Standard Bank Group

IFRS 9 – *FINANCIAL INSTRUMENTS* TRANSITION REPORT

as at 1 January 2018

Standard Bank Moving Forward™
Also trading as Stanbic Bank

CONTENTS

1. Executive summary 2

2. Overview of the group's IFRS 9 transition impact 4

3. Application of IFRS 9 ECL to the group 15

Appendix A: Basis of preparation and overview of IFRS 9 17

Appendix B: What are the primary differences between IAS 39 and IFRS 9? 19

Appendix C: Comparison between accounting standards and regulatory framework 23

Appendix D: External audit reasonable assurance report 25

Abbreviations 27

Administrative and contact details ibc

Standard Bank Group

IFRS 9 – *FINANCIAL INSTRUMENTS* TRANSITION REPORT

as at 1 January 2018

External audit reasonable assurance report

The Standard Bank Group (the group) requested its external auditors, being PricewaterhouseCoopers (PwC) and KPMG Inc., to perform a reasonable assurance engagement, in accordance with ISAE 3420, *Assurance Engagements to Report on the Compilation of Pro Forma Financial Information Included in a Prospectus*, in respect of The compilation of the information contained on pages 4 to 16 of the group's Transition Report as at the date of initial application (DIA)[1]. This Transition Report has been prepared by the directors on the basis of the applicable criteria set out in Appendix A: Basis of preparation and overview of IFRS 9.

In order to obtain a full understanding of the nature of the auditors' engagement, the group's external auditors' reasonable assurance report can be referred to in Appendix D.

[1] While the group will formally transition to IFRS 9 – *Financial Instruments* (IFRS 9) on 1 January 2018 this Transition Report has, for illustrative purposes, been based on the group's 31 December 2017 financial information. The impact of IFRS 9 on the group on 1 January 2018 will be identical to that as indicated in this Transition Report. All references to DIA hereafter refer to 31 December 2017.

All our reports and latest financial results presentations, booklets and SENS announcements, are available online at **www.standardbank.com/reporting**. Scan the QR code to be taken directly to the website.

Denotes information in the IFRS 9 Transition Report as reported in the group's 2017 annual financial statements (AFS)

1. EXECUTIVE SUMMARY

1.1 Which new accounting standards have been adopted on 1 January 2018?

In July 2014 the International Accounting Standards Board (IASB) issued International Financial Reporting Standard (IFRS) 9 – *Financial Instruments* (IFRS 9) which replaced IAS 39 – *Financial Instruments: Recognition and Measurement* (IAS 39). IFRS 9, which is effective for the Standard Bank Group (the group) from 1 January 2018, establishes principles for the financial reporting of financial instruments and, in particular, sets out the requirements for recognising and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items.

In addition to adopting IFRS 9, the group adopted IFRS 15 – *Revenue from Contracts with Customers* (IFRS 15) on the DIA. The adoption of IFRS 15 had no material impact on the group's reserves.

1.2 Why is the group publishing an IFRS 9 transition report?

Since IFRS 9's expected credit loss (ECL) impairment requirements represent a material change in the accounting for the group's credit impairments, the group has prepared a transition report that sets out the following:

- Presentation of the impact of IFRS 9 on the group's financial position and reserves at the DIA. This impact is presented as an opening transition adjustment in the group's summarised statement of changes in equity in the group's SENS announcement dated 24 April 2018
- Presentation of quantitative reconciliations that further explain the transition adjustment and key financial ratios
- Explanation of IFRS 9's key principles and management's key assumptions and judgements.

The group's external auditors, being PwC and KPMG, have issued a reasonable assurance report on certain information in this Transition Report. Their reasonable assurance report is presented in Appendix D.

1.3 What are the requirements of IFRS 9[1]?

	DESCRIPTION
ECL impairment requirements (Adopted on 1 January 2018)	IFRS 9 has introduced new ECL impairment requirements that will result in the earlier recognition of credit provisions. The ECL requirements will apply to debt financial assets measured at either amortised cost or at fair value through other comprehensive income (OCI) (FVOCI), loan commitments where there is a present commitment to extend credit (unless these are measured at fair value through profit or loss (FVTPL)) and financial guarantees. ECL is, at a minimum, required to be measured through a loss allowance at an amount equal to the 12-month ECL of the financial asset. A loss allowance for full lifetime ECL is required for a financial asset if the credit risk of that financial instrument has increased significantly since initial recognition.
Classification and measurement (Adopted on 1 January 2018)	IFRS 9 requires all financial assets to be classified and measured on the basis of the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets. The accounting for financial assets differs in various other areas to existing requirements such as embedded derivatives and the recognition of fair value adjustments in OCI. All changes in the fair value of financial liabilities that are designated at FVTPL due to changes in own credit risk will be required to be recognised within OCI.
Hedge accounting	The group adopted IFRS 9's revised hedge accounting disclosure requirements on 1 January 2018. The group's date of adoption of IFRS 9's other hedge accounting requirements will, as permitted by IFRS 9, 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.

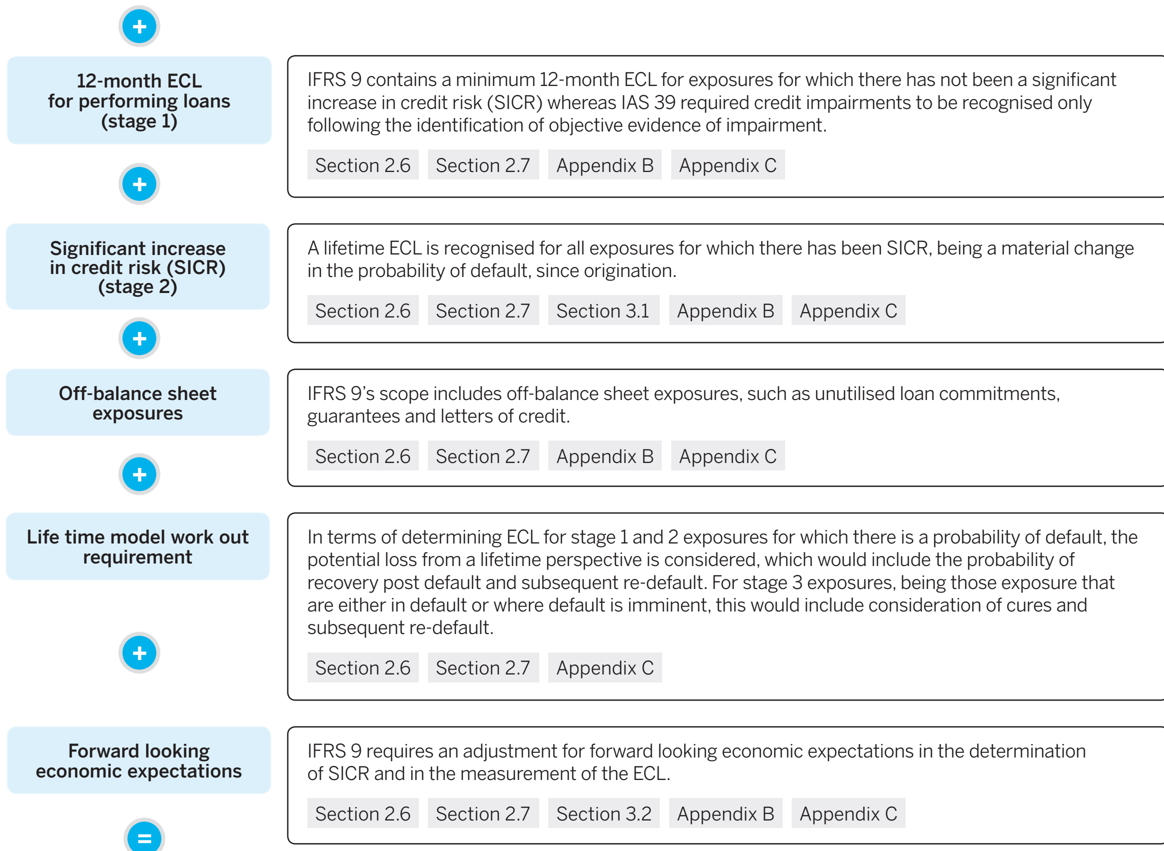
1.4 Which IFRS 9 requirement materially impacts the group?

The impact to the group's reserves on transition to IFRS 9 materially relates to IFRS 9's ECL impairment requirements.

The adoption of IFRS 9 results in the earlier recognition of credit impairment provisions primarily as a result of the drivers outlined in the table on the following page. This impact is solely as a result of the adoption of IFRS 9 and is not as a result of changes in the credit quality of the group's loan exposures.

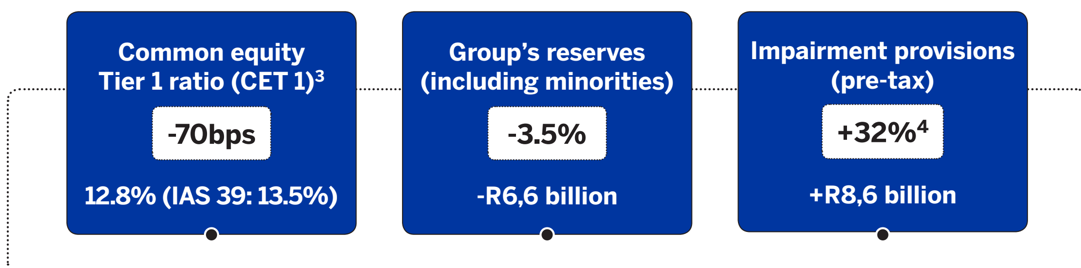
IFRS 9's classification and measurement requirements resulted in an immaterial impact to the group.

[1] Refer to Appendix B for an explanation of the primary differences between IAS 39 and IFRS 9.



1.5 What is the group's IFRS 9 financial impact and how has it been recognised?

The group has, as permitted by IFRS 9, elected not to restate its comparative financial statements. Accordingly, the impact of adopting IFRS 9 has been applied retrospectively with an adjustment to the group's opening 1 January 2018 reserves. The application of IAS 39 for its 2017 and previous financial years was unaffected by the application of IFRS 9. The adoption of IFRS 9 resulted in the following financial impacts for the group at the DIA:



1 For further information regarding IIS, refer to section 2.5.
2 This impairment provision covers the group's banking activities and excludes the R53 million IFRS 9 impact from the group's associates. This represents the group's share of the ECL changes recognised by the group's associates.
3 This represents the fully-loaded IFRS 9 transition impact. The impact to the group's CET 1, after taking into account the South African Reserve Bank (SARB) 3-year phase-in provision, results in a CET 1 ratio of 13.3% as at the DIA.
4 Based on impairment provisions inclusive of IIS and the R53 million IFRS 9 impact from the group's associates.

2. OVERVIEW OF THE GROUP'S IFRS 9 TRANSITION IMPACT

The tables that follow provide an analysis of the group's transition to IFRS 9 and have been prepared in accordance with the basis of preparation and overview of IFRS 9 as outlined in Appendix A.

2.1 What is the impact of IFRS 9 on the group's statement of financial position?

The following table sets out the IFRS 9 transition impact on the group at the DIA by statement of financial position line item. The total IFRS 9 transition adjustment has been split between that which relates to IFRS 9's ECL requirements and that relating to IFRS 9's classification and measurement requirements.

CONDENSED STATEMENT OF FINANCIAL POSITION (Table 1)

	Group IAS 39 at 31 December 2017 Rm	IFRS 9 transition adjustment at the DIA			Group IFRS 9 at DIA Rm
		IFRS 9 ECL[1] Rm	IFRS 9 classification and measurement[2] Rm	Total Rm	
Assets					
Financial investments	**533 314**	(272)	32	(240)	**533 074**
Loans and advances	**1 048 027**	(7 839)	(83)	(7 922)	**1 040 105**
Interest in associates and joint ventures	**9 665**	(53)	(3)	(56)	**9 609**
Other assets[3]	**436 922**	2 234	94	2 328	**439 250**
Total assets	**2 027 928**	(5 930)	40	(5 890)	**2 022 038**
Equity	**190 017**	(6 276)	(361)	(6 637)	**183 380**
Equity attributable to ordinary shareholders	**157 020**	(5 930)	(331)	(6 261)	**150 759**
Equity attributable to other equity holders	**9 047**				**9 047**
Equity attributable to non-controlling interests	**23 950**	(346)	(30)	(376)	**23 574**
Liabilities[4]	**1 837 911**	346	401	747	**1 838 658**
Total equity and liabilities	**2 027 928**	(5 930)	40	(5 890)	**2 022 038**

AFS

1 The ECL impact of R6 276 million has been further analysed in section 2.4.

2 The classification of certain assets and liabilities changed following the adoption of IFRS 9, notably in the group's Corporate & Investment Banking (CIB) segment. These changes primarily relate to classifications based on the way in which those financial assets and liabilities are managed from a business model perspective. The adoption of IFRS 9's classification and measurement requirements resulted in a decrease in the group's total equity of R361 million at the DIA.

3 Materially relates to the recognition of additional deferred tax assets following the recognition of the IFRS 9 ECL transition adjustment.

4 Materially relates to the recognition of ECL on off-balance sheet letters of credit and bankers acceptances and guarantees.

2.2 What is the IFRS 9 impact on the group's statement of changes in equity?

The following condensed consolidated statement of changes in equity provides a summary of the impact of IFRS 9 on the group's total equity:

CONDENSED STATEMENT OF CHANGES IN EQUITY (Table 2)

	Group IAS 39 at 31 December 2017 Rm	IFRS 9 transition adjustment Rm	**Group IFRS 9 at DIA Rm**
Ordinary share capital and share premium	**18 063**		**18 063**
Retained earnings[1]	**144 539**	(5 302)	**139 237**
Statutory credit risk reserve[2]	**3 089**	(948)	**2 141**
Other[3]	**(8 671)**	(11)	**(8 682)**
Total ordinary shareholder's equity	**157 020**	(6 261)	**150 759**
Other equity instruments	**9 047**		**9 047**
Non-controlling interest[4]	**23 950**	(376)	**23 574**
Total equity	**190 017**	(6 637)	**183 380**

1 The change in the retained earnings relates to IFRS 9's classification and measurement and ECL changes and the reversal of the Statutory Credit Risk Reserve (SCRR) as explained further below.

2 In addition to the R6 637 million impact on the group's reserves as a result of the adoption of IFRS 9, a debit of R948 million to the group's SCRR and a corresponding credit to the group's retained earnings has been recognised. The SCRR has historically been maintained by means of an appropriation of retained earnings to a non-distributable reserve, being the SCRR, by the group's operations in the Africa Regions as a result of country regulators requiring a higher credit impairment provision than that as determined in accordance with IAS 39. Given that IFRS 9 typically results in an impairment provision that is equivalent to or greater than that as required by the Africa Regions' regulators, a transfer from the SCRR back to retained earnings is required on transition to IFRS 9. The transfer has only been reflected with respect to those countries whose regulators that, at the date of this transition report, had approved such releases. Should other regulators approve further releases to the opening reserve balance during the group's 2018 financial year, the adjustment to opening retained earnings will be updated. This transfer has no impact on the group's net asset value, total reserves or capital ratios.

3 Of the R593 million in the group's available-for-sale reserve as at 31 December 2017, R582 million has been reclassified on the adoption of IFRS 9 to the FVOCI category and R11 million relates to gains and losses on instruments that were classified as available-for-sale and are now classified as either FVTPL or at amortised cost.

4 The change relates to the non-controlling interests' share of the IFRS 9 impact post tax relating to IFRS 9's classification and measurement and ECL changes.

2.3 What is the IFRS 9 impact on the net asset value of the group's key legal entities?

The following table sets out the total transition adjustment as indicated in table 1 by key legal entity:

STANDARD BANK GROUP LEGAL ENTITIES (Table 3)

		IFRS 9 transition adjustment at the DIA			
	IAS 39 at 31 December 2017 Rm	IFRS 9 ECL Rm	IFRS 9 classification and measurement Rm	Total Rm	**IFRS 9 at DIA Rm**
SBSA[1] group	**100 791**	(4 696)	(225)	(4 921)	**95 870**
Africa Regions legal entities	**29 139**	(1 301)	(35)	(1 336)	**27 803**
Other group entities	**8 878**	120		120	**8 998**
Banking activities	**138 808**	(5 877)	(260)	(6 137)	**132 671**
Liberty and legal entities within other banking interests	**18 212**	(53)	(71)	(124)	**18 088**
Standard Bank Group	**157 020**	(5 930)	(331)	(6 261)	**150 759**

1 The Standard Bank of South Africa.

2.4 What is the IFRS 9's ECL impact by segment and asset class?

The following table sets out the transition from IAS 39 to IFRS 9's impairment requirements by segment and asset class **(Table 4)**:

	IAS 39 – 31 December 2017				
	Performing portfolio provision Rm	Specific debt provision Rm	Total IAS 39 provision (excluding IIS[1]) Rm	IIS[1] Rm	Total IAS 39 provision (including IIS[1]) Rm
Personal & Business Banking (PBB)[2]	4 545	11 943	16 488	3 034	19 522
Loans and advances at amortised cost	4 545	11 943	16 488	3 034	19 522
Mortgage loans	1 077	3 979	5 056	1 454	6 510
Vehicle and asset finance (VAF)	653	1 367	2 020	21	2 041
Card debtors	665	1 596	2 261	15	2 276
Other lending	2 150	5 001	7 151	1 544	8 695
Off-balance sheet exposures					
Letters of credit and bankers acceptances					
Guarantees					
Corporate & Investment Banking (CIB)[2]	2 229	3 325	5 554	1 722	7 276
Loans and advances at amortised cost	2 229	3 325	5 554	1 722	7 276
Corporate	2 229	3 325	5 554	1 722	7 276
Sovereign					
Bank					
Debt financial investments at FVOCI					
Sovereign					
Debt financial investments at amortised cost					
Corporate					
Sovereign					
Bank					
Off-balance sheet exposures					
Letters of credit and bankers acceptances					
Guarantees					
Central and other[3]	400	2	402		402
Associates and joint ventures[4]					
Total provision on-balance sheet	7 174	15 270	22 444	4 756	27 200
Total provision off-balance sheet					
Total	7 174	15 270	22 444	4 756	27 200

[1] Refer to section 2.5 for an explanation of IIS.
[2] Refer to sections 2.7 and 2.8 for details of the impact on the transition to IFRS 9 on the group's coverage ratios.
[3] In terms of IAS 39, the group previously maintained an impairment provision of R402 million within Central and Other which materially related to credit risk pertaining to the group's Africa Regions' cross border exposures. On adoption of IFRS 9 this impairment provision has been recognised in opening retained earnings.
[4] The group's share of the ECL adjustments recognised by its associates have, for purposes of this table, been included in the determination of the group's total ECL transition adjustment of R6 276 million.

IFRS 9 – DIA				**IFRS 9 – transition adjustment – DIA**		
Stage 1 Rm	Stage 2 Rm	Stage 3 Rm	Total IFRS 9 provision (including IIS[1]) Rm	**Gross Rm**	**Tax Rm**	**Net Rm**
4 974	6 283	16 040	27 297	**7 775**	**(2 099)**	**5 676**
4 879	6 283	16 040	27 202	**7 680**	**(2 076)**	**5 604**
1 126	2 014	6 256	9 396	**2 886**	**(810)**	**2 076**
766	994	1 476	3 236	**1 195**	**(338)**	**857**
698	821	1 660	3 179	**903**	**(248)**	**655**
2 289	2 454	6 648	11 391	**2 696**	**(680)**	**2 016**
95			95	**95**	**(23)**	**72**
63			63	**63**	**(16)**	**47**
32			32	**32**	**(7)**	**25**
1 168	2 136	5 133	8 437	**1 161**	**(325)**	**836**
910	1 992	4 935	7 837	**561**	**(177)**	**384**
781	1 956	4 935	7 672	**396**	**(116)**	**280**
84	36		120	**120**	**(47)**	**73**
45			45	**45**	**(14)**	**31**
175			175	**175**	**(44)**	**131**
175			175	**175**	**(44)**	**131**
24	73		97	**97**	**(14)**	**83**
10			10	**10**	**(3)**	**7**
13	73		86	**86**	**(11)**	**75**
1			1	**1**		**1**
59	71	198	328	**328**	**(90)**	**238**
3	12		15	**15**	**(2)**	**13**
56	59	198	313	**313**	**(88)**	**225**
				(402)	**113**	**(289)**
				53		**53**
5 988	8 348	20 975	35 311	**8 164**	**(2 198)**	**5 966**
154	71	198	423	**423**	**(113)**	**310**
6 142	8 419	21 173	35 734	**8 587**	**(2 311)**	**6 276**

2.5 What is IIS and how did it affect the group's transition to IFRS 9?

IIS refers to contractual interest which accrues on exposures which are classified as non-performing.

IAS 39 accounting treatment

Up to 31 December 2017, IAS 18 – *Revenue* required interest income to be recognised only when it was probable that the economic benefits associated with a transaction would flow to the entity. The group, in line with these requirements, suspended the recognition of contractual interest income on all exposures where it was determined that future economic benefits were not probable.

Where the group continued to recognise interest in terms of IAS 18, but the loan was recognised as being specifically impaired, the interest recognised was subsequently assessed for impairment in terms of IAS 39. At the DIA, an impairment provision of R912 million was held for contractual interest recognised whilst the loan was classified as specifically impaired.

Notwithstanding the suspension of the contractual interest, the group continued to recognise interest on the gross carrying value less specific impairment (i.e. the impaired value) based on the exposure's effective interest rate for financial assets that had been classified as non-performing. This represents the unwinding of the discount element of credit impairments within interest income in accordance with the group's accounting policies.

IFRS 9 accounting treatment

IFRS 9 requires that interest for exposures classified as stage 3 (i.e. in default) only be calculated on the gross carrying value less impairments (i.e. amortised cost balance). The group has applied this requirement by suspending all contractual interest on such exposures and recognising interest on the amortised cost balance utilising the exposure's effective interest rate. The recognition of this interest aligns to the unwinding of the discount element of credit impairments recognised under IAS 39 within interest income (as explained above).

IFRS 9 requires that the suspended contractual interest be recognised as part of the exposures' gross carrying value and be deducted as part of the reconciliation to the net carrying value which is reported in the balance sheet. Whilst the IIS is recognised in the gross carrying value it does not impact the net exposure or the income statement.

Impact of IIS on reporting the transition adjustment

Given the IFRS 9 requirement that the gross exposure should include IIS on exposures classified as stage 3, the group will report IIS as a separate reconciling item when calculating the loans and advances' net exposure. This separate disclosure of IIS will result in R4 756 million of IIS, previously not recognised in gross loans and advances, being recognised on both the gross loans and advances and the associated separate balance sheet IIS reconciling line item. Within table 4 this IIS has, for illustrative purposes, been included in impairment provisions. The R912 million of IIS, for which an IAS 39 impairment provision was previously recognised, will together with the R4 756 million of IIS be disclosed in future reporting periods as a separate IIS reconciling item in determining the net loans and advances carrying value.

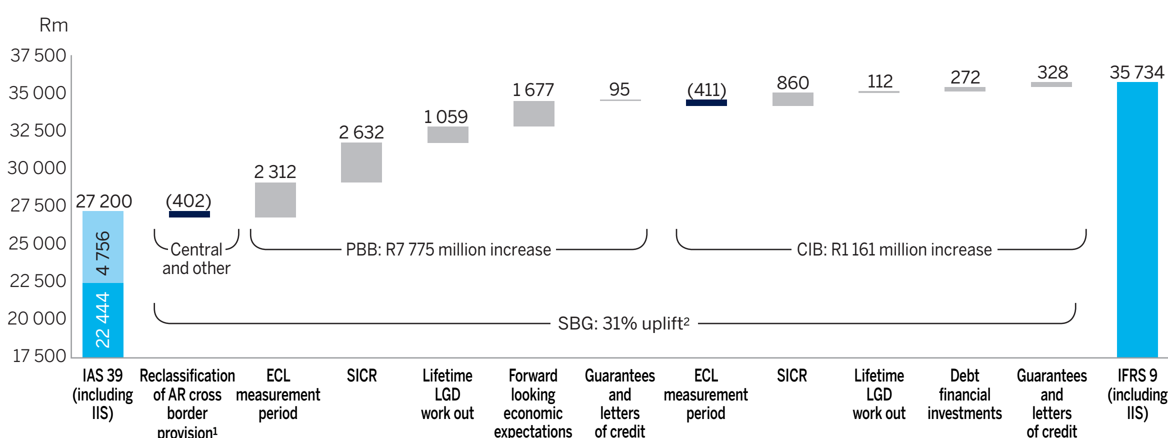
Future reporting periods

For all future reporting periods the total IIS will, in terms of IFRS 9, be included in both the gross carrying value and as part of the reconciliation to the net carrying value as a separate reconciling line item.

2.6 What was the impact of the principal IFRS 9 ECL drivers?

The following graph outlines the principal IFRS 9 drivers for the change in the impairment provisions in table 4:

IFRS 9 impairment – Group uplift in the impairment provision



1 Refer to table 4, footnote 3.
2 Excluding the R53 million IFRS 9 impact from the group's associates.

<table>
<tr><th>IFRS 9 DRIVERS</th><th>PBB</th><th>CIB</th></tr>
<tr><td>ECL measurement period</td><td>The ECL measurement period resulted in an increase in the level of credit impairment provisions as a result of the following:
• The requirement to maintain a minimum of a 12-month IFRS 9 ECL as compared to the minimum three month emergence period as applied by the group in terms of IAS 39
• The requirement to maintain a lifetime IFRS 9 ECL as compared to the 12-month loss period applied by PBB in terms of IAS 39 to exposures classified as early arrears
• The impact of the lifetime loss given default (LGD) workout, being an increase in the lifetime period over which subsequent cures and re-defaults are considered
• The IFRS 9 requirement to hold ECL on unutilised loan commitments, notably pertaining to PBB's card and other lending portfolios.</td><td>A 12-month emergence period was applied by CIB in terms of IAS 39's impairment requirements. In terms of IFRS 9, this impairment provision is calculated per exposure for the shorter of 12 months or the remaining lifetime of the exposure.

The reduction in the impairment is as a result of a portion of CIB's exposures having a remaining lifetime at the DIA of less than 12 months.

The requirement to hold ECL on unutilised loan commitments has been included, where appropriate, within this classification.</td></tr>
<tr><td>SICR</td><td colspan="2">A lifetime ECL requirement for all exposures for which there has been SICR, with the exception of those loan exposures classified by PBB as early arrears noted in the ECL measurement classification above, resulted in a higher credit impairment in terms of IFRS 9 for both PBB and CIB. This included the impact of the LGD work out, being an increase in the life time period over which subsequent cures and re-defaults are considered.

The requirement to hold ECL on off-balance sheet exposures has been included where appropriate within this classification.</td></tr>
<tr><td>Lifetime LGD work out</td><td colspan="2">Increased lifetime period over which subsequent cures and re-defaults are considered resulted in higher credit impairments for credit-impaired financial assets.</td></tr>
<tr><td>Forward looking economic expectations</td><td>Adjustments to the probability of default (PD) and LGD, based on forward looking economic expectations at the DIA resulted in the requirement to hold higher credit impairments.</td><td>Negligible impact as CIB's client ratings, used for IAS 39 purposes, typically included forward looking expectations.</td></tr>
<tr><td>Debt financial investments</td><td>N/A</td><td>In terms of IFRS 9, this impairment provision is calculated per exposure for the shorter of 12 months or the remaining lifetime of the exposure. Such exposures generally did not carry an impairment provision in terms of IAS 39's incurred loss impairment requirements.</td></tr>
<tr><td>Off-balance sheet exposures – guarantees and letters of credit</td><td colspan="2">The requirement to hold ECL on off-balance sheet financial instruments, such as guarantees and letters of credit, resulted in a requirement to hold additional credit impairment provisions which were not held in terms of IAS 39.</td></tr>
</table>

2.7 Performing loan coverage ratio – loans and advances

2.7.1 What is the performing gross impairment coverage ratio?

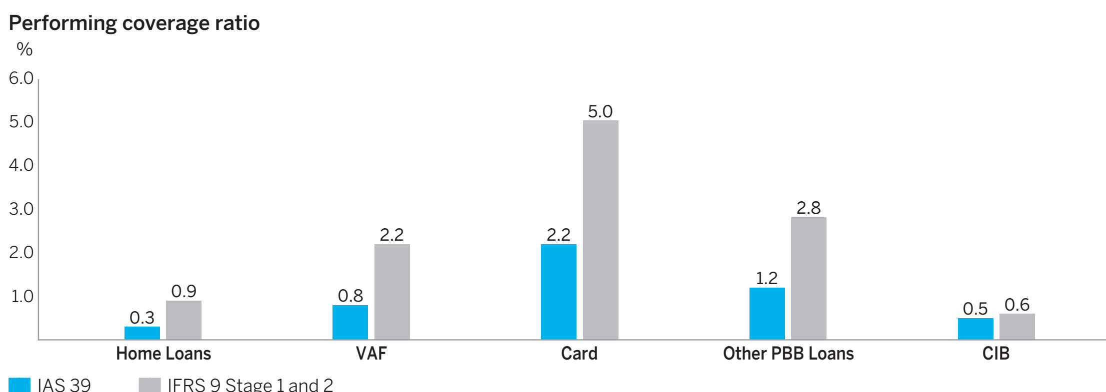
Given the IFRS 9 requirement for credit impairments to be determined on an ECL basis, the group has disclosed a performing gross impairment coverage ratio which is calculated as the balance sheet impairments for performing loans as a percentage of the group's performing loans.

The performing loan impairments are aligned with the concept of general provisions as set out in the SARB's Directive 5/2017, being credit impairment provisions that have been determined for exposures that are not credit-impaired, i.e. it includes credit impairments relating to stage 1 exposures for which a 12-month ECL is held as well as stage 2 exposures for which there has been SICR.

2.7.2 What are the IFRS 9 performing loan coverage ratios and how do they compare to those determined in terms of IAS 39?

The following graph provides a comparison of the performing loan coverage ratio as determined in accordance with IAS 39 at 31 December 2017 and IFRS 9 at the DIA. An analysis of the principal drivers for both PBB and CIB has been provided thereafter:

Performing coverage ratio



PBB

The principal drivers for the increase in the performing loan coverage ratio include:

- holding a 12-month minimum ECL as compared to the shorter emergence period applied in terms of IAS 39
- holding a life-time ECL as compared to a 12-month loss period in terms of IAS 39 for exposures classified as early arrears
- holding a life time ECL for exposures for which there has been SICR as compared to the shorter IAS 39 period over which such losses were estimated
- the inclusion of the probability of recovery post default and then subsequent re-default or cure over the expected life of the exposures (lifetime LGD work out)
- the inclusion of ECL on unutilised facilities, notably in card and other lending
- the inclusion of forward looking economic expectations.

CIB

The principal drivers for the increase in the performing coverage ratio include:

- holding ECL on unutilised facilities
- the inclusion of ECL on off-balance sheet financial exposures
- an IFRS 9 ECL which is required for exposures such as sovereign debt whilst such exposures generally did not carry an impairment provision in terms of IAS 39's incurred loss model
- the recognition of lifetime ECL on exposures for which there has been SICR, but offset by lower credit impairments as a result of exposures having a term to maturity of less than 12 months.

2.8 Specific coverage ratio – loans and advances

2.8.1 What is the specific gross impairment coverage ratio?

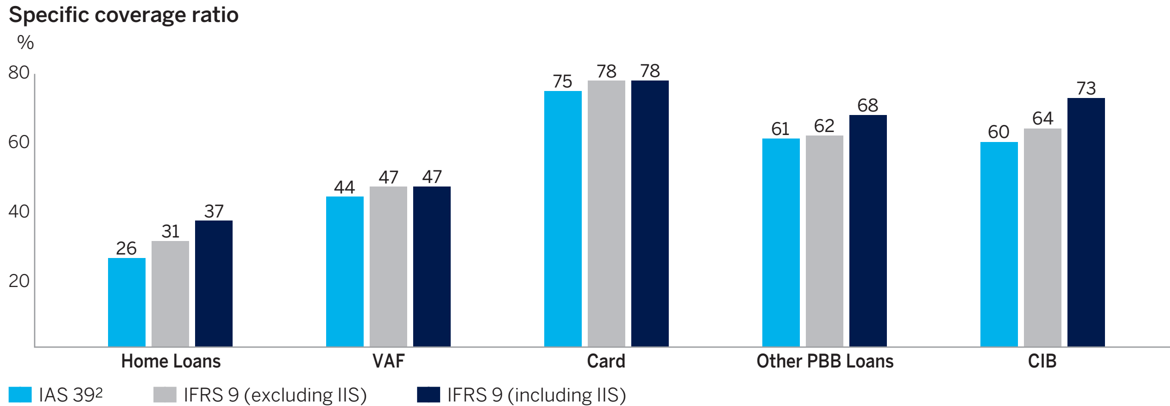
The group has previously reported a specific gross impairment coverage ratio determined as the total balance sheet impairments for non-performing specifically impaired loans as a percentage of specifically impaired loans. For IFRS 9 purposes, the group has set out below the specific gross impairment coverage ratio, but has also included IIS[1] in both the numerator (the balance sheet impairments) and the denominator (the gross exposure).

The specific provisions are aligned with the SARB's Directive 5/2017, being credit impairment provisions that have been determined for exposures that are credit-impaired, i.e. stage 3 exposure.

2.8.2 What are the IFRS 9 specific gross impairment coverage ratios and how do they compare to that determined in terms of IAS 39?

The graph that follows illustrates the specific gross impairment coverage ratios as reported in accordance with IAS 39 at 31 December 2017, the ratio in terms of IFRS 9 by applying a consistent definition to that applied for IAS 39 purposes at the DIA, and the ratio as determined by including IIS in both the numerator and denominator at the DIA.

Specific coverage ratio



AFS

The IFRS 9 specific gross impairment coverage ratio (excluding IIS) is materially comparable to that reported in terms of IAS 39. The increase in the coverage ratio for the PBB retail portfolios relates to the inclusion of the longer lifetime work out requirement as explained in section 1.4. The specific gross impairment coverage ratio for IFRS 9 that includes IIS shows an increase over both the IAS 39 and IFRS 9 specific coverage ratios that are exclusive of IIS as a result of the inclusion of IIS in both the numerator and denominator.

1 Refer to section 2.5 for further explanation.
2 The IAS 39 coverage ratios have been adjusted for certain amounts of IIS in order to be directly comparable to that of IFRS 9. For further details refer to section 2.4 and 2.5.

2.9 What is the impact of IFRS 9 on the group's tax position?

The adoption of IFRS 9 results in a tax credit to the group's reserves on the DIA based on the statutory tax rate applicable to the country of the group's operations in which the exposures are recognised.

South Africa: As of 1 January 2018, the adoption of IFRS 9 repeals the IAS 39 tax ruling for doubtful debts which allows for deductions for income tax purposes of impairments of 25% of the incurred but not reported losses; 80% for portfolio specific impairments and 100% for specific impairments. These deductions are based on IAS 39's criteria for measuring impairments with the exception of the adjustment for the time value of money.

The amended tax legislation following the adoption of IFRS 9 allows for a 25% doubtful debt allowance for the IFRS 9 determined stage 1 impairments, 40% for stage 2 impairments and 85% for stage 3 impairments. The increase in the impairment provisions in terms of IFRS 9, together with the proposed change in the tax treatment, results in a larger deferred tax asset balance. In addition to the doubtful debt allowance on the impairment provisions, an allowance of 100% was claimable on IIS under IAS 39. For tax purposes, IIS is classified as stage 3 and therefore an allowance of only 85% is now claimable against the IIS. This change will also result in a larger deferred tax asset balance.

The abovementioned revised tax legislation resulted in an increase in the deferred tax asset carrying value of R1 810 million on transition to IFRS 9.

Africa Regions: The tax deductibility of impairments in the group's Africa Regions is based on the tax legislation that is specific to each of the countries in which the group operates. The tax legislation that is generally applied is as follows:

- Most of the group's Africa Regions' subsidiaries qualify for doubtful debt allowances based on the impairment status of the exposures. This legislation is generally not expected to change following the adoption of IFRS 9. This has resulted in a larger deferred tax asset balance on transition to IFRS 9.
- Some of the group's Africa Regions' subsidiaries do not receive interim tax relief by way of a doubtful debt allowance, but do receive a full tax deduction when the debt is written off. Given the higher levels of impairment provisions recognised in terms of IFRS 9, this has resulted in a larger deferred tax asset balance on transition to IFRS 9.
- In certain of the group's Africa Regions' operations, the tax deductibility of impairments follows the accounting treatment for impairments which results in no deferred tax balance. As at the date of this transition report, only one confirmation had been received as to whether the revenue authorities in these countries will continue on this basis under IFRS 9. Until the tax requirements are clarified, the group has elected to recognise a deferred tax asset carrying balance on the difference between the IAS 39 impairment provision and that required in terms of IFRS 9 for those countries for which confirmation has not yet been received. Whilst this basis of accounting will be re-assessed, any changes to the tax legislation will not affect the income statement or reserves, but will affect the split between the group's current and deferred tax asset carrying values.

On transition to IFRS 9 an increase in the deferred tax asset carrying value of R388 million was recognised.

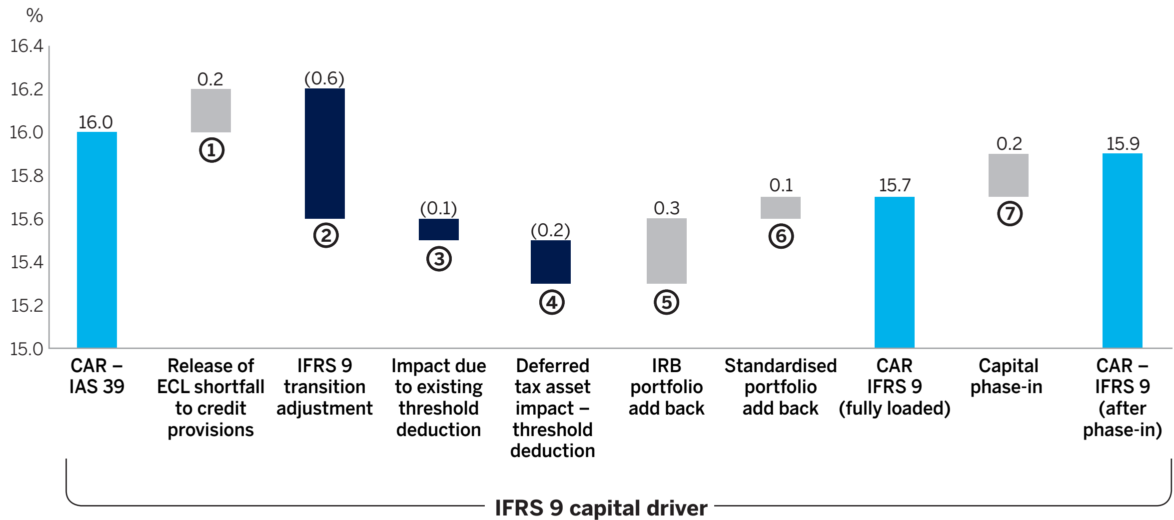
International: The group's operations outside of Africa qualify for doubtful debt allowances. The impact of IFRS 9 for these subsidiaries has not resulted in any material tax impact for the group.

2.10 Impact of IFRS 9 on the group's capital

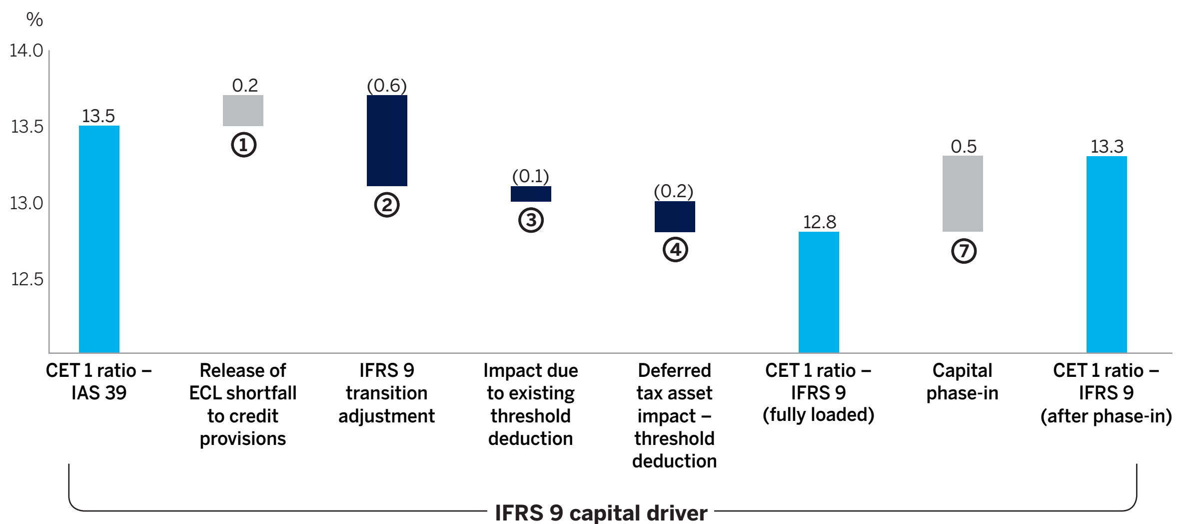
2.10.1 What is the impact on the Total Capital Adequacy Ratio (CAR) and Common Equity Tier ratio (CET 1) Ratio?

The graphs that follow illustrate the impact of IFRS 9 on both the group's CAR and CET 1, as determined in accordance with the SARB's capital regulations:

Total CAR – IAS 39 to IFRS 9 change



CET 1 – IAS 39 to IFRS 9 change



2.10.2 What are the reasons for the change in the Total CAR and CET 1 ratio?

Key to graph	Explanation	Total CAR	CET 1 ratio
As reported – 31 December 2017		**16.0%**	**13.5%**
1	**Release of ECL shortfall to credit provisions** For reporting periods up to 31 December 2017, the group deducted from available capital the shortfall of IAS 39 credit provisions to regulatory expected losses, being R2 076 million at the DIA. Given that the IFRS 9 impairment provisions are greater than the regulatory expected losses, this deduction is no longer recognised on transition to IFRS 9.	+0.2%	+0.2%
2	**IFRS 9 transition adjustment** The transition adjustment net of tax, notably, as a result of the ECL adjustment reduces the group's reserves and hence the group's available capital.	-0.6%	-0.6%
3	**Impact due to existing threshold deduction** Since the transition to IFRS 9 reduces the group's equity, a greater component of the group's existing deferred tax assets and significant investments in financial entities are treated as a direct deduction from the group's capital.	-0.1%	-0.1%
4	**Deferred tax asset impact – threshold deduction** The higher credit impairment provisions required in terms of IFRS 9 and associated changes in tax legislation (particularly in South Africa), result in a higher deferred tax asset carrying value. The additional deferred tax asset is added to existing deferred tax balances and significant financial investments, thus increasing the threshold deduction which is treated as a direct deduction from the group's capital.	-0.2%	-0.2%
5	**Internal ratings-based (IRB) approach add back** To the extent that the IFRS 9 total impairment provisions for the group's IRB portfolio exceed regulatory expected losses under the IRB portfolio, the excess is added back as Tier 2 capital, capped at 0.6% of the IRB credit risk-weighted assets (RWA).	+0.3%	–
6	**Standardised portfolio add back** With respect to the portfolio provision on the group's standardised portfolio, the deduction to CET 1 capital as a result of the IFRS 9 impairments is added back (pre-tax) to Tier 2 capital up to a limit of 1.25% of the standardised RWA.	+0.1%	–
IFRS 9 – fully loaded (DIA)		**15.7%**	**12.8%**
7	**Capital phase-in** The group has elected the three year phase-in as outlined in the SARB's Directive 5/2017. The transition results in the IFRS 9 impact being amortised on a straight-line basis, from 25% in 2018 to reach 100% by 2021.	+0.2%	+0.5%
IFRS 9 – phased in (DIA)		**15.9%**	**13.3%**

2.10.3 What does this mean for the group's capital ratios?

Total CAR: IFRS 9 has a neglible impact on the group's total CAR due to the add-back to Tier 2 capital that is permitted for provisions that exceed the regulatory expected loss. The volatility that arises as a result of the add-back due to the adoption of IFRS 9 will be carefully monitored on an ongoing basis.

CET 1: Given the group's strong capital adequacy position, the group is able to absorb the CET 1 capital impact.

The group is required to disclose the impact of IFRS 9 for both CET 1 and Total CAR before any phase-in allowance from the SARB. As such the group will continue to manage its capital adequacy on this basis.

3. APPLICATION OF IFRS 9 ECL TO THE GROUP

The following section outlines the manner in which the group has applied the key aspects of IFRS 9's ECL requirements.

3.1 How has the group applied the requirements of IFRS 9 with respect to SICR and low credit risk?

PBB

In accordance with IFRS 9, all exposures are assessed to determine whether there has been SICR at the reporting date, in which case an impairment provision equivalent to the lifetime expected loss is recognised.

SICR thresholds, which are behaviour score based, are derived for each portfolio vintage of exposures with similar credit risk and are calibrated over time to determine which exposures reflect deterioration relative to the originated population and consequently reflect an increase in credit risk. The group also determines an appropriate transfer rate of exposures from stage 1 to stage 2 by taking into account the expected levels of arrears status for similar exposures. The SICR thresholds are reviewed regularly to ensure that they are appropriately calibrated to identify SICR throughout the life of the exposure and consequently facilitate appropriate impairment coverage.

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

Forward looking economic expectations are included in the ECL by adjusting the PD, LGD and SICR. Adjustments are made based on the group's macro-economic outlook, using models that correlate these parameters with macro-economic variables. Where modelled correlations are not viable or predictive, adjustments are based on expert judgement to predict the outcomes based on the group's macro-economic outlook expectations.

CIB (including certain PBB business banking exposures)

The group uses a 25-point master rating scale[1] to quantify the credit risk for each exposure. On origination, each client is assigned a credit risk grade within the group's 25-point master rating scale. Ratings are mapped to PDs by means of calibration formulae that use historical default rates and other data for the applicable portfolio. These credit ratings are evaluated at least annually or more frequently as appropriate.

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

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

3.2 Inclusion of forward looking economic expectations in the ECL model

3.2.1 What is the group's process for determining forward looking expectations?

- The Group Economics Research team determines the macroeconomic outlook for each country and a group view of commodities over a planning horizon of at least three years. The outlook is provided to the legal entity Chief Financial Officer for review and each country's asset and liability committee for approval.
- Macroeconomic outlooks take into account various variables such as gross domestic product, central bank policy interest rates, inflation, exchange rates and treasury bill rates.
- Narratives for each of the country economic outlooks, being bear, base and bull cases, are compiled and typically include consideration of the country's economic background, sovereign risk, foreign exchange risk, financial sector, liquidity and monetary policy stance.
- Probabilities are assigned to each of the bear, base and bull cases based on primary macroeconomic drivers and are reviewed monthly.
- The forward looking economic expectations are updated on a bi-annual basis or more regularly when deemed appropriate.

[1] Refer to the group's 2017 risk and capital management report for the group's 25-point master ratings scale.

3.2.2 What were the group's forward looking economic expectations that were applied in the determination of the transition to IFRS 9?

It should be noted that the following forward looking economic expectations were determined for inclusion in the group's forward looking process as at 1 January 2018 for purposes of the group's transition to IFRS 9 and may not represent the economic expectations as at the date of issuance of this report:

Global narrative

- The global economic environment remains benign for emerging markets, with robust capital inflows continuing despite the actual and expected rise in interest rates in advanced economies.
- While the general backdrop remains benign for commodities, select prices may be unsustainably high, and a moderate correction is expected over the course of 2018.

South Africa

- The base case for South Africa is that business and consumer confidence strengthens, and the policy framework incrementally improves, following the political change that began with the African National Congress' (ANC) leadership election in December 2017. This, along with strong terms of trade and a supportive global backdrop, should underpin a stronger currency and economic growth trajectory. A sovereign credit rating downgrade by Moody's might be staved off.
- A bearish outlook at the beginning of 2018 has a similar probability to the more optimistic base case expectation. This is based on deep-seated ideological divides within the ANC and the broader society, difficult policy trade-offs, which may complicate and delay substantive policy reforms, and economic growth which may remain too low to reduce unemployment and the fiscal risks. This, along with the risk of a Moody's downgrade, underpins significant downside risk.
- A low probability bullish case outlook is based on better than expected traction with policy reform compelling a stronger recovery in consumer investment, supported by significant pent-up demand and strong confidence.

Africa Regions

A recovery in growth is expected across the continent assisted by elevated commodity prices and appropriate adjustments in currencies. Initial inflation pressures have ebbed, providing central banks with the opportunity to ease monetary policy.

- **West Africa:** Commodity exporting countries are expected to recover, supported by elevated commodity prices and foreign currency devaluations coupled with improved capital inflows. Notably, further devaluation of the Angolan Kwanza is likely to be accompanied by attempts to attract capital inflows into the country. This combination should support economic recovery on a multi-year basis.
- **East Africa:** Continues to experience high growth rates and drought-induced inflation has subsided. Non-commodity producing countries have typically relied on external financing to bolster investment spending, keeping overall growth elevated. Notably, provided that the perceptions of Kenya's growth potential have not been compromised by the election uncertainty, it will continue to attract capital inflows.
- **South and central Africa:** South African macroeconomic factors materially impact the outlook for many countries in this region. The end of the drought in several areas has boosted agricultural output and reduced inflation pressures.

APPENDIX A:

Basis of preparation and overview of IFRS 9

Background

This Transition Report is based on the group's accounting policies which have been revised based on the requirements of IFRS 9. With the exception of IFRS 9's hedge accounting requirements, the group adopted IFRS 9 on 1 January 2018. The group has not restated its comparative financial statements for the adoption of IFRS 9. Accordingly, the impact of adopting IFRS 9 has resulted in an adjustment to the group's opening reserves at the DIA.

The directors of the Standard Bank Group Limited take full responsibility for the preparation of this report.

Accounting policies and basis of preparation

The group's condensed statement of financial position, in section 2.1 is presented on the historical cost basis with the exception of financial assets that are measured at FVOCI, financial assets and liabilities that are either required to or have been elected to be classified at FVTPL, and third-party financial liabilities arising on the consolidation of mutual funds that are measured at fair value.

Consistent with the accounting policies applied in the preparation of the group's 2017 financial statements, the following financial instrument accounting policy elections in terms of IFRS have been made[1]:

- Purchases and sales of financial assets under a contract whose terms require delivery of the asset within the time frame established generally by regulation or convention in the marketplace concerned are recognised and derecognised using trade date accounting.
- Cumulative gains and losses recognised in OCI in terms of a cash flow hedge relationship are transferred from OCI and included in the initial measurement of the non-financial asset or liability.
- Commodities acquired principally for the purpose of selling in the near future or generating a profit from fluctuations in price or broker-traders' margin are measured at fair value less cost to sell.
- The portfolio exception to measure the fair value of certain groups of financial assets and financial liabilities on a net basis.

[1] The accounting treatment of non-financial instruments and other assets and liabilities is consistent with the accounting policies presented in the group's 2017 annual financial statements.

The group has considered the application of IFRS 9's transition requirements in IFRS 9, paragraphs 7.2.1 – 7.2.20, in preparing this Transition Report. The following table sets out the group's specific application of these IFRS 9 transition requirements:

IFRS 9 REFERENCE	APPLICATION BY THE GROUP
7.2.1 7.2.15 7.2.16 7.2.17	The group has applied IFRS 9's transition requirements with respect to the classification and measurement of financial assets and liabilities as well as the measurement of ECL retrospectively at the DIA. The difference between the carrying values of financial assets and liabilities as reported in terms of IAS 39 and that as determined in accordance with IFRS 9 has been recognised in the group's opening reserves. The group has accordingly not restated its previous reporting periods in accordance with paragraphs 7.2.15 – 7.2.17.
7.2.2 7.2.3 7.2.4	The group applied IFRS 9's classification and measurement requirements based on the facts and circumstances at the DIA in determining the transition adjustment.
7.2.8	For debt financial assets that meet IFRS 9's business model (held to collect) and solely payments of principal and interest on the principal amount outstanding (SPPI) tests and are to be measured on an amortised cost basis or to be classified as at FVOCI, the group assessed whether there is an accounting mismatch based on the facts and circumstances at the DIA. Where an accounting mismatch exists, these financial assets are considered for designation as at FVTPL. Equity financial assets are assessed to be designated as at FVOCI based on the facts and circumstances at the DIA. The group re-assessed the classification of financial assets that were designated as at FVTPL in terms of IAS 39 to eliminate or significantly reduce an accounting mismatch based on the facts and circumstances at the DIA. These financial assets were either continued to be designated as at FVTPL or were reclassified to either amortised cost or FVOCI under IFRS 9.
7.2.10	The group re-assessed its financial liabilities to be designated as at FVTPL based on the facts and circumstances at the DIA. These financial liabilities are either continued to be designated as at FVTPL or were reclassified to amortised cost under IFRS 9.
7.2.12	The difference between the fair value of equity financial assets and the carrying value in terms of IAS 39 (where measured at cost) was recognised in the adjustment to the group's opening reserves at the DIA.
7.2.18 7.2.19 7.2.20	The group used reasonable and supportable information that was available without undue cost or effort to determine the credit risk at the date that the financial instrument was initially recognised and compared that to the credit risk at the DIA. Where, at the DIA, determining whether there has been a SICR since initial recognition required undue cost or effort, the group recognised a loss allowance at an amount equal to lifetime expected credit losses (unless that financial instrument is determined to be of a low credit risk at the DIA). At the DIA, the group applied IFRS 9's SICR requirements as set out in section 3.1.

APPENDIX B:

What are the primary differences between IAS 39 and IFRS 9?

How does IAS 39 and IFRS 9 differ with respect to the classification and measurement of financial assets?

IAS 39

IAS 39 required financial assets to be classified into one of five categories based on a mixture of rules and a consideration of an entity's reasons for holding a particular financial asset. These categories, together with the measurement basis, have been summarised in the table that follows:

CATEGORY	EXPLANATION OF CATEGORY	MEASUREMENT BASIS
Held for trading	Those financial assets acquired principally for the purpose of selling in the near term (including all derivative financial assets) and those that form part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit taking.	Fair value
Designated as at FVTPL	Financial assets are designated to be measured as at FVTPL in the following instances: • to eliminate or significantly reduce a measurement or recognition inconsistency (accounting mismatch) • where financial assets are managed and their performance evaluated and reported on a fair value basis • where the financial asset contains one or more embedded derivatives that significantly modify the financial asset's cash flows.	Fair value
Loans and receivables	Non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than those classified in the categories above or as available-for-sale.	Amortised cost
Held to maturity	Non-derivative financial assets with fixed or determinable payments and fixed maturities and that management has both the positive intent and ability to hold to maturity.	Amortised cost
Available-for-sale	Financial assets that are not classified into one of the financial asset categories above.	Fair value

IFRS 9

The classification of financial assets depends on whether the financial asset is debt or equity and requires consideration of the entity's business model, an analysis of the instrument's contractual terms and to determine whether the terms give rise on specified dates to cash flows that are SPPI and whether there is an accounting mismatch. These categories, together with the measurement basis, have been summarised in the table that follows:

CATEGORY	EXPLANATION OF CATEGORY	MEASUREMENT BASIS
Amortised cost	Debt financial assets that are held in a business model to collect contractual cash flows and whose contractual terms meet the SPPI test.	Amortised cost
FVOCI	Comprises of: • **Debt financial assets** that are managed to achieve a particular objective by both collecting contractual cash flows and selling financial assets and the contractual terms of the financial asset meet the SPPI test • **Equity financial assets** which, on initial recognition, have been designated as at FVOCI.	Fair value
FVTPL	Comprises of: • **Debt financial assets:** – That are managed to realise the value of the financial asset through sale; – Whose contractual cash flow terms fail the SPPI test; or – That are designated to be measured at FVTPL on initial recognition or to eliminate an accounting mismatch. • **Equity financial assets** which, on initial recognition, have not been classified as at FVOCI.	Fair value

How does IAS 39 and IFRS 9 differ with respect to the classification and measurement of financial liabilities?

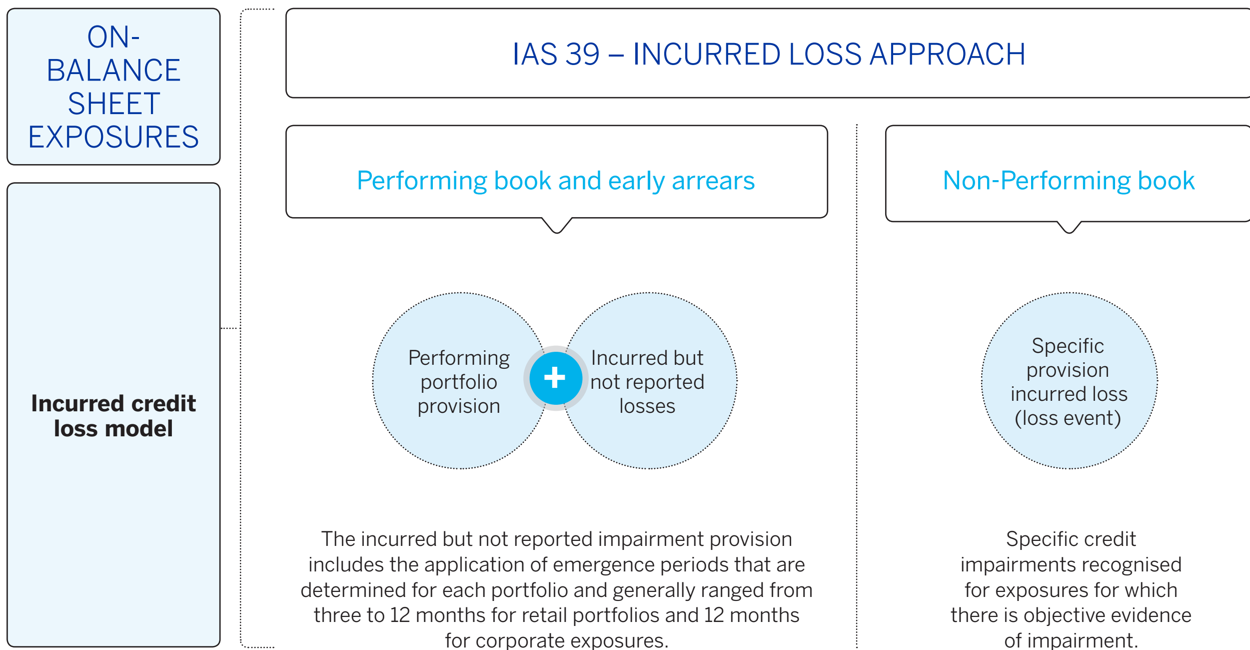
From a classification perspective, IFRS 9 permits the reclassification of financial liabilities on adoption of IFRS 9. With the exception of what is noted below, both IAS 39 and IFRS 9 have similar requirements for the classification of financial liabilities.

From a recognition of gains and losses perspective, the amount of the change in fair value that is attributable to changes in the credit risk of financial liabilities that have been designated at FVTPL shall, in terms of IFRS 9, be recognised in OCI with the remaining amount of the change in the fair value of the financial liability being presented in profit or loss. The gains and losses presented in OCI are not subsequently recognised in profit or loss. Where, however, presenting the changes in the fair value of the liability due to changes in credit risk in OCI would create or enlarge an accounting mismatch in profit or loss, IFRS 9 permits the gains and losses due to changes in the credit risk of that liability to be recognised in profit or loss.

How does IAS 39 and IFRS 9 differ with respect to the impairment of financial assets?

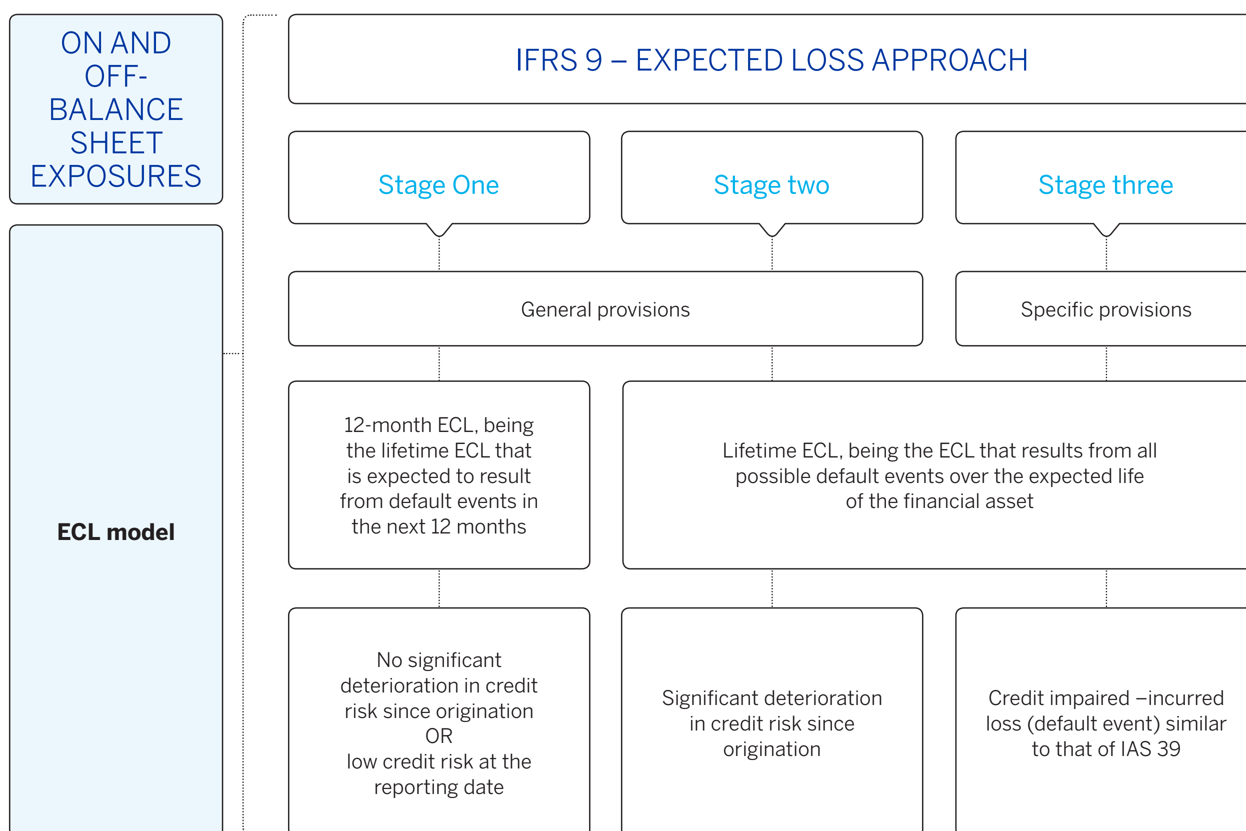
IAS 39

In terms of IAS 39, on-balance sheet financial assets are impaired and impairment losses are recognised, where there is objective evidence of default as a result of one or more events that occurred after the initial recognition of the asset. The IAS 39 incurred loss model is diagrammatically represented as follows:



IFRS 9

IFRS 9's ECL model requires the earlier recognition of impairment provisions as compared to IAS 39. ECL is required to be recognised for both on and off-balance sheet exposures, with the measurement thereof dependent on the extent to which there has been a change in credit risk since initial recognition and the incorporation of forward looking economic expectations. IFRS 9's ECL model requires the measurement of expected credit loss using a three stage model as follows:



Assessment of change in credit risk

Stage 1 includes exposures for which there has been no default event and for which the credit risk has not significantly increased since origination. A 12-month ECL is recognised, being the lifetime loss associated with exposures that are expected to default in the next 12-months. Stage 2 includes exposures for which there has been a SICR since the date of origination, unless the credit risk of the exposure is assessed as being low in which case the exposure will remain within stage 1. A lifetime ECL is recognised for stage 2 exposures, being the lifetime loss associated with defaults that are expected to arise over the lifetime of the exposure. There is a rebuttable presumption that the credit risk of a financial asset has increased significantly since initial recognition when contractual payments are more than 30 days past due. Stage 3 (credit impaired) exposures include debt assets that are either in default or where default is imminent. There is a rebuttable presumption that default does not occur later than when a financial asset is 90 days past due. A lifetime ECL is recognised for such exposures.

On and off-balance sheet exposures

IFRS 9's ECL applies to all debt financial assets that are either measured at amortised cost or are classified at FVOCI. Further, IFRS 9's ECL also applies to off-balance sheet exposures, these being exposures such as financial guarantees, letters of credit and unutilised lending facilities. For individually managed facilities, such facilities are included in the ECL calculation to the extent that they are irrevocable. For all other facilities, generally those that are not managed individually, the ECL is based on the period over which the group is exposed to credit risk even if that period extends beyond the maximum contractual period.

Forward looking economic expectations

IFRS 9's ECL model requires the inclusion of forward looking economic expectations in determining the amount of ECL to recognise. Forward looking economic expectations include macroeconomic information as well as other information that is specific to the exposures that could affect future changes in the credit risk associated with the exposures.

How is IFRS 9 expected to affect the income statement in future periods?

Whilst the overall credit loss ratio measured over an extended duration will remain unchanged as a result of the adoption of IFRS 9 as the future cash credit losses do not change, it is anticipated that the following factors will, under IFRS 9, result in greater volatility of the impairment charge in the income statement.

- Larger credit impairments will arise on loan origination (as a result of the 12-month minimum ECL requirement), following an increase in credit risk (as a result of IFRS 9's SICR requirements) and following the expectation of deteriorating economic conditions (IFRS 9's requirement to include forward looking economic expectations). IFRS 9 will thus result in higher credit impairments following book growth, a deterioration of credit quality or worsening economic expectations.
- The abovementioned increase would however be offset in part, when compared to IAS 39, since on transition to IFRS 9 higher impairments are recognised with respect to loans for which there has been SICR, but under IAS 39 would have been recognised later following the loan entering an early arrears status or defaulting.

In addition, whilst contractual interest income was previously recognised on certain exposures that were more than 90 days past due, contractual interest income will, in terms of IFRS 9, be required to be suspended upon classification as stage 3. The change from IAS 39 to IFRS 9 will hence result in a decrease in interest income but will be offset by lower credit impairments.

APPENDIX C:

Comparison between accounting standards and regulatory framework

The table that follows highlights the principle differences between IFRS and the Basel based regulatory framework (Basel). The IFRS requirements have been further analysed between that which was applicable to IAS 39 and what is now required in terms of IFRS 9.

CRITERIA	BASEL	IAS 39	IFRS 9
Objective	Determination of a through-the-cycle 12-month expected loss adjusted for downturn conditions.	Determination of impairment provisions by applying an incurred credit loss impairment model.	Determination of impairment provisions by applying an ECL impairment methodology, inclusive of future economic conditions.
Definition of default	Whilst the specific determination of default varies according to the nature of the product, it is generally determined as occurring at the earlier of: • where, in the group's view, the counterparty is considered to be unlikely to pay amounts due on the due date or shortly thereafter without recourse to actions such as the realisation of security; or • when the counterparty is past due for more than 90 days (or, in the case of overdraft facilities in excess of the current limit).	Same as that for Basel	Consistent with IAS 39 and Basel, the group has policies for the determination of default in accordance with the requirements of IFRS 9. The group will not rebut IFRS 9's 90 days past due rebuttable presumption.
PD	Expected average through-the-cycle defaults over the next 12 months.	Point-in-time defaults in a defined emergence period for performing exposures.	Expected defaults in the next 12 months for exposures classified as stage 1 and expected lifetime defaults for exposures classified as stage 2.
LGD	Losses expected on defaulted exposures based on historical downturn conditions and discounted using a risk adjusted interest rate.	Losses expected on defaulted exposures based on historical and expected recoveries discounted using the exposure's effective interest rate.	Losses expected on defaulted exposures over the exposure's expected lifetime based on historical and expected recovery assumptions discounted using the exposure's effective interest rate.

Appendix C: Comparison between accounting standards and regulatory framework continued

CRITERIA	BASEL	IAS 39	IFRS 9
Multiple defaults	LGDs are determined over the exposure's lifetime which include the possibility of re-default post a cure event (i.e. multiple defaults).	LGDs are measured for the current default event until a write-off or cure event occurs.	LGDs are determined over the exposure's lifetime which include the possibility of re-default post a cure event (i.e. multiple defaults or a life time model work out requirement).
Exposure at Default (EAD)	Expected exposure at point of default, including drawdowns on unutilised facilities, financial guarantees and letters of credit.	EAD is not required. Impairment provisions are determined with reference to the on-balance sheet (drawn) exposures.	Expected exposure at point of default, including drawdown on unutilised facilities, financial guarantees and letters of credit.
Significant increase in credit risk (SICR)	N/A	N/A	Trigger to increase impairment provision to lifetime loss expectations (stage 2), based on SICR since origination.
Forward looking expectations	Not considered.	Not considered. Impairment provisions based on an incurred loss event approach.	ECL impairment provisions adjusted based on expected future economic conditions.

APPENDIX D:

External audit reasonable assurance report

KPMG Inc.

KPMG Crescent
85 Empire Road
Parktown
2193 South Africa

Telephone +27 (11) 647 7111
Telefax +27 (11) 647 8000
Docex 472 Johannesburg
Internet www.kpmg.co.za

PricewaterhouseCoopers Inc.

4 Lisbon Lane
Waterfall City
Jukskei View
2090 South Africa

Telephone +27 (11) 797 4000
Telefax +27 (11) 797 5800
Internet www.pwc.co.za

Independent auditors' assurance report.

To the Directors of Standard Bank Group Limited.

Report on the compilation of *pro forma* financial information included in the Standard Bank Group Limited's IFRS 9 – Financial Instruments Transition Report.

We have completed our assurance engagement, for purposes of the Standard Bank Group Limited IFRS 9 – Financial Instruments Transition Report ("Transition Report"), to report on the compilation of *pro forma* financial information (the "Financial Information") of Standard Bank Group Limited (the "Group") as of 31 December 2017 by the Directors.

The Financial Information consists of sections 2 and 3 as set out on pages 4 to 16 of the Transition Report. The applicable criteria on the basis of which the Directors have compiled the Financial Information are described in Appendix A: Basis of preparation and overview of IFRS 9 (the "Applicable Criteria") in the Transition Report.

The Financial Information has been compiled by the Directors to illustrate the impact of the adoption of IFRS 9 (the "event"), as set out in sections 2 and 3 as set out on pages 4 to 16 of the Transition Report, on the Group's financial position as at 31 December 2017 as if the event had taken place at 31 December 2017. As part of this process, information about the Group's financial position has been extracted by the Directors from the Group's financial statements for the year ended 31 December 2017, on which an unmodified audit report has been published.

The Directors' responsibility for the compilation of the Financial Information

The Directors of the Group are solely responsible for compiling and presenting the Financial Information on the basis of the Applicable Criteria.

Our independence and quality control

We have complied with the independence and all other ethical requirements of the *Code of Professional Conduct for Registered Auditors* issued by the Independent Regulatory Board for Auditors' (IRBA) that is consistent with the International Ethics Standards Board for Accountants *Code of Ethics for Professional Accountants* (Part A and B), which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behaviour.

The firms apply International Standard on Quality Control 1 and accordingly maintain a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

Auditors' responsibilities

Our responsibility is to express an opinion about whether the Financial Information has been compiled, in all material respects, by the Directors on the basis of the criteria set out in the Applicable Criteria.

We conducted our engagement in accordance with International Standard on Assurance Engagements (ISAE) 3420, *Assurance Engagements to Report on the Compilation of Pro Forma Financial Information Included in a Prospectus*, issued by the International Auditing and Assurance Standards Board. This standard requires that the auditor plan and perform procedures to obtain reasonable assurance about whether the Directors have compiled, in all material respects, the Financial Information on the basis of the Applicable Criteria.

Chief Executive: N Dlomu

Directors: Full list on website

The company's principal place of business is at KPMG Crescent, 85 Empire Road, Parktown, where a list of the directors' names is available for inspection.

Registration number: 1999/021543/21

Chief Executive Officer: T D Shango

Management Committee: S N Madikane, J S Masondo, P J Mothibe, C Richardson, F Tonelli, C Volschenk

The Company's principal place of business is at 4 Lisbon Lane, Waterfall City, Jukskei View where a list of directors' names is available for inspection

Reg. no. 1998/012055/21, VAT reg.no. 4950174682

For purposes of this engagement, we are not responsible for updating or reissuing any reports or opinions on any historical information used in compiling the Financial Information, nor have we, in the course of this engagement, performed an audit or review of the information used in compiling the Financial Information.

The purpose of the Financial Information included in the Transition Report is solely to illustrate the impact of the adoption of IFRS 9 on unadjusted financial information of the Group as if the adoption of IFRS 9 had occurred on 31 December 2017.

Accordingly, we do not provide any assurance that the actual outcome of the event or transaction as at 31 December 2017 would have been as presented.

A reasonable assurance engagement to report on whether the Financial Information has been compiled, in all material respects, on the basis of the Applicable Criteria involves performing procedures to assess whether the Applicable Criteria used by the Directors in the compilation of the Financial Information provide a reasonable basis for presenting the significant effects directly attributable to the event or transaction, and to obtain sufficient appropriate evidence about whether:

- The related adjustments give appropriate effect to those criteria; and
- The Financial Information reflects the proper application of those adjustments to the unadjusted financial information.

The procedures selected depend on the auditors' judgement, having regard to the auditors' understanding of the nature of the Group, the event or transaction in respect of which the Financial Information has been compiled, and other relevant engagement circumstances.

The engagement also involves evaluating the overall presentation of the Financial Information.

Our opinion

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

In our opinion, the Financial Information included in the Transition Report has been compiled, in all material respects, on the basis of the Applicable Criteria.

Disclaimer and limitations

Our report is intended for the benefit of the Directors of the Group. Our work was not be planned or conducted in contemplation of reliance by any third party or with respect to any specific transaction or other purpose other than stated in this Report. Therefore, items of possible interest to a third party were not specifically addressed and matters may exist that would be assessed differently by a third party, possibly in connection with a specific transaction.

As noted above, this report has been prepared for the Directors of the Group to provide reasonable assurance on the compilation of the Financial Information as sections 2 and 3 as set out on pages 4 to 16 of the Transition Report and for no other purpose. We do not, in giving this report, accept or assume responsibility (legal or otherwise) or accept liability for or in connection with any other purpose for which our report may be used, or to any other person to whom our report is shown or into whose hands it may come, and no other persons shall be entitled to rely on our report save where they have obtained our prior written consent that they may do so.

KPMG Inc.

KPMG Inc.
Director: Joelene Pierce
Chartered Accountant (SA)
Registered Auditor
85 Empire Road
Parktown
2193
23 April 2018

PricewaterhouseCoopers Inc.

PricewaterhouseCoopers Inc.
Director: Stefan Beyers
Chartered Accountant (SA)
Registered Auditor
4 Lisbon Lane
Waterfall City, Jukskei View
2090
23 April 2018

ABBREVIATIONS

ANC	African National Congress
AR	Africa Regions
AFS	Annual financial statements
CAR	Total capital adequacy ratio
CET1	Common equity tier 1
CIB	Corporate & Investment Banking
DIA	Date of initial application
EAD	Exposure at default
ECL	Expected credit loss
FVOCI	Fair value through other comprehensive income
FVTPL	Fair value through profit or loss
Group	the Standard Bank Group
IASB	International Accounting Standards Board
IAS 39	IAS 39 – *Financial Instruments: Recognition and Measurement*
IFRS	International Financial Reporting Standards
IFRS 9	IFRS 9 – *Financial Instruments*
IFRS 15	IFRS 15 – *Revenue from Contracts with Customers*
IIS	Interest in suspense
IRB	Internal ratings-based approach
LGD	Loss given default
OCI	Other comprehensive income
PBB	Personal & Business Banking
PD	Probability of default
RWA	Risk-weighted assets
SARB	South African Reserve Bank
SCRR	Statutory credit risk reserve
SICR	Significant increase in credit risk
SPPI	Solely payments of principal and interest
VAF	Vehicle and asset finance

ADMINISTRATIVE AND CONTACT DETAILS

STANDARD BANK GROUP LIMITED

Registration number 1969/017128/06
Incorporated in the Republic of South Africa
Website: (www.standardbank.com)

REGISTERED OFFICE

9th Floor, Standard Bank Centre
5 Simmonds Street, Johannesburg, 2001
PO Box 7725, Johannesburg, 2000

GROUP SECRETARY

Zola Stephen
Tel: +27 11 631 9106

HEAD: INVESTOR RELATIONS

Sarah Rivett-Carnac
Tel: +27 11 631 6897

GROUP FINANCIAL DIRECTOR

Arno Daehnke
Tel: +27 11 636 3756

HEAD OFFICE SWITCHBOARD

Tel: +27 11 636 9111

SHARE TRANSFER SECRETARIES IN SOUTH AFRICA

Computershare Investor Services Proprietary Limited
Rosebank Towers, 15 Biermann Avenue,
Rosebank, Johannesburg, 2196
PO Box 61051, Marshalltown, 2107

DIRECTORS

TS Gcabashe (chairman), H Hu[1] (deputy chairman), JH Maree (deputy chairman), A Daehnke*, RMW Dunne[2], 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[1]

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

All nationalities are South African, unless otherwise specified above.

www.standardbank.com/reporting

SHARE TRANSFER SECRETARIES IN NAMIBIA

Transfer Secretaries (Proprietary) Limited
4 Robert Mugabe Avenue (entrance in Burg Street), Windhoek
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)

Please direct all customer-related queries and comments to:
Information@standardbank.co.za

Please direct all shareholder queries and comments to:
InvestorRelations@standardbank.co.za

Disclaimer

This document contains certain statements that are "forward-looking" with respect to certain of the group's plans, goals and expectations relating to its future performance, results, strategies and objectives. Words such as "may", "could", "will", "expect", "intend", "estimate", "anticipate", "aim", "outlook", "believe", "plan", "seek", "predict" or similar expressions typically identify forward-looking statements. These forward-looking statements are not statements of fact or guarantees of future performance, results, strategies and objectives, and by their nature, involve risk and uncertainty because they relate to future events and circumstances which are difficult to predict and are beyond the group's control, including but not limited to, domestic and global economic business conditions, market-related risks such as fluctuations in interest rates and exchange rates, the policies and actions of regulatory authorities (including changes related to capital and solvency requirements), the impact of competition, inflation, deflation, the timing impact and other uncertainties of future acquisitions or combinations within relevant industries, as well as the impact of changes in domestic and global legislation and regulations in the jurisdictions in which the group and its affiliates operate. The group's actual future performance, results, strategies and objectives may differ materially from the plans, goals and expectations expressed or implied in the forward-looking statements. The group makes no representations or warranty, express or implied, that these forward-looking statements will be achieved and undue reliance should not be placed on such statements. The group undertakes no obligation to update the historical information or forward-looking statements in this document and does not assume responsibility for any loss or damage arising as a result of the reliance by any party thereon.

STUDIO⑤

standardbank.com