result of an enforcement action, the cause of which occurred prior to the date of disposal. Enforcement actions include actions taken by regulatory or governmental authorities to enforce the relevant laws in any jurisdiction. While there have been no material claims relating to these indemnification provisions during 2017, the indemnities provided are uncapped and of unlimited duration as they reflect that the pre-completion regulatory risks attaching to the disposed-of business remain with the group post completion. The indemnification provisions covered the Deferred Prosecution Agreement (DPA) that ICBCS entered into with the United Kingdom Serious Fraud Office (SFO) (as more fully set out in the announcement made to shareholders via the JSE's SENS on 30 November 2015). In terms of the DPA, prosecution has been suspended and will be withdrawn after three years provided that ICBCS has complied with its obligations under the DPA. Any claims that may arise for SNYS with respect to the Competition Commission matter are also likely to fall within the scope of this indemnity as the alleged conduct, which is the subject of the referral, is alleged to have taken place prior to the disposal of SB Plc.

Subordinated debt

During the year, the group did not issue Basel III compliant Tier 2 subordinated debt instruments (2016: issued R2.7 billion). However, on 7 February 2018 the group issued R3.0 billion Basel III compliant bonds that qualified as Tier 2 capital. The capital notes are perpetual, non-cumulative with an issuer call option after a minimum period of five years and one day, and on every coupon payment date thereafter. The payment dates are quarterly with the first call date being 13 February 2023.

R3.0 billion (2016: R3.2 billion) Basel III compliant Tier 2 subordinated debt instruments were redeemed during the year.

R0.3 billion (2016: Rnil) of Basel II compliant Tier 2 subordinated debt instruments were issued during the year and R0.2 billion was redeemed in jurisdictions that have not yet adopted the Basel III framework.

The terms of the Basel III compliant Tier 2 capital bonds include a regulatory requirement which provides for the write-off, in whole or in part, on the earlier of a decision by the relevant regulator (the SARB) that a write-off without which the issuer would have become non-viable is necessary, or a decision to make a public sector injection of capital or equivalent support, without which the issuer would have become non-viable.

During the year, the group issued R2.0 billion subordinated debt that qualifies as regulatory insurance capital and R1.0 billion was redeemed.

Accounting policy elections and restatement

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

The accounting policies are consistent with those reported in the previous year except for the adoption of the following amendments effective for the current period:

- Annual improvements 2014 – 2016 clarification to IFRS 12 *Disclosure of Interests in Other Entities* (IFRS 12): amendment clarifies that an entity is not required to disclose summarised financial information for a subsidiary, joint venture or associate when classified (or included in a disposal group that is classified) as held for sale in terms of IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations* (IFRS 5).

Early adoption of revised standards:

- Amendment to IFRS 2 *Classification and Measurement of Share-based Payment Transactions* (IFRS 2): the amendments eliminates diversity in practice in three main areas namely, (1) effects of vesting conditions on the measurement of a cash-settled share-based payment transaction; (2) classification of a share-based payment transaction with net settlement features for withholding tax obligations and (3) accounting where a modification to the terms and conditions of a share-based payment transaction changes its classification from cash-settled to equity-settled.
- Annual improvements 2014 – 2016 clarification to IFRS 1 *First-time Adoption of International Financial Reporting Standards* (IFRS 1) and IAS 28 *Investments in Associates and Joint Ventures* (IAS 28). The clarification to IAS 28 clarifies that an entity may make an election separately for each associate or joint venture, that is a venture capital organisation, or a mutual fund, unit trust and similar entities including investment-linked insurance funds, at initial recognition to measure that associate or joint venture at either at fair value through profit or loss in accordance with IAS 39 or the equity method in accordance with IAS 28.
- Amendment to IAS 40 *Investment Property* (IAS 40): amendments clarify the requirements on transfers to, or from, investment property when, and only when, there is a change in use. A change in use occurs when the property meets, or ceases to meet, the definition of investment property and there is evidence of the change in use.

The above mentioned amendments to the IFRS standards, adopted on 1 January 2017, did not have any effect on the group's previously reported financial results or disclosures and had no material impact on the group's accounting policies.

Correction of prior period error

The group determined that certain intercompany derivative positions held between the group's banking activities and the group's investment management and life insurance activities were erroneously eliminated on a net basis as opposed to a gross basis. The group has restated its statement of financial position's previously reported financial information to incorporate the correct elimination of these intercompany derivative positions. The restatement did not impact the group's net exposure to derivatives, nor did it affect the group's reserves. The change to the group's statement of financial position is reflected in the table that follows:

	2016			2015		
	As previously presented Asset/(liability) Rm	Restatement (Credit)/ debit Rm	Restated position Asset/(liability) Rm	As previously presented Asset/(liability) Rm	Restatement (Credit)/ debit Rm	Restated position Asset/(liability) Rm
Derivative assets	68 620	(2 316)	66 304	111 089	(3 900)	107 189
Derivative liabilities	(75 083)	2 316	(72 767)	(133 958)	3 900	(130 058)

The following disclosures have been impacted by this restatement:

- Condensed consolidated statement of financial position
- Condensed segment report
- Accounting classifications and fair values of assets and liabilities
- Financial assets and liabilities measured at fair value.

Pro forma constant currency financial information

The *pro forma* constant currency information disclosed in these results is the responsibility of the group's directors. The *pro forma* constant currency information has been presented to illustrate the impact of changes in currency rates on the group's results and may not fairly present the group's results of operations. In determining the change in constant currency terms, the comparative financial year's results for the period ended 31 December 2016 have been adjusted for the difference between the current and prior period's average exchange rates (determined as the average of the daily exchange rates). The measurement has been performed for each of the group's material currencies.

The *pro forma* constant currency financial information contained in this announcement has been reviewed by the group's external auditors and their unmodified reasonable assurance report prepared in terms of ISAE 3420 is available for inspection at the company's registered office on weekdays from 09:00 to 16:00.

The following average exchange rates were used in the determination of the *pro forma* constant currency information and were calculated using the average of the average monthly exchange rates (determined on the last day of each of the 12 months in the year).

	2017 average exchange rate	2016 average exchange rate
US dollar	**13.30**	14.69
Pound sterling	**17.13**	19.96
Argentinian peso	**0.81**	1.00
Nigerian naira	**0.04**	0.06
Kenyan shilling	**0.13**	0.15
Ghanaian cedi	**3.02**	3.72
Mozambican metical	**0.21**	0.24

ADMINISTRATIVE AND CONTACT DETAILS

STANDARD BANK GROUP LIMITED	Registration number 1969/017128/06 Incorporated in the Republic of South Africa Website: www.standardbank.com
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SHARE TRANSFER SECRETARIES IN NAMIBIA	Transfer Secretaries (Proprietary) Limited 4 Robert Mugabe Avenue, (entrance in Burg Street), Windhoek, Namibia PO Box 2401, Windhoek
JSE INDEPENDENT SPONSOR	Deutsche Securities (SA) Proprietary Limited
NAMIBIAN SPONSOR	Simonis Storm Securities (Proprietary) Limited
JSE JOINT SPONSOR	The Standard Bank of South Africa Limited
SHARE AND BOND CODES	JSE share code: SBK ISIN: ZAE000109815 NSX share code: SNB ZAE000109815 SBKP ZAE000038881 (First preference shares) SBPP ZAE000056339 (Second preference shares) JSE bond codes: SBS, SBK, SBN, SBR, SBT, ETN series SSN series and CLN series (all JSE-listed bonds issued in terms of The Standard Bank of South Africa Limited's Domestic Medium Term Note Programme and Credit Linked Note Programme)

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Refer to www.standardbank.com/reporting for a list of definitions, acronyms and abbreviations.

Directors

TS Gcabashe (chairman), H Hu[2] (deputy chairman), JH Maree (deputy chairman), A Daehnke*, RMW Dunne[1], GJ Fraser-Moleketi, GMB Kennealy, BJ Kruger, NNA Matyumza, KD Moroka, ML Oduor-Otieno[3], AC Parker, ANA Peterside CON[4], MJD Ruck, PD Sullivan[5], SK Tshabalala*(chief executive), JM Vice, L Wang[2]

*Executive Director [1]British [2]Chinese [3]Kenyan [4]Nigerian [5]Australian

All nationalities are South African, unless otherwise specified above.

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