The Standard Bank of South Africa

Annual report 2010

The Standard Bank of South Africa Annual report 2010

Standard Bank

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Connecting Africa to the world, and the world to Africa.

The year in review

Financial performance

The financial results and commentary describe the consolidated results of The Standard Bank of South Africa Limited group (the group or Standard Bank) unless otherwise indicated as relating to The Standard Bank of South Africa Limited (the company or SBSA). SBSA is a wholly owned subsidiary of Standard Bank Group Limited (SBG) and is incorporated in South Africa.

Headline earnings R8 034 million

2009: **R8 441 million**

Headline earnings per ordinary share 13 391 cents

2009: **14 069 cents**

Return on equity (ROE) 17,3%

2009: **20,3%**

Total assets R840 billion

2009: **R791 billion**

Net asset value R48 875 million

2009: **R44 159 million**

Credit loss ratio 1,18%

2009: **1,87%**

Total capital adequacy ratio[1] 14,9%

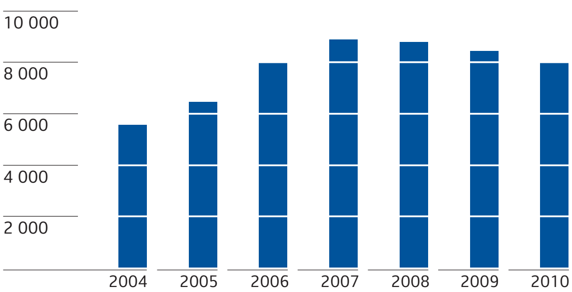
2009[1]: **14,1%**

Cost-to-income ratio 55,2%

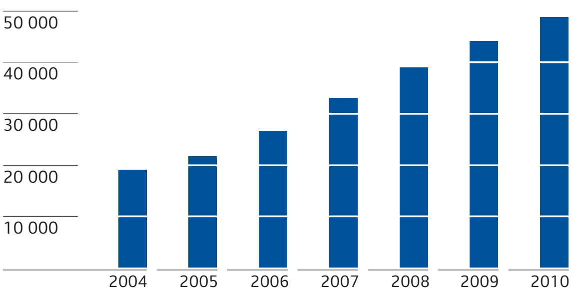
2009: **46,9%**

[1] *Company.*

Headline earnings
Rm



Net asset value
Rm



The year in review continued

Non-financial performance

Clients and service

CEBS[1] survey result 8,85 out of ten[2]

2009: **8,74 out of ten**

Consumer education spend[2, 3] R19,4 million

2009: **R21,1 million**

Technology and infrastructure

Number of branches 705

2009: **664**

Information technology (IT) spend R2 741 million

2009: **R2 285 million**

Our people

Number of employees 30 396

2009: **29 494**

Environment

Carbon footprint 177 289 metric tons of CO_2[2]

2009: **154 538 metric tons of CO_2**

Socioeconomic development

Corporate social investment (CSI) expenditure R100 million

2009: **R70 million**

Transformation score[3] 92,83 out of 107

2009: **77,62 out of 107**

[1] *Customer Evaluation of Bank Service – overall branch rating.*
[2] *Company.*
[3] *Verified by Empowerdex.*

Awards and recognition

First in the banking category of the annual *Ask Africa Orange Index*, which recognises the best customer service companies in South Africa based on service delivery.

The Banker
Bank of the Year 2010
SOUTH AFRICA

Best Bank in South Africa, in the prestigious *The Banker* awards.

EUROMONEY 2010 Awards for excellence

Ranked Best Bank in South Africa by *Euromoney* magazine.

EUROWEEK
THE NEWSPAPER OF THE GLOBAL CAPITAL MARKETS

Standard Bank was awarded the **Overall Emerging Market Deal of the Year 2010** in the *EuroWeek* Awards. Standard Bank, in its capacity as Joint Lead Manager, successfully raised the largest global bond offering by South Africa to date, a USD2 billion bond, for the National Treasury of South Africa.

The New Economy

For the second consecutive year, Standard Bank won *New Economy* magazine's award for **Best Sustainable Financial Institution 2010 (South Africa).**

Standard Bank was voted the **Best Business Bank** in the *Sunday Times* Top Brands Survey.

GLOBAL FINANCE

Awarded Best Investment Bank in South Africa by Global Finance.

Our brand

– Standard Bank has recently been independently evaluated and ranked as the most valuable banking brand in South Africa by *BrandFinance® Banking 500*. We moved up the global rankings from position number 105 in 2010 to position 77 in 2011, 31 places ahead of our nearest domestic competitor.

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The year in review continued

Business structure

Group

Personal & Business Banking

Banking and other financial services to individual customers and small- to medium-sized enterprises as well as municipalities

What we offer

- Mortgage lending
- Instalment sale and finance leases
- Credit cards
- Transactional and lending products
- Bancassurance and wealth

Headline earnings
R4 271 million
2009: R3 273 million

ROE
22,7%
2009: 18,2%

Cost-to-income
54,4%
2009: 48,3%

Credit loss ratio
1,73%
2009: 2,61%

Corporate & Investment Banking

Corporate and investment banking services to government, parastatals, larger corporates, financial institutions and international counterparties

What we offer

- Global markets
- Transactional products and services
- Investment banking
- Principal investment management

Headline earnings
R4 286 million
2009: R4 690 million

ROE
30,4%
2009: 37,3%

Cost-to-income
49,5%
2009: 41,2%

Credit loss ratio
(0,06)%
2009: 0,54%

Other services

Support functions to business units and advisory services, activities and taxes not allocated to business segments, inter-segment eliminations and restructuring costs

Our socioeconomic impact

To be the leading South African financial services organisation, our socioeconomic relevance is critical

Grew the number of Mzansi accounts from 913 244 in 2009 to **1 086 094** in 2010.

Committed **R500 million** to support emerging farmers in 2010.

R9,3 million spent on energy efficient projects to reduce Standard Bank's energy consumption.

Financial Literacy Outreach Programme reached some **41 000** South Africans in 2010.

30 396 Standard Bank employees based in South Africa and in addition we sustain 90 000 jobs in the broader South African economy.

Extended **R2 494 million** in loans to the affordable housing market during 2010.

Empowerment deals financed by Standard Bank in excess of **R20 billion**.

Standard Bank's CSI spend totalled **R100 million** with R36 million and R35 million allocated to education and enterprise development respectively.

R34 million paid to 250 black small and medium enterprises (BSMEs) participating in the Tutuwa Community Trust.

5 565 ATMs and **705** branches and services centres available for customers to access financial services.

Opened more than **50** inclusive banking loan centres and **7 500** bank shops.

Weighted procurement spend from black economic empowerment (BEE) suppliers amounted to **R15,7 billion**.[1]

[1] *Weighted for supplier BEE levels as governed by the Department: Trade and Industry's Codes of Good Practice for Broad-based Black Economic Empowerment (dti codes).*

Chief executive's review

Review by Sim Tshabalala

"South Africa remains the group's springboard for growth and we will continue to preserve and invest in our South African franchise."

Discussed in this review:

- Overview
- Strategy
- Financial performance
- Regulatory environment
- Appreciation
- Prospects

Sim Tshabalala
Chief executive

Overview

The South African economy was slow to recover from its first recession in 17 years and grew at 2,8% in 2010. Low inflation, interest rate cuts, higher equity prices and a modest recovery in house prices eased pressure on consumers during the year and enabled many consumers to repay existing debt. However, household leverage ratios remained high and customers were reluctant to take on new debt. South African corporates generally remain in good shape but have tended to remain cautious and limit their activity levels. Government continued to invest in the infrastructure investment programme which supported further economic growth.

Our businesses responded to the ongoing economic pressure by preserving their customer bases and managing costs rigorously, while maintaining key strategic investments in IT and infrastructure.

The retrenchment of staff, as part of the group's broader restructuring process, was an extremely difficult process for everyone involved. The retrenchments were a painful but necessary intervention to protect the long-term sustainability of our business. We ensured that the process as a whole was fair, that it upheld our employees' rights and respected their dignity, and that the reasons for each decision were substantively fair in every case. Individual performance was not a consideration. The retrenchments were preceded by a detailed analysis of all operating costs across the group. Retrenchment decisions were made on the basis of our changing operational requirements and in order to eliminate inefficient duplications. In South Africa, areas of inefficiency were mainly within head office structures and at executive and managerial level. Customer-facing staff were therefore largely unaffected. 787 employees and 576 contractors were retrenched in South Africa. Of the permanent staff retrenched, 53 were executives, 468 managers and 266 general staff.

The cost analysis identified a number of other cost-cutting measures, including a freeze on the recruitment of new employees in certain parts of the business, downsizing or delaying IT projects, a reduction in professional fees for consultants and cutbacks in travel and conference costs. We will reduce our marketing and sponsorship costs significantly by terminating our sponsorship agreements with Cricket South Africa, Kaizer Chiefs and Orlando Pirates when the contracts expire in May 2011. We are looking to implement a new operating model which will integrate the operations of Personal & Business Banking and Corporate & Investment Banking to maximise synergies across the group. In order to reduce our procurement costs, we are negotiating with our suppliers to reduce their cost of product and service delivery to us.

Throughout this difficult process, Standard Bank has maintained its reputation as a stable and trustworthy organisation and was recognised as the Best Bank in South Africa *by The Banker and Euromoney*. In another important gauge of our international standing, we were joint lead manager in a landmark transaction to raise USD2 billion for the National Treasury of South Africa. This is the largest global bond issued by South Africa to date and it was concluded in a record 48 hours, attracting a high level of investor demand.

We also concluded a USD268 million loan facility with 18 Taiwanese banks. This is our second successful term fund-raising achievement in the Taiwanese market. The funds will be used for general corporate purposes.

Strategy

The group has been strongly positioned in recent years to take up the opportunities of a growing and transforming South African marketplace. Our strategy is to serve the full spectrum of South African customers, offering products and services from the most basic to the most sophisticated financial services – and to maintain high standards of customer service and cost-effective delivery channels.

The group is both a strong domestic universal bank, which leverages the advantages of its considerable size and scope, and a cross-border bank, fully integrated with the rest of SBG.

Ensuring that our banking systems support continuous improvement in the quality of service to clients remained our main priority in 2010. We continued to invest in key management and infrastructure during the year and, in Personal & Business Banking, achieved the highest customer service levels measured since the Customer Evaluation of Bank Service Index began 14 years ago. This improvement in our customer service was also recognised by independent measures of service quality. We were awarded the *Ask Africa Orange Index* award for the best customer service in banking and rated the leading business bank in South Africa by the *Sunday Times*.

Chief executive's review continued

Personal Banking continues to strive to increase market share in the emerging and middle segments of the South African market through improved customer value propositions. The informal economy contains millions of economically active people who fall outside the mainstream financial sector. Our community banking initiative has been active in the development of an affordable transactional account for low income earners and we have constantly explored innovative models to meet the needs of this market, offering low cost, scalable and replicable products and services without compromising our commitment to quality. In 2010, we established a dedicated inclusive banking unit to extend our delivery of affordable and relevant banking products to this sector of the market through convenient access points, with a particular focus on short-term unsecured lending products. During the year we opened more than 50 inclusive banking loan centres along high density commuter routes and 7 500 bank shops in partnership with informal convenience shops throughout South Africa, with the aim of reaching bankable customers in under-banked areas. During 2010, we granted R2,5 billion in end-user loans in this segment, an increase of 52% year-on-year, and had 28% market share of new registrations.

Within Business Banking we have strengthened our focus on the public sector and on agriculture. During the year we launched a R500 million agricultural BEE fund to finance previously disadvantaged farmers throughout the country, and particularly those who have benefited from land restitution. We offer small farmers the support of a team of specialised business managers and agricultural advisers.

Corporate & Investment Banking continued to face the challenging combination of limited client activity and an increasingly competitive business landscape. However, while trading volumes in global markets all but dried up and credit demand from South African corporate clients remained slow, there were some positive developments. These included growth in the client base for transactional products and services, particularly in the public and retail sectors, and increasing demand for investment banking services from South African companies expanding into the rest of Africa.

Financial performance

The group produced headline earnings of R8 034 million (down 5% on 2009), despite the slow pace of South Africa's economic recovery. The group's ROE was an acceptable 17,3% (2009: 20,3%), as we balanced the reduction in total income and increases in operating expenses with improvements in credit impairment charges.

Total income was down 1% on the prior year to R39 billion, following a 6% decline in net interest income on the back of declining interest rates and a 5% improvement in non-interest revenues.

The group was affected by the negative endowment impact on capital and transactional balances of a 198 basis point reduction in the average prime interest rate for the year, by an increase in the cost of liquidity and by subdued asset growth. These impacts were partially offset by improved lending margins due to better pricing for both liquidity and credit risk, especially in the mortgage lending business.

Non-interest revenue was a satisfactory R18 billion. Net fee and commission revenue increased 3% as a result of the increased number of accounts and inflation-related overnight price increases. Trading revenue was down 9% to R2,7 billion because of reduced client activity, low average market volatility, slower deal flow and general market reluctance to trade in the uncertain economic conditions.

Credit impairments decreased 35% to R6,4 billion as the credit environment continued to improve. Low interest rates improved customers' ability to service debt, resulting in fewer new defaults compared to the previous year. There was also a write-back on the performing loan book from ongoing improvement in our recoveries capability. NPLs reduced by the end of the year, but remain stubbornly high, with the ratio of impaired loans to total gross book declining only marginally from 6,7% to 6,4%. The non-recurrence of the R500 million credit portfolio provision released in 2009 coupled with a provision for country risk held centrally of R140 million offset some of the benefit of reduced credit impairment charges, resulting in an overall credit loss ratio of 1,18% (2009: 1,87%).

Operating expenses were up 17% to R21,4 billion (2009: R18,3 billion), as a result of a 15% increase in staff costs and a 20% increase in other operating expenses which includes restructuring costs. It became apparent during the year that the rate of cost growth was becoming unacceptable; hence we were forced to look closely at costs in order to right-size the base for revenues. Once-off retrenchment costs of R304 million were incurred. The group's cost-to-income ratio increased to 55,2% from 46,9% last year.

Personal & Business Banking reported good headline earnings of R4 271 million, up 30% from the prior year, with an improved ROE of 22,7% (2009: 18,2%). Earnings benefited from substantially lower credit impairment charges of R6,3 billion compared to R9,4 billion in the prior year, with still further room for improvement, due to the improved debt service ability of customers thanks to low interest rates. Net interest income was adversely affected by margin pressure from low interest rates. Costs increased 14% driven mainly by IT spend and inflation-related salary increases, offsetting the benefit of non-interest revenue that rose 6%. The Personal & Business Banking cost-to-income ratio was 54,4%, up from 48,3% in the prior year.

Corporate & Investment Banking produced headline earnings of R4 286 million, down 9% from the year before. This was not unexpected given the difficult market conditions during the year. Trading revenues suffered as a result of low client activity on the back of uncertainty and lack of volatility in the markets, and at R2,6 billion were 12% down on the prior year. Credit impairments improved as the likelihood of large corporate defaults fell. Operating expenses increased 13%, driven by continuing investment in IT and higher fixed compensation costs, resulting in a cost-to-income ratio of 49,5%, up from 41,2% in 2009. ROE remained at a very acceptable level of 30,4% (2009: 37,3%).

Regulatory environment

Standard Bank participated in the quantitative impact study conducted by the Basel Committee. Preliminary results showed that our tier I capital adequacy ratio would decrease under the new regulations. We are confident, however, that we are adequately capitalised to meet the new requirements. It has been very reassuring that our government and banks have agreed to work together to understand the impact of the liquidity proposals in the local context, particularly given the structural funding issues in the South African banking system.

We continue to engage with all stakeholders in our efforts to advance the development of the Financial Sector Charter (charter). The draft Financial Sector Code was gazetted for public comment in January 2011. This has given involved parties the opportunity to comment on and negotiate outstanding issues, such as access provisions, enterprise development and ownership. In the meantime, we continued to measure Standard Bank's transformation progress in 2010 against the dti codes. In January 2011, we finalised our own internal targets for specific requirements not reflected in the dti codes, such as empowerment finance. During the year, accredited BEE verification agencies conducted independent assessments of Standard Bank's BEE performance in terms of the dti codes. Standard Bank's verified overall score was 92,83 out of 107, qualifying the group as a level two contributor in a nine level model.

Standard Bank has participated actively in the Banking Inquiry Panel into bank charges and supported the overwhelming majority of the findings and recommendations of the Jali Committee. Both before and after the release of the findings, we made numerous changes to our offerings in line with the specific recommendations and the overall spirit of the Jali Committee. Recommendations that were not within Standard Bank's ability to change or influence require input and guidance from the National Treasury, the South African Reserve Bank (SARB), various card associations and the Banking Association of South Africa. Standard Bank remains committed to providing support and input to the various industry bodies, where necessary.

With the rise in indebtedness, a large number of consumers have sought assistance through debt review facilitated by debt counsellors in terms of the National Credit Act (NCA). However, due both to differing interpretations of several provisions of the NCA and to capacity constraints in the industry and the courts, only a small percentage of debt review matters have been resolved. The National Credit Regulator has published

Chief executive's review continued

a set of recommendations which include process guidelines, standardised rearrangement rules (accepted across the banking industry) and a revised industry code to combat over-indebtedness. These recommendations are expected to clarify the debt review process and to help relieve the court backlog. Standard Bank has played a leading role in this consultative process to improve the efficiency of debt review for the good of our customers and the group.

Appreciation

I would like to thank the group's executive management team and the many people we employ throughout the country for producing these results in very challenging conditions, and for never losing focus on maintaining our excellent customer service.

Prospects

An improving macroeconomic environment is likely to have a positive impact on the South African banking sector's performance in 2011, with growth supported by further reductions in credit impairments and gradual increases in client activity.

We will maintain our focus on cost management, without diluting our attention to customer service, and we will continue to invest in key strategic projects for future growth. In addition to these key focus areas, our priorities in Personal & Business Banking will be to keep growing our transactional account base and to deliver on our commitment to inclusive banking. In Corporate & Investment Banking we will continue to strengthen our relationships with clients and monitor closely those clients exposed to fragile sectors of the economy. We expect that customer lending requirements are likely to increase in 2011 and we look forward to supporting these needs and playing an important role in our customers' next phase of growth.

We anticipate that our future growth in South Africa will be generated from differentiated service levels based on customer needs, cost competitiveness, innovation, exploitation of niche and underdeveloped business opportunities and ongoing leverage of linkages with the rest of SBG. South Africa remains SBG's springboard for growth and we will continue to preserve and invest in our South African franchise. Ke nako ya rona – this is our time to claim the opportunities that surround us and convert them into revenues.

Sim Tshabalala
Chief executive

Executive committee[1]

Kennedy Bungane (36)
Chief executive
Corporate & Investment Banking
BCom (Natal), MBA (University of Pretoria GIBS Campus), AMP (Harvard)
Joined the group 1996

Libby King (46)
Chief financial officer
BAcc (Wits), CA (SA), BCom (Wits)
Joined the group 1994

Peter Schlebusch (44)
Chief executive
Personal & Business Banking
BCom (Hons) (Wits), CA (SA), HDip Tax (RAU)
Joined the group 2002

Annelie Schnaar-Campbell (42)
Chief risk officer
BCom Informatika (RAU), BCom (Hons) (RAU), MCom (RAU)
Joined the group 2004

Ian Sinton (54)
Group general counsel
BCom (Wits), LLB (Wits)
Joined the group 2002

Sim Tshabalala (43)
Chief executive
The Standard Bank of South Africa Limited
BA LLB (Rhodes), LLM (University of Notre Dame USA), HDip Tax (Wits), AMP (Harvard)
Joined the group 2000

Shirley Anne Zinn (49)
Director: Human Resources
BA (UWC), HDip ETD (UWC), BEd (Hons) (Unisa), EdM (Harvard), EdD (Harvard), Professor (Extraordinaire) of Human Resources Management (University of Pretoria)
Joined the group 2010

[1] *The executive committee was established with effect from 1 January 2011.*

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Financial review

Financial results and ratios

		Change %	2010 Rm	2009 Rm
ROE	%		**17,3**	20,3
Headline earnings	Rm	(5)	**8 034**	8 441
Headline earnings per ordinary share	cents	(5)	**13 391**	14 069
Tier I capital adequacy ratio[1]	%		**11,5**	10,6
Net asset value per ordinary share	cents	11	**81 462**	73 602
Non-interest revenue to total income	%		**47,8**	45,1
Credit loss ratio	%		**1,18**	1,87
Cost-to-income ratio	%		**55,2**	46,9

[1] *Company.*

Operating environment

The group's headline earnings reduced by 5% to R8 034 million and a ROE of 17,3% (2009: 20,3%) was recorded.

Customers remained reluctant to take on new debt given high household debt-to-income ratios. Corporates, while in generally good shape, also remained cautious and limited their activity both in terms of direct investment and corporate activity. Government continued to focus on job creation and invest in the infrastructure investment programme. Pressure on income growth was exacerbated as falling interest rates resulted in a negative endowment impact and sluggish growth was experienced across most transactional products. The group's cost base continued to increase which included the once-off restructuring costs. The combination of lower revenue and increased costs had a significant impact on the cost-to-income ratio. Positive signs were present, particularly in an improvement in credit losses. This is due to lower interest rates, an improved debt servicing ability and customer risk profile coupled with enhanced rehabilitation and recovery capability, resulting in substantially lower new defaults in Personal & Business Banking and specific and portfolio provision releases in Corporate & Investment Banking. The credit loss ratio remained above the historic average as the lagged impact of the 2009 recession had not fully run its course.

Key features of the 2010 results

Key features of the 2010 results that influenced the financial results and ratios were:

– **Slow lending growth**

Loans and advances grew by 2% as a result of deleveraging by corporate clients and low risk appetite. Within Personal & Business Banking, home loans showed positive growth, but the card and vehicle and asset finance lending books declined.

– **Negative endowment impact**

Average interest rates continued to reduce. The endowment impact of lower average interest rates on capital and transactional balances compressed net interest margins and reduced net interest income.

– **Restructuring**

As the persistence of revenue pressure became clear, the group reviewed its operating cost base, including staff costs. As a result, the group retrenched permanent and temporary employees during 2010, and undertook a number of other actions to reduce and defer costs. Once-off restructuring costs of R304 million were incurred in aggregate in 2010.

– **A significant improvement in credit losses**

The group's credit loss ratio improved from high levels of 1,87% in 2009 to 1,18% in 2010, resulting in a reduction in the absolute value of credit losses of R3,5 billion. Lower interest rates in 2010 benefited the debt servicing ability of clients, resulting in lower new defaults. In addition, the group enhanced its rehabilitation and recovery capability. The improved credit environment also benefited the corporate market, resulting in releases of specific credit impairments held against a number of exposures and reductions in portfolio impairments against performing loans.

Business unit performance

		Headline earnings		ROE	
	Change %	2010 Rm	2009 Rm	2010 %	2009 %
Personal & Business Banking	30	**4 271**	3 273	**22,7**	18,2
Corporate & Investment Banking	(9)	**4 286**	4 690	**30,4**	37,3
Other services	(>100)	**(523)**	478		
Total	(5)	**8 034**	8 441	**17,3**	20,3

Business unit performance

Personal & Business Banking's headline earnings grew by 30% to R4 271 million in spite of flat revenues and supported by an improved credit experience. Revenues were impacted by the negative endowment impact on transactional account balances due to low interest rates, and further increases in the cost of term funding needed to support mortgage lending growth. The division improved its ROE to 22,7% (2009: 18,2%).

Corporate & Investment Banking's headline earnings fell 9% to R4 286 million. The difficult market conditions in the first half of the year persisted into the second half, with market uncertainty continuing to have a detrimental impact on revenues, which were down 5%. A significant improvement in credit experience helped offset revenue pressures although costs escalated. The decline in profitability resulted in an ROE of 30,4% (2009: 37,3%).

Other services' headline earnings reduced following the non-recurrence of the release of a portfolio credit impairment of R500 million in 2009, an additional country risk provision of R140 million raised centrally and an increase in absorbed value added tax.

Balance sheet analysis

Total assets increased by 6% to R840 billion. The main contributors to this growth were an increase in derivative assets, financial investments and cash balances with banks and the central bank.

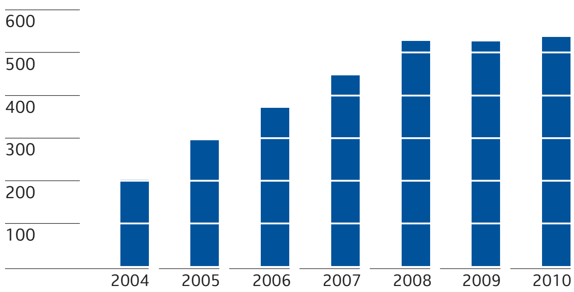
Total loans and advances increased by 2%, with Corporate & Investment Banking remaining flat and Personal & Business Banking growing by 3%.

Within Personal & Business Banking the movement per major product line is explained as follows:

- Mortgage loans increased by 5% as the improved credit environment, including a 150 basis point cut in the prime lending rate, allowed for more favourable lending criteria. The value of new loans registered grew by 58% but was offset by an increase in the average prepayment rate to 6,1% (2009: 4,9%). Mortgage loans also benefited from the renewal of contracts with mortgage originators and the acquisition of a R3 billion (2009: R4 billion) mortgage book. Market share increased from 27,2% to 27,7%.
- Instalment sale and finance leases declined by 9% as capital repayments on an ageing book exceeded new business values. New passenger vehicle sales rose by 30% but a higher cash component of vehicle sales limited lending growth in the industry. The average deal size grew by 14% but the number of accounts was 11% lower. Payouts increased by 24% even though finance terms were limited to 72 months which excluded approximately 15% of the new vehicle market. The motor/non-motor book payout ratio climbed to 76%/24% (2009: 70%/30%). Market share reduced from 19,3% to 17,6%.
- Card debtors decreased by 5% as customers became more hesitant to incur credit card debt and the number of accounts dropped by 1%. Market share reduced from 34,4% to 32,1%.

Corporate customers remained risk averse and preferred to deleverage balance sheets. The lack of growth in loans and advances in Corporate & Investment Banking resulted from maturing term loans as corporate customers preferred short-term finance.

Loans and advances
Rbn



Deposits and current accounts increased by 6%. Growth in Personal & Business Banking was largely attributable to growth in both the average balance and number of current accounts. Increases in longer term indexed and notice deposits were the main contributors to the growth in deposits in Corporate & Investment Banking. The ratio of loans-to-deposits remained conservative at 87,6% (2009: 91,0%).

Financial investments grew by 28% and cash and balances with banks were 26% up as a higher liability base required additional investment in government stock and balances with banks held for liquidity purposes.

Trading assets were 34% lower, mainly due to a reduction in trading positions and related collateral in the equity and commodity trading desks. Trading liabilities decreased by 46% as a consequence of a reduction in short equity trading positions and the maturity of a large repurchase agreement.

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Financial review continued

Derivative assets increased by 38% and derivative liabilities by 36% following increased client trading activities in interest rate and foreign exchange derivatives towards the end of the year.

The group's ordinary shareholder's funds grew by 11% following a reduction in dividends paid.

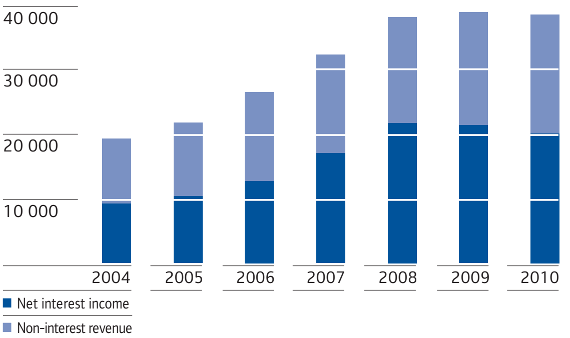
Income statement analysis

Net interest income

Net interest income was down by 6% as a result of pressure on net interest margins. The main reason for the reduced net interest margins was the negative endowment impact on capital and reserves and transactional balances brought about by the almost 200 basis point decline in the average prime rate. The benefit of continued repricing of new business mortgage and vehicle and asset finance loans to better reflect risk and liquidity cost, was dampened by a reduction in higher margin earning balances in card and instalment sale and finance leases. Lower average interest rates have reduced the impact of unwinding of the discount on expected recoveries of non-performing loans to interest income. Interest margins benefited from further reductions in the effective cost of the central bank's reserving requirements as interest rates reduced.

Deposit spreads remained constrained due to the low interest rate environment and more competitive pricing. The group is continually increasing its long-term funding ratio which results in an increased proportion of more expensive term funding. An increase in retail transactional deposits improved margins.

Income contribution
Rm



Non-interest revenue

Non-interest revenue increased by 5% during the year with net fee and commission revenue up 3%, trading revenue down 9% and other revenue up 49%.

Net fee and commission revenue benefited from growth of 14% in the number of current accounts. Higher transaction volumes coupled with annual price increases resulted in growth of 4% in income from account transaction fees. Electronic banking revenue benefited from additional ATMs that resulted in higher utilisation of Standard Bank devices and growth in the number of transactions. Knowledge-based fees declined mainly due to subdued corporate activity. Credit card volumes and values remained under pressure but growth in debit card volumes supported a rise in card-based commission. Insurance fees and commission increased as a consequence of higher upfront insurance fees and growth in the policy base.

Trading revenue fell due to a significant reduction in corporate trading activity from the second quarter of 2010. Interest rate trading was negatively impacted by reduced liquidity in the interest rate market and low client flows.

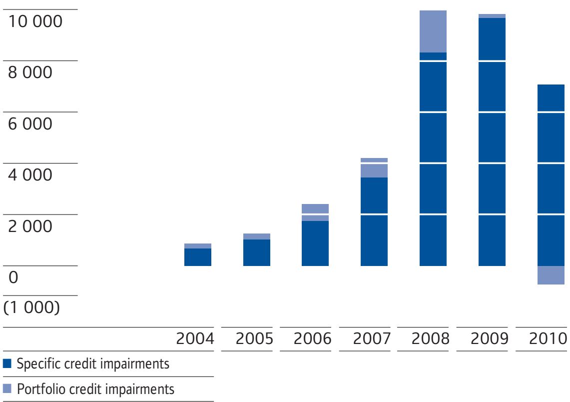
Other revenue benefited from fair value gains on unlisted equity portfolios. The group's short-term insurance division recorded a strong performance, driven by improved claims loss ratios and pricing for risk. Income from bancassurance activities benefited from a recovery in policyholder persistency. Property-related income declined as a result of write-downs of unlisted property investments.

Credit impairment charges

Credit impairment charges reduced by 35% and the credit loss ratio improved to 1,18% (2009: 1,87%). Non-performing loans as a percentage of gross loans and advances reduced from 6,7% in 2009 to 6,4% in 2010 with improvements across most portfolios. Credit impairment charges include a loss of R542 million relating to an off-balance sheet exposure. A detailed analysis of performing and non-performing loans is provided in the risk and capital management section on page 50.

The charge for non-performing loans reduced by R2 600 million. Lower interest rates and the improvement in economic conditions assisted customers to service debt and resulted in a significantly slower flow of new defaults into impaired loans.

Credit impairment charges
Rm



The group improved its rehabilitation and recovery capabilities but pressure on recovery values of distressed assets continued. The portfolio subject to debt review has reduced due to the active management of this portfolio together with improved clarity in the regulatory process under the NCA. Corporate loan impairments benefited from the non-recurrence of numerous provisions raised on specific corporate clients.

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The improved credit environment and healthier customer risk profile allowed portfolio credit impairment reversals across most portfolios. Concerns relating to high unemployment reduced these reversals.

Operating expenses

The group's cost-to-income ratio deteriorated to 55,2% (2009: 46,9%) as revenue, including profit from associates and joint ventures, reduced by 1% and operating expenses increased by 17%. Once-off restructuring costs of R304 million pushed overall cost growth for the year from 16% to 17%. Personal & Business Banking and Corporate & Investment Banking recorded growth of 14% and 13% in operating expenses and cost-to-income ratios of 54,4% and 49,5%, respectively as the restructuring expenses were carried centrally.

Operating expenses

	Change %	2010 Rm	2009 Rm
Staff costs	15	**11 113**	9 674
Restructuring costs		**304**	
Other operating expenses	16	**10 024**	8 612
Total operating expenses	17	**21 441**	18 286
Cost-to-income ratio		**55,2%**	46,9%

Staff costs and headcount

Staff costs increased by 15% following a 3% increase in headcount and higher than inflation wage increases. The staff numbers at December 2010 include staff members advised of retrenchment in October 2010 whose consultation period only ended in January 2011. The headcount increased to support the roll out of more than 50 inclusive banking loan centres and expand customer product focus areas in branches. Additional staff members were also required for IT system development and technical support across the group.

Headcount

	Change %	2010	2009
Headcount by business unit			
Personal & Business Banking	2	**23 710**	23 233
Corporate & Investment Banking	(1)	**3 832**	3 867
Other services	19	**2 854**	2 394
Total	3	**30 396**	29 494

Other operating expenses

Other operating expenses increased by 10% in Personal & Business Banking and 31% in Corporate & Investment Banking. The group continued to invest in IT and infrastructure to achieve efficiencies across its operations. The group is upgrading its core banking systems, has implemented a new online application for its business customers, rolled out a new foreign exchange product system and is involved in various projects to ensure ongoing compliance with regulations and legislation. As a result, IT-related expenses such as consultancy, software licences and maintenance of mainframes have increased. Depreciation costs attributable to systems recently implemented such as the group's global trading and offshore banking platform have also increased the cost base.

Restructuring costs

Following continued revenue pressure which was evident in the first six months of 2010, the group carefully re-examined its cost base. This resulted in an analysis of all operating costs including staff costs, with the emphasis on managerial and executive costs within the head office environment. As a result of this review, the roles of 787 permanent employees and 576 temporary staff were made redundant and non-recurring restructuring costs of R304 million were incurred.

Share of profit from associates and joint ventures

The group's share of profit from associates and joint ventures grew to R124 million as a large impairment in 2009 did not recur.

Liquidity and capital

The group maintained its prudent approach to liquidity and capital management during 2010.

The group executed a number of key term loan funding transactions, taking advantage of pockets of well-priced liquidity. On the back of reduced lending demand and general surplus liquidity positions, the cost of term liquidity has started to reduce. Investor appetite for capital markets issuance has remained robust and the group successfully placed R4,35 billion senior debt in the domestic bond market.

The group maintained a sound structural liquidity mismatch profile and an adequately diversified funding base. The group's unencumbered surplus liquidity of R66,5 billion at 31 December 2010 (R65,2 billion at 31 December 2009), reflects its prudent liquidity management approach as informed by stress testing requirements and prevailing market conditions. The group increased its long-term funding ratio to 28,5% at 31 December 2010 (2009: 26,8%).

The capital management function was reorganised, focused and strengthened. The group implemented a capital allocation framework to encourage business functions to optimise capital requirements by making trade-offs between product lines. The increased focus on capital and muted growth in risk-weighted assets has resulted in an improved capital position, with the company's tier I capital adequacy ratio of 11,5% (2009: 10,6%) and total capital adequacy of 14,9% (2009: 14,1%).

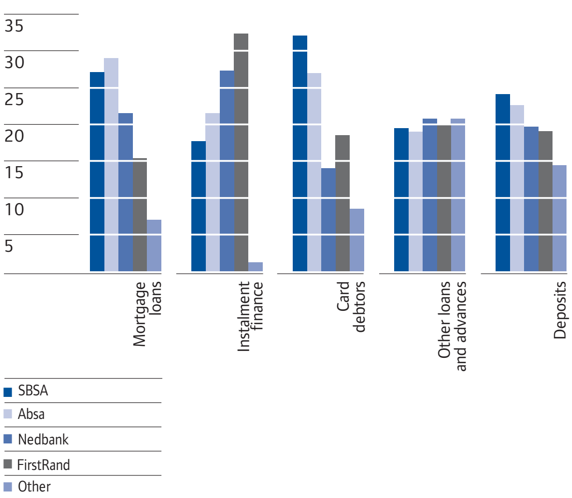
Seven-year review

Statement of financial position[1]

	CAGR[2] %	2010 Rm	2009 Rm	2008 Rm	2007 Rm	2006 Rm	2005 Rm	2004 Rm
Group								
Assets								
Cash and balances with the central bank	16	**18 181**	14 470	13 547	14 286	11 058	8 149	7 327
Trading assets	0	**13 825**	20 802	24 019	29 456	17 826	16 391	13 805
Pledged assets	15	**5 934**	1 057	2 243	1 750	2 914	4 204	2 613
Financial investments	17	**79 388**	62 008	60 079	40 608	36 683	37 975	30 861
Loans and advances	18	**536 421**	525 700	527 452	445 535	370 066	293 964	201 864
Derivative and other assets	3	**111 375**	81 219	121 828	54 495	55 572	63 071	94 561
Interest in group companies, associates and joint ventures	15	**62 981**	77 941	102 794	88 779	47 296	19 775	27 627
Goodwill and other intangible assets	67	**4 410**	2 913	1 997	1 450	592	196	205
Property and equipment	23	**7 908**	5 144	4 284	3 577	2 829	2 605	2 287
Total assets	14	**840 423**	791 254	858 243	679 936	544 836	446 330	381 150
Equity and liabilities								
Equity	17	**48 917**	44 159	39 074	33 066	26 655	21 724	19 019
Equity attributable to the ordinary shareholder	17	**48 875**	44 159	39 074	33 066	26 655	21 718	19 010
Non-controlling interest	29	**42**					6	9
Liabilities	14	**791 506**	747 095	819 169	646 870	518 181	424 606	362 131
Deposit and current accounts	16	**612 011**	577 860	608 168	527 118	401 603	320 531	254 024
Derivative, trading and other liabilities	4	**123 928**	102 983	156 277	93 270	83 906	91 996	97 560
Subordinated debt	12	**15 683**	15 814	11 809	12 985	10 862	7 832	8 014
Liabilities to group companies	58	**39 884**	50 438	42 915	13 497	21 810	4 247	2 533
Total equity and liabilities	14	**840 423**	791 254	858 243	679 936	544 836	446 330	381 150

[1] *Figures included in the seven-year review have been restated and reclassified, where applicable, to provide a meaningful comparison of performance over the years.*
[2] *CAGR refers to compound annual growth rate for the period 2004 to 2010.*

SBSA's market share analysis
%

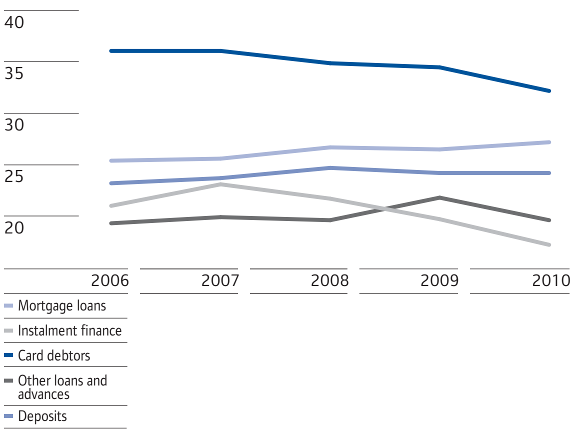


Income statement

	CAGR[1] %	**2010 Rm**	2009 Rm	2008 Rm	2007 Rm	2006 Rm	2005 Rm	2004 Rm
Group								
Net interest income	14	**20 212**	21 500	21 855	17 134	12 817	10 414	9 273
Non-interest revenue	11	**18 487**	17 627	16 487	15 430	13 818	11 473	10 138
Total income	12	**38 699**	39 127	38 342	32 564	26 635	21 887	19 411
Credit impairment charges	40	**6 359**	9 831	10 015	4 196	2 414	1 256	859
Income after credit impairment charges	10	**32 340**	29 296	28 327	28 368	24 221	20 631	18 552
Operating expenses	12	**21 441**	18 286	17 120	15 998	13 273	12 078	10 876
Net income before goodwill	6	**10 899**	11 010	11 207	12 370	10 948	8 553	7 676
Goodwill impairment							13	
Net income	6	**10 899**	11 010	11 207	12 370	10 948	8 540	7 676
Share of profits/(losses) from associates and joint ventures	3	**124**	(104)	165	267	221	206	101
Net income before indirect taxation	6	**11 023**	10 906	11 372	12 637	11 169	8 746	7 777
Indirect taxation	18	**856**	582	600	610	476	461	320
Profit before direct taxation	5	**10 167**	10 324	10 772	12 027	10 693	8 285	7 457
Direct taxation	3	**2 179**	2 144	1 989	2 696	2 546	1 737	1 871
Profit for the year	6	**7 988**	8 180	8 783	9 331	8 147	6 548	5 586
Attributable to non-controlling interest		**50**						
Attributable to the ordinary shareholder	6	**7 938**	8 180	8 783	9 331	8 147	6 548	5 586

[1] *CAGR refers to compound annual growth rate for the period 2004 to 2010.*

SBSA's market share movement
%



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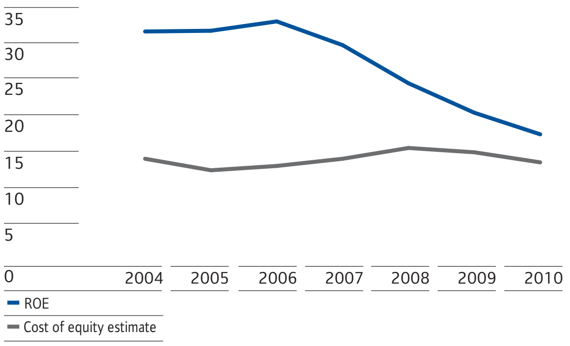
Seven-year review continued

Statistics, returns and capital adequacy[1]

	CAGR[2] %	2010	2009	2008	2007	2006	2005	2004
Group								
Headline earnings (Rm)	6	**8 034**	8 441	8 792	8 879	7 980	6 453	5 560
Share statistics								
Number of ordinary shares in issue (thousands)								
– weighted average		**59 997**	59 997	59 997	59 997	59 997	59 997	59 997
– end of period		**59 997**	59 997	59 997	59 997	59 997	59 997	59 997
Share statistics per ordinary share (cents)								
Basic earnings	6	**13 231**	13 634	14 639	15 552	13 579	10 914	9 310
Headline earnings	6	**13 391**	14 069	14 654	14 799	13 301	10 756	9 267
Dividends	(14)	**4 167**	9 167	6 000	17 084	12 834	9 583	9 998
Net asset value	17	**81 462**	73 602	65 127	55 113	44 427	36 198	31 685
Selected returns and ratios								
ROE (%)		**17,3**	20,3	24,4	29,7	33,0	31,7	31,6
Non-interest revenue to total income (%)		**47,8**	45,1	43,0	47,4	51,9	52,4	52,2
Average ordinary shareholder's equity to average total assets (%)		**5,7**	5,0	4,7	4,9	4,9	4,9	5,0
Loans-to-deposits ratio (%)		**87,6**	91,0	86,7	84,5	92,1	91,7	79,5
Cost-to-income ratio (%)		**55,2**	46,9	44,5	48,7	49,4	54,7	55,7
Credit loss ratio (%)		**1,18**	1,87	2,02	1,02	0,72	0,50	0,47
Effective taxation rate (%)		**27,5**	25,0	22,8	26,2	27,1	25,1	28,2
Headline earnings per employee (rand)	4	**264 311**	286 194	296 396	287 328	264 378	233 711	204 307
Number of employees	2	**30 396**	29 494	29 663	30 902	30 184	27 611	27 214

[1] Figures included in the seven-year review have been restated and reclassified, where applicable, to provide a meaningful comparison of performance over the years.
[2] CAGR refers to compound annual growth rate for the period 2004 to 2010.

Financial performance
%

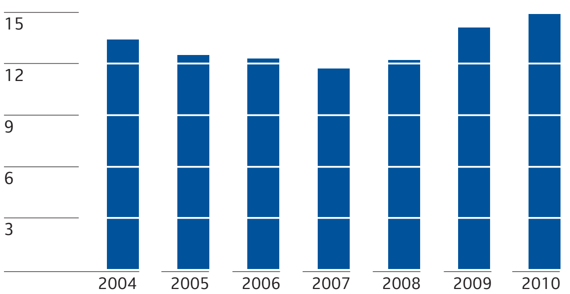


Statistics, returns and capital adequacy[1] continued

	CAGR[2] %	2010	2009	2008	2007	2006	2005	2004
Company								
Capital adequacy[3]								
Risk-weighted assets (Rm)	11	**368 262**	367 839	358 752	340 929	306 620	235 540	201 232
Tier I capital (Rm)[4]	15	**42 172**	38 946	33 344	28 922	25 620	20 218	18 224
Total capital (Rm)[4]	13	**54 965**	51 853	43 826	40 042	37 752	29 400	26 935
Tier I capital adequacy ratio (%)[4]		**11,5**	10,6	9,3	8,5	8,4	8,6	9,1
Total capital adequacy ratio (%)[4]		**14,9**	14,1	12,2	11,7	12,3	12,5	13,4
Headline earnings (Rm)	6	**7 697**	8 121	8 728	8 885	7 911	5 948	5 325
Return on average risk-weighted assets (%)		**2,1**	2,2	2,5	2,7	2,9	2,7	2,8
Rand exchange rates at 31 December								
US dollar	3	**6,64**	7,37	9,31	6,81	7,05	6,36	5,63
Sterling	(1)	**10,29**	11,88	13,64	13,64	13,80	10,95	10,82
Euro	2	**8,87**	10,61	13,02	10,00	9,29	7,52	7,66
Market indicators at 31 December								
South African prime overdraft rate (%)		**9,0**	10,5	15,0	14,5	12,5	10,5	11,0
JSE All Share Index	17	**32 119**	27 666	21 509	28 958	24 915	18 097	12 657
JSE Banks Index	10	**40 985**	36 675	30 566	35 876	36 121	29 234	22 975

[1] Figures included in the seven-year review have been restated and reclassified, where applicable, to provide a meaningful comparison of performance over the years.
[2] CAGR refers to compound annual growth rate for the period 2004 to 2010.
[3] Basel II implemented 1 January 2008. Capital adequacy numbers for 2007 are on a Basel II pro forma basis. 2008 to 2010 are on a Basel II basis. All other historical comparatives are on a Basel I basis.
[4] Includes unappropriated profits.

Total capital to risk-weighted assets – company[1]
%



[1] Basel II implemented 1 January 2008. Risk-weighted assets for 2007 are on a Basel II pro forma basis. 2008 to 2010 are on a Basel II basis. All other historical comparatives are on a Basel I basis.

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Corporate governance report

Introduction

This statement sets out the governance framework adopted by the board, which is derived from the SBG governance framework, which in turn is contained in the Code of Corporate Practices and Conduct set out in the King Report on Corporate Governance for South Africa 2009 (King Code). The board operates on the understanding that sound governance practices are fundamental to earning the trust of stakeholders, which is critical to sustaining performance and preserving shareholder value. The governance framework enables the board to balance its role of providing risk oversight and strategic counsel, and ensuring that regulatory requirements and risk tolerance levels are adhered to.

Compliance

Complying with all applicable legislation, regulations, standards and codes is integral to the group's culture. The board delegates responsibility for compliance to management and monitors this through the compliance function and a dedicated regulation and legislation oversight function. Oversight and review of compliance risk management is delegated to the audit committee. The chief compliance officer reports to the committee on a quarterly basis on, among others, the status of compliance risk management in the group, significant areas of non-compliance and feedback on interactions with regulators. The regulatory and legislative oversight committee is a dedicated management committee that assesses the impact of proposed legislation and regulation.

The Banking Association of South Africa has created a code of Banking Practice (the code), endorsed by all its members, to provide safeguards for consumers. Educational material on the code, published by the Banking Sector Education and Training Authority, has been adapted to Standard Bank's specific requirements. The code was revised in 2010 to take into account the recommendations of the Competition Commission's inquiry into banking in South Africa and the updated code is expected during 2011.

Standard Bank has adopted the Banking Association of South Africa's code for the selling of unsecured credit which governs the relationship between banks and their customers in respect of credit extension. Regular risk reviews are embedded in the credit function and provide the means to regulate credit risk appetite.

Standard Bank is regulated by various codes of conduct in terms of the Financial Advisory and Intermediary Services Act No 33 of 2002. This act regulates financial service providers who render advice and/or provide intermediary services to clients in relation to certain financial products.

SBG has aligned its practices in relation to the adoption and implementation of the policies, processes or procedures to the King Code requirements and these practices have been incorporated into the operations of Standard Bank.

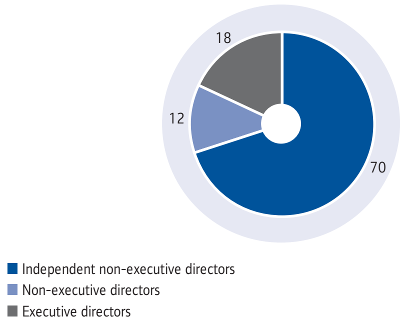
The group is committed to social responsibility and sound environmental management. Further details on the group's economic, social and environmental impacts and contributions can be found in SBG's 2010 sustainability report available at www.standardbank.com under sustainable development.

Board and directors

Board structure and composition

The group has a unitary board structure and the roles of chairman and chief executive are separate. The chairman is an independent non-executive director, as are the majority of directors on the board. The balance of executive, non-executive and independent directors ensures a balance of power on the board, so that no individual or group can dominate board processes or decision making and ensures the appropriate level of challenge.

Board composition
%



Independent non-executive directors

The independence of board members is evaluated by the directors' affairs committee, which classifies independence according to the definitions in the King Code. Two directors have served on the board for more than nine years, namely Doug Band and Saki Macozoma. After a rigorous review, the board concluded that Doug Band is independent in fulfilling his duties irrespective of tenure. Saki Macozoma and Cyril Ramaphosa are not considered independent, due to their respective interests in SBG's strategic empowerment partners, Safika and Shanduka.

Resignation and retirement of directors

Derek Cooper and Martin Shaw retired after the annual general meeting on 26 May 2010.

Rick Menell, a member of the board since 1995, resigned on 4 February 2011 due to a conflict of interest. Mr Menell has played an important role as an independent non-executive director on the board and member of the remuneration, and risk and capital management committees.

Succession planning

Succession planning is a key focus for the group and the directors' affairs committee considers the composition of the board and its committees on an ongoing basis. The board is satisfied that the current talent pool available within the group and the work being done to strengthen it provides adequate succession depth over the short and long term.

Skills, knowledge, experience and attributes of directors

The board ensures that directors possess the skills, knowledge and experience to fulfil their duties. The directors bring a balanced mix of attributes to the board, including:

- commercial experience;
- operational experience, including IT;
- understanding of macroeconomic and microeconomic factors affecting the group;
- financial, legal, entrepreneurial and banking skills; and
- expertise in risk management and internal financial control.

Access to information and resources

Non-executive directors meet without the executive directors in closed sessions at each board meeting. Employees are invited to attend board meetings when required to table proposals for board consideration.

Directors have unrestricted access to management and company information, as well as the resources to carry out their roles and responsibilities. This includes external legal advice at the group's expense. A formal policy in this regard was approved in 2010.

Appointment policy

The nominations and appointments policy, which is aligned with applicable legislation and regulations, sets out the process for nominating and appointing directors and key executives. In making an appointment, the board takes cognisance of the knowledge, skills and experience of a prospective director, as well as other attributes considered necessary for the role. The board also considers the need for demographic and appropriate gender representation. Candidates are subject to a "fit and proper" enquiry, as required by the South African Banks Act, 1990 (Banks Act).

Strategy

The board is responsible for the group's strategic direction. Management presents the group strategy annually and discusses and agrees it with the board. The board ensures the strategy is aligned with the group's values, performance and sustainability objectives, and addresses the associated risks.

Board responsibilities

The board's responsibilities are captured in the key terms of reference in the board's mandate. This mandate is reviewed at least annually.

Delegation of authority

The board retains effective control through a well-developed governance structure that provides a framework for delegation. Board committees facilitate the discharge of board responsibilities and provide in-depth focus on specific areas. The board delegates authority to the chief executive and executive directors to manage the business and affairs of the group. The executive committee, a new committee formed with effect from 1 January 2011, assists the chief executive when the board is not in session, subject to statutory parameters and the board's limits on the delegation of authority to the chief executive.

The executive committee is set out on page 11.

Board meetings

The board meets once per quarter with an additional annual meeting to consider strategy. Ad hoc meetings are held when necessary.

Board of directors – meeting attendance

Member	Mar	May	Aug	Oct	Dec
TMF Phaswana (chairman)[1,5]	√	√	√	√	√
DE Cooper[1,4]	√	√	–	–	–
DDB Band[1]	√	√	√	√	√
RMW Dunne[1]	√	√	√	√	√
TS Gcabashe[1]	√	√	√	√	√
SE Jonah KBE[1]	A	√	√	A	A
Sir Paul Judge[1]	√	√	√	√	√
KP Kalyan[1]	√	√	√	√	√
SJ Macozoma[2]	√	√	√	√	√
JH Maree[3]	√	√	√	√	√
RP Menell[1,6]	√	√	√	√	√
KD Moroka[1]	√	√	√	√	√
AC Nissen[1]	√	√	√	√	√
MC Ramaphosa[2]	√	√	√	√	A
SP Ridley[3]	√	√	√	√	√
MJD Ruck[1]	√	√	√	√	√
MJ Shaw[1,7]	√	√	–	–	–
Lord Smith[1]	√	√	√	√	√
SK Tshabalala[3]	√	√	√	√	√
EM Woods[1]	√	√	√	√	√

[1] *Independent non-executive director.*
[2] *Non-executive director.*
[3] *Executive director.*
[4] *Retired as director and chairman 26 May 2010.*
[5] *Appointed chairman 26 May 2010.*
[6] *Resigned as director 4 February 2011.*
[7] *Retired as director 26 May 2010.*
√ = Attendance.
A = Apology.
– = Not applicable.

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Corporate governance report continued

Board effectiveness and evaluation

The board measures its effectiveness in a number of ways. Its performance is assessed annually against its mandate, as is the performance of its committees. Findings are reported to the directors' affairs committee after the external auditors have reviewed them. The directors' affairs committee considers different methods of evaluating performance and makes recommendations to the board in this regard. The aim of these evaluations is to assist the board and its committees to constantly improve effectiveness and provide directors with the necessary ongoing education.

The board assessed the performance of its committees in 2009. The chairman reported the findings at the board meeting on 3 March 2010. The evaluations assessed performance in terms of structure, process and effectiveness. Individual questionnaires were completed, the results tabulated, and feedback discussed by each committee. No major areas of concern were highlighted other than the increasing information needs of members due to the changing regulatory landscape.

The board has engaged an external facilitator to perform an independent review of its performance. The process is underway and feedback will be provided to the board in the second quarter of 2011. The outcomes will be used to benchmark board practices and development.

The performance of the chairman and chief executive is assessed annually.

Education and induction

Ongoing board education remains a focus. The directors are kept abreast of all applicable legislation and regulations, changes to rules, standards and codes, as well as relevant sector developments that could affect the group and its operations.

On appointment, each new director receives a governance manual that includes all relevant governance information. One-on-one meetings are scheduled with management to introduce new directors to the company and its operations. The group secretary is responsible for the induction and ongoing training of directors.

Board committees

Each board committee's mandate, which is reviewed annually, sets out the role, responsibilities, scope of authority, composition and procedures to be followed.

Audit committee

Member	Feb	Mar	May	Aug	Nov
RMW Dunne (chairman)[1]	√	√	√	√	√
MJ Shaw[2]	√	√	√	–	–
TS Gcabashe[3]	√	√	√	√	√
Lord Smith[4]	√	√	√	√	√
EM Woods[5]	√	√	√	√	√

[1] Appointed to the committee 3 December 2009 and appointed chairman 26 May 2010.
[2] Retired as chairman and director 26 May 2010.
[3] Appointed to the committee 1 May 2008.
[4] Appointed to the committee 1 January 2009.
[5] Appointed to the committee 22 May 2008.
√ = Attendance.
– = Not applicable.

The committee comprises solely independent non-executive directors. The role of this committee is to review the group's financial position and make recommendations to the board on all financial matters, risks, internal financial controls, fraud and IT risks relevant to financial reporting. This includes assessing the integrity and effectiveness of accounting, financial, compliance, sustainability and other control systems. The committee has a constructive working relationship with the chief audit officer who has access to committee members as required. The committee also ensures effective communication between the board, management, internal auditors, external auditors and regulators.

The committee is responsible for, amongst other things, the internal control framework, which combines the group's three lines of defence model with the group's corporate governance framework. The three lines of defence model seeks to separate the relevant duties and ensure independent reporting lines to underpin effective internal control and risk management. More detail on the approach to risk management is provided in the risk and capital management section which starts on page 40.

Internal financial controls are in place to ensure the integrity of the group's qualitative and quantitative financial information, which is used by a variety of stakeholders. The chief financial officer is ultimately responsible for implementing and maintaining internal financial controls.

There is a formal policy on non-audit fees, the purpose of which is to ensure that the independence and objectivity of the auditors is not impaired. Non-audit services are approved in terms of the policy and reported to the committee on a quarterly basis.

The committee considers reports from group internal audit on any weaknesses in controls that have been identified, including financial controls, and considers corrective actions to be implemented by management to prevent such losses recurring.

The audit committee has complied with its mandate in the year under review, as well as its legal and regulatory responsibilities.

Risk and capital management committee

Member	Mar	Mar	May	Aug	Nov
MJD Ruck (chairman)[1]	√	√	√	√	√
MJ Shaw[2]	√	√	√	–	–
DDB Band	√	√	√	√	√
DE Cooper[3]	√	√	√	–	–
RMW Dunne	√	√	√	√	√
SJ Macozoma	√	A	√	√	√
RP Menell[4]	√	√	√	√	√
TMF Phaswana	√	√	√	√	√

[1] Appointed chairman 26 May 2010.
[2] Retired as director and chairman 26 May 2010.
[3] Retired as director 26 May 2010.
[4] Resigned as director 4 February 2011.
√ = Attendance.
A = Apology.
– = Not applicable.

The board is ultimately responsible for risk and capital management. The main purpose of the risk and capital management committee is to provide independent and objective oversight of risk and capital management in the group. A number of management committees help the committee to fulfil its mandate. The committee reviews and assesses the integrity of risk control systems and ensures that risk policies and strategies are managed effectively and contribute to a culture of discipline and control that reduces the opportunity for fraud.

The risk and capital management committee complied with its mandate in the year under review.

The risk and capital management report, which sets out the group's framework for risk and capital management, can be found on page 40.

Directors' affairs committee

Member	Mar	May	Aug	Nov
TMF Phaswana (chairman)[1]	√	√	√	√
DE Cooper[2]	√	√	–	–
DDB Band	√	√	√	√
SJ Macozoma	√	√	√	√
MC Ramaphosa	√	A	√	A

[1] Appointed Chairman 26 May 2010.
[2] Retired as director and chairman 26 May 2010.
√ = Attendance.
A = Apology.
– = Not applicable.

This committee helps the board determine and evaluate the adequacy, efficiency and appropriateness of corporate governance structures and practices in the group. The directors' affairs committee also functions as the nominations committee for directors. As such, its role is to identify, evaluate and recommend nominees to the board and board committees, to ensure the board is able to fulfil its obligations.

The committee oversees the induction, development and ongoing education of directors.

The directors' affairs committee is responsible for considering and approving share awards to black managers in terms of the group's Tutuwa initiative. The allocation committee, a management committee chaired by non-executive director Saki Macozoma, recommends allocations for approval.

The directors' affairs committee complied with its mandate in the year under review.

Group secretary

The role of the group secretary is to ensure the board remains cognisant of its duties and responsibilities. In addition to guiding the board on discharging its responsibilities, she keeps the board abreast of relevant changes in legislation and governance best practices. The group secretary also oversees the induction of new directors, including directors of subsidiary companies, as well as the ongoing education of directors. To enable the board to function effectively, all directors have full and timely access to information that may be relevant to the proper discharge of their duties. All directors have access to the services of the group secretary.

Going concern

On the recommendation of the audit committee, the board annually considers and assesses the going-concern basis in the preparation of the annual financial statements at year end. At the interim reporting period, a similar process is followed to enable the board to consider whether or not there is sufficient reason for this conclusion to be affirmed.

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Corporate governance report continued

Connecting with our stakeholders

Standard Bank's relevance to the markets and societies in which it operates depends on continued and meaningful engagement with all stakeholders. Stakeholder management involves the optimal employment of the organisation's resources to build and maintain good relationships with stakeholders. This helps the group to manage the expectations of society, minimise reputational risk and form strong partnerships, which all underpin business sustainability.

The strategic stakeholder relations unit focuses on promoting good corporate citizenship, building trust and positioning group leadership appropriately. Numerous stakeholder engagement initiatives took place during the year. More information on these initiatives can be found in the sustainability report.

Sustainability

The SBG 2010 sustainability report aims to present a balanced analysis of SBG's sustainability performance in relation to issues that are relevant and material to SBG and to its stakeholders. The report is available on the website at www.standardbank.com under sustainable development.

Ethics and organisational integrity

The group's code of ethics is designed to empower employees and enable effective decision making at all levels of the business according to defined ethical principles. It also aims to ensure that, as a significant organisation in the financial services industry, the group adheres to the highest standards of responsible business practice. The code interprets and defines the group's values in greater detail and provides value-based decision-making principles to guide its conduct. It is aligned with other group policies and procedures, and supports the relevant industry regulations and laws.

The code specifies acceptable and unacceptable practices and assists in making ethical infringements easy to identify. It also promotes awareness of, and sensitivity to, ethical issues.

In 2010, the group participated in the South African Corporate Ethics Indicator Survey, which involved an assessment of ethics practices and progress. This survey allows the group to benchmark its ethics approach and measure ethics performance, identify its strengths and weaknesses and guide future action.

Ethics incidents are reported via the ethics and fraud hotline, human resources department, risk department, group financial crime control and business unit ethics officers. Ethics incident reporting to the audit committee is in the process of being refined.

Transformation

Codes

From 2003 until the end of 2008 the framework for advancing transformation and equitable growth in the South African financial sector was the charter. Although widely endorsed, the charter was a voluntary framework in terms of section 12 of the Broad-based Black Economic Empowerment Act for general information, but not legislated.

The process envisaged to convert the voluntary status of the charter to that of a sector code has been revived in 2010 under the leadership of the Minister of Finance and Minister of Trade and Industry. It is expected that a financial sector code will be gazetted in the first half of 2011. Standard Bank remains an active participant in the process.

The dti codes provide a generic framework and balanced scorecard to measure transformation progress. However, they exclude two financial sector-specific elements: access to financial services and empowerment financing. Given Standard Bank's belief that these elements are important drivers of economic transformation, the group will continue to deliver on the charter provisions in respect of these elements by setting internal targets.

During 2010, an accredited BEE verification agency conducted an independent assessment of the group's BEE performance in terms of the dti codes. Due to the strong progress the group has made in BEE over the last few years, it was rated as an AA level two value adding contributor, with an overall score of 92,83.

Tutuwa schemes

The group is firmly committed to BEE in South Africa and believes that the most effective way to achieve broad-based BEE ownership is to empower its black staff. In 2004, the group implemented a broad-based BEE transaction and created a platform for current and future black directors, managers and employees to participate in an empowerment initiative through the following trusts:

Tutuwa Managers' Trusts

To participate in the Tutuwa Managers' Trusts, beneficiaries have to satisfy the following criteria:

- be black South Africans as defined by legislation covering broad-based BEE;
- be permanent employees of the group; and
- earnings must meet the management threshold set by the charter.

The number of shares awarded to qualifying beneficiaries is determined using a formula set by the allocation committee and approved by the directors' affairs committee.

There are currently 6 185 black managers participating in the Tutuwa Managers' Trusts.

The Standard Bank Group General Staff Share Trust

Permanent employees of the group at 1 October 2004, who did not at the time participate in the Tutuwa Managers' Trusts or other group share schemes, were awarded a once-off allocation of 100 Standard Bank Group shares. These shares had a lock-in period of five years and were released from the trust on 22 November 2009.

In 2008, employees were required to sell 11 of their 100 shares as a result of the ICBC transaction and beneficiaries were paid out for these shares. In November 2009, the lock-in period for the remaining 89 shares came to an end and staff were provided with the opportunity of selling their shares or taking delivery of them.

Political contributions

As part of the group's commitment to support South Africa's democratic processes, Standard Bank makes financial contributions to political parties. In terms of Standard Bank's policy, agreed in 2005, funds are distributed based on the Independent Electoral Commission's funding formula. In line with this formula, Standard Bank makes annual donations to political parties in proportion to their representation in the National Assembly. The board confirmed its commitment to political party funding for the 2010 to 2014 election cycle. The funding policy is reviewed after every general election cycle. The total allocation to political parties for the five-year election cycle from 2010 to 2014 will be R13,5 million. The amount donated in 2010 was R2,1 million.

As part of strengthening our democracy, we encourage director affiliation to political parties and note that a number of the group's directors are involved in various political parties although none are office bearers of any political party in South Africa.

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Directorate[1]

TMF Phaswana – Chairman and independent non-executive director,
SK Tshabalala – Chief executive


DDB Band – Independent non-executive director,
RMW Dunne[2] – Independent non-executive director


TS Gcabashe – Independent non-executive director,
SE Jonah KBE[3] – Independent non-executive director


Sir Paul Judge[2] – Independent non-executive director,
KP Kalyan – Independent non-executive director


[1] *RP Menell, an independent non-executive director, was a director during 2010 and resigned on 4 February 2011.*
[2] *British.*
[3] *Ghanaian.*

SJ Macozoma – Non-executive director,
JH Maree – Executive director


MC Ramaphosa – Non-executive director,
SP Ridley – Executive director


KD Moroka – Independent non-executive director,
AC Nissen – Independent non-executive director


MJD Ruck – Independent non-executive director,
Lord Smith of Kelvin, Kt[2] – Independent non-executive director,
EM Woods – Independent non-executive director



Sustainability report

Managing sustainable development

To ensure the sustainability of Standard Bank we recognise that we also need to look beyond the business itself and towards the broader environment and the societies in which our customers operate. Our sustainability is influenced by global pressures and the challenges and opportunities faced operating in an emerging market. Global climate change, loss of biodiversity and resilience in the natural environment directly impact on our customers' quality of life and ability to prosper economically. It makes sense for us, as a provider of financial services in an emerging market, to look for ways of doing business that result in a lighter footprint as we contribute to economic growth.

The King Code advocates that a sustainable company's strategy aligns to its economic, social and environmental performance. We are aware that although not all aspects of our strategy are uniformly tested against sustainability objectives, we believe that working towards this goal presents an opportunity to drive value in the business.

Ultimate accountability and responsibility for sustainable development rests with the board. Through Standard Bank's governance structures, this responsibility is delegated to appropriate board and management committees. The executive committee, which is responsible for implementing strategy, reviews and provides guidance on all pertinent sustainability issues.

The safety, health and environmental risk oversight committee meets quarterly to discuss safety, health and environmental challenges that require concerted action or the development of standards and guidelines to address key risks. The committee reports into various board and management committees and makes recommendations as appropriate.

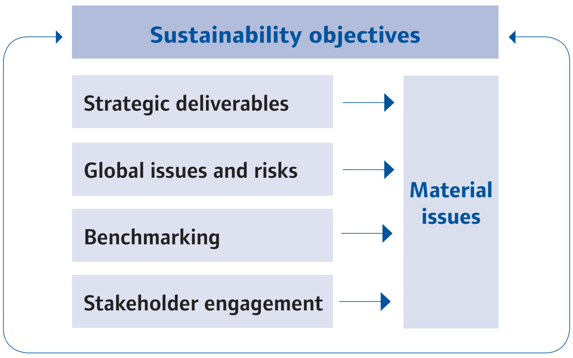
Strategic issues are researched continually to provide high-level guidance and decision making on managing stakeholder relations. Business units are subsequently tasked with formulating practical ways in which Standard Bank can respond to the challenges and opportunities identified, reinforcing our sustainability and that of the countries and communities where we work.

The sustainability management unit reports into the director of governance and assurance who is also the chief ethics officer and who reports directly to SBG's chief executive. It is considered a group enabling function and it works alongside the governance, risk management, internal audit, regulatory and legislative oversight, and financial crime functions. The sustainability management unit provides strategic guidance on sustainability issues to the executive team, develops sustainability policy and action plans, and assists policymakers and key internal decision makers on sustainability issues.

Further information on the committees responsible for various sustainability issues can be found online at www.standardbank.com under sustainable development.

Identifying our material issues

An issue is material when it impacts our ability to remain commercially viable and socially relevant to the societies in which we operate. In particular, material issues are those that have a strong bearing on our stakeholders' assessments and decisions about Standard Bank's sustainability in the long term and its commitment to their needs. How effectively we manage these issues affects our ability to achieve our strategic deliverables.



The process of identifying our material issues involved engaging with internal and external stakeholder groups through a number of initiatives, as well as considering our risk management processes and feedback from sustainability indices. In 2010, we grouped our material issues into six broad categories, approved by the executive committee. These appear in the table on the following page.

As part of our sustainability management programme we develop systems to enable us to identify risks and opportunities. From this we establish our sustainability objectives which are aligned to our strategic business deliverables and help us address our material issues.

Material issues
Sustainable long-term financial performance
Governance, regulation and stakeholder engagement
Sustainable and responsible financial services
Socioeconomic development
A positive and consistent employee experience
The environment

Assurance

The King Code advocates that sustainability reporting and disclosure should be independently assured. SBG's sustainability report has been independently assured since 2005. The 2010 SBG sustainability report was independently assured by KPMG Services (Proprietary) Limited and PricewaterhouseCoopers Incorporated. Assurance was provided over 13 key performance indicators with seven of these indicators assured at a reasonable assurance level and the remaining six at a limited assurance level. The full assurance statement can be found in the sustainability report. An extract from the stand-alone sustainability report of issues material to our stakeholders and the group's long-term sustainability has been included in this report. Internal audit's review of the sustainability report, in line with the combined assurance approach under the King Code, provides support for the assurance statement by KPMG Services (Proprietary) Limited and PricewaterhouseCoopers Incorporated.

Stakeholders

Stakeholder engagement

Standard Bank recognises that we operate in a context where social, political, economic, environmental, legal and regulatory factors can directly or indirectly impact how we do business. It is therefore important that we develop systems and relationships to help us deal proactively with our broad business environment. We build and maintain relationships with a range of stakeholders to form strategic partnerships, manage social expectations and minimise reputational risks.

Our stakeholder relations management strategy is to continuously improve the alignment between Standard Bank and its key stakeholders. Misalignments between stakeholder expectations and Standard Bank's actions in the social and political environment are identified, researched and highlighted to internal stakeholders to alert them to issues raised in order to develop and coordinate Standard Bank's position on these.

Following a review of Standard Bank's stakeholder engagement process and the requirements of the King Code, we identified areas for improvement. We are reviewing our stakeholder engagement process to ascertain which stakeholders we must be more cognisant of. We have revised the manner in which we report stakeholder issues to the board to ensure that it remains informed of key stakeholder discussions and concerns which arise.

In 2010, Standard Bank engaged with key stakeholders in the political arena, civil society and organised business at national and provincial levels. Regular engagement takes place with business associations on the National Economic Development and Labour Council.

Following the 2009 employee engagement survey, six enterprise-wide workstreams were identified and championed by an executive member. We have begun embedding initiatives to support the change required to achieve our strategic goals and ensure that we create an environment where our diverse group of employees can perform and deliver.

Further information on our methods of engagement can be found online at www.standardbank.com under sustainable development.

Standard Bank stakeholders

- SBG shareholders
- Rating agencies and financial analysts
- Customers
- Employees
- Trade unions
- Regulators and supervisors
- Suppliers
- Communities and non-government organisations
- Government departments
- Donor agencies
- Media

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The table below sets out some of the key issues raised by various stakeholders during 2010.

Stakeholder	Issues raised	Our response
Employees	Concerns were raised by employees relating to the retrenchment process undertaken in 2010.	The retrenchments were conducted according to due process, in a manner that was fair and respectful of our employees' rights and dignity. We consulted with the union, Sasbo. As our actions were aimed at eliminating inefficient duplications in our businesses, the selection of positions was based on operational requirements rather than individual performance. Although limited, some redeployment opportunities were made available. All retrenched employees were provided with support in their search for alternative employment.
Trade unions	Sasbo, our recognised union, applied to the high court for an extension to the retrenchment consultation period during the restructuring conducted in 2010.	The court ruling did not grant Sasbo an extension, but ordered that both parties continue with consultation within the initial proposed time. This was completed at the end of November and termination notices were issued to affected employees in December. Standard Bank also engaged with Solidarity, who although not recognised by the group, should be consulted on retrenchment-related consultation relating to its members. Consultations with Solidarity were concluded in December.
Customers	Increases in the number of phishing attacks on customers.	Standard Bank is offering free anti-phishing software to customers and this, together with the other preventive measures deployed over the internet banking product set, has reduced the risk arising from phishing attempts.
Government	Government looked to the financial sector to finance renewable energy projects and assess ways of addressing climate change in their business.	Standard Bank is working proactively to find market-based solutions, such as renewable energy financing and carbon trading. We engage with the government in addressing the current energy crisis facing the country.
Government, communities	Progress on the charter.	The proposed charter was gazetted for public comment. This is an important step towards the gazetting of a Financial Sector Code of Good Practice expected in 2011. Standard Bank has provided comment.

Transformation

For Standard Bank, transformation is a fundamental change process which affects every aspect of our business, either directly or indirectly, by virtue of being a South African company. Internally, we aim to significantly increase the number of black people, women and people with disabilities working in the group and particularly in positions of leadership. Externally, we are committed to deploying our funding in a way that facilitates transformation such as providing access to finance for previously unbanked or underbanked communities, funding transformational infrastructure and BEE transactions, supporting black agriculture and BSMEs, providing finance for affordable housing and procuring from black owned companies.

Transformation makes commercial sense as it improves the sustainability of South Africa by generating greater economic activity. It is important for the maintenance of good relations with government, improves our decision making, opens new markets and enables us to increase our customer base and the talent pool for future hiring.

Our transformation progress is currently measured against the dti codes. During 2010, accredited BEE verification agencies conducted independent assessments of Standard Bank's BEE performance in terms of the dti codes. Standard Bank qualified as a level two contributor in a nine level model, with a verified overall score of 92,83. In the 2010 *Empowerdex Top 100 Empowerment Companies Index,* Standard Bank was ranked 18th.

From 2003 to the end of 2008, the framework for advancing transformation and equitable growth in the South African financial sector was the charter. Although widely endorsed, the charter was not legislated. After the gazetting of the dti codes early in 2007, the financial sector has been governed by the codes. The charter was rewritten as a draft sector code, but certain issues remained unresolved among industry stakeholders. In 2010, the parties to the charter reached agreement on the management and control, employment equity, skills development, procurement and socioeconomic development pillars of the proposed sector code. The proposed charter was then gazetted for public comment (as a section 9.5 charter) and Standard Bank provided comment to the Department: Trade and Industry (dti). The gazetting of the charter is an important step towards the gazetting of a bona fide Financial Sector Code of Good Practice expected in 2011. The parties are currently dealing with the ownership, empowerment finance, enterprise development and access to financial services pillars.

The dti codes exclude access to financial services and empowerment financing. Given the importance of these in driving economic transformation, Standard Bank has established internal targets for these elements.

A comprehensive and consolidated BEE Report is available online at www.standardbank.com under sustainable development.

Scorecard by category – dti

	Maximum available points	**Verified results[1] 2010**	Verified results[1] 2009
Ownership	23	**20,00[2]**	13,98
Control	11	**8,25**	8,30
Employment equity	18	**12,54[3]**	9,43
Skills development	15	**12,04**	8,54
Preferential procurement	20	**20,00**	17,37
Enterprise development	15	**15,00**	15,00
Socioeconomic development	5	**5,00**	5,00
Total score	107	**92,83**	77,62

[1] Externally verified.
[2] Methodology change in line with market practice.
[3] The group benefited marginally from the change in employment equity scoring from salary bands (as measured by the charter) to employment levels (under the dti codes).

Employment equity in South Africa

Standard Bank aims to help address socioeconomic inequalities and mobilise the energies of all South Africans to achieve sustained economic growth, development and transformation. The dti codes require that institutions have initiatives in place that will increase the representation of black people in management structures across the organisation. Our initiatives aim to significantly increase the representation of black people, with a specific focus on black women and black people with disabilities, across all levels of the organisation, particularly in leadership roles. We remain committed to ensuring that we progress towards our targets across all levels and occupational categories. We are monitoring, tracking and reporting regularly through our transformation forums and executive meetings.

Socioeconomic development

Financial institutions play a central role in socioeconomic development by providing finance to customers through lending which enhances individual welfare and drives growth in the broader economy. To sustain our business performance we must remain responsive to the markets in which we operate by understanding our customers' different needs and providing relevant products and services. To this end, we must maintain robust governance and risk management frameworks to facilitate banking activities such as transparent pricing structures, responsible lending, customer service and personal information security.

Other activities impacting social development include an emphasis on small and medium enterprises (SME), as well as special procurement policies and CSI.

Consumer protection

The Consumer Protection Act codifies consumer rights and will, when effected in early 2011, apply to all service providers and manufacturers of products in South Africa. Preparation for the introduction of this new legislation, including system changes, training employees and updating forms and documents, was a priority for our South African operations during 2010.

Standard Bank endorses and subscribes to the principles of the code which sets out the industry's commitment to high standards of responsible customer service. Standard Bank is committed to the fair treatment of customers and actively participates in the Financial Services Board's industry initiatives in this regard.

Responsible banking

People in different income and age groups differ in the products they require and their response to financial stress. We apply a high-level credit standard across all our banking operations covering rehabilitation policies, debt management procedures and policies, collection scorecards and collection strategies. Standard Bank has adopted the Banking Association of South Africa's Code for the Selling of Unsecured Credit which governs the relationship between banks and their customers in respect of credit extension. Regular risk reviews are embedded in our credit function and provide the means to regulate credit risk appetite.

Indebtedness

The effects of the global financial crisis and subsequent recession persisted into 2010, with many consumers under considerable financial pressure. We strive to proactively identify customers at risk of default and assist those who are already in financial distress.

We employ a robust rehabilitation practice which has helped over 75 000 distressed customers retain their homes and vehicles, resulting in greater stability and a reduction in loan loss provisions. In 2010, Standard Bank introduced customer assist, a dedicated unit that assists financially distressed customers by restructuring and consolidating their debt. This approach ensures that all debt to the group and external credit providers is included in the assessment, to ascertain affordability and repayment ability, ultimately leading to a sustainable solution.

The NCA sets standards for granting credit to consumers and preventing the reckless granting of credit, and makes provision for debt mediation and counselling. With the rise in indebtedness a large number of consumers have sought assistance through debt review, facilitated by debt counsellors. However due to different interpretations of the various provisions of the NCA

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and capacity constraints in the industry and courts to deal with debt review matters, less than 10% of cases have been resolved.

To further address the operational and interpretive challenges posed by the NCA, the National Credit Regulator and Credit Providers Association have published a set of recommendations which include process guidelines, standardised rearrangement rules (accepted across the banking industry), a revised industry code to combat over-indebtedness and a conditional moratorium on terminations. These should clarify the debt review process and relieve some of the backlog in the courts. Standard Bank played a leading role in this consultative process.

Together with the Banking Association of South Africa, the National Credit Regulator launched a media campaign to encourage debt-stressed customers to approach their banks for assistance first before entering the formal debt review process. The campaign also encourages some 57 000 consumers already in debt review to continue making payments.

Pricing

We aim to be open and transparent with our price adjustments and try to ensure that our customers have full knowledge of the bank fees charged and the reason for these. We encourage our customers to transact more efficiently and conveniently through alternative cost-effective self-service channels such as ATMs, internet banking and the mobile channel. Customers are informed of pricing changes in advance through pricing brochures, press advertisements, emails and our website.

Competition Commission inquiry into bank charges

The following major themes emerged from the Competition Commission's inquiry into bank charges:

- transparency of ATM transaction fees when customers use another bank's ATM;
- penalty fees;
- comparability of charging structures of different banks;
- interchange on card and other transactions; and
- access to the National Payments System.

In response, Standard Bank has upgraded its ATMs to display messages notifying non-Standard Bank customers that an additional fee may be charged by their bank for the use of a Standard Bank ATM. The penalty fee for dishonoured debit orders on Mzansi accounts, a basic savings and transactional product for underbanked and unbanked people, has been reduced from R31,50 to R7,00, with the first default each month being free. Thereafter this fee is capped to a maximum of four dishonours per month, with a maximum charge of R28. Similar changes have been made for other banking segments and we have reviewed our overdraft policy to assist customers from incurring dishonoured debit order charges. We have published a pricing calculator on our website for customers to determine the banking fees they will pay based on their unique requirements.

The SARB has assumed oversight for the setting of interchange across all payment streams in South Africa and is in the process of finalising the terms of reference.

The SARB has made the necessary changes to legislation to facilitate easy access for banks and non-banks into the National Payments System.

Inclusive banking

The informal economy accounts for millions of economically active people in South Africa who fall outside the mainstream financial sector. Overlooking this marginalised sector of society would not only affect our sustained profitability, but also the broader socioeconomic development potential of the country in which we operate.

To effectively reach this market we must understand the needs and requirements of unbanked customers and develop banking models that are low cost, scalable and replicable, but do not compromise the quality of service provided. We strive to find viable solutions to this challenge and have developed innovative products and mechanisms for reaching potential customers outside the economic mainstream.

In 2010, Standard Bank established an inclusive banking unit to further the inroads we have made toward delivering affordable banking products through convenient access points to the South African low-income market.

Accessible banking products

Through combining cellphone banking, community retailers and community bankers, Standard Bank extends banking without the need to build branches or install ATMs. The business involves contracting small community retailers such as spaza shops and butchers as the bank's agents in communities, where customers can open bank accounts, access basic account information and perform transactions such as withdrawing and depositing cash, paying utility bills and buying airtime. Community bankers, local people hired as Standard Bank employees, are available to assist new customers. Community banking customers also have full access to other transactional infrastructure such as ATMs.

At December 2010, approximately 210 000 customers in the low-income market were using this banking capability. We are expanding this model with over 7 500 bank shops across South Africa. We aim to migrate five million current customers into the new model.

Community banking

Almost every weekday, Deborah Gumede, a social worker in Umlazi, Durban, brings a pensioner, a person with disabilities or a single mother to the Standard Bank stall in the corner of the social security offices. Here our community bankers open accounts for social security recipients using cellphones. Ms Gumede is convinced it is a good idea. “It is the easiest thing for them,” she says, explaining that her clients, who are paid a few hundred rand a month, often fall victim to theft when they receive their money in cash.

Instant money

With an estimated 35 million people in South Africa owning cellphones and only 18 million of these holding bank accounts, there is much need for money transfers without visiting a branch. The majority of South Africans in rural areas operate on a cash basis and breadwinners live and work in urban economic hubs but have extended families in poorer rural areas. They require a banking service that will give them the means to send money home in a simple and cheaper manner. In 2010, together with Spar, a leading retail group in South Africa, Standard Bank launched instant money, a person-to-person money transfer system. The partnership allows Standard Bank to access Spar’s 800-store footprint to reach remote communities. At a Spar store, customers can pay a R9,95 transaction fee and hand the teller the money they want to send. The person receiving the cash will receive an SMS voucher number which they can then redeem at a Spar store by entering the secret four digit code. Since the launch, instant money has grown in volume by 100% month-on-month, with an annual turnover in excess of R3 million at the end of 2010 and a projected annual turnover of R100 million by the end of 2011.

Supporting SMEs

Standard Bank established an Enterprise Development team to support small enterprises. This team reviews the group’s existing offerings to SMEs and provides new and supportive services to meet the needs of this market. With a majority of businesses failing during their first two years of operation, the team will focus on new businesses, providing financial and non-financial services and tools. Extensive work is being done to revise how Standard Bank funds these businesses, including how they are assessed for loans and finding relevant capital funding solutions.

Standard Bank is establishing a model that combines financial support, business development support and market access through corporate supply chains, particularly for black owned and black women owned businesses. The team collaborates with our procurement and logistics unit and other large corporate entities in South Africa to facilitate SME access to supply chains and are creating solutions to help SMEs manage their businesses and cash flows.

During 2010, Standard Bank sponsored two-day workshops for small businesses in Bloemfontein, Cape Town, Durban, Johannesburg and Kimberley. The workshops covered practical information and small business case studies, as well as how to write a good business plan that meets a bank’s requirements.

Supporting BSMEs

Over the past years, BSMEs in South Africa have been afforded greater opportunity; however their success has been hindered in part by their lack of general business experience and technical expertise, late payments from corporates and government, inadequate screening and assessment processes when awarding tenders and the misuse of finance received. Standard Bank is working to ensure sustainable finance is provided to BSMEs, including developing new support structures with corporates, development finance institutions and provincial governments and engaging with corporates and governments on issues such as late payments and proper assessments of BSMEs’ capabilities during tendering. Where traditional balance sheet lending does not suffice, Standard Bank is enhancing its product offering to meet the needs of BSMEs.

Standard Bank has intensified its focus on BSMEs in our Tutuwa BEE share scheme and is coordinating initiatives across the group to support and grow these businesses by ascertaining their specific needs.

Enterprise development

Believe Begin Become is a comprehensive entrepreneurship development programme which promotes and supports SME development by providing technical and management skills to growing and aspiring business owners. It aims to empower rural South Africans by teaching them how to create wealth and run their own businesses, focusing on the agriculture, light manufacturing, tourism and construction sectors. Standard Bank has been involved in this initiative since 2007, investing a total of R25,2 million to develop a pool of 240 emerging entrepreneurs.

In 2010, Standard Bank and TechnoServe, a United States-based non-profit economic development organisation, launched the alumni network programme for the 240 entrepreneurs who have completed the programme. This network will create a platform for the sharing and resolution of common challenges, as well as supporting entrepreneurs through training and mentoring, industry support, networking events, business development vouchers and call centre support facilities. Selected entrepreneurs will also be given an opportunity to accelerate the growth of their business through mentorship, access to finance and market linkage.

Agriculture financing

Standard Bank is committed to developing agriculture in emerging markets. Increased agricultural productivity means improved household food and income security, market surpluses, improved access to markets, the development of rural businesses serving farmers and improved rural employment.

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Standard Bank committed R500 million to support emerging farmers in South Africa in 2010. The fund aims to provide a holistic solution that is better aligned to the specific needs of emerging farmers without neglecting the risks associated with agriculture, and will be distributed between the livestock, citrus, grain and sugar industries over a three-year period. A tripartite structure will be put in place for each deal between the farmer, Standard Bank and a cooperative that will provide technical expertise, ensuring the transfer of knowledge. In addition, we will ensure that the farmers are supported by management companies who will assist with the day-to-day running of their finances and payments. The first deal has been structured with financing of R13 million being made available to 2 000 emerging farmers in the sugar industry.

Mngcunube development

In 2010, Standard Bank partnered with Mngcunube development to introduce black farmers into the commercial agrifood value chain, increasing their market access and agricultural opportunities. We have invested R2,3 million in the programme which is being piloted in the Eastern Cape and Free State provinces. We also fund the market access development programme which assists emerging black farmers to gain access to local, regional and international markets and we have invested R5,5 million in the economic cluster development programme to establish farming clusters in the Eastern Cape, KwaZulu-Natal, Limpopo, Western Cape and Northern Cape provinces. This cluster approach has been identified as the best solution to enable farmers to gain a competitive position to sustain their business and create more full-time employment especially in rural areas. Furthermore, this concept facilitates the transfer of knowledge and best practice.

Affordable housing

The current housing output of 20 000 bonded units per annum falls short of the some 130 000 units per annum required to make a meaningful impact on the housing shortage in South Africa. Barriers to producing such housing stock include a shortage of funds and affordability constraints exacerbated by rising input costs. To address these challenges, effective partnering between all participants in the housing value chain is essential, particularly between the private and public sectors so as to leverage economies of scale to benefit all stakeholders.

Housing finance for low-income customers

During 2010, Standard Bank granted R2,5 billion (2009: R1,6 billion) worth of loans in this market segment, approximately 32 600 home loans. Low-income earners who belong to pension and provident funds can enter agreements with Standard Bank's pension-backed lending unit, to access finance to buy, build or renovate a home. Customers who receive loans are educated on all applicable terms and conditions. In 2010, this unit issued loans to the value of R479 million (2009: R473 million).

Financing integrated housing developments

Standard Bank's integrated residential developments unit combines expertise from across the group to ensure we adopt a comprehensive approach to financing quality affordable housing.

Integrated housing developments ensure that residents are offered investment value, as well as convenience through facilities such as parks, taxi ranks, schools, retail outlets and sporting facilities which are incorporated into the design concept. We focus on projects that offer residents a range of typologies and tenure options, such as rental, freehold and sectional title, as well as social and commercial infrastructure. Housing includes the South African government's subsidised housing, gap housing and middle-income housing, as well as social, community and commercial facilities. Housing unit prices range from state-funded (at no cost to the individual) to approximately R800 000.

Gap housing is locally defined as housing units priced between approximately R150 000 and R300 000, generally for individuals earning between R3 500 and R8 000 per month (approximately 80% of the total working population in South Africa). This product targets people who earn more than the upper limit qualification for subsidised housing but less than the bondable products currently offered. A creative development funding model that involves risk sharing with financial institutions is required for this market. Standard Bank will play a meaningful role in providing funding in this market where appropriate.

The public sector is critical to sustainable integrated residential developments and our public private partnerships enable us to arrange and structure funding where appropriate, including funding for bulk infrastructure.

Sustainability in the supply chain

Standard Bank promotes responsible procurement and encourages its suppliers to act ethically and responsibly. Standard Bank's procurement policy guides the cost efficient and transparent purchasing of goods and services.

Standard Bank seeks to procure goods and services in the provinces in which we operate. This guards against an over-concentration of spending in one region and ensures that small businesses and suppliers benefit from Standard Bank's procurement spend. In South Africa, our procurement spend at a provincial level amounted to R901 million (2009: R794 million).

Preferential procurement

The preferential procurement pillar of the dti codes sets specific targets for procurement from BEE suppliers, to ensure that black businesses in South Africa have access to markets. It also seeks to provide incentives for purchasing from qualifying small enterprises, exempted micro-enterprises, black owned enterprises and black women owned enterprises.

The dti preferential procurement requirements have been incorporated into Standard Bank's procurement policy structure. In 2010, the group rolled out the revised policy to business units to create awareness and understanding of the requirements.

Standard Bank is a level two BEE contributor and classified as a value-adding supplier, a benefit that accrues to those that utilise the group as a supplier. We have developed a preferential procurement strategy to help us improve on our preferential procurement score; however some of the challenges faced include a lack of access to reliable qualifying small enterprise databases and the inability of these businesses to compete with larger suppliers due to their constrained capacity to meet demand requirements.

To do business with Standard Bank, a supplier must have a minimum BEE contributor level of four. Where an exception occurs, the supplier is required to provide their transformation plans on how they intend to improve their BEE contributor level. We host provincial supplier summits to promote access to qualifying small enterprises.

Standard Bank has consistently increased its procurement spend with BEE suppliers. As per the weighted calculation provided in the dti codes, in 2010 our procurement spend from BEE suppliers amounted to R15,7 billion from R7,2 billion in 2009, a 118% increase. A robust process of obtaining BEE certificates from suppliers and engagement with internal stakeholders and suppliers on the group's transformation process in the supply chain, resulted in this increase.

Standard Bank's aim is to increase our procurement from BSMEs to help these businesses gain market access. The procurement and logistics unit identifies prospective BSMEs and encourages business units to utilise their services. Standard Bank's BSME weighted spend in 2010 was R455 million (2009: R316 million).

Consideration is extended to BSMEs by affording them the right of first refusal and then the opportunity to requote on a tender to ensure competitive and fair pricing. Certain commodities are being set aside for exclusive procurement from qualifying enterprises. Our procurement and logistics unit measures the performance of these suppliers and assists in identifying opportunities to improve service delivery. The preferential procurement pillar of the dti codes sets specific targets for procurement from BEE suppliers, to ensure that black businesses in South Africa have access to markets. It also seeks to provide incentives for purchasing from qualifying small enterprises, exempted micro-enterprises, black owned enterprises and black women owned enterprises.

Empowerment financing

Targeted investments

Targeted investment refers to debt financing or other forms of credit extension to, or equity investment in, areas where gaps or backlogs in economic development and job creation have not been adequately addressed by financial institutions in South Africa. At 31 December 2010, Standard Bank's total balance of targeted investment amounted to R7 528 million.

The South African government's Infrastructure Capex Programme, which now officially stands at R809 billion, provides the group with targeted investment lending opportunities. However, delays in aligning the charter to the dti codes and the government's procurement process, as well as the lack of combined funding solutions between banks and development finance institutions limit access to these opportunities. Standard Bank continues to engage with the public sector to facilitate private sector participation in meeting the funding needs of state-owned enterprises and with development finance institutions to increase cooperation in funding infrastructure projects.

Once the policies to address the energy crisis in South Africa have been resolved, the renewable and clean energy sector will provide further opportunity for targeted investment.

As the private sector increases its role in funding the country's infrastructure needs, our customer base within targeted investment lending is set to grow. The current pipeline of infrastructure deals across various product areas is more than R20 billion. At December 2010, Standard Bank had converted R1,5 billion of this pipeline into lending opportunities.

BEE transaction financing

Recovery from the financial crisis in 2009 has been slow; however towards the end of 2010 BEE activity increased, with a number of significant broad-based empowerment transactions announced. This trend is expected to continue with the gazetting of the dti sector codes for various sectors, including the financial services sector. Standard Bank also provides a range of advisory services, from assisting with structuring transactions and negotiating with partners involved in the deal, to arranging and underwriting the funding. At December 2010, the empowerment deals financed by Standard Bank were in excess of R20 billion including finance advanced to BEE entities. During 2010, SABMiller won the prestigious 2009 Dealmakers Deal of the Year Award for its BEE transaction that Standard Bank advised on.

Investing in communities

CSI

Socioeconomic impediments negatively affect our ability to grow. Standard Bank's approach to CSI is therefore to commit funding and other resources to create long-term social value for the communities we operate in. This promotes social stability and economic mobility that benefits the group's long-term sustainability. Our CSI activities are underpinned by sound business rationale aligned with our strategic business objectives. In addition, we intend leveraging the lessons learnt from CSI projects to inform initiatives and projects in various business units.

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Sustainability report continued

We employ a research-based approach to understand the socioeconomic needs of communities by engaging with government, other businesses and community organisations. Standard Bank's CSI spend in 2010 was R100 million (2009: R70 million) with R35 million and R36 million (2009: R35 million and R16 million) being allocated to enterprise development and education respectively.

Our people

We recognise that our leaders and employees are key differentiators in achieving Standard Bank's strategy and provide us with a sustainable competitive advantage. We are committed to identifying, attracting and retaining inspired and self-motivated people to ensure that we have the best talent with the right skills, deployed in the right place at the right time to deliver business results.

Standard Bank aims to establish strong and supportive people practices and processes that leverage and harness the contributions and diversity of all our people, so that our employees enjoy an improved experience in all their interactions and engagements within Standard Bank. In 2010, focus areas included leadership development, performance management, recruitment, remuneration, talent management, coaching and mentoring, and training and development.

The successful implementation of our people management strategy supports Standard Bank in delivering on its strategy, embedding a more positive employee experience that will in turn deliver a better customer experience contributing to our competitiveness.

Key statistics

	2010	2009
Employee headcount	**30 396**	29 494
Women employees (%)	**57**	57
Overall employee turnover rate (%)	**10,1**	10,0
Skills development		
Total training spend (Rm)	**450**	419
Training spend as a % of staff costs	**4,0**	4,3

Leadership development

The Global Leadership Centre is an innovative, high quality and comprehensive learning facility established to drive Standard Bank's goal of instilling leadership as a core competency and a competitive advantage.

Our focus in 2011 will be to enhance the current leadership programmes offered with a strong focus on customer centricity, competing in our chosen markets, driving effective execution and leading change. These programmes will be implemented in 2012. We will adopt a blended learning approach combining traditional classroom-based training with action learning and delivery both at the centre and in our country operations. In 2011, the Global Leadership Centre will be leveraged as an environment for team offsites, dialogue and strategic planning. This will enable leadership alignment during a time of great change for Standard Bank.

Talent management

To align our talent management processes with our business strategy, we are developing a more consistent talent framework. During 2010, talent reviews were undertaken in each of our business areas to determine future talent demand, identify existing talent and focus on succession planning, a critical aspect of our talent management process. Talent pools are being created to improve our view of talent across Standard Bank and to optimise the deployment of talented individuals. This approach aims to develop an internal pipeline of future leaders across all levels of the organisation and will assist in identifying key specialist talent.

A talent scorecard and key metrics will be implemented in 2011 and a single website to promote and consolidate all our talent attraction programmes is being launched.

Skills development

We recognise that the competence of our people is key to the group's success, particularly in the face of global competition for skills. Learning and development initiatives are run in all business units to drive business performance and help our employees develop to their full potential. In 2010, the group's training spend amounted to R450 million (2009: R419 million), 4,0% (2009: 4,3%) of staff costs.

Employee wellness

The key components of Standard Bank's health and wellness programme include health risk assessments, counselling services, a comprehensive HIV/Aids programme, medical aid and strategic business alliances. Standard Bank's wellness initiatives are closely aligned to our business needs, focusing on engaging more regularly and closely with employees and developing more efficient and effective teams, thereby providing our customers with more effective and efficient service.

Employee community involvement

A total of R4,7 million (2009: R1,8 million) was donated to various beneficiaries through Standard Bank's employee matching schemes. The employee community involvement programme formalises the numerous community upliftment initiatives our employees are involved in. It provides an avenue for employees to interact with their communities and be part of creating real change in the lives of the people they serve.

Managing diversity

Fundamental to any company is its culture, driving how we work and relate to each other as colleagues. By sharing available skills, experiences and abilities in Standard Bank's diverse employee base, it is able to harness the opportunities that exist for viewing things from different perspectives and developing innovative solutions and processes. Diversity management is achieved by developing work environments where employees from diverse backgrounds and perspectives feel valued, respected and able to contribute to their full potential.

Disability

During 2010, Standard Bank embarked on a disability awareness campaign as part of diversity management. The campaign focused on disability-related communication and training, culminating in a disability audit in which over 1 200 employees voluntarily and confidentially disclosed their disability. We are communicating with these employees to gain a better understanding of disability in our workplace, enabling us to put solutions in place to reduce unintentional barriers that may exist for people with disabilities.

Retrenchments

To reduce costs and ensure the long-term sustainability of the business we carefully re-examined our cost base and the way in which we operate in 2010. We introduced numerous cost-cutting measures within information technology projects, professional fees for consultants, marketing and sponsorship, as well as travel and conferences. We also placed a freeze on the recruitment of new employees in many parts of the business.

As our staff costs remain our single biggest expense item, we had no choice but to embark on a headcount reduction exercise in 2010. Mostly managers and executives within the head office environment, in Johannesburg, were affected. As the exercise was aimed at eliminating inefficient duplications that had existed in our business, the selection of positions was based on operational requirements and not individual performance.

The process was undertaken in consultation with Sasbo in line with our Dismissals Based on Operational Requirements agreement and an agreed three-phase process was followed. Standard Bank also engaged with Solidarity, a registered union with marginal representation, on numerous occasions regarding the process.

Sasbo launched legal action and applied for an extension to the retrenchment period. It was ruled that both parties should continue with consultation and the extension was not granted.

A total of 787 employees and 576 contractors were retrenched during 2010. All retrenched employees were provided with ongoing support in their search for alternative employment. Professional counselling services were made available and Standard Bank provided financial planning and advice. Although limited, some redeployment opportunities were made available. Appropriate outplacement and search firms were also engaged to assist affected employees.

IT and infrastructure

IT

Ongoing investment in IT systems allows us to benefit from technological innovation, improve our ability to meet evolving business needs and deliver on customer service expectations and efficiency demands.

IT facilitates all our core business processes and components, and serves to support, sustain and grow transformation and the realisation of our strategic objectives at group and business unit levels. IT also plays a pivotal role in ensuring that our business is better able to meet regulatory compliance requirements.

When leveraged appropriately, IT is a strategic asset that can create opportunities and provide a competitive edge. To this end we continue to make significant investments in IT, spending a total of R2,7 billion in 2010 (2009: R2,3 billion), 12,6% (2009: 12,6%) of total operating costs. We ensure the effective and efficient operation, management and governance of our IT systems to better respond to and advance the needs of the business and deliver customer service excellence. To continue meeting these goals, we have made some significant changes to existing IT functions in 2010, most notably establishing an IT function at group level and developing a business-aligned IT execution programme.

IT and infrastructure

	2010	2009
IT spend (Rbn)	**2,7**	2,3
Branch and service centre network	**705**	664
ATM network	**5 565**	4 810

In 2010, following interviews with internal stakeholders, we developed an IT roadmap for realising our vision of making IT an efficient asset for growth. Over the next 30 months various initiatives will be undertaken to improve overall IT productivity. These initiatives will be governed through various structures to ensure that they deliver on business objectives and provide value. We have also established a review process to highlight areas of concern and opportunities for improvement.

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Governance

To bolster our application of the principles and recommended practices in the King Code, Standard Bank has undertaken a dedicated improvement programme to optimise existing practices across our IT functions. The IT governance programme includes the realignment of existing IT governance structures to ensure that the qualitative aspects of the King Code are met through developing frameworks and controls, independent reviews of strategic investments and other related requirements. The programme is expected to be completed in mid-2011.

It is our intention to create an IT governance capability that leverages international best practice and is flexible in its ability to meet business-line requirements, and includes a continuous improvement lifecycle. To this end, we are confident that we are acting in the spirit of the King Code. We have appointed a chief information officer and our senior management continues to ensure that prudent and reasonable steps are taken in the corporate governance of our IT function.

Operations

Personal & Business Banking

During 2010, Personal & Business Banking focused on delivering a positive customer experience and streamlining customers' interactions with the group, which included critically reassessing the business unit's IT investment. Our investment in technology infrastructure over the past two years has continuously improved our customer-facing systems, contributing to our high customer service scores. In 2010, we also worked towards sustaining and improving the standards achieved in 2009, and our zero tolerance approach to non-adherence to procedures and governance has contributed to the current stability of our systems.

Several IT projects were completed during the year, the majority being for compliance and legislative system requirements. We ensure that our systems meet accounting, compliance and risk requirements, as well as effectively managing customer information. We continued the replacement of our core banking system, which will reduce the number of systems required for different products. The system will be used primarily for Personal & Business Banking products and transactional products for corporate customers.

Corporate & Investment Banking

By implementing further strategic platforms and expanding New Business Online we have enhanced service capabilities for internal and external customers. During 2010, we made significant investments in Murex GTS, a robust and stable industry standard software for conducting international rates and foreign exchange business.

Operating infrastructure

Green Building Council

Standard Bank is a member of the Green Building Council of South Africa. When designing new buildings, we consider the Green Star SA, a building rating system that assesses the environmental impact of buildings. This system takes into account energy and water consumption, materials used and site emissions.

External Green Star consultants were appointed to assess whether our data centre in Midrand can achieve a four-star rating which equates to South African best practice. A formal application for a rating will then be made.

Alternative power supply

Alongside other basic infrastructure needs, energy poses a particular challenge in developing countries where supply can be erratic. Standard Bank's operations are supported by generators and standby power stabilisers.

New data centre in Midrand

Construction of our 6 000m^2 data centre in Midrand, Gauteng was completed in April 2010. The centre has been certified Tier IV by the US-based Uptime Institute, meaning that the building is able to continue functioning despite electrical or mechanical failures. Tier IV is the highest certification possible.

To help uplift the surrounding community, every effort was made to use local labour in the building of the facility and the bricks, concrete and flooring were sourced from within the province. The building was also designed with careful consideration of the environment, incorporating technologies such as solar heating for the office complex; natural light in work spaces; automated lighting systems; solar activated blinds; a grey water system and indigenous gardens and attenuation ponds that manage site rainwater.

It is expected that the building should continue to serve its function for at least 30 years and it has already received several awards for its environmentally friendly design and technical innovation.

Environment

Environmental management

We have an obligation to manage the environmental and social impacts that our activities, products and services have on society and to respond strategically to the risks which global environmental and social pressures have on our ability to create sustainable value for our stakeholders.

As a financial services group, we have both direct and indirect impacts on society and the environment. We manage our indirect impact by screening corporate banking loans to ensure that the customers we lend to manage the social and environmental risks associated with their activities. We impact directly on the environment in our daily business activities through our consumption of energy and other resources, and as such we have developed systems and processes to reduce our environmental footprint. In addition, we have raised environmental awareness among our stakeholders, particularly our employees and suppliers.

The environmental management system enables us to track and manage environment-related aspects of our operations such as energy, water, carbon emissions and waste management.

	2010	2009
Carbon footprint (metric tons of CO_2)		
Standard Bank	**177 289**	154 538
Direct and indirect consumption		
Electricity (kWh)	**145 015 178**	132 361 054
Diesel (litres)	**188 115**	206 855
Paper (tons)	**2 755**	1 217
Water (kilolitres)	**340 889**	336 986

Environmental efficiency targets have been set for Standard Bank using 2009 as a base year. These are:

– Energy consumed: 15% reduction by 2015
– Water consumed: 20% reduction by 2015
– General waste produced: 20% reduction by 2015
– Paper consumed: 10% reduction by 2015
– Paper recycled: 5% increase by 2011

Environmental impact of our operations

Energy

Managing and reducing our energy consumption is key for Standard Bank, both as part of climate change mitigation efforts and in response to rising electricity costs and energy supply concerns in South Africa. Water heating, lighting and air-conditioning are three of the biggest energy consumers at Standard Bank. In 2010, Standard Bank spent R9,3 million on energy efficiency projects. Our head office in Johannesburg, in which about 15 000 of our employees are situated, has been benchmarked against national standards and the buildings are considered to be energy efficient but we are striving for continuous improvement.

Where feasible, our branches are redesigned for energy efficiency. We have reduced power requirements for new branches by approximately 20%.

In 2010, we started fitting occupancy sensors in meeting rooms at our head office in Johannesburg, which turn lights off when a room is vacant. Where feasible, we are implementing technology which uses diffusive and reflective surfaces to capture light rays from any light source to enhance illumination while reducing the number of fixtures required and enabling the use of lower-energy fittings. A new lighting system is being installed in the basement parking area which will reduce its power requirement by more than 50%.

We also invested an additional R2,3 million in a hybrid solar energy efficient water heating-system at one of our head office buildings in Johannesburg. The system supplements the building's main geyser system which feeds hot water to the ablution facilities. The system has the capacity to supply up to 48 000 litres of hot water at approximately 55°C daily. The anticipated annual savings are approximately 500 000 kilowatt hours or 5% of the building's energy consumption, nearly R1 million in energy costs.

Carbon footprint

Standard Bank participates in the Carbon Disclosure Project, an independent initiative encouraging transparency on all climate change-related issues and emissions performance. In the 2010 Carbon Disclosure Project, Standard Bank scored 74% and was included in the South African Carbon Disclosure Project Leadership Index. Standard Bank's carbon footprint has been calculated according to the International Greenhouse Gas Protocol's Corporate Accounting and Reporting Standard.

Standard Bank's carbon dioxide equivalent for 2010 was 177 289 metric tons (2009: 154 538 metric tons). The main reasons for the 14,7% increase is widened carbon footprint scope including the electricity consumption for an additional two key buildings and an expanded scope of paper consumption now also including statement and cheque book paper, deposit slips and ATM stationery. In 2009, only photocopier paper was included. An increase in the number of business travel flights have also contributed to this increase. For 2010, our consumption figures cover about 82% of our South African operations (2009: 77%) and about 80% (2009: 74%) of our South African employees. In relation to the group's total income of R38,7 billion in 2010 (2009: R39,1 billion), the carbon dioxide per rand of total income generated equates to 4,6 grams (2009: 4,0 grams). The carbon emission per employee equates to approximately 5,8 tons (2009: 5,2 tons).

Water

With water supply and quality under pressure globally, companies will increasingly be required to manage and report on their water usage. We aim to put measures in place to allow us to establish a water baseline and subsequently the water we recycle and discharge, as well as establishing the quality of the water discharged. We are looking at ways to reduce our operational water footprint.

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Risk and capital management

Overview

Introduction

Effective risk and capital management is fundamental to the business activities of SBSA and the group.

Risks are controlled at individual exposure and portfolio level, as well as in aggregate across all businesses lines, legal entities and risk types. Capital is managed using regulatory and economic metrics, at both business line and legal entity level.

Governance, risk and compliance

The group's activities are in the Personal & Business Banking and Corporate & Investment Banking business lines. All legal entities in the group are incorporated in South Africa.

The group's risk and capital management activities and structures are governed by risk and capital frameworks. The chief risk officer (CRO) ensures that the unique risk and capital requirements of the group are met.

During the year the group as a part of SBG reorganised, refocused and strengthened the governance, risk and assurance structures and capabilities. Existing functions of the SBG CRO and chief credit officer were reorganised into three group functions, each headed by a senior executive:

- group risk management under the CRO;
- group legal and compliance under the group's general counsel; and
- group governance and assurance under the head of governance and assurance.

Collectively, these functions are referred to as the governance, risk and compliance cluster (GRCC). Each of the three group functions has resources at the centre driving consistency across business lines. Furthermore, resources that have the necessary specialist skills, experience and proximity to the origination of risk are embedded in the business lines, to provide support to management in ensuring that business line risks are managed and controlled effectively as close as possible to where they arise.

The three group functions making up the GRCC are discussed in more detail on page 41.

Capital and liquidity management

Capital is managed within the SBG treasury and capital management (TCM) division, which falls under the global financial function headed by the SBG financial director. The SBG TCM operating model aims to align and rationalise the group's capital, liquidity and portfolio management functions by:

- strengthening oversight;
- improving efficiency by consolidating multi-regional and multi-functional management layers; and
- defining an effective control matrix with functional and geographic reporting lines.

The objective of the SBG TCM division is to contribute to shareholder value through managing the balance sheet and financial resources in a way that is optimised, comprehensive and integrated across operations. It includes the management of capital, liquidity, prudential limits and ratings.

Three lines of defence

The group relies on three lines of defence. Responsibility and accountability for risk management within each line of defence resides at all levels. This includes individual and committee levels as well as board, management and staff levels within the group. Reporting lines reinforce segregation of duties and independence.

Three lines of defence model

First line of defence	Second line of defence	Third line of defence
This includes management of business lines, legal entities and operations.	**The group risk enablement function, headed by the SBG CRO and the group legal and compliance enablement function, headed by general counsel.**	**Internal audit, within the group governance and assurance function, headed by the chief audit officer.**
Assesses, evaluates, measures and controls risks through the day-to-day activities of the business, within the frameworks set by the second line of defence. Reports to management and board governance structure.	Sets overarching GRCC framework and component frameworks within the parameters set by the board. Provides independent oversight of the first line of defence. Reports to management and board governance structures.	Sets the internal audit framework. Provides independent assessment of the adequacy and effectiveness of the overarching framework and its component frameworks, thereby providing independent oversight of the first and second lines of defence. Reports to the board audit governance structures.

Governance, risk and compliance cluster

The areas of responsibility, with regard to the group, of the three group functions which form the GRCC are set out in the diagram below.

Group risk management including:	Group legal and compliance including:	Group governance and assurance including:
– credit; – country risk; – market risk; – operational risk; – long-term insurance risk; – short-term insurance risk; and – integrated risk management.	– legal risk; and – compliance risk.	– internal audit; – financial crime control; – governance office; and – sustainability management.

Group risk management

Group risk management follows a matrix structure which includes both functional and business line dimensions. The functional dimension comprises a risk-type head for each of the risk types above, while the business line dimension comprises two CROs, one for each of the two business lines, that is Personal & Business Banking and Corporate & Investment Banking.

A CRO is appointed from within the SBG matrix structure where required for regulatory or governance purposes. The CRO is supported by risk management resources from within the matrix, and ensures that the unique risk and capital requirements of the legal entity are met.

Group legal and compliance

Legal

All lawyers employed in such capacity within the group report primarily to the group's general counsel, with a secondary reporting line to the business lines they serve. These lawyers manage legal risk by anticipating legal risks that may arise during the course of the group's activities and ensuring that these are appropriately mitigated. This is achieved by providing or sourcing appropriate legal advice and ensuring that legal risks are optimally negotiated and documented, and that controls are implemented and monitored.

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Risk and capital management continued

Compliance

Compliance personnel in the group are located within an independent group compliance function headed by the chief compliance officer. The heads of compliance within each business line report directly into this function. Compliance is supported by a central function comprising operational support (including reporting, policies and IT projects), regulatory support (including training and regulatory developments), the sanctions desk and the conflicts control room.

The scope of the compliance function's responsibilities includes managing regulatory relationships, sanctions risk and anti-money laundering, advising business on the appropriateness of structures and products from a compliance perspective, including training, and advising on regulatory expectations. Furthermore, this function manages the monitoring of adherence to relevant laws, regulations and internal policies and controls, as well as governance reporting, all of which are critical to managing compliance risk.

Group governance and assurance

The group governance function ensures that the group-wide corporate governance framework is appropriate and in accordance with legislative requirements and facilitates effective decision-making.

The internal audit function provides independent assurance to the board and senior management that the control framework is both fit for purpose and operating effectively.

The financial crime control function ensures that the group is able to proactively identify and respond to financial crime to mitigate economic and reputational loss and provides independent forensic auditing and investigation of identified crime threats.

The sustainability function ensures that the group operates in a sustainable manner by taking into account global pressures, and best practices, as well as environmental and social legislation in the group's strategy and operational practice.

Frameworks

The heads of the GRCC are responsible for maintaining and implementing an overarching framework which:

- defines the minimum governance and control structure and operational requirements;
- specifies the required component frameworks within each of the GRCC functions; and
- specifies the way that these functions are integrated.

The purpose of this overarching framework and its component frameworks is to ensure that all material risks to the group in meeting its strategic and financial objectives are identified and managed proactively.

The primary component frameworks are:

- capital management;
- liquidity management;
- risk appetite;
- stress testing;
- risk management, covering credit risk, country risk, market risk, operational risk, group-wide integrated risk;
- legal;
- compliance;
- governance;
- financial crime control;
- sustainability risk;
- business risk;
- reputational risk; and
- strategic risk.

The component frameworks contain, where relevant, organisation structures, reporting lines, standards, policies, procedures, limits and guidelines.

Standards, policies and procedures

The group has developed a set of risk governance standards for each major risk type to which it is exposed, and standards for liquidity and capital management. The standards set out minimum control requirements and ensure alignment and consistency in the manner in which the major risk types and capital management metrics across the group are dealt with, from identification to reporting.

All standards are applied consistently across the group and are approved by the board. It is the responsibility of executive management in each business line to ensure the implementation of risk and capital management standards. Supporting policies and procedures are implemented by the management team and independently monitored by the embedded risk resources.

Compliance with risk standards is controlled through annual self-assessments and independent reviews by the second line of defence risk functions.

Risk appetite

Risk appetite is an expression of the amount, type and tenure of risk the group is willing to take in pursuit of its financial and strategic objectives, reflecting the group's capacity to sustain losses and continue to meet its obligations as they fall due in a range of different stress conditions. The group has developed a framework to articulate appetite throughout the group and to external stakeholders.

The board establishes the group's parameters for risk appetite by:

- providing strategic leadership and guidance;
- reviewing and approving annual budgets and forecasts, under normal and stressed conditions, for the group and each division;

- regularly reviewing and monitoring the group's performance in relation to risk through quarterly board reports; and
- conducting forward-looking analysis of risk tendency against risk appetite in both normal and stressed conditions.

The board delegates the determination of risk appetite to the risk and capital management committee (RCMC) and ensures that risk appetite is in line with the group strategy and the desired balance between risk and reward for the group.

The group's risk appetite is defined by the following five metrics:
- headline earnings volatility;
- liquidity;
- regulatory capital;
- economic capital; and
- debt rating that is consistent with a level of capitalisation to cover unexpected loss to a predetermined level of confidence.

These metrics are then converted into limits and triggers across the relevant risk types, at both a group and business line level, through an analysis of the risks that impact on them.

Stress testing

The group's stress-testing framework supports the regular execution of stress tests at the business unit, legal entity and group levels. The group's overall stress-testing programme is a key management tool within the organisation and facilitates a forward-looking perspective on risk tendency and business performance. Stress testing involves identifying possible events or future changes in economic conditions that could have an impact on the group. Stress tests are conducted on a group-wide and business line basis.

Stress tests are used in proactively managing the group's risk tendency, capital planning and management, strategic business planning and setting of capital buffers. Stress testing is an integral component of the group's internal capital adequacy assessment process (ICAAP), and is used to assess and manage the adequacy of regulatory and economic capital. Stress tests are regularly discussed with regulators.

The appropriateness of the stress scenarios and the severity of the relevant scenarios are approved by the RCMC based on the SBG group risk oversight committee's (GROC) recommendations and are reviewed at least annually.

Management reviews the results of the stress tests as measured by the risk appetite metrics, and evaluates the need for mitigating actions. Examples of mitigating actions include reviewing and changing risk limits, limiting exposures and putting hedges in place.

Stress testing supports a number of business processes across the group, including:
- strategic planning and budgeting;
- capital planning and management, including setting capital buffers for the group;
- communication with internal and external stakeholders; and
- ad hoc assessment of the impact of changes in short-term macroeconomic factors on the group's performance.

During 2010, the group performed group-wide stress tests across all major risk types based on a number of macroeconomic scenarios, on two different occasions in line with changing economic conditions. The outcome of these stress tests indicated that the group was well within its risk tolerance levels in all of the scenarios. Group-wide stress testing will be conducted quarterly in 2011.

Portfolio-specific stress tests are conducted more frequently within business lines, often monthly, facilitating proactive management at a business line level.

The group has also implemented reverse stress testing to complement the overarching stress-testing programme. Reverse stress testing identifies those scenarios that could threaten the ongoing stability of the group, and serves to inform what management action should be taken to mitigate this risk. These tests are a useful risk management tool as they assist in testing assumptions about business strategy, capital planning and contingency planning.

Risk categories

Credit risk

Credit risk comprises counterparty risk, settlement risk and concentration risk. These risk types are defined as follows:
- Counterparty risk is the risk of credit loss to the group as a result of failure by a counterparty to meet its financial and/or contractual obligations to the group. This risk type has three components:
  - Primary credit risk, which is the exposure at default (EAD) arising from lending and related banking product activities including their underwriting.
  - Pre-settlement credit risk, which is the EAD arising from unsettled forward and derivative transactions. This risk arises from the default of the counterparty to the transaction and is measured as the cost of replacing the transaction at current market rates.
  - Issuer risk, which is the EAD arising from traded credit and equity products including underwriting the issue of these products in the primary market.
- Settlement risk is the risk of loss to the group from settling a transaction where value is exchanged, but where the group may not receive all or part of the counter value.

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Risk and capital management continued

- Credit concentration risk is the risk of loss to the group as a result of excessive build-up of exposure to, among others, a single counterparty or counterparty group, an industry, market, product, financial instrument or type of security, a country or geography, or a maturity. This concentration typically exists where a number of counterparties are engaged in similar activities and have similar characteristics, which could result in their ability to meet contractual obligations being similarly affected by changes in economic or other conditions.

Country risk
Country risk, also referred to as cross-border transfer risk, is the risk that a client or counterparty, including the relevant sovereign (government entities), may not be able to fulfil its obligations to the group outside the host country due to political or economic conditions in the host country.

Liquidity risk
Liquidity risk arises when the group, despite being solvent, cannot maintain or generate sufficient cash resources to meet its payment obligations as they fall due, or can only do so at materially disadvantageous terms.

This type of event may arise when counterparties who provide the group with funding withdraw or do not roll over that funding, or as a result of a generalised disruption in asset markets that renders normally liquid assets illiquid.

Market risk
Market risk is the risk of a change in the actual or effective market value, earnings or future cash flow of a portfolio of financial instruments caused by adverse movements in market variables such as equity, bond and commodity prices, currency exchange and interest rates, credit spreads, recovery rates, correlations and implied volatilities in all of the above. Market risk is categorised according to trading book market risk, interest rate risk in the banking book, equity investments and foreign currency translation risk.

Operational risk
Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. This includes information and legal risk but excludes reputational and strategic risk.

Compliance risk
Compliance risk is the risk of legal or regulatory sanctions, financial loss or loss of reputation that the group may suffer as a result of failure to comply with all laws, regulations, codes of conduct and standards of good practice applicable to its financial services activities.

Business risk
Business risk relates to the potential revenue shortfall compared to the cost base due to strategic or reputational reasons. From an economic capital perspective, business risk capital requirements are calculated as the potential loss arising over a one-year timeframe within a certain level of confidence as implied by the group's chosen target rating.

The group's ability to generate revenue is impacted by, among others, the external macroeconomic environment, its chosen strategy and reputation in the markets in which it operates.

Reputational risk
Reputational risk results from damage to the group's image, which may impair its ability to retain and generate business. Such damage may result from a breakdown of trust, confidence or business relationships. Safeguarding the group's reputation is of paramount importance to its continued success and is the responsibility of every member of staff.

Sections forming part of the annual financial statements

Specific information on risk and capital management integral to the audited annual financial statements can be found under the following sections of this risk management report:
- risk categories, page 43 and 44;
- capital management, page 44 to 46;
- credit risk, page 49 to 54;
- liquidity risk, page 56 to 61; and
- market risk, page 62 to 64 and 66 to 68.

All tables, diagrams and quantitative information in this risk and capital management report are unaudited unless stated otherwise. Restatement of financial information relating to 2009 is set out on page 74.

Capital management

The group's capital management framework is designed to ensure that the group and its principal subsidiaries are capitalised in line with the risk profile, regulatory requirements, economic capital standards and target ratios approved by the board. The group capital management objectives are to:
- maintain sufficient capital resources to meet minimum regulatory capital requirements set by the SARB in accordance with Basel II requirements and Basel III capital requirements on a pro forma basis;
- maintain sufficient capital resources to support the group's risk appetite and economic capital requirements;
- support the group's credit rating;
- allocate capital to businesses to support the group's strategic objectives, including optimising returns on economic and regulatory capital;

- ensure the group holds capital in excess of minimum requirements in order to achieve the target capital adequacy ratios set by management and to withstand the impact of potential stress events;
- maintain and adopt the dividend policy and dividend declarations while considering shareholder and regulatory expectations;
- manage the net asset value currency management process, including evaluating and implementing new derivative instruments that could be used for hedging purposes; and
- embed risk-adjusted performance measurements into the performance measurement and reporting processes of the group.

The RCMC ensures compliance with the group's capital management objectives. The committee reviews actual and forecast capital adequacy on a quarterly basis. The processes in place for delivering the group's capital management objectives are to:

- establish internal targets for capital adequacy;
- ensure regulatory capital adequacy requirements for foreign and local entities are met;
- apply stress tests to assess the group's capital adequacy under stress scenarios;
- develop, review and approve ICAAP;
- plan and forecast capital requirements to ensure that capital ratios exceed the targets set by the board; and
- raise capital on a timely basis.

In addition to these processes, executive management and the board, through the RCMC, review and set risk appetite annually and analyse the impact of stress scenarios to understand and manage the group's projected capital adequacy.

Capital adequacy

The group manages its capital base to achieve a prudent balance between maintaining capital ratios to support business growth, depositor and creditor confidence, and providing competitive returns to shareholders.

The capital management process ensures that each entity maintains sufficient capital levels for legal and regulatory compliance purposes. The group ensures that its actions do not compromise sound governance and appropriate business practices.

Regulatory capital

The group complies with the capital adequacy requirements in terms of South African banking regulations. Regulatory capital adequacy is measured by two risk-based ratios; tier I and total capital adequacy. Both measures of capital are stated as a percentage of risk-weighted assets.

Tier I capital represents the permanent forms of capital such as share capital, share premium, retained earnings and perpetual, non-cumulative preference shares while total capital, in addition, includes other items such as subordinated debt, impairments for performing loans and revaluation reserves.

Risk-weighted assets are determined on a granular basis by using risk weights calculated from internally derived risk parameters. Both on- and off-balance sheet exposures are included in the overall credit risk-weighted assets of the group. Notional risk-weighted assets for the market and operational risk components are determined using the risk drivers that impact on regulatory capital as inputs.

SBSA's tier I capital, including unappropriated profit, was R42,2 billion in 2010 (2009: R38,9 billion) and total capital including unappropriated profit was R55,0 billion in 2010 (2009: R51,9 billion). The change in SBSA's capital was primarily due to an increase in retained earnings by SBSA. SBSA maintained a well-capitalised position based upon core tier I, tier I and total capital ratios as set out on page 47.

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Risk and capital management continued

Basel II regulatory capital

	2010 Rm	2009[1] Rm
Tier I		
Issued primary capital and unimpaired reserve funds	**47 614**	43 207
Ordinary share capital and premium	**25 290**	24 290
Ordinary shareholders' reserves	**22 324**	18 917
Less: regulatory deductions	**(5 237)**	(3 508)
Intangible assets	**(4 372)**	(2 913)
Investment in regulated non-banking entities	**(99)**	(99)
Less: regulatory deductions – 50% deducted from tier I and tier II respectively	**(766)**	(496)
Future expected loss exceeding eligible provisions on an incurred loss basis	**(616)**	(212)
Loans to special purpose entities (SPEs) (first loss credit enhancement)	**(150)**	(284)
Less: regulatory exclusions	**(2 110)**	(6 565)
Non-qualifying foreign currency translation reserve	**31**	(37)
Other reserves[2]	**(236)**	(716)
Unappropriated profit[3]	**(1 905)**	(5 812)
	40 267	33 134
Tier II		
Issued secondary capital and reserves	**15 254**	15 321
Subordinated debt	**15 098**	15 098
General allowance for credit impairments	**156**	223
Less: regulatory deductions	**(2 761)**	(2 714)
Investment in banks' tier II subordinated debt instruments	**(1 995)**	(2 218)
Other – 50% deducted from tier II	**(766)**	(496)
Future expected loss exceeding eligible provisions on an incurred loss basis	**(616)**	(212)
Loans to SPEs (first loss credit enhancement)	**(150)**	(284)
	12 493	12 607
Tier III		
Subordinated debt	**300**	300
Total eligible capital (excluding unappropriated profits)	**53 060**	46 041

Audited.

[1] *Restated.*

[2] *Mainly the share-based payment reserve, cash flow hedging reserve and available-for-sale reserve, where applicable.*

[3] *Unappropriated profits of R1,9 billion (2009: R5,8 billion) have been excluded from tier I capital. Reserves qualifying as tier II capital have been deducted. Profits are appropriated by the board of directors.*

Basel II risk-weighted assets and associated capital requirements

	2010 Risk-weighted assets Rm	2010 Capital required[1] Rm	2009 Risk-weighted assets Rm	2009 Capital required[1] Rm
Credit risk	285 399	27 113	283 653	26 947
Portfolios subject to the standardised approach	12 489	1 187	29 035	2 759
Corporate	8 000	760	16 692	1 586
Sovereign	50	5		
Banks	97	9	43	5
Retail mortgages	2 745	261	10 601	1 007
Retail other[2]	1 597	152	1 506	143
Securitisation exposure			193	18
Portfolios subject to the FIRB approach	13 874	1 318	13 339	1 267
Corporate	13 783	1 309	13 281	1 262
Sovereign	91	9	58	5
Portfolios subject to the AIRB approach	245 662	23 337	231 127	21 957
Corporate	89 619	8 513	94 961	9 021
Sovereign	7 128	677	5 497	522
Banks	11 166	1 061	10 368	985
Retail mortgages	71 729	6 814	56 478	5 365
Qualifying retail revolving exposure	36 721	3 488	39 103	3 715
Retail other	25 648	2 437	22 302	2 119
Securitisation exposure	3 651	347	2 418	230
Other assets	13 374	1 271	10 152	964
Equity risk in the banking book	10 626	1 009	13 189	1 253
Portfolios subject to the market-based approach	1 884	178	4 077	387
Listed	88	8	51	5
Unlisted	1 796	170	4 026	382
Portfolios subject to the probability of default/loss given default approach	8 742	831	9 112	866
Market risk	8 395	798	5 745	546
Portfolios subject to the standardised approach	4 241	403	1 846	176
Interest rate risk	3 719	354	1 582	150
Equity position risk	289	27	41	4
Foreign exchange risk	225	21	188	18
Commodities risk	8	1	35	4
Portfolios subject to the internal models approach[3, 4]	4 154	395	3 899	370
Commodities	575	55	1 342	128
Forex	1 056	100	1 332	127
Interest rates	4 081	388	6 347	602
Equities	2 256	214	815	77
Diversification	(3 814)	(362)	(5 937)	(564)
Operational risk				
Portfolios subject to the standardised approach	63 842	6 065	65 252	6 199
Total risk-weighted assets and capital requirement	368 262	34 985	367 839	34 945

[1] Capital requirement at 9,5% excludes bank specific add-ons and capital floor.
[2] Retail other includes retail SMEs, vehicle and asset finance, and term lending exposures.
[3] Instruments on the standardised approach for general market risk relate to low-volume structured products and new products recently traded for which SARB approval to adopt the internal model approach has not been granted. The standardised approach for interest rate risk incorporates all specific risk.
[4] Portfolios subject to the internal models approach are all value-at-risk (VaR)-based portfolios.

Capital adequacy ratios (including unappropriated profits)

	Minimum regulatory requirement %	Target ratio %	2010 %	2009[1] %
Total capital adequacy ratio	9,75	11 – 12	14,9	14,1
Tier I capital adequacy ratio	7,0	9,0	11,5	10,6
Core tier I capital adequacy ratio	5,25		11,5	10,6

[1] Restated.

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Risk and capital management continued

Economic capital

Economic capital is the basis for measuring and reporting all quantifiable risks faced by the group on a consistent risk-adjusted basis. The group assesses its economic capital requirements by measuring the group's risk profile using both internally and externally developed models. Economic capital is used for risk management, capital management, capital planning, capital allocation, evaluation of new business and performance measurement.

ICAAP is the articulation of the capital management processes within the organisation and an internal assessment of the level of economic capital required to be held against all risks the group is or may become exposed to, in order to meet current and future needs. A key component of ICAAP is the assessment of the group's capital adequacy using economic capital. The group has refined its ICAAP over the period under review to incorporate the impact of residual risk, risk concentrations and diversification, and stress tests to ensure that the group is adequately capitalised on an economic basis.

ICAAP was approved by the board, through the RCMC, and forms the basis for discussion with the SARB on the group's risk profile and capital adequacy.

The group's economic capital management framework provides for the governance and the methodology for the quantification of economic capital, and assigns roles and responsibilities for the management and allocation of economic capital across the group.

Economic capital underpins the group's approach to risk and return decisions at a business line, portfolio or transaction level.

The methodologies used to derive the quantification of economic capital continue to evolve. These methodologies are subject to regular reviews to ensure that the economic capital results are a fair reflection of the underlying portfolios and risk drivers that impact the group.

Economic capital is the amount of permanent capital that is required to support the economic risk profile of the group. For potential losses arising from risk types that are statistically quantifiable, economic capital reflects the worst case loss commensurate with the group's target credit rating. The statistically quantifiable risk types are:
- credit risk;
- equity risk in the banking book;
- market risk;
- business risk; and
- interest rate risk in the banking book.

For all other risk types which are not statistically quantifiable the group defaults to the regulatory capital measure, if one exists, for example, the regulatory capital measure for operational risk, or to expert judgement.

The board, through the RCMC, and senior executive management review economic capital results regularly, which facilitates improved risk management across the group.

Economic capital by risk type at end of the year

	2010 Rm	2009 Rm
Credit risk	**18 810**	19 238
Equity risk	**2 595**	924
Market risk	**450**	541
Operational risk	**3 933**	4 137
Business risk	**1 012**	1 074
Interest rate risk in the banking book	**740**	1 344
Economic capital	**27 540**	27 258
Available financial resources	**46 337**	39 788
Capital coverage ratio (times)	**1,68**	1,46

Credit risk represents the largest source of risk to which the group is exposed to and accounts for the majority of total economic capital. Credit risk reduced due to the improvement in risk estimates on a through the cycle basis.

The increase in equity risk is due to the incorporation of additional equity risk buffers.

The decrease in market risk is primarily due to trading desks running comparatively smaller positions as market conditions remained unpredictable and erratic.

Economic capital in respect of operational risk reduced marginally due to the inclusion of lower 2010 gross income figures in calculating the average gross income.

Capital in respect of interest rate risk in the banking book reduced due to the decline in the prime interest rate.

Available financial resources of R46,3 billion cover the minimum economic capital requirement of R27,5 billion by a factor of 1,68 times.

Credit risk

Framework

Credit risk is the group's most material risk. It is managed in accordance with the group's comprehensive risk management control framework. A group credit standard sets out the principles and minimum control requirements under which the group is prepared to assume credit risk. Responsibility for credit risk resides within the group's business units supported by the group risk function, with oversight, as with other risks, by the risk committees and ultimately the board.

Large exposures, as defined by the Banks Act and Regulations relating to Banks, require prior board approval. The SBSA large exposure credit committee is the board subcommittee designated by the board to discharge this responsibility.

Exposure to credit risk

IFRS 7

Maximum exposure to credit risk definitions

For the tables that follow, the definitions below have been used for the different categories of exposures:

Performing loans

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

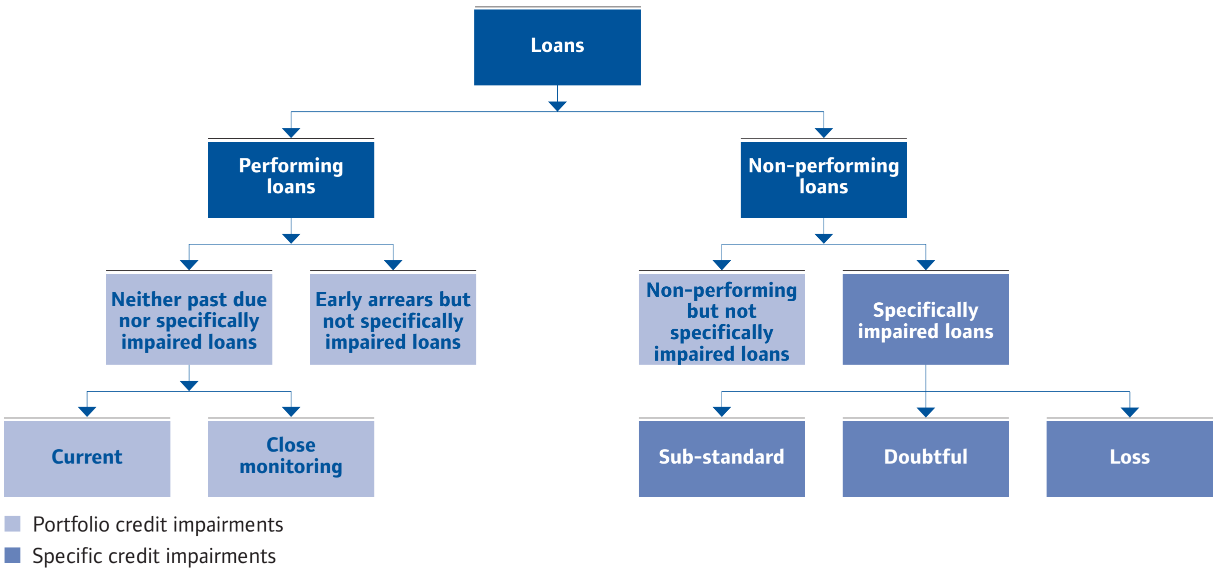
Early arrears but not specifically impaired loans include those loans where the counterparty has failed to make contractual payments and are less than 90 days past due, but it is expected that the full carrying value will be recovered when considering future cash flows, including collateral. Ultimate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

Non-performing loans

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

Non-performing but not specifically impaired loans include loans where the counterparty has failed to make contractual payments and is 90 days or more past due as well as those loans for which the group has identified objective evidence of default, such as a breach of a material loan covenant or condition. These loans are not specifically impaired due to the expected recoverability of the full carrying value when considering future cash flows, including collateral.

Non-performing specifically impaired loans are those loans that are regarded as non-performing and for which there has been a measurable decrease in estimated future cash flows. Specifically impaired loans are further analysed into the following categories:
- *sub-standard items* that show underlying well defined weaknesses and are considered to be specifically impaired;
- *doubtful items* that are not yet considered final losses because of some pending factors that may strengthen the quality of the items; and
- *loss items* that are considered to be uncollectible in whole or in part. The group provides fully for its anticipated loss, after taking securities into account.



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Risk and capital management continued

Maximum exposure to credit risk by credit quality

		Performing loans			
		Neither past due nor specifically impaired		Not specifically impaired	
	Gross loans and advances Rm	Normal monitoring Rm	Close monitoring Rm	Early arrears Rm	Non-performing[1] Rm
2010					
Personal & Business Banking	368 318	298 264	17 465	20 219	
Mortgage loans	262 601	213 434	12 850	11 278	
Instalment sale and finance leases	43 325	37 723	988	2 223	
Card debtors	19 388	14 898	2 686	347	
Other loans and advances	43 004	32 209	941	6 371	
Corporate & Investment Banking	184 397	181 525	49		250
Corporate loans	151 559	149 761	24		24
Commercial property finance	32 838	31 764	25		226
Other services	(2 331)	(2 331)			
Gross loans and advances	550 384	477 458	17 514	20 219	250
Less: impairments for loans and advances	(13 963)				
Net loans and advances	536 421				
Add the following other credit exposures					
Cash and balances with the central bank	18 181				
Derivative assets	105 221				
Financial investments	79 388				
Trading assets	13 825				
Pledged assets	5 934				
Other financial assets	3 386				
Interest in financial instruments of group companies	61 014				
Total on-balance sheet exposure	823 370				
Unrecognised financial instruments					
Letters of credit	3 564				
Financial guarantees	26 637				
Irrevocable unutilised facilities	53 296				
Total exposure to credit risk	906 867				

Audited.

[1] *Includes loans of R196 million that are past due but are not specifically impaired.*

Non-performing loans									
Specifically impaired loans								Total non-performing loans Rm	Non-performing loans %
Sub-standard Rm	Doubtful Rm	Loss Rm	Total Rm	Securities and expected recoveries on specifically impaired loans Rm	Net after securities and expected recoveries on specifically impaired loans Rm	Balance sheet impairments for non-performing specifically impaired loans Rm	Gross specific impairment coverage %		
11 365	17 303	3 702	32 370	23 070	9 300	9 300	29	32 370	8,8
10 584	13 725	730	25 039	20 696	4 343	4 343	17	25 039	9,5
139	753	1 499	2 391	991	1 400	1 400	59	2 391	5,5
174	273	1 010	1 457	350	1 107	1 107	76	1 457	7,5
468	2 552	463	3 483	1 033	2 450	2 450	70	3 483	8,1
288	2 180	105	2 573	2 006	567	567	22	2 823	1,5
8	1 660	82	1 750	1 345	405	405	23	1 774	1,2
280	520	23	823	661	162	162	20	1 049	3,2
11 653	19 483	3 807	34 943	25 076	9 867	9 867	28	35 193	6,4

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Risk and capital management continued

Maximum exposure to credit risk by credit quality continued

		Performing loans			
		Neither past due nor specifically impaired		Not specifically impaired	
	Gross loans and advances Rm	Normal monitoring Rm	Close monitoring Rm	Early arrears Rm	Non-performing[1] Rm
2009[2]					
Personal & Business Banking	357 535	287 371	14 041	22 222	
Mortgage loans	249 520	202 692	9 513	11 589	
Instalment sale and finance leases	47 299	39 577	875	3 667	
Card debtors	20 316	15 435	2 721	442	
Other loans and advances	40 400	29 667	932	6 524	
Corporate & Investment Banking	185 520	181 110	1 837	330	514
Corporate loans	155 685	153 783	1 129		74
Commercial property finance	29 835	27 327	708	330	440
Other services	(1 905)	(1 905)			
Gross loans and advances	541 150	466 576	15 878	22 552	514
Less: impairments for loans and advances	(15 450)				
Net loans and advances	525 700				
Add the following other credit exposures					
Cash and balances with the central bank	14 470				
Derivative assets	76 501				
Financial investments	62 008				
Trading assets	20 802				
Pledged assets	1 057				
Other financial assets	2 581				
Interest in financial instruments of group companies	76 325				
Total on-balance sheet exposure	779 444				
Unrecognised financial instruments					
Letters of credit	4 052				
Financial guarantees	23 977				
Irrevocable unutilised facilities	44 714				
Total exposure to credit risk	852 187				

Audited.

[1] *Includes loans of R107 million that are past due but are not specifically impaired.*

[2] *Restated.*

Non-performing loans									
Specifically impaired loans									
Sub-standard Rm	Doubtful Rm	Loss Rm	Total Rm	Securities and expected recoveries on specifically impaired loans Rm	Net after securities and expected recoveries on specifically impaired loans Rm	Balance sheet impairments for non-performing specifically impaired loans Rm	Gross specific impairment coverage %	Total non-performing loans Rm	Non-performing loans %
15 598	14 160	4 143	33 901	24 044	9 857	9 857	29	33 901	9,5
14 577	10 328	821	25 726	21 087	4 639	4 639	18	25 726	10,3
324	1 036	1 820	3 180	1 483	1 697	1 697	53	3 180	6,7
244	409	1 065	1 718	443	1 275	1 275	74	1 718	8,5
453	2 387	437	3 277	1 031	2 246	2 246	69	3 277	8,1
141	1 509	79	1 729	947	782	782	45	2 243	1,2
116	504	79	699	282	417	417	60	773	0,5
25	1 005		1 030	665	365	365	35	1 470	4,9
15 739	15 669	4 222	35 630	24 991	10 639	10 639	30	36 144	6,7

Risk and capital management continued

Ageing of group loans and advances past due but not specifically impaired

	Less than 31 days Rm	31 – 60 days Rm	61 – 90 days Rm	91 – 180 days Rm	Total Rm
2010					
Personal & Business Banking	**15 279**	**3 131**	**1 809**		**20 219**
Mortgage loans	**7 712**	**2 204**	**1 362**		**11 278**
Instalment sale and finance leases	**1 634**	**418**	**171**		**2 223**
Card debtors		**226**	**121**		**347**
Other loans and advances	**5 933**	**283**	**155**		**6 371**
Corporate & Investment Banking[1]				**196**	**196**
Total	**15 279**	**3 131**	**1 809**	**196**	**20 415**
2009[2]					
Personal & Business Banking	15 623	4 243	2 356		22 222
Mortgage loans	7 135	2 787	1 667		11 589
Instalment sale and finance leases	2 530	793	344		3 667
Card debtors		293	149		442
Other loans and advances	5 958	370	196		6 524
Corporate & Investment Banking[1]	214	113	3	107	437
Total	15 837	4 356	2 359	107	22 659

Audited.
[1] *Relates to exposures from commercial property finance.*
[2] *Restated.*

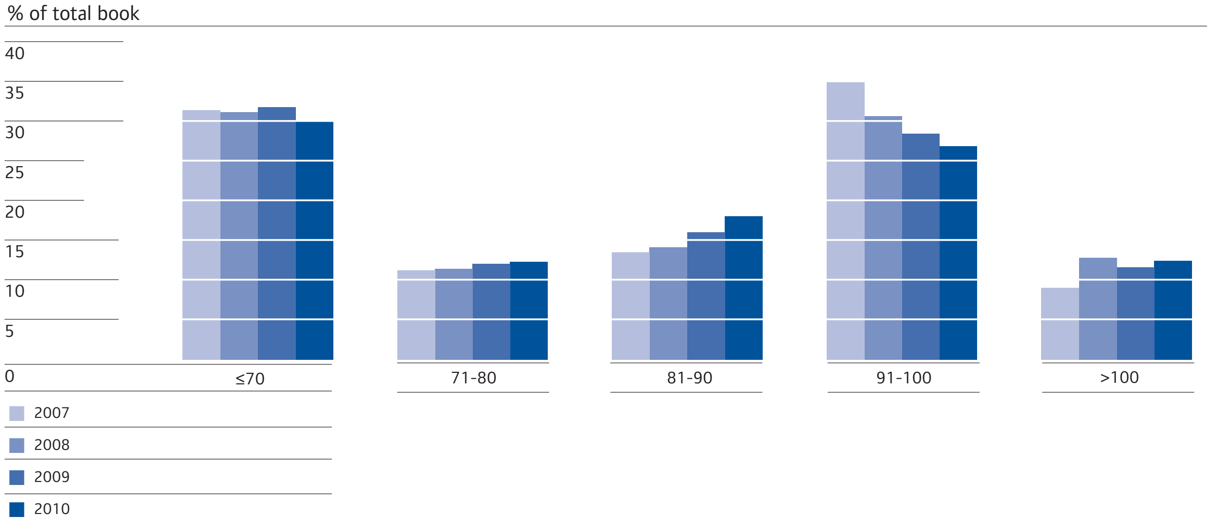
Renegotiated loans and advances (audited)
Renegotiated loans and advances are exposures which have been refinanced, rescheduled, rolled over or otherwise modified because of weaknesses in the counterparty's financial position, and where it has been judged that normal repayment will likely continue after the restructure. Renegotiated loans that would otherwise be past due or impaired totalled R6,9 billion in 2010 (2009: R7,3 billion). Renegotiated loans that have arisen from secured lending comprise 81% (2009: 69%) of renegotiated loans and predominantly relate to mortgage advances.

Collateral obtained by the group (audited)
It is the group's policy to dispose of repossessed assets in an orderly manner. The proceeds are used to reduce or repay the outstanding claim. Generally, the group does not use repossessed assets for business purposes. The collateral held by the group for 2010 was R607 million (2009: R460 million) and predominantly related to properties in possession.

Analysis of the group's residential mortgage portfolio loan-to-value (LTV) ratios

The loan-to-value ratios of the group's residential mortgage advances portfolio are set out in the charts below. The distributions are based on the loan balance as a function of the property value.

Average portfolio LTV



The major factor contributing to the shift in the LTV distribution towards the lower levels was the impact of a maturing portfolio. As a result of the slowing down in new business being written, the average age of the portfolio increased. This in turn resulted in an increase in equity and thus lower average portfolio LTVs. There was a definite consumer trend to minimise debt exposure and this carried to the home loan portfolio.

2010 saw the trend of substantial deposits continue from 2009 as banks continue to remain cautious with regard to lending.

As the economy improves, there will be a shift to more business being written with lower or no deposits, although the approach will be conservative.

Average portfolio LTV

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Risk and capital management continued

Securitisation

The group has used securitisation primarily as part of its funding strategy for its South African operations to provide added flexibility in mitigating structural liquidity risk and diversifying the funding base. Credit risk transfer and capital relief are factored in when deciding the economic merits of each new securitisation issue.

The group has entered into securitisation transactions in the normal course of business in which it transferred recognised financial assets directly to third parties or SPEs. The group complies with International Financial Reporting Standards (IFRS) in recognising and accounting for securitisation transactions. SPEs are consolidated into the group when required by IFRS.

In accordance with IAS 39 *Financial Instruments: Recognition and Measurement* (IAS 39), no gain or loss on sale is recognised as these assets are sold at carrying value. Securitised assets are derecognised when required to reflect the element of risk and reward transfer.

For local securitisations in South Africa, Moody's Investor Services and/or Fitch were appointed as rating agencies.

The group fulfils a number of roles in the process of securitising assets including, among others, sponsor, hedge counterparty, commercial paper dealer, liquidity facility provider of asset-backed commercial paper conduits, subordinated lender and calculation agent.

The credit granting, monitoring and debt management processes followed for securitised assets are the same as for similar assets in the group. Performing loans, non-performing loans and related provisions are included in the group's results.

The group did not use securitisations as an alternative source of funding in 2009 due to the severe contraction in local and international securitisation markets. However, Blue Granite Investment No. 1 was re-financed in November 2010 and the South African securitisation market showed good signs of recovery in the last quarter of 2010.

In respect of instalment sale securitisation vehicles, Accelerator Fund 2 exercised its clean-up call option during June 2010 in accordance with the transaction documents and the securitisation regulations promulgated under the Banks Act, 1990. All note holders and the subordinated lender were repaid in full, which amounted to R260 million.

Country risk

The management of country risk is delegated to the SBG country risk management committee. This committee recommends cross-border country risk appetite for individual countries and ensures, through compliance with the country risk standard, that cross-border country risk obligations are effectively governed, identified, measured, managed, controlled and reported in the group.

An internal rating model is used to determine the rating of each country in which the group has an exposure. These ratings are also a key input into the group's counterparty credit rating models. The model inputs are continuously updated to reflect economic and political changes in countries. The country risk model output provides an internal risk grade which is calibrated to a 1 to 25 rating scale (CR01 to CR25). All countries to which the group is exposed are reviewed at least annually. In determining ratings, extensive use is made of the group's network of operations, country visits and external information sources.

The country risk function also rates sovereigns. Sovereign ratings are distinct from country risk in that they focus on sovereign counterparty creditworthiness, whereas country risk ratings provide a more holistic view, covering transfer and convertibility risk, economic (or credit portfolio risk), as well as sovereign risk. As with country risk ratings, an internal rating model is used to determine sovereign ratings. The sovereign model is an extension of the country model and provides an internal risk grade which is calibrated to a 1 to 25 rating scale. Sovereign risk reviews occur in tandem with country reviews, with the research process underpinning sovereign reviews comparable with the country risk process.

Countries rated CR08 and higher, referred to as medium- and high-risk countries, are subject to increased central monitoring. For countries with an internal risk grade of CR07 and better, referred to as low-risk countries, a lesser degree of analysis is generally performed.

Country risk is mitigated through a number of methods including:

- political and commercial risk insurance;
- co-financing with multilateral institutions;
- structures to mitigate transferability and convertibility risk such as collection, collateral and margining deposits outside the jurisdiction in question; and
- other loan conditions and covenants linked to country risk events.

Liquidity risk

Introduction

The nature of banking and trading results in continuous exposure to liquidity risk. The group's liquidity management framework, which is largely unchanged from the previous financial reporting period, is designed to measure and manage liquidity positions ensuring that payment obligations can be met at all times, under both normal and considerably stressed conditions.

Framework

SBG GROC and the board review and set the liquidity risk standard annually in accordance with regulatory requirements and international best practice. This ensures that a comprehensive and consistent governance framework for liquidity risk management is followed across the group. The SBG asset and liability committee (ALCO) is responsible for ensuring compliance with liquidity risk policies.

Liquidity and funding management

The group manages liquidity in accordance with applicable regulations and international best practice.

As part of a comprehensive liquidity management process, the group distinguishes between tactical, structural and contingency liquidity risk. The primary components are detailed on the pages that follow.

The liquidity management process is monitored by SBG ALCO. There are regular independent reviews of the liquidity management process.

In periods of stable market conditions, the group's consolidated liquidity risk position is monitored on at least a monthly basis by SBG ALCO. In periods of increased volatility, the frequency of meetings is increased as required to facilitate appropriate and timely management action.

Liquidity risk management

Tactical (shorter-term) liquidity risk management includes:	Structural (longer-term) liquidity risk management includes:	Contingency liquidity risk management includes:
– managing intra-day liquidity positions; – monitoring interbank and repo shortage levels; – monitoring daily cash flow requirements; – managing short-term cash flows; – managing daily foreign currency liquidity; and – setting deposit rates in accordance with structural and contingent liquidity requirements as informed by SBG ALCO.	– ensuring a structurally sound balance sheet; – identifying structural liquidity mismatches; – determining and applying behavioural profiling; – managing long-term cash flows; – preserving a diversified funding base; – informing term funding requirements; – assessing foreign currency liquidity exposures; – establishing liquidity risk appetite; – ensuring appropriate transfer pricing of liquidity costs; and – determining appropriate levels of standby liquidity facilities applicable to conduits.	– monitoring and managing liquidity early warning indicators; – establishing and maintaining contingency funding plans; – undertaking regular liquidity stress testing and scenario analysis; – if needed, convening liquidity crisis management committees; – informing liquidity buffer levels in accordance with anticipated stress events; and – advising on diversification of liquidity buffer portfolios.

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Risk and capital management continued

Tactical liquidity risk management

Cash flow management

Active liquidity and funding management is an integrated effort across a number of functional areas. Short-term cash flow projections are used to plan for and meet the day-to-day requirements of the business, including adherence to prudential and internal requirements.

The group's wholesale funding strategy is derived from the projected net asset growth which includes consideration of Personal & Business Banking and Corporate & Investment Banking asset classes, capital requirements, the maturity profile of existing wholesale funding and anticipated changes in the retail deposit base. Funding requirements and initiatives are assessed in accordance with SBG ALCO requirements for diversification, tenure and currency exposure, as well as the availability and pricing of alternative liquidity sources.

An active presence is maintained in professional markets, supported by relationship management efforts among corporate and institutional clients.

Structural liquidity risk management

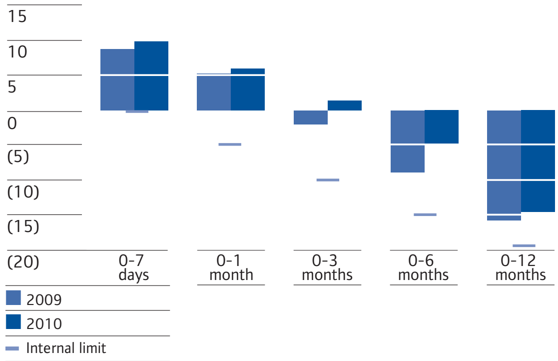
Structural requirements

With actual cash flows typically varying significantly from the contractual position, behavioural profiling is applied to assets, liabilities and off-balance sheet commitments with an indeterminable maturity or drawdown period, as well as to certain liquid assets. Behavioural profiling assigns probable maturities based on actual customer behaviour. This is used to identify significant additional sources of structural liquidity in the form of liquid assets and core deposits, such as current and savings accounts that exhibit stable behaviour even though these are repayable on demand or at short notice.

The graph alongside shows the group's cumulative maturity mismatch between assets and liabilities for the 0 to 12 months bucket, after applying behavioural profiling. Limits are set internally to restrict the cumulative liquidity mismatch between expected inflows and outflows of funds in different time buckets. These mismatches are monitored on a regular basis with active management intervention if potential limit breaches are evidenced. Comparing the 2009 to the 2010 position, it is evident that the structural mismatch has remained relatively static and is comfortably within the stated mismatch risk appetite.

Behaviourally adjusted cumulative liquidity mismatch

% of funding-related liabilities



Maturity analysis of financial liabilities by contractual maturity (audited)

The table on the next page analyses cash flows on a contractual, undiscounted basis based on the earliest date on which the group can be required to pay (except for trading liabilities and trading derivatives) and will therefore not agree directly to the balances disclosed in the consolidated statement of financial position.

Derivative liabilities are included in the maturity analysis on a contractual, undiscounted basis when contractual maturities are essential for an understanding of the derivatives' future cash flows. Management consider only contractual maturities to be essential for understanding the future cash flows of derivative liabilities that are designated as hedging instruments in effective hedge accounting relationships. All other derivative liabilities are treated as trading and are included at fair value in the 'redeemable on demand' bucket since these positions are typically held for short periods of time.

The table on the next page also includes contractual cash flows with respect to off-balance sheet items which have not yet been recorded on-balance sheet. Where cash flows are exchanged simultaneously, the net amounts have been reflected.

Maturity analysis of financial liabilities by contractual maturity

	Redeemable on demand Rm	Maturing within 1 month Rm	Maturing between 1 – 6 months Rm	Maturing between 6 – 12 months Rm	Maturing after 12 months Rm	Total Rm
2010						
Financial liabilities						
Derivative financial instruments	**100 360**	**3**	**196**	**446**	**1 641**	**102 646**
Instruments settled on a net basis	**64 352**	**3**	**11**	**18**	**872**	**65 256**
Instruments settled on a gross basis	**36 008**		**185**	**428**	**769**	**37 390**
Trading liabilities	**9 031**					**9 031**
Deposits from customers and banks	**302 361**	**41 829**	**95 558**	**70 342**	**113 512**	**623 602**
Subordinated debt			**542**	**620**	**19 055**	**20 217**
Other		**6 541**				**6 541**
Total	**411 752**	**48 373**	**96 296**	**71 408**	**134 208**	**762 037**
Unrecognised financial instruments						
Letters of credit	**3 564**					**3 564**
Financial guarantees	**26 637**					**26 637**
Irrevocable unutilised facilities	**53 296**					**53 296**
Total	**83 497**					**83 497**
2009[1]						
Financial liabilities						
Derivative financial instruments	75 167		26	3		75 196
Instruments settled on a net basis	60 633		26	3		60 662
Instruments settled on a gross basis	14 534					14 534
Trading liabilities	16 707					16 707
Deposits from customers and banks	283 511	36 428	102 082	67 271	115 982	605 274
Subordinated debt			639	639	20 588	21 866
Other		6 036				6 036
Total	375 385	42 464	102 747	67 913	136 570	725 079
Unrecognised financial instruments						
Letters of credit	4 052					4 052
Financial guarantees	23 977					23 977
Irrevocable unutilised facilities	44 714					44 714
Total	72 743					72 743

Audited.
Please refer to the annual financial statements for maturities of assets.
[1] *Restated.*

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Risk and capital management continued

Foreign currency liquidity management

A number of parameters are observed to monitor changes in either market liquidity or exchange rates. Key to this is the restriction of foreign currency loans and advances in relation to the availability of foreign currency deposits.

Funding strategy

Funding markets are evaluated on an ongoing basis to ensure the appropriate group funding strategies are executed depending on the market, competitive and regulatory environment. The group employs a diversified funding strategy, sourcing liquidity in both domestic and offshore markets, and incorporates a coordinated approach to accessing capital and loan markets across the group.

Concentration risk limits are used within the group to ensure that funding diversification is maintained across products, sectors, geographic regions and counterparties.

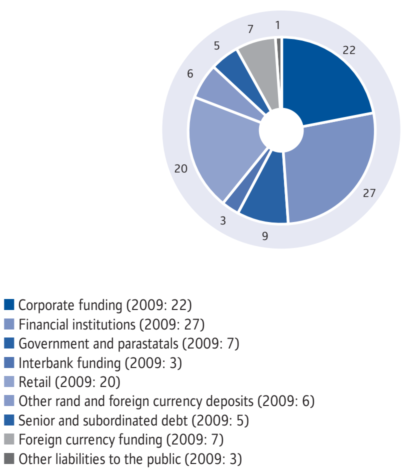
Depositor concentration – South Africa

	2010 %	2009 %
Single depositor	2,4	1,8
Top ten depositors	10,8	8,5

Primary funding sources are in the form of deposits across a spectrum of retail and wholesale clients, as well as long-term capital and loan markets. The group remains committed to increasing its core deposits and accessing domestic and foreign capital markets when appropriate to meet its anticipated funding requirements.

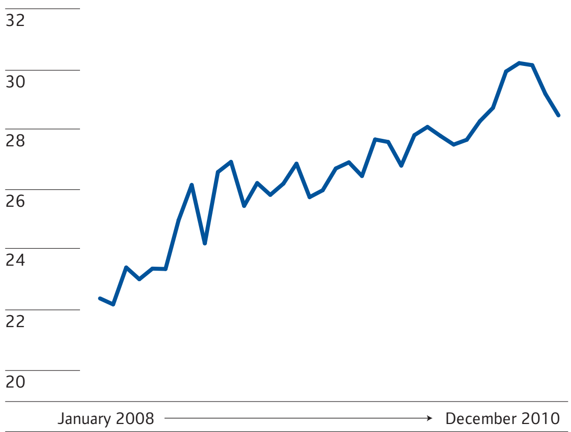
A component of the funding strategy is to ensure sufficient contractual term funding is raised in support of term lending and to ensure adherence to the structural mismatch limits and guidelines. The long-term funding ratio is defined as those funding-related liabilities with a remaining maturity of greater than six months as a percentage of total funding-related liabilities.

SBSA funding-related liabilities composition
%



The graph below illustrates the group's long-term funding ratio for the period 1 January 2008 to 31 December 2010. The increase in the ratio is attributable to the increased percentage of term funding in local markets in expectation of growing term lending portfolios.

Long-term funding ratio
%



Contingency liquidity risk management

Contingency funding plans

Contingency funding plans are designed, as far as possible, to protect stakeholder interests and maintain market confidence to ensure a positive outcome in the event of a liquidity crisis. The plans incorporate an extensive early warning indicator methodology supported by clear and decisive crisis response strategies. Early warning indicators cover bank-specific and systemic crises and are monitored according to assigned frequencies and tolerance levels. Crisis response strategies are formulated for the relevant crisis management structures and address internal and external communications, liquidity generation and operations, as well as heightened and supplementary information requirements.

Funding-related liabilities composition

	2010 Rbn	2009 Rbn
Corporate funding	142	136
Financial institutions	171	167
Government and parastatals	60	46
Interbank funding	17	17
Retail deposits	124	120
Other rand and foreign currency deposits	38	38
Senior and subordinated debt	32	29
Foreign currency funding	45	43
Other liabilities to the public	8	18
Total liabilities	**637**	**614**

Liquidity stress testing and scenario analysis

Stress testing and scenario analysis are based on hypothetical as well as historical events. The crisis impact is typically measured over a two-month period, as this is considered the most crucial time span for a liquidity event. This may, however, vary depending on the severity of the stress scenario. Anticipated on- and off-balance sheet cash flows are subjected to a variety of bank-specific and systemic stresses and scenarios to evaluate the impact of unlikely but plausible events on liquidity positions. Under each scenario, loan portfolios are assumed to roll over; however, the roll over of liabilities will be partially impaired resulting in a funding shortfall. These scenarios are then assessed against the liquidity buffer and contingency funding plan to provide assurance as to the group's ability to generate sufficient liquidity under adverse conditions and also provides meaningful input in defining target liquidity risk positions.

Liquidity buffer

Portfolios of highly marketable securities over and above prudential requirements are maintained as protection against unforeseen disruptions in cash flows. These portfolios are managed within SBG ALCO-defined limits on the basis of diversification and liquidity.

The table below provides a breakdown of the group's surplus marketable securities and foreign currency placements in 2010 compared to 2009. These portfolios are highly liquid and can be readily sold to meet liquidity requirements.

Unencumbered surplus liquidity

	2010 Rbn	2009 Rbn
Marketable assets	27,3	19,7
Short-term foreign currency placements	33,6	39,3
Total unencumbered marketable assets	**60,9**	59,0
Other readily accessible liquidity	5,6	6,2
Total group unencumbered surplus liquidity	**66,5**	65,2

Audited.

In addition to minimum requirements, surplus liquidity holdings are informed by the results from liquidity stress testing as per Basel II principles and, in certain instances, in-country regulations. Unencumbered surplus liquidity increased to R66,5 billion in 2010 (2009: R65,2 billion). The level reflects the group's continued prudent liquidity management approach as informed by stress-testing requirements and prevailing market conditions.

Credit ratings

The group's ability to access funding at cost-effective levels is dependent on maintaining or improving the borrowing entity's credit rating. A reduction in these ratings could have an adverse effect on the group's access to liquidity sources and funding costs, trigger collateral calls through the reduction of the threshold above which the group's negative mark-to-market must be collateralised, or lead to activation of downgrade clauses associated with certain structured deposits.

Credit ratings are dependent on multiple factors including capital adequacy levels, quality of earnings, credit exposure, risk management framework and funding diversification. These parameters and their possible impact on the borrowing entity's credit rating are monitored closely and incorporated in the group's liquidity risk management and contingency planning considerations.

Rating downgrades as a collateralisation or termination event are generally conceded only to highly-rated counterparties and, whenever possible, on a bilateral reciprocal basis. In exceptional cases, the group might concede such rating downgrades to unrated counterparties when their size, credit strength and business potential are deemed acceptable.

Conduits

The group provides standby liquidity facilities to two conduits, namely Blue Titanium Conduit and Thekwini Warehouse Conduit. These facilities, which totalled R7,9 billion as at 31 December 2010 (31 December 2009: R8,4 billion) have not been drawn on.

The liquidity risk associated with these facilities is managed in accordance with the group's overall liquidity position and represents less than 2% of SBSA's total funding. The liquidity facilities are included in both the group's static structural liquidity mismatch, which is managed against SBG ALCO-imposed limits and guidelines, as well as in dynamic liquidity risk stress testing.

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Risk and capital management continued

Market risk

Introduction

The identification, management, control, measurement and reporting of market risk, which is consistent with the previous financial reporting period, has been categorised as follows:

Trading book market risk

These risks arise in trading activities where the primary focus of the group's trading activities is client facilitation. The group's policy is that all trading activities are contained in the group's Corporate & Investment Banking trading operations built around clients in chosen markets, including market making, arbitrage and proprietary trading, with proprietary trading constituting a small proportion of trading revenues.

Interest rate risk in the banking book

These risks arise from the structural interest rate risk caused by the differing repricing characteristics of banking assets and liabilities primarily related to endowment risk, repricing risk, basis risk, optionality risk and yield curve risk.

Equity investments

These risks arise from equity price changes in listed and unlisted investments, which are approved by the appropriate equity governance committees across the group.

Foreign currency risk

The group's primary exposures to foreign currency risk arise as a result of the translation effect on the group's net assets in foreign operations, intra-group foreign denominated debt and foreign denominated cash exposures.

Framework and governance

The board grants general authority to take on market risk exposure to SBG GROC, which delegates this authority to SBG ALCO. SBG ALCO sets the market risk standard which is approved by the RCMC to ensure that the measurement, reporting, monitoring and management of market risk across the group follows a common governance framework.

Market risk management units, independent of trading operations and accountable to business unit ALCOs, monitor market risk exposures due to trading and banking activities. These market risk management units in each business are responsible for the identification, measurement, management, control and reporting of market risk as outlined in the SBG market risk standard with support from the group market risk team.

Exposures and excesses are monitored and reported daily to business unit and group line management, and reported monthly to the business unit ALCOs and quarterly to the SBG ALCO, SBG GROC and the RCMC. Where breaches in limits and triggers occur, actions are taken by market risk management units to hedge exposures back in line with approved market risk appetite with such breaches being reported to management and SBG ALCO.

Market risk measurement

The techniques used to measure and control market risk include:

- VaR;
- stress tests;
- sensitivity analysis;
- other market risk mitigants;
- annual net interest income at risk;
- economic value of equity; and
- economic capital.

Daily VaR (audited)

The group uses the historical VaR simulation approach to derive quantitative measures, specifically for market risk under normal conditions. Normal VaR is based on 251 days of unweighted historical data, a holding period of one day and a confidence interval of 95%. The historical VaR results are computed in three components:

- Calculate hypothetical daily profit and loss for each position using observed market price movements based on 251 days of market data.
- Aggregate all hypothetical profit or losses for day one across all positions, giving one total profit or loss. Repeat for all other 249 days.
- VaR is the 95th percentile selected from the 250 days of daily hypothetical total profit or loss.

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

VaR models have been approved by the regulators for all South African trading units except for the structured product desk and specific risk on interest rates. Where the bank has received internal model approval, a VaR using a confidence level of 99% is used to determine market risk regulatory capital.

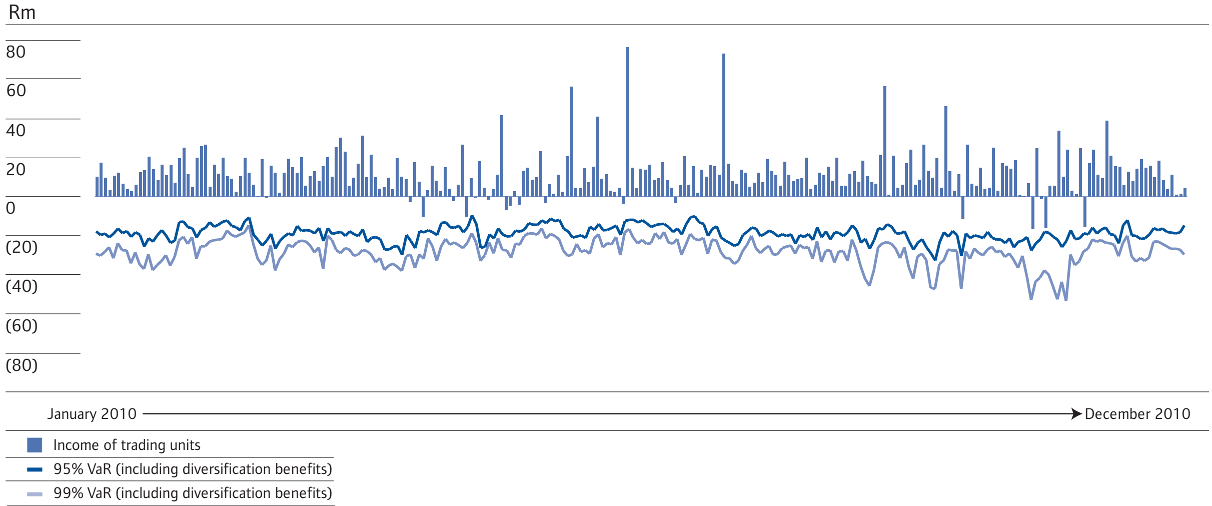
The use of historic VaR has limitations as it is based on historical correlations and volatilities in market prices and assumes that future prices will follow the observed historical distribution.

Although VaR is a valuable guide to risk, it should always be viewed in the context of its limitations.

These limitations include:

- The use of historical data as a proxy for estimating future events may not encompass all potential events, particularly those which are extreme in nature.
- The use of a one-day holding period assumes that all positions can be liquidated or the risk offset in one day. This may not fully reflect the market risk arising at times of severe illiquidity, when a one-day holding period may be insufficient to liquidate or hedge all positions fully.
- The use of a 95% confidence level, by definition, does not take into account losses that might occur beyond this level of confidence.
- VaR is calculated on the basis of exposures outstanding at the close of business and therefore does not necessarily reflect intra-day exposures.
- VaR is unlikely to reflect loss potential on exposures that only arise under significant market moves.

Income of trading units and VaR



Stress tests

VaR is supplemented by stress testing. This provides an indication of the potential losses that could occur under extreme market conditions and where longer holding periods may be required to exit positions. The stress tests carried out by the group include individual market risk factor testing and combinations of market factors per trading desk and combinations of trading desks. Stress tests include a combination of historical, hypothetical and Monte Carlo-type simulations and provide management with an assessment of the financial impact such events would have on the group's profit. The daily losses experienced during 2010 were within the stress loss scenarios.

Back-testing

The group back-tests its VaR models to verify the predictive ability of the VaR calculations and ensure the appropriateness of the models. Back-testing compares the daily hypothetical profit and losses under the one-day buy and hold assumption to the prior day's VaR. In addition, back-testing is conducted using various methods, including testing VaR against hypothetical losses, and testing VaR by changing various parameters, such as confidence intervals and observation periods used in the model.

In this manner, characteristics of the VaR model are captured to ensure the accuracy and appropriateness of the VaR measurement, and the effectiveness of hedges and risk-mitigation instruments. Regulators categorise a VaR model as green, amber or red. A green model is consistent with a good working VaR model and is achieved for models that have four or less back-testing exceptions in a twelve-month period. Standard Bank's approved models were categorised as green throughout 2010.

Market risk mitigants

Other market risk mitigants specific to individual business units include permissible instruments, concentration of exposures, gap limits, maximum tenure and stop-loss triggers. In addition, only approved products that can be independently priced and properly processed are permitted to be traded. All VaR limits require prior approval from SBG ALCO.

The market risk departments independently validate and document new pricing models and perform an annual review of existing models to ensure they are still relevant and behaving within expectations.

Annual net interest income at risk

A dynamic forward-looking annual net interest income forecast is used to quantify the group's anticipated interest rate exposure. This approach involves forecasting of the changing statement of financial position structures and interest rate scenarios, to determine the effect that these changes may have on future earnings. The analysis is completed under normal and stressed market conditions.

Economic value of equity

By capturing all expected future cash flows, economic value of equity is the preferred measure for determining long-term sensitivity to interest rate changes. However, the cash flows of certain asset and liability classes, in particular those associated with an ambiguous maturity behaviour, are highly dependent on the underlying assumptions. To reduce the margin for error, the sensitivity of equity is calculated as the expected change in net interest income over a five-year horizon, given a considered rate shock, and is stated in present value terms.

Economic capital

Economic capital methodologies are used to calculate all categories of market risk sensitive capital allocations and are used to determine each business's capital charge.

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Risk and capital management continued

Trading book market risk positions

In line with the strategy and structure of the group, trading book market risk exposures arise mainly from client transactions with limited trading for the group's own account. The table below shows the aggregated historical VaR for the group's trading positions by market variable with details of products traded in these categories specified in note 4 to the financial statements on page 94. The maximum and minimum VaR amounts show the bands in which the values at risk fluctuated during the years specified.

In general, the group's trading desks have been running relatively lower levels of market risk throughout 2010. In particular, the debt securities asset class has reduced overall exposures in response to adverse market conditions. The exception is the equities trading area where a combination of increased trading activity and rising equity prices have resulted in a higher average VaR than in the previous year.

In 2011, the principal uncertainties which may impact the group's banking operations' market risk relate to volatility in interest rates, commodities, credit spreads, equity prices and foreign exchange rates.

Trading book VaR analysis by market variable

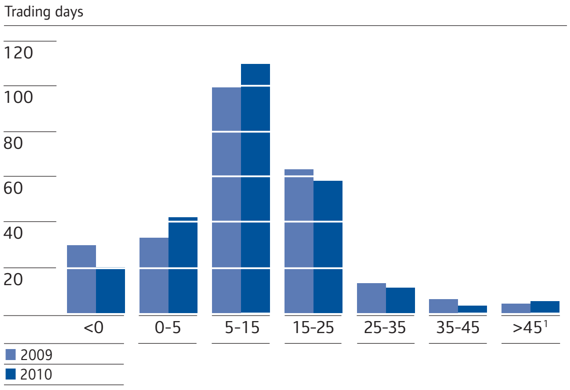
	Normal VaR			
	Maximum[1] Rm	Minimum[1] Rm	Average Rm	Closing Rm
2010				
Commodities	**3,4**	**1,0**	**1,9**	**2,4**
Forex	**16,3**	**3,5**	**7,4**	**3,8**
Equities	**14,8**	**0,1**	**6,4**	**8,6**
Debt securities	**44,9**	**20,9**	**31,1**	**21,0**
Diversification benefits[2]			**(14,6)**	**(10,3)**
Aggregate	**45,9**	**21,6**	**32,3**	**25,5**
2009				
Commodities	8,8	2,4	4,4	2,8
Forex	17,0	1,3	7,0	8,8
Equities	15,8	0,1	4,1	3,9
Debt securities	58,9	26,7	40,8	37,9
Diversification benefits			(16,5)	(13,5)
Aggregate	65,5	22,1	39,8	39,9

Audited.

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

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

Distribution of daily trading profit and loss



[1] *Daily trading revenue (Rm)*

Analysis of trading revenue

The graph above shows the distribution of daily income and losses in 2009 and 2010. It captures trading volatility and shows the number of days in which the group's trading-related revenues fell within particular ranges. The distribution is skewed favourably to the profit side with no material negative outliers. In 2010 there were 231 profit days out of a possible 251 days (2009: 219 profit days out of 250 days).

Interest rate risk in the banking book

Introduction

Banking book-related market risk exposure principally involves managing the potential adverse effect of interest rate movements on net interest income and the economic value of equity.

Framework

The group's approach to managing interest rate risk is governed by the applicable laws and regulations, and is guided by international best practice and the competitive environment in which the group operates. Banking book interest rate risk is managed centrally by SBG's TCM division with oversight by SBG's ALCO.

Interest rate risk measurement

The analytical techniques used to quantify banking book interest rate risk include both earnings and valuation-based measures. Results are monitored on at least a monthly basis by ALCO. The analysis takes cognisance of embedded optionality such as loan prepayments and accounts where the account behaviour differs from the contractual position.

The results obtained from forward-looking dynamic scenario analyses, as well as Monte Carlo simulations, assist in developing optimal hedging strategies on a risk-adjusted return basis. Desired changes to a particular interest rate risk profile are achieved through the restructuring of on-balance sheet repricing and/or maturity profiles and, where appropriate, the use of derivative instruments.

Interest rate risk limits

Interest rate risk limits are set with respect to changes in forecasted net interest income and the economic value of equity. Economic value of equity sensitivity is calculated as the net present value of aggregate asset cash flows less the net present value of aggregate liability cash flows.

Repricing gap

The repricing gaps for the group's non-trading portfolios before tax are shown in the table below.

All assets, liabilities and derivative instruments are allocated to gap intervals based on either their repricing or maturity characteristics. Assets and liabilities for which no identifiable contractual repricing or maturity dates exist are allocated to gap intervals based on management's judgement and statistical analysis.

Interest rate sensitivity gap

		0 – 3 months	3 – 6 months	6 – 12 months	> 12 months
2010					
Interest rate sensitivity gap	Rm	**35 823**	**(1 203)**	**(630)**	**(33 990)**
Cumulative interest rate sensitivity gap	Rm	**35 823**	**34 620**	**33 990**	
Cumulative interest rate sensitivity gap as a percentage of total assets	%	**4,3**	**4,1**	**4,0**	
2009					
Interest rate sensitivity gap	Rm	32 784	560	7 520	(40 864)
Cumulative interest rate sensitivity gap	Rm	32 784	33 344	40 864	
Cumulative interest rate sensitivity gap as a percentage of total assets	%	4,1	4,2	5,2	

Risk and capital management continued

Hedging of the endowment risk

Interest rate risk in the banking book is predominantly the consequence of endowment exposures, being the net effect of non-rate sensitive assets less non-rate sensitive liabilities and equity. The endowment risk emanating from the anticipated turn in the economic cycle is hedged as and when it is considered opportune, using derivative instruments such as swaps and interest rate swaptions. During the recent rate cutting cycle experienced in South Africa, SBG ALCO regularly reviewed exposure and hedging opportunities. With the general market consensus on further rate cuts priced in, limited profitable hedging opportunities were evident.

Hedging strategies also factor in the partial offset of the endowment exposure by an improvement in the credit cycle. Outside the endowment exposure, all other banking book interest rate risk (basis, repricing, optionality and yield curve) was managed within the global markets portfolio. While net interest income has been negatively impacted by the recent downturn in rates, the group is well positioned for a rate-tightening cycle.

Group risk diversification

The group risk diversification benefit, which takes into account the fact that interest rate changes across currencies are unlikely to be perfectly correlated, is calculated quarterly. This consolidated view is used to obtain a strategic view of the group.

Analysis of banking book interest rate sensitivity (audited)

The table below indicates the rand equivalent sensitivity of the group's net interest income and equity in response to a parallel yield curve shock, before tax. Hedging transactions are taken into account while other variables are kept constant.

Assuming no management intervention, a downward 100 basis points parallel interest rate shock across all yield curves would decrease the forecast 12-month net interest income on 31 December 2010 by R830 million (31 December 2009: R772 million).

Interest rate sensitivity analysis

		Rand	US dollar	Sterling	Euro	Other	Total
2010							
Increase in basis points		**200**	**100**	**100**	**100**	**100**	
Sensitivity of annual net interest income	Rm	**1 568**	**13**	**(1)**	**(1)**		**1 579**
Sensitivity of equity	Rm	**184**	**(29)**				**155**
Decrease in basis points		**200**	**100**	**100**	**100**	**100**	
Sensitivity of annual net interest income	Rm	**(1 638)**	**(13)**	**1**	**1**		**(1 649)**
Sensitivity of equity	Rm	**(184)**	**29**				**(155)**
2009							
Increase in basis points		200	100	100	100	100	
Sensitivity of annual net interest income	Rm	1 463	5	(1)	2		1 469
Sensitivity of equity	Rm	159	(65)				94
Decrease in basis points		200	100	100	100	100	
Sensitivity of annual net interest income	Rm	(1 532)	(5)	1	(2)		(1 538)
Sensitivity of equity	Rm	(159)	65				(94)

Audited.

Equity investments

Market risk on equity investments

Corporate & Investment Banking's equity investment committees and Personal & Business Banking's strategic investment and alliance committee approve investments in listed and unlisted entities, in accordance with delegated authority limits. Periodic reviews and reassessments are undertaken on the performance of the investments. Accounting techniques and valuation methodologies are detailed in accounting policy 4 – *Financial instruments* on page 167.

Equity price risk sensitivity analysis

The table below illustrates the market risk sensitivity for all non-trading equity investments assuming a 10% shift in the fair value. The analysis is shown before tax.

Market risk sensitivity of non-trading equity investments

	10% reduction Rm	Fair value Rm	10% increase Rm
2010			
Equity securities listed and unlisted	**2 537**	**2 819**	**3 101**
Impact on profit or loss	**(265)**		**265**
Impact on equity	**(17)**		**17**
2009			
Equity securities listed and unlisted	2 568	2 853	3 138
Impact on profit or loss	(282)		282
Impact on equity	(3)		3

Audited.

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Risk and capital management continued

Foreign currency risk

Foreign currency risk sensitivity analysis (audited)

The foreign currency risk sensitivity analysis below reflects the expected financial impact in rand equivalent, resulting from a 5% shock to foreign currency risk exposures, with respect to designated net investment hedges and other derivative financial instruments as well as foreign denominated cash balances. The sensitivity analysis reflects the sensitivity to equity and profit or loss on the group's foreign denominated exposures other than those trading positions for which sensitivity has been included in the trading book VaR analysis.

The table below reflects the impact of a 5% change in foreign currency rates on the equity and/or profit and loss of the group before tax, resulting in R18 million profit (2009: R50 million). Offsets to this sensitivity include changes in foreign currency rates as applied to the group's net assets in foreign operations.

Foreign currency sensitivity analysis in ZAR equivalents

		US dollar	Euro	Sterling	Total
2010					
Sensitivity	%	**5**	**5**	**5**	**5**
Total net long position	Rm	**304**	**27**	**27**	**358**
Impact on equity	Rm	**15**			**15**
Impact on profit or loss	Rm		**1**	**2**	**3**
Total gains	Rm	**15**	**1**	**2**	**18**
2009					
Sensitivity	%	5	5	5	5
Total net long position	Rm	890	22	74	986
Impact on equity	Rm	24			24
Impact on profit or loss	Rm	21	1	4	26
Total gains	Rm	45	1	4	50

Audited.

Operational risk

Introduction

Operational risk is recognised as a distinct risk category which the group strives to manage within acceptable levels through the promotion of sound operational risk management practices.

Operational risk is defined as the risk of loss suffered as a result of inadequacy of, or a failure in, internal processes, people and systems or from external events. This includes information risk and legal risk, but excludes reputational risk and strategic risk. Operational risk exists in the natural course of business activity.

The group's approach to managing operational risk is to adopt fit for purpose operational risk practices that assist business line management to understand their inherent risk and to reduce their risk profile, in line with the group's risk appetite, while maximising their operational performance and efficiency.

Operational risk management framework

Executive management defines the operational risk appetite at a business unit and group level. This operational risk appetite supports effective decision-making and is central to embedding risk management in business decisions and reporting.

The objective in managing operational risk is to increase the efficiency and effectiveness of the group's resources, minimise operational losses and exploit opportunities. There has been significant investment in the implementation of improved measurement and management approaches for operational risk, strengthening control, improving customer service, improving process efficiency and minimising operating losses.

The group continues to calculate capital based on the standardised approach in accordance with the SARB approval granted in 2008. In addition to the standardised approach, the group has implemented certain advanced practices ensuring that it is in line with risk management leading practice. Core advanced measurement components have been designed during 2010 and are being implemented within the business areas during 2011. This includes the introduction of an increasing level of quantitative methodology to support the management of operational risk based on loss data, scenario analysis and capital modelling. The group is expected to make a formal application to the SARB for the use of the advanced measurement approach in the fourth quarter of 2011.

Managing operational risk

Independent monitoring of operational risk occurs through a number of functions within the group's risk divisions, including business continuity and information risk management, legal, global financial crime control and operational risk governance.

Operational risk management forms part of the day-to-day responsibilities of management at all levels. The operational risk management framework includes qualitative and quantitative methodologies and tools to assist management to identify, assess and monitor operational risks and to provide management with information for determining appropriate controls and mitigating measures.

These methodologies and tools include:

- An incident database of operational risk events, including near misses, categorised according to the Basel II business lines and operational risk event types. The incident data collection process ensures that all relevant operational risk incidents (including loss events, near misses and non-financial impacts) are captured on a centralised database. The flow of information into the incident database is a bottom-up approach. The capture process identifies and classifies all incidents in terms of an incident classification list. This information is used to monitor the state of operational risk, address trends, implement corrective action and manage recovery, where possible.
- A risk and control self-assessment process to analyse business activities and identify operational risks. Risk and control self-assessments are designed to be forward-looking. Management is required to identify risks that could threaten the achievement of business objectives and, together with the required set of controls and actions, to mitigate the risks as appropriate. This enables development of a risk profile and understanding of the residual risk. Risk assessment incorporates a regular review of identified risks to monitor significant changes.
- Key risk indicators are used across the group to monitor the relevant risks and controls highlighted in the risk and control self-assessment process as well as the scenario analyses. The main purpose is to assist management by providing an early warning indicator of potential risk exposures and/or a potential breakdown of controls.

Operational risk reports are produced on both a regular and an event-driven basis. The reports include a profile of the key risks to business units' achievement of their business objectives, relevant control issues, and operational risk incidents. Specific reports are prepared on a regular basis for the relevant business unit committees and for SBG GROC and RCMC.

Insurance cover

The insurance process and requirements are the responsibility of the group insurance committee which maintains adequate insurance to cover key insurable risks. An insurance framework guides the organisation on the optimal use of insurance as a risk transfer mechanism. Operational risk management and insurance management teams collaborate to enhance the mitigation of operational risks.

Business resilience

Business resilience includes business continuity management and crisis management.

Business resilience is defined as the ability of the group's business operations to rapidly adapt and respond to internal or external dynamic changes; opportunities, demands, disruptions or threats; and continue operations with limited impact to the business through proactive management and resilient infrastructure.

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Risk and capital management continued

Business resilience is primarily focused on developing and maintaining a proactive and holistic response, congruent to the risk appetite of the business line and organisation.

Crisis management is based on a streamlined command and control process for managing the business through a crisis to full recovery. These processes may also be deployed to manage non-operational crises, including business crises, at the discretion of senior management.

Business continuity management is an integral component of the group's risk management framework. The group's business continuity strategy is structured to ensure strong central monitoring and reporting and decentralised execution, and is supported by an entrenched governance process. The group continues to ensure that business continuity is managed in an effective manner through a framework of policies, procedures and tools to identify, assess, monitor, control and report such risks.

The various business units are continually exposed to deployment of updated methodologies as well as testing and training, which are relevant to their local business requirement, to ensure increased capability to deal with interruptions to business. This is achieved through active assessment of the changing business environment, reference to and incorporation of updated and emerging best-practice standards worldwide, pre-planned simulation and desktop assessments and interrogation of identified risks and threats to operational continuity of the group.

Contingency and recovery plans for core services, key systems and priority business activities have been developed and are revisited as part of existing management processes to ensure that continuity strategies and plans remain relevant.

Information risk management

Information risk is defined as the risk of accidental or intentional unauthorised use, modification, disclosure or destruction of the group's information resources, which compromises their confidentiality, integrity or availability. Information risk management deals with all aspects of information in its physical and electronic forms. It focuses on the creation, use, transmission, storage, disposal and destruction of information.

From a strategic perspective, information risk management is treated as a particular discipline within the operational risk framework. This function is responsible for establishing the framework and promotes consistent and sound information risk management policies and practices across the group.

Information risk policies and standards have primarily been developed to provide management direction and support for information risk in accordance with business requirements and relevant laws and regulations. The adoption of standards and guidelines is directed by business requirements and practical implications.

Furthermore, ongoing awareness campaigns are conducted to ensure that all employees, contractors and third-party users are aware of information risks, their roles and responsibilities, and are equipped to support the group policies.

The execution of these policies and standards is driven through a network of information security officers embedded within the business lines. This network is functionally overseen by the chief information security officer.

Access to information

The Promotion of Access to Information Act, 2000 was passed to give effect to the constitutional right of access to information that is held by a private or public body and that is required for the exercise or protection of any rights.

During 2010, the group recorded 22 requests for access to information, of which 11 were granted, three refused and eight withdrawn. The main reasons for the denial of access were that owners of information declined to give consent for access to third parties, requests that fell outside the ambit of the Promotion of Access to Information Act, 2000, information to which access was requested was subject to commenced criminal or civil proceedings and requests being relevant to other processes in the group. The withdrawal of requests was at the requester's instance or abandonment of request.

Financial crime control

The group has a set of values that embraces honesty, integrity and ethics and in this regard, has a zero tolerance approach to fraud and corruption. During 2010, a strong focus was maintained on anti-fraud campaigns which included reviewing and redesigning our internal processes and engaging external stakeholders in the ongoing fight against fraud.

In long-term insurance operations, internal controls implemented with respect to high-risk processes, for example the payment of death and disability claims, are reviewed regularly by management for effectiveness.

Legal risk

Legal risk arises where:

- the group's businesses or functions may not be conducted in accordance with applicable laws in the countries in which it operates;
- incorrect application of regulatory requirements takes place;
- the group may be liable for damages to third parties; and
- contractual obligations may be enforced against the group in an adverse way, resulting from legal proceedings being instituted against it.

Although the group has processes and controls in place to manage its legal risk, failure to manage risks effectively could result in legal proceedings impacting the group adversely, both financially and reputationally.

Environmental risk and social risk

Environmental and social risk includes both the threat of adverse effects on the natural environment through emissions, wastes and resource depletion, as well as risks to livelihoods, the health and rights of communities, and cultural heritage arising out of business operations and lending activities. In addition, these risks include the threat to assets as a consequence of environmental impacts, such as extreme weather events. The risks fall within the Group Sustainability Management Programme, which is mandated to create a consistent approach to environmental and social management by facilitating policy, systems, performance standards, monitoring and assurance within the group's operations and responsible financing.

All business units are represented at the safety, health and environmental risk oversight committee. The committee provides oversight and guidance in managing health, safety and environmental systems, addressing issues such as occupational health and safety in building construction and maintenance, and employee occupational health and safety awareness. Similar committees in each business unit support the group committee. During 2010, the group's environmental and social policy has been revised to provide a more comprehensive approach to managing environmental and social risks. This will enable the group to improve the way it identifies and manages risks, reduce its direct environmental footprint and explore financial and non-financial opportunities. The revised policy will be implemented in 2011.

To track and manage environmental-related aspects of our operations such as energy, water, carbon emissions and waste management, the group implemented an environmental management system. Environmental efficiency targets have been set for SBSA using 2009 as a base year.

During 2010, the group conducted a pilot project in which it expanded environmental and social risk management measures to specific short-term and bridge financing arrangements, corporate loans and export credit finance with a known use of proceeds. Feedback from these initiatives will be used to evaluate the feasibility of formally expanding these measures into other lending areas in Corporate & Investment Banking. In addition to risk management, teams advise on and originate renewable energy projects, carbon financing and clean development mechanism opportunities.

The group also initiated an independent environmental and social risk review of its operations and current environmental and social procedures to streamline the process, identify high-risk areas and to clarify the implementation of a phased system to manage such risks. Following from this, the group completed a set of tools applicable to lending products and appropriate to levels of environmental and social risk and the consequent business risks. These tools will be rolled out within Corporate & Investment Banking during 2011.

Equator Principles

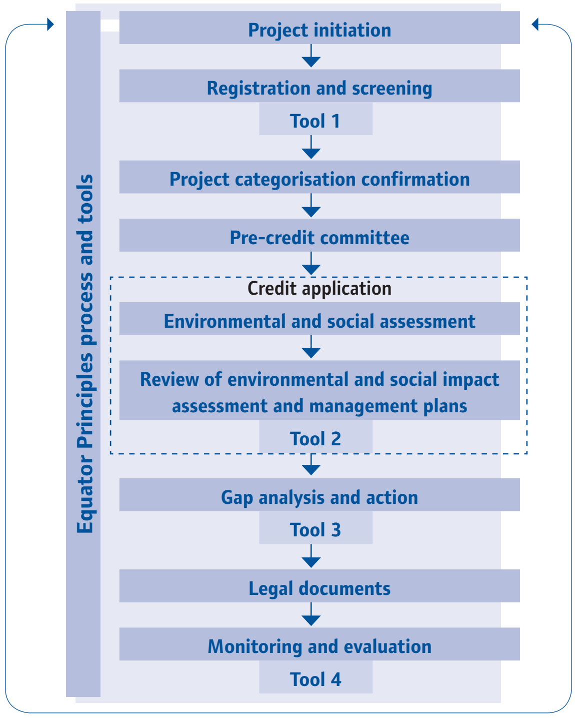
As a signatory to the principles Standard Bank must ensure that customers to whom it lends capital evaluate and actively avoid, manage or mitigate the social and environmental impacts of the projects being financed.

Standard Bank's Equator Principles performance assessment system includes the following four tools:

- environmental and social screening and categorisation;
- environmental and social appraisal documents;
- environmental and social action plan; and
- environmental and social monitoring report.

The diagram below shows the integration of Equator Principles in the credit approval process and transaction lifecycle.

Integration of Equator Principles into credit approval process



Acid water

During 2010, the threat of underground acid mine water decanting in central Johannesburg came to light with the Department of Water and Environmental Affairs disclosing that measures must be taken to prevent polluted water from reaching the critical level of 150 metres below the surface. Media reports suggested that the group's head office was at risk because it is situated over the historic Ferreira Mine. Desktop studies commissioned by the group have indicated that there is no immediate threat to bank property though the contaminated water poses a significant threat to water quality in the Gauteng area. More detailed studies have been commissioned. In the meantime, the group has reviewed its business continuity plans to ensure it is effectively prepared in the event of a threat actually materialising.

Business opportunities

Environmental risks such as those of global climate change also create business opportunities and SBG is actively pursuing commercial funding products for the uptake of cleaner technology, alternative energy and carbon trading. SBG signed a strategic partnership agreement in 2009 with the United Nations Environment Programme's African Carbon Asset Development facility. This partnership has placed the bank in a strategic position to assist in the development of African carbon markets. During 2010, the African Carbon Asset Development facility selected 11 projects on the African continent for targeted grants.

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Standard Bank has also been active in carbon credit markets since 2003. Carbon is traded through the group's international operation in London which has a broad set of carbon trading capabilities. It also has dedicated specialists in Brazil, China, Nigeria, Singapore and South Africa. In 2010, Standard Bank provided carbon financing to projects responsible for a total abatement of approximately 20 million tons (2009: 25 million tons) of greenhouse gases.

Occupational health and safety

The health and safety of employees, customers and other stakeholders is a priority and the group aims to identify and reduce the potential for accidents or injuries in all its operations. Training of health and safety officers and staff awareness is an ongoing endeavour. Standards that support uniform health and safety requirements across all group operations have been developed and will be rolled out in 2011.

Taxation risk

Taxation risk is the possibility of suffering unexpected loss, financial or otherwise, as a result of the application of tax systems, whether in legislative systems, rulings or practices, applicable to the entire spectrum of taxes and other fiscal imposts to which the group is subject.

In terms of the group tax policy the group fulfils its responsibilities under tax law in each of the jurisdictions in which it operates, whether in relation to compliance, planning or client service matters. Tax law includes all responsibilities which the group may have in relation to company taxes, personal taxes, capital gains taxes, indirect taxes and tax administration.

Compliance with this policy is aimed at ensuring that the group:
- pays neither more nor less tax than tax law requires;
- continually reviews its existing operations and planned operations in this regard; and
- ensures that, where clients participate in group products, these clients are either aware of the probable tax implications, or are advised to consult with independent professionals to assess these implications, or both.

The framework to achieve compliance with the group tax policy comprises four elements:
- identification and management of tax risk;
- human resource policies including an optimal mix of staffing and outsourcing;
- skills development including methods to maintain and improve managerial and technical competency; and
- communication of information affecting tax within the group.

Good corporate governance in the tax context requires that each of these elements is in place as the absence of any one of the elements would seriously undermine the others.

The identification and management of tax risk is the primary objective of the group tax function. This objective is achieved by applying a tax risk matrix approach, which measures the fulfilment of tax responsibilities against the specific requirements of each category of tax to which the group is exposed, in the context of the various types of activity the group conducts.

Compliance risk

Approach to compliance risk management

The group's approach to managing compliance risk is proactive and premised on internationally accepted principles of risk management. These principles are codified in the group's compliance policy and governance standard which are reviewed annually. It is also aligned with other group-risk-type methodologies. Specialised areas including prudential compliance, taxation, finance and human resources compliance are managed by specific areas of competence within the group.

Group compliance supports business in complying with current and emerging regulatory developments, including money laundering and terrorist financing control, sanctions management, identifying and managing market abuse and mitigating reputational risk.

Framework and governance

Compliance risk management is an independent core risk management activity overseen by the chief compliance officer who has unrestricted access to the chief executive of SBG and to the chairman of the audit committee. The chief compliance officer reports independently to the audit committee.

The group's compliance framework is based on the principles of effective compliance risk management prescribed by the Banks Act as well as international standard-setting bodies. A hybrid compliance structure incorporating central compliance and line of business compliance functions is responsible for assisting the group in mitigating compliance risk by maintaining an effective compliance risk management framework, while business unit compliance functions are responsible for assisting senior management in effectively managing the compliance risks faced by the respective businesses. Business unit compliance heads have reporting responsibilities to the chief compliance officer.

The compliance function is responsible for advising senior management on regulatory developments, as well as legislation impacting new business. In addition, all staff are made aware of their regulatory responsibilities through ongoing awareness programmes. Compliance issues are reported to the various governance committees, with material issues being escalated to relevant board committees. To support legislative requirements and the group's approach to compliance risk management, monitoring is undertaken to ensure adherence to the compliance policy and standards.

Regulation and supervision

The group operates in a highly regulated industry and across multiple jurisdictions. Supervision is undertaken by host country regulators as well as various regulatory bodies in South Africa. The group's primary regulator is the Bank Supervision Department (BSD) of SARB, which supervises the group on a consolidated basis. The chief compliance officer engages with BSD on a regular basis, as well as with regulators in other jurisdictions. In addition to carrying out prudential supervision, BSD is required to approve the establishment of subsidiaries, and new overseas branches.

Other South African financial services supervisory bodies include the Financial Services Board, which regulates the non-banking aspects of the financial services industry in South Africa and prescribes minimum fit and proper criteria for financial advisers and intermediaries. The Financial Intelligence Centre oversees money laundering and terrorist financing control. The National Credit Regulator is responsible for the regulation of the South African credit industry, while there are various regulatory bodies supervising financial markets activity.

Regulatory developments are integral to the group's business planning processes. To support open and positive engagement with regulators in South Africa, an oversight committee comprising senior executives provides oversight to ensure a coordinated strategic approach to the group's engagement with the regulatory and legal environment, as well as interfacing with regulators, industry bodies, policy and law-makers and other relevant stakeholders with regard to current and upcoming legislation.

In line with market practice and targeted supervisory focus the compliance function focuses on market conduct issues including, but not limited to, market abuse, personal account trading and conflicts of interest. Implicit in this is the development of automated systems, as appropriate.

Money laundering and terrorist financing control

Legislation across the group pertaining to money laundering and terrorist financing control imposes significant requirements in terms of customer identification, record keeping and training, as well as obligations to detect, prevent and report money laundering and terrorist financing. The group is committed to continually improving its control measures including customer activity monitoring tools. The money laundering and terrorist financing control standards and policies are continually reviewed to reflect emerging trends.

Compliance risk management training

Management and staff are made aware of their responsibilities in terms of current and emerging legislative and regulatory requirements and developments through induction programmes and by way of ongoing training and awareness initiatives. These cover topics as diverse as supervisory focus areas, treating customers fairly, money laundering and terrorist financing, market conduct and health and safety requirements, among others.

Business risk

Business risk relates to the potential revenue shortfall compared to the cost base due to strategic and/or reputational reasons.

The group's ability to generate revenue is impacted by, among others, the external macroeconomic environment, its chosen strategy and its reputation in the markets in which it operates.

The approach followed by the group in quantifying business risk is to estimate a net revenue or loss distribution for each business unit using historical management accounting data. This is based on a Monte Carlo simulation with the objective of deriving a net revenue or loss distribution from which economic capital may be determined at the 99,925% confidence level. Business units have a clear understanding of their value drivers that impact on their profitability. These are modelled as part of the planning and forecasting processes to assess sensitivity of changes in these value drivers on their business performance.

Business risk is governed by the SBG executive committee, which is ultimately responsible for managing the costs and revenues of the group. In addition, mitigation of business risk is undertaken in a number of ways, including:

- applying comprehensive due diligence during the investment appraisal process;
- engaging with stakeholders to ensure positive outcomes from external factors beyond the group's control;
- consistently monitoring the profitability of product lines and customer segments;
- maintaining tight control over the cost base of the group, including the management of its cost-to-income ratio, which allows for early intervention and management action to reduce costs where necessary; and
- being alert and responsive to changes in market forces.

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Risk and capital management continued

Reputational risk

Reputational risk results from damage to the group's image, which may impair its ability to retain and generate business. Such damage may result from a breakdown of trust, confidence or business relationships. Safeguarding the group's reputation is of paramount importance to its continued success and is the responsibility of every member of staff.

Each business unit, legal entity or support function executive is responsible for identifying, assessing and determining all reputational risks that may arise within their respective areas of business. Risks to reputation can be evaluated by considering the likelihood of the risk occurring and the likely impact. The impact of such risks is considered alongside financial or other impacts.

Matters identified as a reputational risk to the group will be reported to the CRO, who if required, will escalate these matters to SBG GROC and/or the executive committee.

Should a risk event occur, the group's crisis management processes are designed to minimise the reputational impact of the event. Crisis management teams are in place both at executive and business unit level to ensure the effective management of any such events. This includes ensuring that the group's perspective is fairly represented in the media.

Independent assurance

The internal audit function, under the stewardship of the chief audit officer, reports to and operates under a mandate from the audit committee. In terms of this mandate the internal audit function is to provide independent, objective assurance designed to add value and improve group operations. Internal audit has the authority to independently determine the scope and extent of work to be performed. All internal audit staff in the group report to the chief audit officer.

Internal audit assists executive management teams in accomplishing their business objectives by bringing a systematic, disciplined, risk-based approach to the evaluation and improvement of the effectiveness of risk management, controls and governance processes.

Material or significant control weaknesses and planned management remedial actions are reported to the audit committees. These issues are tracked to ensure that agreed remedial actions are implemented. Internal audit is subjected to an independent review by an external firm on an annual basis. The results of the last review conducted in 2010 confirmed that internal audit complies with International Internal Audit Standards.

Internal audit forms an integral part of the combined assurance model that is applied within the group to provide a coordinated approach to all assurance activities. The current combined assurance model leverages the existing three lines of defence framework and significant progress has been made with the integration and alignment of assurance processes to maximise risk and governance oversight and control efficiencies, and optimise overall assurance. This model will continue to evolve and develop over time.

Restatements

During the year, the group revised certain financial information. Please refer to annexure A reclassifications and restatements on page 178 for details concerning these restatements.

In addition to these, the following restatements were made on risk information:

Credit risk

During the year, the group aligned and revised the IFRS 7 definitions across the group. Accordingly the comparative numbers have been restated to reflect the changes in presentation in the current year.

Capital management

Tier I and tier II capital were restated for the December 2009 period to exclude unappropriated profits in terms of the Regulations relating to Banks.

Annual financial statements

Directors' responsibility for financial reporting

In accordance with Company Law requirements, the directors are responsible for the preparation of the annual financial statements. The annual financial statements conform with International Financial Reporting Standards (IFRS) and fairly present the state of affairs of the company and the group as at the end of the financial year, and the net income and cash flows for that period.

It is the responsibility of the independent auditors to report on the fair presentation of the financial statements.

The directors are ultimately responsible for the internal controls of the group. Management enables the directors to meet these responsibilities. Standards and systems of internal controls are designed and implemented by management to provide reasonable assurance of the integrity and reliability of the financial statements and to adequately safeguard, verify and maintain accountability for shareholder investments and group assets.

Accounting policies supported by judgements, estimates and assumptions in compliance with IFRS, are applied on the basis that the group shall continue as a going concern. Systems and controls include the proper delegation of responsibilities within a clearly defined framework, effective accounting procedures and adequate segregation of duties.

Systems and controls are monitored throughout the group. Greater detail of these systems and controls, including the operation of the internal audit function, is provided in the risk and capital management section of this report.

Based on the information and explanations given by management and the internal auditors, the directors are of the opinion that the internal financial controls are adequate and that the financial records may be relied upon for preparing the financial statements in accordance with IFRS and to maintain accountability for the group's assets and liabilities. Nothing has come to the attention of the directors to indicate that a breakdown in the functioning of these controls, resulting in material loss to the group, has occurred during the year and up to the date of this report.

The directors have a reasonable expectation that the company and the group will have adequate resources to continue in operational existence and as a going concern for the foreseeable future.

The 2010 annual financial statements were approved by the board of directors on 2 March 2011 and signed on its behalf by:

Fred Phaswana
Chairman

Sim Tshabalala
Chief executive

Group secretary's certification

Compliance with the Companies Act 61 of 1973

In terms of the Companies Act 61 of 1973 (the Act), and for the year ended 31 December 2010, I certify that The Standard Bank of South Africa Limited has lodged all returns required by the Act with the Registrar of Companies and that all such returns are true, correct and up to date.

Loren Wulfsohn
Group secretary

2 March 2011

Report of the audit committee

This report is provided by the audit committee, in respect of the 2010 financial year of The Standard Bank of South Africa Limited, in compliance with section 270A of the Companies Act 61 of 1973, as amended (the Act). The committee's operation is guided by a detailed mandate that is informed by the Act and the Banks Act 94 of 1990 and approved by the board.

The committee is appointed by the board of directors annually. Information on the membership and composition of the audit committee, is described more fully in the corporate governance report on pages 20 to 25 in this annual report, of which the annual financial statements forms a part.

Execution of functions

The audit committee has executed its duties and responsibilities during the financial year in accordance with its terms of reference as they relate to the company's accounting, internal auditing, internal control and financial reporting practices.

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

– In respect of the external auditors and the external audit:
  - approved the reappointment of KPMG Inc. and PricewaterhouseCoopers Inc. as joint external auditors for the financial year ended 31 December 2010, in accordance with all applicable legal requirements;
  - approved the external auditors' terms of engagement, the audit plan and budgeted audit fees payable;
  - reviewed the audit and evaluated the effectiveness of the audit;
  - obtained assurance from the auditors that their independence was not impaired;
  - considered the nature and extent of all non-audit services provided by the external auditors;
  - through the chairman, approved proposed contracts with the auditors for the provision of non-audit services and pre-approved proposed contracts with the external auditors for the provision of non-audit services above an agreed threshold amount;
  - obtained assurances from the external auditors that adequate accounting records were being maintained;
  - confirmed that no reportable irregularities were identified and reported by the external auditors in terms of the Auditing Professions Act 26 of 2005; and
  - considered reports from subsidiary audit committees and from management through the group's governance structures on activities of subsidiary entities.

– In respect of the financial statements:
  - confirmed the going concern as the basis of preparation of the interim and annual financial statements;
  - examined and reviewed the interim and annual financial statements prior to submission and approval by the board;
  - reviewed reports on the adequacy of the portfolio and specific impairments and impairment of other assets, and the formulae applied by the bank in determining charges for and levels of portfolio impairments;
  - ensured that the annual financial statements fairly present the financial position of the company as at the end of the financial year and the results of operations and cash flows for the financial year and considered the basis on which the company was determined to be a going concern;
  - considered the appropriateness of accounting treatments, significant unusual transactions and accounting judgements;
  - considered the appropriateness of the accounting policies adopted and changes thereto;
  - reviewed and discussed the external auditors' audit report;
  - considered and made recommendations to the board on the interim and final dividend payments to shareholders;
  - the committee met with the chief audit officer and the external auditors;
  - reviewed any significant legal and tax matters that could have a material impact on the financial statements; and
  - noted that there were no material reports or complaints received concerning accounting practices, internal audit, internal financial controls, content of annual financial statements, internal controls and related matters.

– In respect of internal control and internal audit, including forensic audit:
  - reviewed and approved the annual internal audit mandate and audit plan and evaluated the independence, effectiveness and performance of the internal audit department and compliance with its mandate;
  - considered reports of the internal and external auditors on the company's systems of internal control, including internal financial controls and maintenance of effective internal control systems;
  - reviewed significant issues raised by the internal audit processes and the adequacy of corrective action in response to such findings;
  - reviewed significant differences of opinion between the internal audit function and management and noted that there were none;
  - assessed the adequacy of the performance of the internal audit function and adequacy of the available internal audit resources and found them to be satisfactory;
  - received assurance that proper and adequate accounting records were maintained and that the systems safeguarded the assets against unauthorised use or disposal thereof; and
  - based on the above, the committee formed the opinion that at the date of this report there were no material breakdowns in internal control, including internal financial controls, resulting in any material loss to the group.

– In respect of legal and regulatory requirements to the extent that they may have an impact on the financial statements:
  - reviewed with management matters that could have a material impact on the company;
  - monitored compliance with the Companies Act, Banks Act, all other applicable legislation and governance codes and reviewed reports from the internal and external auditors detailing the extent of compliance; and

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Report of the audit committee continued

- noted that no complaints were received via the group's ethics line concerning accounting matters, internal audit, internal financial controls, contents of financial statements, potential violations of the law and questionable accounting or auditing matters.

– In respect of risk management and IT:
  - considered and reviewed reports from management on risk management, including fraud and IT risks as they pertain to financial reporting and the going-concern assessment; and
  - the chairman is a member of and attended the risk and capital management committee meetings held during the year under review.

– In respect of the coordination of assurance activities, the committee reviewed the plans and work outputs of the external and internal auditors and concluded that these were adequate to address all significant financial risks facing the business:
  - considered the expertise, resources and experience of the finance function and the senior members of management responsible for this function and concluded that these were appropriate; and
  - considered the appropriateness of the experience and expertise of the chief financial officer and concluded that these were appropriate.

Independence of the external auditors

The audit committee is satisfied that KPMG Inc. and PricewaterhouseCoopers Inc. are independent of the group. This conclusion was arrived at, inter alia, after taking into account the following factors:

– the representations made by KPMG Inc. and PricewaterhouseCoopers Inc. to the audit committee;
– the auditors do not, except as external auditors or in rendering permitted non-audit services, receive any remuneration or other benefits from the company;
– the auditors' independence was not impaired by any consultancy, advisory or other work undertaken by the auditors;
– the auditors' independence was not prejudiced as a result of any previous appointment as auditor; and
– the criteria specified for independence by the Independent Regulatory Board for Auditors and international regulatory bodies were met.

The audit committee has reviewed the annual report and recommended it to the board for approval.

On behalf of the audit committee

Richard Dunne
Chairman

2 March 2011

Independent auditors' report

To the member of The Standard Bank of South Africa Limited

We have audited the group annual financial statements and the annual financial statements of The Standard Bank of South Africa Limited, which comprise the statements of financial position at 31 December 2010, the income statements, the statements of comprehensive income, the statements of changes in equity and statements of cash flows for the year then ended, and the notes to the financial statements, which include a summary of significant accounting policies and other explanatory notes as set out on pages 80 to 187 and specified sections of the risk and capital management report contained within pages 40 to 74.

Directors' responsibility for the financial statements

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

Auditors' responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, these financial statements present fairly, in all material respects, the consolidated and separate financial position of The Standard Bank of South Africa Limited at 31 December 2010, its consolidated and separate financial performance and consolidated and separate cash flows for the year then ended in accordance with International Financial Reporting Standards, and in the manner required by the Companies Act of South Africa.

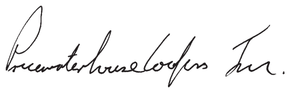
KPMG Inc.
Registered Auditor

Per Heather Berrange
Chartered Accountant (SA)
Registered Auditor

Director

2 March 2011

85 Empire Road
Parktown
2193



PricewaterhouseCoopers Inc.
Registered Auditor

Per John Bennett
Chartered Accountant (SA)
Registered Auditor

Director

2 March 2011

2 Eglin Road
Sunninghill
2157

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Statements of financial position
at 31 December 2010

	Note	Group 2010 Rm	Group 2009[1] Rm	Group 2008[1] Rm	Company 2010 Rm	Company 2009[1] Rm	Company 2008[1] Rm
Assets							
Cash and balances with the central bank	3	**18 181**	14 470	13 547	**18 181**	14 470	13 547
Derivative assets	4.3	**105 221**	76 501	113 467	**105 181**	76 449	113 443
Trading assets	5	**13 825**	20 802	24 019	**13 453**	20 377	19 660
Pledged assets	6.1	**5 934**	1 057	2 243	**5 934**	1 057	2 243
Financial investments	7	**79 388**	62 008	60 079	**79 388**	61 623	58 787
Loans and advances	8.1	**536 421**	525 700	527 452	**517 507**	505 006	506 651
Loans and advances to banks	8.1	**62 364**	59 472	51 026	**62 311**	59 276	50 785
Loans and advances to customers	8.1	**474 057**	466 228	476 426	**455 196**	445 730	455 866
Current taxation asset	9	**191**	142	86	**184**	140	75
Deferred taxation asset	9	**296**	365	320	**265**	297	216
Other assets	10.1	**5 667**	4 211	7 955	**5 216**	4 197	7 922
Interest in group companies, associates and joint ventures	11	**62 981**	77 941	102 794	**67 034**	81 633	106 383
Goodwill and other intangible assets	12	**4 410**	2 913	1 997	**4 372**	2 913	1 997
Property and equipment	13	**7 908**	5 144	4 284	**7 885**	5 122	4 262
Total assets		**840 423**	791 254	858 243	**824 600**	773 284	835 186
Equity and liabilities							
Equity		**48 917**	44 159	39 074	**47 614**	43 207	38 288
Equity attributable to the ordinary shareholder		**48 875**	44 159	39 074	**47 614**	43 207	38 288
Ordinary share capital	14.2	**60**	60	60	**60**	60	60
Ordinary share premium	15	**25 230**	24 230	22 730	**25 230**	24 230	22 730
Reserves		**23 585**	19 869	16 284	**22 324**	18 917	15 498
Non-controlling interest		**42**					
Liabilities		**791 506**	747 095	819 169	**776 986**	730 077	796 898
Derivative liabilities	4.3	**102 476**	75 196	121 669	**102 461**	75 196	121 597
Trading liabilities	16	**9 031**	16 707	23 524	**8 069**	15 744	18 604
Deposit and current accounts	17	**612 011**	577 860	608 168	**596 829**	559 904	588 826
Deposits from banks	17	**54 626**	57 833	65 582	**54 629**	57 857	65 582
Deposits from customers	17	**557 385**	520 027	542 586	**542 200**	502 047	523 244
Current taxation liability	18	**2 074**	2 069	489	**2 099**	2 105	484
Deferred taxation liability	18	**3**	946	3 067		939	3 065
Other liabilities	19.1	**10 344**	8 065	7 528	**9 936**	7 715	7 458
Subordinated debt	20	**15 683**	15 814	11 809	**15 683**	15 814	11 809
Liabilities to group companies	11.3	**39 884**	50 438	42 915	**41 909**	52 660	45 055
Total equity and liabilities		**840 423**	791 254	858 243	**824 600**	773 284	835 186

[1] 2009 and 2008 figures reclassified, refer annexure B – reclassifications and restatements.

Income statements
for the year ended 31 December 2010

		Group		Company	
	Note	2010 Rm	2009 Rm	2010 Rm	2009 Rm
Net interest income		**20 212**	21 500	**20 127**	21 257
Interest income	25.1	**51 634**	67 453	**50 414**	65 578
Interest expense	25.2	**31 422**	45 953	**30 287**	44 321
Non-interest revenue		**18 487**	17 627	**17 528**	17 112
Net fee and commission revenue		**13 730**	13 280	**12 858**	12 541
Fee and commission revenue	25.3	**16 269**	15 318	**15 362**	14 545
Fee and commission expense	25.4	**2 539**	2 038	**2 504**	2 004
Trading revenue	25.5	**2 686**	2 961	**2 699**	2 982
Other revenue	25.6	**2 071**	1 386	**1 971**	1 589
Total income		**38 699**	39 127	**37 655**	38 369
Credit impairment charges	25.7	**6 359**	9 831	**6 291**	9 744
Income after credit impairment charges		**32 340**	29 296	**31 364**	28 625
Operating expenses		**21 441**	18 286	**20 915**	18 006
Staff costs	25.8	**11 113**	9 674	**10 920**	9 485
Restructuring costs	25.9	**304**		**302**	
Other operating expenses	25.10	**10 024**	8 612	**9 693**	8 521
Net income		**10 899**	11 010	**10 449**	10 619
Share of profits/(losses) from associates and joint ventures	11.2	**124**	(104)		
Net income before indirect taxation		**11 023**	10 906	**10 449**	10 619
Indirect taxation	27.1	**856**	582	**856**	581
Profit before direct taxation		**10 167**	10 324	**9 593**	10 038
Direct taxation	27.2	**2 179**	2 144	**1 982**	2 011
Profit for the year		**7 988**	8 180	**7 611**	8 027
Attributable to non-controlling interest		**50**			
Attributable to the ordinary shareholder		**7 938**	8 180	**7 611**	8 027
Basic earnings per ordinary share (cents)	29	**13 231**	13 634	**12 686**	13 379

Statements of comprehensive income
for the year ended 31 December 2010

	Ordinary shareholder's equity Rm	Non-controlling interest Rm	Total equity Rm
2010			
Group			
Profit for the year	**7 938**	**50**	**7 988**
Other comprehensive loss after tax for the year[1]	**(278)**		**(278)**
Exchange differences on translating foreign operations	**(79)**		**(79)**
Net change in fair value on cash flow hedges	**(680)**		**(680)**
Realised fair value adjustments on cash flow hedges transferred to profit or loss	**507**		**507**
Net change in fair value of available-for-sale financial assets	**(26)**		**(26)**
Total comprehensive income for the year	**7 660**	**50**	**7 710**
Attributable to non-controlling interest		**50**	**50**
Attributable to the ordinary shareholder	**7 660**		**7 660**
2009			
Group			
Profit for the year	8 180		8 180
Other comprehensive loss after tax for the year[1]	(359)		(359)
Exchange differences on translating foreign operations	(162)		(162)
Net change in fair value on cash flow hedges	(128)		(128)
Realised fair value adjustments on cash flow hedges transferred to profit or loss	(9)		(9)
Net change in fair value of available-for-sale financial assets	58		58
Realised fair value adjustments on available-for-sale financial assets transferred to profit or loss	(118)		(118)
Total comprehensive income attributable to the ordinary shareholder	7 821		7 821
2010			
Company			
Profit for the year	**7 611**		**7 611**
Other comprehensive loss after tax for the year[1]	**(272)**		**(272)**
Exchange differences on translating foreign operations	**(73)**		**(73)**
Net change in fair value on cash flow hedges	**(680)**		**(680)**
Realised fair value adjustments on cash flow hedges transferred to profit or loss	**507**		**507**
Net change in fair value of available-for-sale financial assets	**(26)**		**(26)**
Total comprehensive income attributable to the ordinary shareholder	**7 339**		**7 339**
2009			
Company			
Profit for the year	8 027		8 027
Other comprehensive loss after tax for the year[1]	(337)		(337)
Exchange differences on translating foreign operations	(140)		(140)
Net change in fair value on cash flow hedges	(128)		(128)
Realised fair value adjustments on cash flow hedges transferred to profit or loss	(9)		(9)
Net change in fair value of available-for-sale financial assets	58		58
Realised fair value adjustments on available-for-sale financial assets transferred to profit or loss	(118)		(118)
Total comprehensive income attributable to the ordinary shareholder	7 690		7 690

[1] The income tax relating to each component of other comprehensive income is disclosed in note 27.2.

Statements of cash flows
for the year ended 31 December 2010

	Note	Group 2010 Rm	Group 2009 Rm	Company 2010 Rm	Company 2009 Rm
Net cash flows from operating activities		**12 846**	2 477	**12 822**	2 449
Cash flows used in operations		**(1 606)**	(15 651)	**(1 607)**	(15 302)
Income before share of profit from associates and joint ventures		**10 899**	11 010	**10 449**	10 619
Adjusted for:		**(13 569)**	(11 520)	**(13 502)**	(11 054)
Amortisation and impairment of intangible assets	25.10	**347**	246	**346**	246
Credit impairment charges on loans and advances	25.7	**6 359**	9 831	**6 291**	9 744
Depreciation of property and equipment	25.10	**1 241**	1 015	**1 232**	1 007
Discount element recognised from credit impairment for loans and advances	25.1	**(1 721)**	(1 655)	**(1 684)**	(1 632)
Dividends included in trading revenue	25.5	**(97)**	(189)	**(97)**	(189)
Equity-settled share-based payments	25.8	**68**	29	**68**	29
Fair value adjustments on dated financial instruments	25.1	**(1 274)**	933	**(1 281)**	914
Impairments of associates	11.2	**43**		**41**	198
Indirect taxation	27.1	**(856)**	(582)	**(856)**	(581)
Interest expense		**31 307**	46 333	**30 172**	44 701
Interest income		**(48 702)**	(66 848)	**(47 449)**	(64 860)
Net movement in post-employment benefits		**(620)**	(194)	**(620)**	(194)
Net provision raised for restructuring costs	19.1	**165**		**164**	
Non-cash flow movements on bonds		**192**	(380)	**192**	(380)
Profit on sale of property and equipment	25.10	**(21)**	(36)	**(21)**	(35)
Other			(23)		(22)
(Increase)/reduction in income-earning assets	31.1	**(17 287)**	13 730	**(19 441)**	8 859
Increase/(reduction) in deposits and other liabilities	31.2	**18 351**	(28 871)	**20 887**	(23 726)
Dividends received		**1 721**	1 958	**1 656**	1 841
Interest paid		**(31 384)**	(46 333)	**(30 249)**	(44 701)
Interest received		**47 141**	65 196	**45 890**	63 208
Direct taxation paid	31.3	**(3 026)**	(2 693)	**(2 868)**	(2 597)
Net cash flows used in investing activities		**(5 728)**	(2 977)	**(5 715)**	(2 971)
Capital expenditure on					
– property and equipment	13	**(4 055)**	(1 913)	**(4 044)**	(1 904)
– intangible assets	12	**(1 816)**	(1 266)	**(1 813)**	(1 266)
Proceeds from sales of					
– property and equipment		**72**	97	**71**	94
– intangible assets		**84**	104	**84**	104
Net increase in subsidiaries		**(16)**		**(16)**	
Net reduction in investment in associates		**3**	1	**3**	1
Net cash flows (used in)/from financing activities		**(3 328)**	1 585	**(3 323)**	1 585
Proceeds from issue of share capital to shareholder	31.4	**1 000**	1 500	**1 000**	1 500
Net (decrease)/increase in subordinated debt		**(323)**	4 385	**(323)**	4 385
Dividends paid	31.5	**(4 005)**	(4 300)	**(4 000)**	(4 300)
Effects of exchange rate changes		**(79)**	(162)	**(73)**	(140)
Net increase in cash and cash equivalents		**3 711**	923	**3 711**	923
Cash and cash equivalents at beginning of the year		**14 470**	13 547	**14 470**	13 547
Cash and cash equivalents at end of the year	3	**18 181**	14 470	**18 181**	14 470

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Statements of changes in equity
for the year ended 31 December 2010

	Note	Ordinary share capital and premium Rm	Foreign currency translation reserve[1] Rm
Group			
Balance at 1 January 2009		22 790	230
Total comprehensive (loss)/income for the year			(162)
Profit for the year			
Other comprehensive loss after tax for the year			(162)
Transactions with the owner, recorded directly in equity		1 500	
Equity-settled share-based payment transactions			
Transfer of vested equity options			
Net acquisition of shares in subsidiaries and other movements			
Issue of share capital and share premium	14.2	1 500	
Dividends paid	30		
Balance at 31 December 2009		24 290	68
Balance at 1 January 2010		**24 290**	**68**
Total comprehensive (loss)/income for the year			**(79)**
Profit for the year			
Other comprehensive loss after tax for the year			**(79)**
Transactions with the owner, recorded directly in equity		**1 000**	
Equity-settled share-based payment transactions			
Transfer of vested equity options			
Net acquisition of shares in subsidiaries and other movements			
Issue of share capital and share premium	14.2	**1 000**	
Dividends paid	30		
Balance at 31 December 2010		**25 290**	**(11)**

Details relating to each reserve are provided in the accounting policy and notes described below:

[1] Foreign currency translation reserve: refer to accounting policy 2 – Foreign currency translations.
[2] Cash flow hedging reserve: refer to the cash flow hedges section in accounting policy 4 – Financial instruments.
[3] Available-for-sale reserve: refer to the available-for-sale financial assets section in accounting policy 4 – Financial instruments.
[4] Share-based payment reserve: refer to accounting policy 16 – Equity-linked transactions.
All balances are stated net of applicable tax.

Cash flow hedging reserve[2] Rm	Available-for-sale reserve[3] Rm	Share-based payment reserve[4] Rm	Retained earnings Rm	Ordinary shareholder's equity Rm	Non-controlling interest Rm	Total equity Rm
232	295	360	15 167	39 074		39 074
(137)	(60)		8 180	7 821		7 821
			8 180	8 180		8 180
(137)	(60)			(359)		(359)
		(59)	(4 177)	(2 736)		(2 736)
		29		29		29
		(88)	88			
			35	35		35
				1 500		1 500
			(4 300)	(4 300)		(4 300)
95	235	301	19 170	44 159		44 159
95	**235**	**301**	**19 170**	**44 159**		**44 159**
(173)	**(26)**		**7 938**	**7 660**	**50**	**7 710**
			7 938	**7 938**	**50**	**7 988**
(173)	**(26)**			**(278)**		**(278)**
		(284)	**(3 660)**	**(2 944)**	**(8)**	**(2 952)**
		68		**68**		**68**
		(352)	**352**			
			(12)	**(12)**	**(3)**	**(15)**
				1 000		**1 000**
			(4 000)	**(4 000)**	**(5)**	**(4 005)**
(78)	**209**	**17**	**23 448**	**48 875**	**42**	**48 917**

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Statements of changes in equity continued

for the year ended 31 December 2010

	Note	Ordinary share capital and premium Rm
Company		
Balance at 1 January 2009		22 790
Total comprehensive (loss)/income for the year		
Profit for the year		
Other comprehensive loss after tax for the year		
Transactions with the owner, recorded directly in equity		1 500
Equity-settled share-based payment transactions		
Transfer of vested equity options		
Issue of share capital and share premium	14.2	1 500
Dividends paid	30	
Balance at 31 December 2009		24 290
Balance at 1 January 2010		**24 290**
Total comprehensive (loss)/income for the year		
Profit for the year		
Other comprehensive loss after tax for the year		
Transactions with the owner, recorded directly in equity		**1 000**
Equity-settled share-based payment transactions		
Transfer of vested equity options		
Issue of share capital and share premium	14.2	**1 000**
Dividends paid	30	
Balance at 31 December 2010		**25 290**

Details relating to each reserve are provided in the accounting policy and notes described below:

[1] Foreign currency translation reserve: refer to accounting policy 2 – Foreign currency translations.
[2] Cash flow hedging reserve: refer to the cash flow hedges section in accounting policy 4 – Financial instruments.
[3] Available-for-sale reserve: refer to the available-for-sale financial assets section in accounting policy 4 – Financial instruments.
[4] Share-based payment reserve: refer to accounting policy 16 – Equity-linked transactions.
All balances are stated net of applicable tax.

	Foreign currency translation reserve[1] Rm	Cash flow hedging reserve[2] Rm	Available-for-sale reserve[3] Rm	Share-based payment reserve[4] Rm	Retained earnings Rm	Ordinary shareholder's equity Rm
	177	232	295	356	14 438	38 288
	(140)	(137)	(60)		8 027	7 690
					8 027	8 027
	(140)	(137)	(60)			(337)
				(59)	(4 212)	(2 771)
				29		29
				(88)	88	
						1 500
					(4 300)	(4 300)
	37	95	235	297	18 253	43 207
	37	**95**	**235**	**297**	**18 253**	**43 207**
	(73)	**(173)**	**(26)**		**7 611**	**7 339**
					7 611	**7 611**
	(73)	**(173)**	**(26)**			**(272)**
				(280)	**(3 652)**	**(2 932)**
				68		**68**
				(348)	**348**	
						1 000
					(4 000)	**(4 000)**
	(36)	**(78)**	**209**	**17**	**22 212**	**47 614**

Accounting policies elections

The principal accounting policies applied in the presentation of the annual financial statements are set out below.

Basis of preparation

The consolidated and separate annual financial statements (annual financial statements) are prepared in accordance with IFRS, its interpretations adopted by the International Accounting Standards Board (IASB), the AC 500 standards as issued by the Accounting Practices Board or its successor, and the South African Companies Act. The annual financial statements have been prepared on the historical cost basis except for the following material items in the statement of financial position:

- available-for-sale financial assets, financial assets and liabilities at fair value through profit or loss and liabilities for cash-settled share-based payment arrangements; and
- post-employment benefit obligations are measured in terms of the projected unit credit method.

The group[1] has made the following accounting policy elections in terms of IFRS, with reference to the detailed accounting policies shown in brackets:

- regular way purchases or sales of financial assets are recognised and derecognised using trade date accounting (accounting policy 4);
- cumulative gains and losses recognised in other comprehensive income in terms of a cash flow hedge relationship are transferred from other comprehensive income and included in the initial measurement of the non-financial asset or liability (accounting policy 4);
- jointly controlled entities are accounted for using the equity method (accounting policy 5);
- property and equipment are accounted for using the cost model (accounting policy 7); and
- unrecognised actuarial gains or losses on post-employment benefits are recognised in profit or loss over a period not exceeding the expected average remaining working life of active employees (accounting policy 12).

Functional and presentation currency

The consolidated and separate annual financial statements are presented in South African rand, which is the functional and presentation currency of The Standard Bank of South Africa Limited and the group respectively. All amounts are stated in millions of rand (Rm), unless indicated otherwise.

Changes in accounting policies

The accounting policies are consistent with those adopted in the previous year, except for the following:

Adoption of new standards and interpretations effective for the current financial year

The group has adopted the following revised IFRS prospectively as of 1 January 2010:

- IFRS 3 *Business Combinations* (revised 2008); and
- IAS 27 *Consolidated and Separate Financial Statements* (revised 2008).

Refer to accounting policy 1 – *Basis of consolidation* for the group's revised accounting policies. Whilst the revised IFRS have resulted in changes to the group's accounting policies there has not been any material impact on any of the financial statement line items or earnings per share.

The group has also adopted all other effective new and amended IFRS (not previously early adopted) as of 1 January 2010, with no material impact on the group's accounting policies or results, and no restatement of prior period results.

Early adoption of new standards and interpretations

The group has early adopted the following new and amended IFRS as of 1 January 2010 with no material impact on the group's accounting policies or results with no restatement of the prior period results:

- IFRS 1 *First-time Adoption of International Financial Reporting Standards* (IFRS 1) (2010 Improvements to IFRS);
- IFRS 1 *(Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters);*
- IFRS 3 *Business Combinations* (revised 2008) (2010 Improvements to IFRS);
- IAS 1 *Presentation of Financial Statements* (2010 Improvements to IFRS);
- IAS 12 *Income Taxes* (2010 Improvements to IFRS);
- IAS 27 *Consolidated and Separate Financial Statements* (2010 Improvements to IFRS); and
- IFRIC 13 *Customer Loyalty Programmes* (2010 Improvements to IFRS).

Please refer to annexure A for a detailed listing of the group's accounting policies and annexure B for reclassifications and restatements of the 2009 and 2008 statements of financial position.

[1] *All references to group hereafter include the separate annual financial statements, where applicable.*

Notes to the annual financial statements

for the year ended 31 December 2010

1. Segment reporting

The principal business units for the group are as follows:

Business unit	Scope of operations
Personal & Business Banking	Banking and other financial services to individual customers and small- to medium-sized enterprises, as well as municipalities.
	Mortgage lending – residential accommodation loans mainly to personal market customers.
	Instalment sale and finance leases – instalment finance to personal market customers. Finance of vehicles and equipment in the business market.
	Credit cards – credit card facilities to individuals and businesses (credit card issuing) and merchant transaction acquiring services (card acquiring).
	Transactional and lending products – transactions in products associated with the various point of contact channels such as ATMs, internet, telephone banking and branches. This includes deposit-taking activities, electronic banking, cheque accounts and other lending products, coupled with debit card facilities to both personal and business market customers.
	Bancassurance – short-term and long-term insurance products and financial planning services.
Corporate & Investment Banking	Corporate and investment banking services to governments, parastatals, larger corporates, financial institutions and international counterparties.
	Global markets – includes foreign exchange, commodities, credit and interest rates, and equities trading.
	Transactional products and services – includes transactional banking and investor services.
	Investment banking – advisory, project finance, structured finance, structured trade finance, corporate lending, primary markets, equity investments, acquisition and BEE finance and property finance.
	Principal investment management – investments in private equity and real estate.
Other services	Support functions to business units and advisory services, including Global Leadership Centre, activities and taxes not allocated to business segments, inter-segment eliminations and restructuring costs.

The segment report includes only those business unit activities conducted within the group. No secondary segment information is disclosed, due to the fact that all business activities relate to South Africa. The consolidated results of each business unit, containing all the activities of the business units across SBG, are reflected in the segment report in SBG's annual financial statements.

Notes to the annual financial statements continued
for the year ended 31 December 2010

	Personal & Business Banking	
	2010 Rm	2009[1] Rm
1. Segment reporting continued		
Group		
Net interest income	**15 221**	15 901
Non-interest revenue	**12 116**	11 464
Net fee and commission revenue	**11 494**	11 071
Trading revenue		
Other revenue	**622**	393
Total income	**27 337**	27 365
Credit impairment charges/(reversals)	**6 327**	9 418
Income after credit impairment charges	**21 010**	17 947
Operating expenses	**14 914**	13 091
Staff costs	**6 937**	6 516
Restructuring costs		
Other operating expenses/(recoveries)	**7 977**	6 575
Net income	**6 096**	4 856
Share of profits/(losses) from associates and joint ventures	**87**	(256)
Net income before indirect taxation	**6 183**	4 600
Indirect taxation	**420**	428
Profit before direct taxation	**5 763**	4 172
Direct taxation	**1 593**	1 281
Profit for the year	**4 170**	2 891
Attributable to non-controlling interest	**1**	
Attributable to the ordinary shareholder	**4 169**	2 891
Headline earnings	**4 271**	3 273
Operating information		
Total assets	**370 476**	357 851
Total liabilities	**350 602**	340 034
Other information		
Interest in associates and joint ventures	**710**	644
Depreciation and amortisation	**791**	989
Impairments of intangible assets	**142**	84

[1] *Where reporting responsibility for individual cost centres and divisions within business units changes, the segmental analysis comparative figures are reclassified accordingly.*

Corporate & Investment Banking		Other services		Total	
2010 **Rm**	2009[1] Rm	**2010** **Rm**	2009[1] Rm	**2010** **Rm**	2009[1] Rm
4 528	5 064	**463**	535	**20 212**	21 500
5 860	5 827	**511**	336	**18 487**	17 627
2 235	2 323	**1**	(114)	**13 730**	13 280
2 557	2 905	**129**	56	**2 686**	2 961
1 068	599	**381**	394	**2 071**	1 386
10 388	10 891	**974**	871	**38 699**	39 127
(107)	906	**139**	(493)	**6 359**	9 831
10 495	9 985	**835**	1 364	**32 340**	29 296
5 160	4 553	**1 367**	642	**21 441**	18 286
2 561	2 517	**1 615**	641	**11 113**	9 674
		304		**304**	
2 599	2 036	**(552)**	1	**10 024**	8 612
5 335	5 432	**(532)**	722	**10 899**	11 010
37	151		1	**124**	(104)
5 372	5 583	**(532)**	723	**11 023**	10 906
88	84	**348**	70	**856**	582
5 284	5 499	**(880)**	653	**10 167**	10 324
943	732	**(357)**	131	**2 179**	2 144
4 341	4 767	**(523)**	522	**7 988**	8 180
49				**50**	
4 292	4 767	**(523)**	522	**7 938**	8 180
4 286	4 690	**(523)**	478	**8 034**	8 441
462 597	429 507	**7 350**	3 896	**840 423**	791 254
448 000	415 849	**(7 096)**	(8 788)	**791 506**	747 095
584	635	**15**	15	**1 309**	1 294
195	98	**460**	79	**1 446**	1 166
			11	**142**	95

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Notes to the annual financial statements continued
for the year ended 31 December 2010

2. Key management assumptions

In preparing the financial statements, estimates and assumptions are made that could affect the reported amounts of assets and liabilities within the next financial year. Estimates and judgements are continually evaluated and are based on factors such as historical experience and current best estimates of uncertain future events that are believed to be reasonable under the circumstances. No material changes to assumptions have occurred during the year.

2.1 Credit impairment losses on loans and advances

Portfolio loan impairments

The group assesses its loan portfolios for impairment at each reporting date. In determining whether an impairment loss should be recorded in profit or loss, the group makes judgements as to whether there is observable data indicating a measurable decrease in the estimated future cash flows from a portfolio of loans before the decrease can be allocated to an individual loan in that portfolio. Estimates are made of the duration between the occurrence of a loss event and the identification of a loss on an individual basis. The impairment for performing and non-performing but not specifically impaired loans is calculated on a portfolio basis, based on historical loss ratios, adjusted for national and industry-specific economic conditions and other indicators present at the reporting date that correlate with defaults on the portfolio. These annual loss ratios are applied to loan balances in the portfolio and scaled to the estimated loss emergence period. At year end, the group applied the following loss emergence periods:

	Average loss emergence period		Sensitivity[1]	
	2010 Months	2009 Months	**2010 Rm**	2009 Rm
Personal & Business Banking	**3**	3	**372**	308
Mortgage lending	**3**	3	**148**	70
Instalment sale and finance leases	**3**	3	**68**	88
Card debtors	**3**	3	**69**	67
Other lending	**3**	3	**87**	83
Corporate & Investment Banking	**12**	12	**52**	77
			424	385

[1] *Sensitivity is based on the effect of a change of one month in the emergence period on the value of the impairment.*

Specific loan impairments

Non-performing loans include those loans for which the group has identified objective evidence of default, such as a breach of a material loan covenant or condition as well as those loans for which instalments are due and unpaid for 90 days or more. Management's estimates of future cash flows on individual impaired loans are based on historical loss experience for assets with similar credit risk characteristics. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience. Expected time to recover security and recoveries of individual loans as a percentage of the outstanding balances are estimated as follows:

	Expected time to recovery		Expected recoveries as a percentage of impaired loans		Impairment loss sensitivity[1]	
	2010 Months	2009 Months	**2010 %**	2009 %	**2010 Rm**	2009 Rm
Personal & Business Banking	**6 – 15**	5 – 15	**71**	71	**231**	240
Mortgage lending	**10**	10	**83**	82	**207**	211
Instalment sale and finance leases	**6**	5	**41**	47	**10**	15
Card debtors	**15**	15	**24**	26	**4**	4
Other lending	**14**	14	**30**	31	**10**	10
Corporate & Investment Banking	**12**	12	**78**	55	**20**	9
			72	70	**251**	249

[1] *Sensitivity is based on the effect of a change of one percentage point in the value of the estimated recovery on the value of the impairment.*

2. Key management assumptions continued

2.2 Fair value of financial instruments

The fair value of financial instruments, such as unlisted equity investments and equity derivatives, that are not quoted in active markets is determined by using valuation techniques. Wherever possible, models use only observable market data. Where required, these models incorporate assumptions that are not supported by prices from observable current market transactions in the same instrument and are not based on available observable market data. Such assumptions include risk premiums, liquidity discount rates, credit risk, volatilities and correlations. Changes in these assumptions could affect the reported fair values of financial instruments.

The total amount of the change in fair value estimated using a valuation technique not based on observable market data that was recognised in profit or loss for the year ended 31 December 2010 was a profit of R331 million (2009: R81 million profit) for the group and company.

The additional disclosures with regards to fair value measurements of financial instruments are set out in note 22.

2.3 Impairment of available-for-sale equity investments

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

Had the declines of financial instruments with fair values below cost been considered significant or prolonged, the group and company would have suffered an additional loss of R24 million (2009: R23 million) in its financial statements, being the transfer of the negative revaluations within available-for-sale reserves to the statement of comprehensive income.

2.4 Securitisations and SPEs

The group sponsors the formation of SPEs primarily for the purpose of allowing clients to hold investments, for asset securitisation transactions and for buying or selling credit protection. The group does not consolidate SPEs that it does not control. As it can sometimes be difficult to determine whether the group controls an SPE, it makes judgements about its exposure to the risks and rewards, as well as its ability to make operational decisions for the SPE in question. In arriving at judgements, these factors are considered both jointly and separately.

The group consolidated SPEs with assets of R18 643 million (2009: R21 821 million) and R42 million profit (2009: R96 million profit). Further details regarding these SPEs can be found in annexure C on page 180.

2.5 Held-to-maturity investments

The group follows the guidance of IAS 39 on classifying non-derivative financial assets with fixed or determinable payments and fixed maturity as held-to-maturity. This classification requires judgement of the group's ability to hold such investments to maturity. If the group fails to keep these investments to maturity other than for specific defined circumstances, it will be required to classify the entire category as available-for-sale. The investment would be measured at fair value and not amortised cost. If the entire category of held-to-maturity investments were tainted in this way, the carrying value would increase by R112 million (2009: R46 million), for the group and company with a corresponding entry in other comprehensive income.

2.6 Computer software intangible assets

Direct computer software development costs that are clearly associated with an identifiable and unique system, which will be controlled by the group and have a probable future economic benefit beyond one year, are capitalised and disclosed as computer software intangible assets. Computer software intangible assets are carried at cost less accumulated amortisation and accumulated impairment losses. The assets are reviewed for impairment at each reporting date and tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. The determination of the recoverable amount of each asset requires judgement. The recoverable amount is based on the value in use and calculated by estimating future cash benefits that will result from each asset and discounting these cash benefits at an appropriate pre-tax discount rate. The carrying value of computer software intangible assets capitalised at 31 December 2010 amounted to R4 372 million (2009: R2 913 million) for the group and company.

2.7 Income taxes

The group is subject to direct and indirect taxation in a number of jurisdictions. There are many transactions and calculations for which the ultimate tax determination has an element of uncertainty during the ordinary course of business. The group recognises liabilities based on objective estimates of the quantum of taxes that may be due. Where the final tax determination is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax expense in the period in which such determination is made.

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Notes to the annual financial statements continued
for the year ended 31 December 2010

	Group		Company	
	2010 Rm	2009 Rm	**2010 Rm**	2009 Rm
3. Cash and balances with the central bank				
Coins and bank notes	**5 870**	4 779	**5 870**	4 778
Balances with the central bank	**12 311**	9 691	**12 311**	9 692
	18 181	14 470	**18 181**	14 470

Deposits are placed with the central bank for the purpose of reserve requirements and are therefore not available for use.

4. Derivative instruments

All derivatives are classified as either derivatives held-for-trading or derivatives held-for-hedging.

4.1 Fair values

The fair value of a derivative financial instrument represents, for quoted instruments, the quoted market price and for unquoted instruments, the present value of the positive or negative cash flows, which would have occurred if the rights and obligations arising from that instrument were closed out in an orderly marketplace transaction at year end.

4.2 Notional amount

The gross notional amount is the sum of the absolute value of all bought and sold contracts. The amount cannot be used to assess the market risk associated with the position and should be used only as a means of assessing the group's participation in derivative contracts.

4. Derivative instruments continued

4.3 Derivative assets and liabilities

	Maturity analysis of net fair value						
	Within 1 year Rm	After 1 year but within 5 years Rm	After 5 years Rm	Net fair value Rm	Fair value of assets Rm	Fair value of liabilities Rm	Contract/ notional amount Rm
2010							
Group							
Derivatives held-for-trading							
Foreign exchange derivatives	2 129	(735)	135	1 529	29 631	(28 102)	816 823
Forwards	2 535	(105)	135	2 565	25 052	(22 487)	679 626
Futures	(1)	(3)		(4)		(4)	11 725
Options	(405)	(627)		(1 032)	4 579	(5 611)	125 472
Interest rate derivatives	3 713	359	(1 107)	2 965	71 021	(68 056)	4 936 502
Bond options	(450)	(157)		(607)	1 073	(1 680)	117 695
Caps and floors	(16)	5	27	16	266	(250)	149 299
Forwards	253	(16)		237	1 765	(1 528)	1 501 398
Swaps	3 874	456	(1 207)	3 123	67 619	(64 496)	3 144 657
Swaptions	52	71	73	196	298	(102)	23 453
Commodity derivatives	(70)	(237)	20	(287)	2 464	(2 751)	30 708
Forwards	(15)	(251)		(266)	1 715	(1 981)	18 912
Futures	(35)			(35)	14	(49)	1 757
Options	(20)	14	20	14	735	(721)	10 039
Credit derivatives							
Credit default swaps	(64)	(46)	3	(107)	419	(526)	72 006
Equity derivatives	(358)	(231)		(589)	1 205	(1 794)	105 516
Forwards	(105)	17		(88)	74	(162)	2 207
Futures	(27)	(1)		(28)	36	(64)	11 604
Index options	(199)	(264)		(463)	624	(1 087)	57 673
Options	(115)	(8)		(123)	257	(380)	12 414
Swaps	40	48		88	95	(7)	
Other	48	(23)		25	119	(94)	21 618
Total derivative assets/ (liabilities) held-for-trading	5 350	(890)	(949)	3 511	104 740	(101 229)	5 961 555
Derivatives held-for-hedging							
Derivatives designated as fair value hedges							
Interest rate swaps	604	(169)	(308)	127	452	(325)	27 110
Derivatives designated as cash flow hedges	(383)	(465)	(45)	(893)	29	(922)	6 994
Currency swaps	(365)	(426)		(791)		(791)	5 319
Forwards	(18)	(39)		(57)	29	(86)	525
Interest rate swaps			(45)	(45)		(45)	1 150
Total derivative assets/ (liabilities) held-for-hedging	221	(634)	(353)	(766)	481	(1 247)	34 104
Total derivative assets/ (liabilities)	5 571	(1 524)	(1 302)	2 745	105 221	(102 476)	5 995 659

Notes to the annual financial statements continued

for the year ended 31 December 2010

4. Derivative instruments continued

4.3 Derivative assets and liabilities continued

	Maturity analysis of net fair value						
	Within 1 year Rm	After 1 year but within 5 years Rm	After 5 years Rm	Net fair value Rm	Fair value of assets Rm	Fair value of liabilities Rm	Contract/ notional amount Rm
2009							
Group							
Derivatives held-for-trading							
Foreign exchange derivatives	1 551	1 059	55	2 665	20 432	(17 767)	355 095
Forwards	5 443	2 099	55	7 597	20 014	(12 417)	318 166
Futures	(12)	(1)		(13)	36	(49)	6 645
Options	(3 880)	(1 039)		(4 919)	382	(5 301)	30 284
Interest rate derivatives	1 171	(2 014)	(1 105)	(1 948)	48 422	(50 370)	3 576 339
Bond options	52	(664)	(1)	(613)	1 376	(1 989)	28 525
Caps and floors	1	2	36	39	149	(110)	55 305
Forwards	36	12		48	1 015	(967)	991 538
Swaps[1]	1 064	(1 419)	(1 161)	(1 516)	45 684	(47 200)	2 488 682
Swaptions	18	55	21	94	198	(104)	12 289
Commodity derivatives	(134)	(412)	691	145	3 382	(3 237)	41 984
Forwards	(289)	(997)	691	(595)	1 789	(2 384)	22 350
Futures	1			1	6	(5)	1 962
Options	154	585		739	1 587	(848)	17 672
Credit derivatives							
Credit default swaps	68	52	16	136	707	(571)	18 861
Equity derivatives	(235)	(226)		(461)	2 761	(3 222)	296 250
Forwards	(64)	(37)		(101)	97	(198)	1 894
Futures	81	(8)		73	132	(59)	17 634
Index options	(216)	(147)		(363)	2 282	(2 645)	258 823
Options	(63)	(67)		(130)	155	(285)	12 502
Swaps	2	9		11	26	(15)	1 105
Other	25	24		49	69	(20)	4 292
Total derivative assets/ (liabilities) held-for-trading	2 421	(1 541)	(343)	537	75 704	(75 167)	4 288 529
Derivatives held-for-hedging							
Derivatives designated as fair value hedges	1 395	111	(918)	588	617	(29)	100 972
Currency futures	1	1		2	2		2 280
Interest rate swaps	1 394	110	(918)	586	615	(29)	98 692
Derivatives designated as cash flow hedges	(11)	149	42	180	180		2 544
Currency swaps	(11)	120	42	151	151		2 489
Forwards		29		29	29		55
Total derivative assets/ (liabilities) held-for-hedging	1 384	260	(876)	768	797	(29)	103 516
Total derivative assets/ (liabilities)	3 805	(1 281)	(1 219)	1 305	76 501	(75 196)	4 392 045

[1] *2009 figures restated, refer annexure B – reclassifications and restatements.*

4. Derivative instruments continued

4.3 Derivative assets and liabilities continued

	Maturity analysis of net fair value Within 1 year Rm	After 1 year but within 5 years Rm	After 5 years Rm	Net fair value Rm	Fair value of assets Rm	Fair value of liabilities Rm	Contract/ notional amount Rm
2008							
Group							
Derivatives held-for-trading							
Foreign exchange derivatives	(2 661)	(1 425)	(9)	(4 095)	26 879	(30 974)	513 383
Forwards	588	(12)	(5)	571	25 192	(24 621)	474 952
Futures	51	(38)	(4)	9	9		22
Options	(3 300)	(1 375)		(4 675)	1 678	(6 353)	38 409
Interest rate derivatives	1 197	(2 369)	(1 546)	(2 718)	76 233	(78 951)	4 119 208
Bond options	(25)	(656)	22	(659)	2 631	(3 290)	114 168
Caps and floors	(19)	(3)	38	16	183	(167)	40 676
Forwards	(245)	(77)		(322)	2 808	(3 130)	1 337 316
Future options					37	(37)	
Swaps[1]	1 436	(1 682)	(1 482)	(1 728)	70 218	(71 946)	2 606 476
Swaptions	50	49	(124)	(25)	356	(381)	20 572
Commodity derivatives	(1 560)	(604)	116	(2 048)	4 337	(6 385)	14 884
Forwards	(1 427)	(877)	(11)	(2 315)	2 198	(4 513)	13 984
Options	(133)	273	127	267	2 139	(1 872)	900
Credit derivatives	(145)	(525)	(6)	(676)	466	(1 142)	7 225
Credit default swaps	(145)	(525)	(6)	(676)	464	(1 140)	7 205
Total return swaps					2	(2)	20
Equity derivatives	(478)	(759)		(1 237)	2 619	(3 856)	426 893
Forwards	91	141		232	245	(13)	1 572
Futures	5	(3)		2	276	(274)	52 486
Index options	(335)	(302)		(637)	1 868	(2 505)	362 274
Options	(240)	(499)		(739)	170	(909)	9 317
Swaps	4	(39)		(35)	10	(45)	1 244
Other	(3)	(57)		(60)	50	(110)	
Total derivative (liabilities)/ assets held-for-trading	(3 647)	(5 682)	(1 445)	(10 774)	110 534	(121 308)	5 081 593
Derivatives held-for-hedging							
Derivatives designated as fair value hedges							
Interest rate swaps	913	577	(184)	1 306	1 306		95 658
Derivatives designated as cash flow hedges	76	1 243	(53)	1 266	1 627	(361)	4 321
Currency swaps		1 092		1 092	1 092		2 548
Forwards	76	74		150	150		
Interest rate swaps		77	(53)	24	385	(361)	1 773
Total derivative assets/ (liabilities) held-for-hedging	989	1 820	(237)	2 572	2 933	(361)	99 979
Total derivative (liabilities)/ assets	(2 658)	(3 862)	(1 682)	(8 202)	113 467	(121 669)	5 181 572

[1] *2008 figures restated, refer annexure B – reclassifications and restatements.*

Notes to the annual financial statements continued

for the year ended 31 December 2010

4. Derivative instruments continued

4.3 Derivative assets and liabilities continued

	Maturity analysis of net fair value						
	Within 1 year Rm	After 1 year but within 5 years Rm	After 5 years Rm	Net fair value Rm	Fair value of assets Rm	Fair value of liabilities Rm	Contract/ notional amount Rm
2010							
Company							
Derivatives held-for-trading							
Foreign exchange derivatives	1 829	(647)	135	1 317	29 461	(28 144)	816 822
Forwards	2 235	(17)	135	2 353	24 882	(22 529)	679 625
Futures	(1)	(3)		(4)		(4)	11 725
Options	(405)	(627)		(1 032)	4 579	(5 611)	125 472
Interest rate derivatives	3 726	558	(1 107)	3 177	71 190	(68 013)	4 937 261
Bond options	(450)	(157)		(607)	1 073	(1 680)	117 695
Caps and floors	(16)	5	27	16	266	(250)	149 299
Forwards	253	(16)		237	1 765	(1 528)	1 501 400
Swaps	3 887	654	(1 207)	3 334	67 788	(64 454)	3 145 414
Swaptions	52	72	73	197	298	(101)	23 453
Commodity derivatives	(70)	(237)	20	(287)	2 464	(2 751)	30 708
Forwards	(15)	(251)		(266)	1 715	(1 981)	18 912
Futures	(35)			(35)	14	(49)	1 757
Options	(20)	14	20	14	735	(721)	10 039
Credit derivatives							
Credit default swaps	(64)	(46)	3	(107)	420	(527)	72 006
Equity derivatives	(343)	(231)		(574)	1 205	(1 779)	105 532
Forwards	(105)	17		(88)	74	(162)	2 207
Futures	(27)	(1)		(28)	36	(64)	11 604
Index options	(199)	(264)		(463)	624	(1 087)	57 673
Options	(100)	(8)		(108)	257	(365)	12 430
Swaps	40	48		88	95	(7)	
Other	48	(23)		25	119	(94)	21 618
Total derivative assets/ (liabilities) held-for-trading	5 078	(603)	(949)	3 526	104 740	(101 214)	5 962 329
Derivatives held-for-hedging							
Derivatives designated as fair value hedges							
Interest rate swaps	565	(170)	(308)	87	412	(325)	14 124
Derivatives designated as cash flow hedges	(382)	(466)	(45)	(893)	29	(922)	6 994
Currency swaps	(364)	(427)		(791)		(791)	5 319
Forwards	(18)	(39)		(57)	29	(86)	525
Interest rate swaps			(45)	(45)		(45)	1 150
Total derivative assets/ (liabilities) held-for-hedging	183	(636)	(353)	(806)	441	(1247)	21 118
Total derivative assets/ (liabilities)	5 261	(1 239)	(1 302)	2 720	105 181	(102 461)	5 983 447

4. Derivative instruments continued

4.3 Derivative assets and liabilities continued

	Maturity analysis of net fair value						
	Within 1 year Rm	After 1 year but within 5 years Rm	After 5 years Rm	Net fair value Rm	Fair value of assets Rm	Fair value of liabilities Rm	Contract/ notional amount Rm
2009							
Company							
Derivatives held-for-trading							
Foreign exchange derivatives	1 551	1 059	55	2 665	20 432	(17 767)	355 095
Forwards	5 443	2 099	55	7 597	20 014	(12 417)	318 166
Futures	(12)	(1)		(13)	36	(49)	6 645
Options	(3 880)	(1 039)		(4 919)	382	(5 301)	30 284
Interest rate derivatives	1 171	(2 014)	(1 105)	(1 948)	48 422	(50 370)	3 576 339
Bond options	52	(664)	(1)	(613)	1 376	(1 989)	28 525
Caps and floors	1	2	36	39	149	(110)	55 305
Forwards	36	12		48	1 015	(967)	991 538
Swaps[1]	1 064	(1 419)	(1 161)	(1 516)	45 684	(47 200)	2 488 682
Swaptions	18	55	21	94	198	(104)	12 289
Commodity derivatives	(134)	(412)	691	145	3 382	(3 237)	41 984
Forwards	(289)	(997)	691	(595)	1 789	(2 384)	22 350
Futures	1			1	6	(5)	1 962
Options	154	585		739	1 587	(848)	17 672
Credit derivatives							
Credit default swaps	68	52	16	136	707	(571)	18 861
Equity derivatives	(235)	(226)		(461)	2 761	(3 222)	296 250
Forwards	(64)	(37)		(101)	97	(198)	1 894
Futures	81	(8)		73	132	(59)	17 634
Index options	(216)	(147)		(363)	2 282	(2 645)	258 823
Options	(63)	(67)		(130)	155	(285)	12 502
Swaps	2	9		11	26	(15)	1 105
Other	25	24		49	69	(20)	4 292
Total derivative assets/ (liabilities) held-for-trading	2 421	(1 541)	(343)	537	75 704	(75 167)	4 288 529
Derivatives held-for-hedging							
Derivatives designated as fair value hedges							
Interest rate swaps	1 358	96	(918)	536	565	(29)	85 978
Derivatives designated as cash flow hedges	(11)	149	42	180	180		2 544
Currency swaps	(11)	120	42	151	151		2 489
Forwards		29		29	29		55
Total derivative assets/ (liabilities) held-for-hedging	1 347	245	(876)	716	745	(29)	88 522
Total derivative assets/ (liabilities)	3 768	(1 296)	(1 219)	1 253	76 449	(75 196)	4 377 051

[1] *2009 figures restated, refer annexure B – reclassifications and restatements.*

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4. Derivative instruments continued

4.3 Derivative assets and liabilities continued

	Maturity analysis of net fair value Within 1 year Rm	After 1 year but within 5 years Rm	After 5 years Rm	Net fair value Rm	Fair value of assets Rm	Fair value of liabilities Rm	Contract/ notional amount Rm
2008							
Company							
Derivatives held-for-trading							
Foreign exchange derivatives	(2 662)	(1 425)	(8)	(4 095)	26 879	(30 974)	513 383
Forwards	587	(12)	(4)	571	25 192	(24 621)	474 952
Futures	51	(38)	(4)	9	9		22
Options	(3 300)	(1 375)		(4 675)	1 678	(6 353)	38 409
Interest rate derivatives	1 235	(2 335)	(1 546)	(2 646)	76 232	(78 878)	4 119 208
Bond options	(24)	(623)	22	(625)	2 632	(3 257)	114 168
Caps and floors	(20)	(3)	39	16	183	(167)	40 676
Forwards	(245)	(77)		(322)	2 808	(3 130)	1 337 316
Future options					37	(37)	
Swaps[1]	1 474	(1 681)	(1 483)	(1 690)	70 216	(71 906)	2 606 476
Swaptions	50	49	(124)	(25)	356	(381)	20 572
Commodity derivatives	(1 561)	(604)	116	(2 049)	4 337	(6 386)	14 884
Forwards	(1 427)	(877)	(11)	(2 315)	2 198	(4 513)	13 984
Options	(134)	273	127	266	2 139	(1 873)	900
Credit derivatives	(145)	(525)	(6)	(676)	466	(1 142)	7 225
Credit default swaps	(145)	(525)	(6)	(676)	464	(1 140)	7 205
Total return swaps					2	(2)	20
Equity derivatives	(479)	(758)		(1 237)	2 619	(3 856)	426 893
Forwards	91	141		232	245	(13)	1 572
Futures	4	(4)			274	(274)	52 486
Index options	(335)	(301)		(636)	1 869	(2 505)	362 274
Options	(240)	(499)		(739)	170	(909)	9 317
Swaps	4	(38)		(34)	11	(45)	1 244
Other	(3)	(57)		(60)	50	(110)	
Total derivative (liabilities)/ assets held-for-trading	(3 612)	(5 647)	(1 444)	(10 703)	110 533	(121 236)	5 081 593
Derivatives held-for-hedging							
Derivatives designated as fair value hedges							
Interest rate swaps	923	544	(184)	1 283	1 283		80 336
Derivatives designated as cash flow hedges	76	1 243	(53)	1 266	1 627	(361)	4 321
Currency swaps		1 092		1 092	1 092		2 548
Forwards	76	74		150	150		
Interest rate swaps		77	(53)	24	385	(361)	1 773
Total derivative assets/ (liabilities) held-for-hedging	999	1 787	(237)	2 549	2 910	(361)	84 657
Total derivative (liabilities)/ assets	(2 613)	(3 860)	(1 681)	(8 154)	113 443	(121 597)	5 166 250

[1] 2008 figures restated, refer annexure B – reclassifications and restatements.

4. Derivative instruments continued

4.4 Use and measurement of derivative instruments

In the normal course of business, the group enters into a variety of derivative transactions for both trading and hedging purposes. Derivative financial instruments are entered into for trading purposes and for hedging foreign exchange, interest rate and equity exposures. Derivative instruments used by the group in both trading and hedging activities include swaps, options, forwards, futures and other similar types of instruments based on foreign exchange rates, interest rates, credit risk and the prices of commodities and equities.

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

The fair value of all derivatives is recognised in the statement of financial position and is only netted to the extent that a legal right of set-off exists and there is an intention to settle on a net basis.

Swaps are transactions in which two parties exchange cash flows on a specified notional amount for a predetermined period. The major types of swap transactions undertaken by the group are as follows:

- Interest rate swap contracts which generally entail the contractual exchange of fixed and floating rate interest payments in a single currency, based on a notional amount and an interest reference rate.
- Credit default swaps which are the most common form of credit derivatives, under which the party buying protection makes one or more payments to the party selling protection during the life of the swap in exchange for an undertaking by the seller to make a payment to the buyer following a credit event, as defined in the contract, with respect to a third-party reference asset.
- Total return swaps which are contracts in which one party (the total return payer) transfers the economic risks and rewards associated with an underlying asset to another counterparty (the total return receiver). The transfer of risk and reward is effected by way of an exchange of cash flows that mirror changes in the value of the underlying asset and any income derived therefrom.

Options are contractual agreements under which the seller (writer) grants the purchaser the right, but not the obligation, either to buy (call option) or to sell (put option) by or at a set date, a specified amount of a financial instrument or commodity at a predetermined price. The seller receives a premium from the purchaser for this right. Options may be traded over-the-counter or on a regulated exchange.

Forwards and futures are contractual obligations to buy or sell financial instruments or commodities on a future date at a specified price. Forward contracts are tailor-made agreements that are transacted between counterparties in the over-the-counter market, whereas futures are standardised contracts transacted on regulated exchanges.

4.5 Derivatives held-for-trading

The group trades derivative instruments on behalf of customers and for its own positions. The group transacts derivative contracts to address customer demand, both as a market maker in the wholesale markets and in structuring tailored derivatives for customers. The group also takes proprietary positions for its own account. Trading derivative products include the following derivative instruments:

4.5.1 Foreign exchange derivatives

Foreign exchange derivatives are used to hedge foreign currency risks on behalf of customers and for the group's own positions. Foreign exchange derivatives primarily consist of forward exchange contracts, foreign exchange futures and foreign exchange options.

4.5.2 Interest rate derivatives

Interest rate derivatives are used to modify the volatility and interest rate characteristics of interest-earning assets and interest-bearing liabilities on behalf of customers and for the group's own positions. Interest rate derivatives primarily consist of bond options, caps and floors, future options, forward rate agreements, swaps and swaptions.

4.5.3 Commodity derivatives

Commodity derivatives are used to address customer commodity demands and to take proprietary positions for the group's own account. Commodity derivatives primarily consist of commodity forwards, commodity futures and commodity options.

4.5.4 Credit derivatives

Credit derivatives are used to hedge the credit risk from one counterparty to another and manage the credit exposure to selected counterparties on behalf of customers and for the group's own positions. Credit derivatives primarily consist of credit default swaps and total return swaps.

4.5.5 Equity derivatives

Equity derivatives are used to address customer equity demands and to take proprietary positions for the group's own account. Equity derivatives primarily consist of forwards, futures, index options, options, swaps and other equity-related financial derivative instruments.

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4. Derivative instruments continued

4.6 Derivatives held-for-hedging

The group enters into derivative transactions, which are designated and qualify as either fair value or cash flow hedges for recognised assets or liabilities or highly probable forecast transactions. Derivatives designated as hedging instruments consist of:

4.6.1 Derivatives designated as fair value hedges

The group's fair value hedges principally consist of interest rate swaps that are used to mitigate the risk of changes in market interest rates. Refer to accounting policy 4 – *Financial instruments.*

	Group		Company	
	2010 Rm	2009 Rm	**2010 Rm**	2009 Rm
Gains/(losses) arising from fair value hedges				
– on hedging instruments	**23**	494	**23**	494
– on the hedged items attributable to the hedged risk	**147**	(438)	**147**	(438)

4.6.2 Derivatives designated as cash flow hedges

The group uses currency swaps, forwards, exchange traded currency options and interest rate swaps to mitigate against changes in cash flows of certain variable rate debt issues. The group applies hedge accounting for its non-trading interest rate risk in major currencies by analysing expected cash flows on a group basis. The objective is to mitigate against changes in future interest cash flows resulting from the impact of changes in market interest rates, and re-investment or reborrowing of current balances.

The group uses currency forwards to mitigate against the risk of changes in cash flows arising from changes in foreign currency rates on the forecasted placement of funds between group entities. The group applies hedge accounting where the forecast intra-group placement of funds is both denominated in a currency other than the functional currency of the entity providing the funds and where the placement of funds will affect consolidated profit or loss in the future.

The forecasted timing of the release of net cash flows from the cash flow hedging reserve into profit or loss at 31 December 2010 for the group and company is as follows:

	3 months or less Rm	**More than 3 months but less than 1 year Rm**	**More than 1 year but less than 5 years Rm**
2010			
Net cash outflow	**(1)**	**(7)**	**(100)**
2009			
Net cash inflow	1	3	130

4. Derivative instruments continued

4.6 Derivatives held-for-hedging continued

4.6.2 Derivatives designated as cash flow hedges continued

The fair value (losses)/gains removed from the cash flow hedging reserve and transferred to profit or loss, have been included in the following line items in the income statement:

	Group		Company	
	2010 Rm	2009 Rm	**2010 Rm**	2009 Rm
Net interest income	**(714)**	(41)	**(714)**	(41)
Other operating expenses	**10**	54	**10**	54
Total fair value (losses)/gains	**(704)**	13	**(704)**	13

No hedge ineffectiveness was recognised in profit or loss for the group or company in 2010 or 2009.

There were no transactions for the group or company for which cash flow hedge accounting had to be discontinued in 2010 or 2009 as a result of highly probable cash flows that are no longer expected to occur.

4.7 Day one profit or loss – derivative instruments

The table below sets out the aggregate 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 balance during the year:

	Group		Company	
	2010 Rm	2009 Rm	**2010 Rm**	2009 Rm
Unamortised profit at beginning of the year	**81**	95	**81**	95
Additional (loss)/profit on new transactions	**(19)**	3	**(19)**	3
Recognised in profit or loss during the year	**(44)**	(17)	**(44)**	(17)
Unamortised profit at end of the year	**18**	81	**18**	81

5. Trading assets

	Group 2010 Rm	Group 2009 Rm	Company 2010 Rm	Company 2009 Rm
Listed[1]	**5 749**	3 562	**5 378**	3 137
Unlisted	**8 076**	17 240	**8 075**	17 240
	13 825	20 802	**13 453**	20 377
Comprising[1]:				
Government, municipality and utility bonds	**2 933**	2 414	**2 747**	2 234
Corporate bonds	**1 032**	384	**845**	137
Commodities	**1 229**	310	**1 230**	310
Collateral	**3 990**	7 149	**3 990**	7 151
Reverse repurchase agreements	**3 160**	9 902	**3 160**	9 902
Treasury bills	**1 090**	642	**1 090**	642
Floating rate notes	**386**	1	**386**	1
Other instruments	**5**		**5**	
	13 825	20 802	**13 453**	20 377
Maturity analysis				
The maturities represent periods to contractual redemption of the trading assets recorded.				
Redeemable on demand[1]	**2 969**	5 768	**2 969**	5 771
Maturing within 1 month	**4 387**	9 902	**4 387**	9 901
Maturing after 1 month but within 6 months	**856**	580	**669**	580
Maturing after 6 months but within 12 months	**969**	407	**969**	344
Maturing after 12 months	**3 684**	3 952	**3 499**	3 588
Undated assets	**960**	193	**960**	193
	13 825	20 802	**13 453**	20 377

[1] *2009 figures reclassified, refer annexure B – reclassifications and restatements.*

Directors' valuation

The directors' valuation of unlisted investments is equal to the carrying value which approximates fair value. All unlisted investments were valued at 31 December 2010.

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	Group		Company	
	2010 Rm	2009 Rm	**2010 Rm**	2009 Rm
6. Pledged assets and assets not derecognised				
6.1 Pledged assets				
Financial assets that may be repledged or resold by counterparties				
Government, municipality and utility bonds	**259**	1 057	**259**	1 057
Commodity leases	**5 675**		**5 675**	
	5 934	1 057	**5 934**	1 057
Maturity analysis				
The maturities represent periods to contractual redemption of the pledged assets recorded.				
Maturing within 1 month	**2 398**		**2 398**	
Maturing after 1 month but within 6 months	**3 409**	132	**3 409**	132
Maturing after 6 months but within 12 months	**127**	127	**127**	127
Maturing after 12 months		798		798
	5 934	1 057	**5 934**	1 057

6.2 Total assets pledged

The carrying amount of financial assets that have been pledged as collateral for liabilities (including amounts reflected in 6.1 above) at 31 December 2010 is R11 549 million (2009: R13 471 million) for the group and company.

The assets pledged by the group are strictly for the purpose of providing collateral to the counterparty. To the extent that the counterparty is permitted to sell and/or repledge the assets in the absence of default, they are classified in the statement of financial position as pledged assets.

6.3 Collateral accepted as security for assets

As part of the reverse repurchase and securities borrowing agreements, the group has received securities that it is allowed to sell or repledge. The fair value of the financial assets accepted as collateral that the group is permitted to sell or repledge in the absence of default is R3 521 million (2009: R15 865 million) for the group and company.

The fair value of financial assets accepted as collateral that have been sold or repledged is R1 903 million (2009: R790 million) for the group and company. The group is obliged to return equivalent securities.

These transactions are conducted under terms that are customary to standard securities borrowing and lending activities.

6.4 Assets transferred not derecognised

Securitisations and other structured transactions

The group enters into transactions in the normal course of business by which it transfers recognised financial assets directly to third parties or SPEs. These transfers may give rise to full derecognition of the financial assets concerned.

Full derecognition occurs when the group transfers its contractual right to receive cash flows from the financial assets and substantially all the risks and rewards of ownership. The risks transferred include interest rate, currency, prepayment and other price risks.

Where the group has retained substantially all of the credit risk associated with the transferred assets, it continues to recognise these assets.

The following table analyses the carrying amount of securitised financial assets that did not qualify for derecognition during the year, and their associated liabilities:

	Carrying amount of transferred assets 2010 Rm	**Carrying amount of associated liabilities 2010 Rm**	Carrying amount of transferred assets 2009 Rm	Carrying amount of associated liabilities 2009 Rm
Group				
Securitisation				
Mortgage lending	**13 676**	**13 387**	15 879	15 829
Instalment sale and finance leases			365	349
	13 676	**13 387**	16 244	16 178

6. Pledged assets and assets not derecognised continued

6.4 Assets transferred not derecognised continued

Other assets transferred not derecognised

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

Details of other financial assets which have been sold or otherwise transferred, but which have not been derecognised, and their associated liabilities, are:

	Carrying amount of transferred assets 2010 Rm	Carrying amount of associated liabilities 2010 Rm	Carrying amount of transferred assets 2009 Rm	Carrying amount of associated liabilities 2009 Rm
Group and company				
Repurchase agreements	259	259	1 057	774
Commodity leases	5 675			

	Group		Company	
	2010 Rm	2009 Rm	2010 Rm	2009 Rm
7. Financial investments				
Short-term negotiable securities	52 885	48 755	52 885	48 755
Listed	6 421	4 057	6 421	4 057
Unlisted[1]	46 464	44 698	46 464	44 698
Other financial investments	26 503	13 253	26 503	12 868
Listed	17 016	10 791	17 016	10 791
Unlisted	9 487	2 462	9 487	2 077
	79 388	62 008	79 388	61 623

[1] *Included in unlisted short-term negotiable securities are SARB debentures and negotiable certificates of deposit.*

	Group 2010 Rm	Group 2009 Rm	Company 2010 Rm	Company 2009 Rm
Comprising:				
Government, municipality and utility bonds	51 962	45 614	51 961	45 614
Corporate bonds	18 115	13 053	18 115	13 053
Listed equities	827	1 264	827	879
Unlisted equities	1 964	1 561	1 965	1 561
Mutual funds	5 965		5 965	
Other instruments	555	516	555	516
	79 388	62 008	79 388	61 623
Maturity analysis				
The maturities represent periods to contractual redemption of the financial investments recorded.				
Maturing within 1 month	15 826	18 102	15 826	18 102
Maturing after 1 month but within 6 months	18 795	25 624	18 795	25 390
Maturing after 6 months but within 12 months	12 240	7 381	12 240	7 230
Maturing after 12 months	23 511	8 166	23 511	8 166
Undated investments	9 016	2 735	9 016	2 735
	79 388	62 008	79 388	61 623

Directors' valuation

The directors' valuation of unlisted investments is equal to the carrying value which approximates fair value. All unlisted investments were valued at 31 December 2010.

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	Group		Company	
	2010 Rm	2009 Rm	**2010 Rm**	2009 Rm
8. Loans and advances				
8.1 Loans and advances net of impairments				
Loans and advances to banks	**62 364**	59 472	**62 311**	59 276
Call loans	**7 267**	3 073	**7 268**	3 074
Balances with banks	**55 097**	56 399	**55 043**	56 202
Loans and advances to customers	**474 057**	466 228	**455 196**	445 730
Gross loans and advances to customers	**488 020**	481 678	**469 014**	460 997
Mortgage loans	**263 882**	250 479	**250 247**	234 629
Instalment sale and finance leases (note 8.2)	**43 836**	47 973	**43 836**	47 606
Card debtors	**19 388**	20 319	**18 169**	19 160
Overdrafts and other demand lending	**36 654**	37 036	**36 659**	37 090
Term lending	**86 902**	89 136	**82 965**	86 068
Loans granted under resale agreements		1 907		1 907
Commercial property finance	**32 842**	29 839	**32 622**	29 548
Foreign currency lending	**4 516**	4 989	**4 516**	4 989
Credit impairments for loans and advances (note 8.3)	**(13 963)**	(15 450)	**(13 818)**	(15 267)
Specific credit impairments	**(9 867)**	(10 639)	**(9 770)**	(10 522)
Portfolio credit impairments	**(4 096)**	(4 811)	**(4 048)**	(4 745)
Net loans and advances	**536 421**	525 700	**517 507**	505 006
Comprising:				
Gross loans and advances	**550 384**	541 150	**531 325**	520 273
Less: credit impairments	**(13 963)**	(15 450)	**(13 818)**	(15 267)
Net loans and advances	**536 421**	525 700	**517 507**	505 006

The carrying value of loans and advances in the group and company was increased by R723 million (2009: reduced by R635 million) for fair value adjustments arising from risks subject to fair value hedging relationships.

Maturity analysis

The maturities represent periods to contractual redemption of the loans and advances recorded.

	Group 2010 Rm	Group 2009 Rm	Company 2010 Rm	Company 2009 Rm
Redeemable on demand	**83 925**	66 505	**83 152**	65 856
Maturing within 1 month	**52 274**	57 083	**51 537**	56 279
Maturing after 1 month but within 6 months	**36 733**	40 179	**35 459**	39 001
Maturing after 6 months but within 12 months	**41 567**	43 942	**40 310**	43 222
Maturing after 12 months	**335 885**	333 441	**320 867**	315 915
Gross loans and advances	**550 384**	541 150	**531 325**	520 273

	Group 2010 Rm	Group 2009 Rm	Company 2010 Rm	Company 2009 Rm
8. Loans and advances continued				
8.1 Loans and advances net of impairments continued				
Segmental analysis – industry				
Agriculture	**10 129**	5 885	**10 109**	5 868
Construction	**19 174**	15 918	**19 150**	15 897
Electricity	**650**	1 696	**645**	1 690
Finance, real estate and other business services	**127 371**	119 098	**123 241**	115 748
Individuals	**299 802**	297 227	**285 598**	280 412
Manufacturing	**14 397**	17 147	**14 290**	17 057
Mining	**12 976**	14 835	**12 957**	14 821
Other services	**29 457**	39 456	**29 106**	39 189
Transport	**5 973**	6 021	**5 892**	5 950
Wholesale	**30 455**	23 867	**30 337**	23 641
Gross loans and advances	**550 384**	541 150	**531 325**	520 273
Segmental analysis – geographic area				
The following table sets out the distribution of the loans and advances by geographic area where the loans are recorded.				
Eastern Cape	**17 734**	18 035	**16 912**	17 077
Free State	**11 816**	8 545	**11 384**	8 034
Gauteng	**278 172**	277 314	**267 824**	266 001
KwaZulu-Natal	**60 884**	59 385	**58 195**	56 513
Limpopo	**8 186**	7 356	**7 935**	7 022
Mpumalanga	**15 797**	14 289	**15 182**	13 529
North West	**13 431**	10 007	**13 014**	9 509
Northern Cape	**6 098**	3 838	**5 869**	3 627
Western Cape	**77 633**	76 189	**74 386**	72 774
International	**60 633**	66 192	**60 624**	66 187
Gross loans and advances	**550 384**	541 150	**531 325**	520 273
8.2 Instalment sale and finance leases				
Gross investment in instalment sale and finance leases	**50 144**	56 337	**50 143**	55 951
Receivable within 1 year	**19 638**	21 122	**19 636**	20 735
Receivable after 1 year but within 5 years	**30 453**	34 895	**30 454**	34 896
Receivable after 5 years	**53**	320	**53**	320
Unearned finance charges	**(6 308)**	(8 364)	**(6 307)**	(8 345)
Net investment in instalment sale and finance leases	**43 836**	47 973	**43 836**	47 606
Receivable within 1 year	**16 944**	17 319	**16 944**	16 950
Receivable after 1 year but within 5 years	**26 842**	30 352	**26 842**	30 354
Receivable after 5 years	**50**	302	**50**	302

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8. Loans and advances continued

8.3 Credit impairments for loans and advances

A reconciliation of the allowance for impairment losses for loans and advances to customers, by class:

	Mortgage lending Rm	Instalment sale and finance leases Rm	Card debtors Rm	Other loans and advances Rm	Corporate lending Rm	Commercial property finance Rm	Total Rm
2010							
Group							
Specific impairments							
Balance at beginning of the year	4 639	1 697	1 275	2 246	417	365	10 639
Impaired accounts written off	(2 010)	(1 379)	(1 282)	(1 231)	(74)	(313)	(6 289)
Discount element recognised in interest income	(1 371)	(96)	(127)	(127)			(1 721)
Net impairments raised[1]	3 085	1 178	1 241	1 562	62	110	7 238
Balance at end of the year	4 343	1 400	1 107	2 450	405	162	9 867
Portfolio impairments							
Balance at beginning of the year	1 022	740	618	932	1 326	173	4 811
Net impairments (released)/raised[1]	(41)	(151)	(108)	382	(795)		(713)
Exchange and other movements	(2)				173	(173)	(2)
Balance at end of the year	979	589	510	1 314	704		4 096
Total	5 322	1 989	1 617	3 764	1 109	162	13 963
2009							
Group							
Specific impairments							
Balance at beginning of the year	3 137	1 416	708	1 305	88	37	6 691
Impaired accounts written off	(922)	(1 361)	(1 053)	(1 126)	(55)	(4)	(4 521)
Discount element recognised in interest income	(1 351)	(144)	(43)	(116)		(1)	(1 655)
Net impairments raised[1]	3 775	1 786	1 663	2 183	394	339	10 140
Exchange and other movements					(10)	(6)	(16)
Balance at end of the year	4 639	1 697	1 275	2 246	417	365	10 639
Portfolio impairments							
Balance at beginning of the year	775	479	817	1 256	1 160	173	4 660
Net impairments raised/(released)[1]	247	261	(199)	(323)	173		159
Exchange and other movements				(1)	(7)		(8)
Balance at end of the year	1 022	740	618	932	1 326	173	4 811
Total	5 661	2 437	1 893	3 178	1 743	538	15 450

[1] *Net provisions (released)/raised less recoveries of amounts written off in previous years equals income statement impairment charges (note 25.7).*

8. Loans and advances continued

8.3 Credit impairments for loans and advances continued

A reconciliation of the allowance for impairment losses for loans and advances to customers, by class:

	Mortgage lending Rm	Instalment sale and finance leases Rm	Card debtors Rm	Other loans and advances Rm	Corporate lending Rm	Commercial property finance Rm	Total Rm
2010							
Company							
Specific impairments							
Balance at beginning of the year	**4 573**	**1 665**	**1 256**	**2 246**	**418**	**364**	**10 522**
Impaired accounts written off	**(2 008)**	**(1 352)**	**(1 245)**	**(1 231)**	**(76)**	**(312)**	**(6 224)**
Discount element recognised in interest income	**(1 336)**	**(95)**	**(126)**	**(127)**			**(1 684)**
Net impairments raised[1]	**3 048**	**1 178**	**1 196**	**1 562**	**62**	**110**	**7 156**
Balance at end of the year	**4 277**	**1 396**	**1 081**	**2 450**	**404**	**162**	**9 770**
Portfolio impairments							
Balance at beginning of the year	**984**	**733**	**598**	**933**	**1 326**	**171**	**4 745**
Net impairments (released)/raised[1]	**(34)**	**(144)**	**(104)**	**382**	**(795)**		**(695)**
Exchange and other movements	**(2)**				**171**	**(171)**	**(2)**
Balance at end of the year	**948**	**589**	**494**	**1 315**	**702**		**4 048**
Total	**5 225**	**1 985**	**1 575**	**3 765**	**1 106**	**162**	**13 818**
2009							
Company							
Specific impairments							
Balance at beginning of the year	3 081	1 371	681	1 305	89	36	6 563
Impaired accounts written off	(907)	(1 328)	(993)	(1 126)	(55)	(4)	(4 413)
Discount element recognised in interest income	(1 331)	(141)	(43)	(116)		(1)	(1 632)
Net impairments raised[1]	3 730	1 763	1 611	2 183	394	339	10 020
Exchange and other movements					(10)	(6)	(16)
Balance at end of the year	4 573	1 665	1 256	2 246	418	364	10 522
Portfolio impairments							
Balance at beginning of the year	733	465	796	1 256	1 160	171	4 581
Net impairments raised/(released)[1]	251	268	(198)	(323)	173		171
Exchange and other movements					(7)		(7)
Balance at end of the year	984	733	598	933	1 326	171	4 745
Total	5 557	2 398	1 854	3 179	1 744	535	15 267

[1] Net provisions (released)/raised less recoveries of amounts written off in previous years equals income statement impairment charges (note 25.7).

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for the year ended 31 December 2010

		Group		Company	
		2010 Rm	2009 Rm	**2010 Rm**	2009 Rm
8.	**Loans and advances** continued				
8.3	**Credit impairments for loans and advances** continued				
	Segmental analysis of specific impairments – industry				
	Agriculture	**259**	109	**258**	109
	Construction	**406**	589	**406**	588
	Electricity	**2**	7	**2**	7
	Finance, real estate and other business services	**1 111**	1 236	**1 110**	1 252
	Individuals	**6 994**	7 014	**6 915**	6 891
	Manufacturing	**287**	306	**284**	305
	Mining	**15**	118	**14**	118
	Other services	**499**	707	**491**	702
	Transport	**55**	126	**51**	124
	Wholesale	**239**	427	**239**	426
		9 867	10 639	**9 770**	10 522
9.	**Current and deferred tax assets**				
	Current taxation asset	**191**	142	**184**	140
	Deferred taxation asset	**296**	365	**265**	297
		487	507	**449**	437
9.1	**Deferred tax analysis**				
	Accrued interest	**4**	4		
	Assessed losses	**1**	1		
	Assets on lease	**(435)**	(397)	**(435)**	(397)
	Depreciation	**(26)**	(54)	**(25)**	(53)
	Derivatives	**(1 222)**	(3 084)	**(1 221)**	(3 084)
	Fair value adjustments of financial instruments	**(71)**	44	**(78)**	19
	Impairment charges on loans and advances	**731**	1 554	**711**	1 526
	Post-employment benefits	**99**	283	**99**	277
	Secondary tax on companies (STC)	**276**	297	**276**	297
	Share-based payments	**254**	206	**254**	206
	Other differences	**682**	565	**684**	567
	Deferred tax closing balance	**293**	(581)	**265**	(642)
	Deferred taxation asset	**296**	365	**265**	297
	Deferred taxation liability	**(3)**	(946)		(939)

	Group 2010 Rm	Group 2009 Rm	Company 2010 Rm	Company 2009 Rm
9. Current and deferred tax assets continued				
9.2 Deferred tax reconciliation				
Deferred tax balance at beginning of the year	**(581)**	(2 747)	**(642)**	(2 849)
Various categories of originating/(reversing) temporary differences for the year:	**874**	2 166	**907**	2 207
Accrued interest		(15)		
Assessed losses		1		
Assets on lease	**(38)**	(137)	**(38)**	(135)
Depreciation	**28**	(33)	**28**	(33)
Derivatives	**1 862**	1 778	**1 863**	1 778
Fair value adjustments of financial instruments[1]	**(115)**	59	**(97)**	95
Impairment charges on loans and advances	**(823)**	224	**(815)**	225
Post-employment benefits	**(184)**	(125)	**(178)**	(131)
STC	**(21)**	81	**(21)**	81
Share-based payments	**48**	110	**48**	110
Other differences	**117**	223	**117**	217
Deferred tax balance at end of the year	**293**	(581)	**265**	(642)
Temporary differences for the year comprise:				
Recognised in other comprehensive income	**71**	65	**71**	65
Recognised in profit or loss	**803**	2 101	**836**	2 142
	874	2 166	**907**	2 207

[1] *Included in the fair value adjustments of financial instruments is an amount of R71 million (2009: R65 million) relating to other comprehensive income. The R71 million (2009: R65 million) is made up of R67 million (2009: R54 million) relating to fair value adjustments on cash flow hedging and R4 million (2009: R11 million) relating to fair value adjustments on available-for-sale investments.*

	Group 2010 Rm	Group 2009 Rm	Company 2010 Rm	Company 2009 Rm
10. Other assets				
10.1 Summary				
Trading settlement assets	**1 919**	1 245	**1 898**	1 232
Items in the course of collection	**252**	327	**252**	327
Post-employment benefits (note 10.2)	**467**	178	**467**	178
Other debtors	**3 029**	2 461	**2 599**	2 460
	5 667	4 211	**5 216**	4 197
10.2 Post-employment benefits				
Balance at beginning of the year	**178**		**178**	
Net movement for the year	**289**	178	**289**	178
Balance at end of the year	**467**	178	**467**	178

Details on post-employment benefits are provided in note 33 on page 158.

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for the year ended 31 December 2010

	Group		Company	
	2010 Rm	2009 Rm	**2010 Rm**	2009 Rm
11. Interest in group companies, associates and joint ventures				
Interest in group companies[1] (note 11.1)	**61 672**	76 647	**66 143**	80 698
Interest in associates and joint ventures (note 11.2)	**1 309**	1 294	**891**	935
	62 981	77 941	**67 034**	81 633
11.1 Interest in group companies				
Holding company				
– Indebtedness to the group/company	**131**	51	**131**	51
Interest in subsidiary companies			**3 877**	3 605
– Shares at cost			**72**	25
– Indebtedness to the company			**3 805**	3 580
Interest in fellow banking subsidiary companies				
– Indebtedness to the group/company[1]	**61 541**	76 596	**62 135**	77 042
	61 672	76 647	**66 143**	80 698
Comprising:				
Share at cost			**72**	25
Derivative assets	**8 313**	18 726	**8 359**	18 766
Trading assets[1]	**15 593**	9 508	**15 593**	9 508
Loans and advances	**37 631**	45 602	**40 257**	48 120
Other	**135**	2 811	**1 862**	4 279
	61 672	76 647	**66 143**	80 698

[1] 2009 figures reclassified, refer annexure B – reclassifications and restatements.

Subsidiaries are listed in annexure C on page 180.

	Group		Company	
	2010 Rm	2009 Rm	**2010 Rm**	2009 Rm
11.2 Interest in associates and joint ventures				
Carrying value at beginning of the year	**1 294**	1 544	**935**	1 134
Share of profits	**134**	234		
Impairments of associates[1]		(366)		(198)
Impairments of private equity associates included in non-interest revenue	**(43)**		**(41)**	
Deemed disposal of associate – carrying value	**(33)**			
Loss on deemed disposal of associate	**(10)**			
Deemed disposal of associate – fair value	**(23)**			
Acquisitions	**56**	8	**33**	8
Disposals	**(36)**	(9)	**(36)**	(9)
Distribution of profit	**(63)**	(117)		
Carrying value at end of the year	**1 309**	1 294	**891**	935
Share of profits	**134**	234		
Impairments of associates[1]		(366)		
Loss on deemed disposal	**(10)**			
Deferred capital gains tax on impairment		28		
Share of profits/(losses) from associates and joint ventures	**124**	(104)		
Comprising:				
Cost of investments	**1 198**	1 201	**1 198**	1 201
Share of reserves	**641**	580		
Impairments	**(530)**	(487)	**(307)**	(266)
Carrying value at end of the year	**1 309**	1 294	**891**	935

[1] The recoverable amounts utilised to calculate the impairments were based on price-earnings valuations. The average price-earnings ratios of comparable entities were utilised with adjustments made for the liquidity of the entities' shares.

11. Interest in group companies, associates and joint ventures continued

11.2 Interest in associates and joint ventures continued

Directors' valuation

The directors' valuation of the interest in associates and joint ventures is R1 325 million (2009: R1 466 million) for the group and company.

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

Associates and joint ventures are listed in annexure D on pages 181 to 182.

	Group		Company	
	2010 Rm	2009 Rm	**2010 Rm**	2009 Rm
Key financial information of associates and joint ventures				
Statement of financial position				
Non-current assets	**5 133**	5 818	**5 133**	5 818
Current assets	**5 301**	5 305	**5 301**	5 305
Non-current liabilities	**(3 797)**	(5 135)	**(3 797)**	(5 135)
Current liabilities	**(1 990)**	(2 087)	**(1 990)**	(2 087)
Income statement				
Total income	**2 599**	6 463	**2 599**	6 463
Total expense	**(2 139)**	(5 613)	**(2 139)**	(5 613)
Total profit or loss	**414**	829	**414**	829
11.3 Liabilities to group companies				
Indebtedness by the group/company to:				
Holding company	**4 510**	4 107	**4 510**	4 107
Subsidiaries			**2 078**	2 658
Fellow banking subsidiaries	**35 374**	46 331	**35 321**	45 895
	39 884	50 438	**41 909**	52 660
Comprising:				
Derivative liabilities	**7 009**	12 754	**7 009**	12 754
Deposit and current accounts	**31 649**	37 684	**33 719**	39 831
Other	**1 226**		**1 181**	75
	39 884	50 438	**41 909**	52 660
12. Goodwill and other intangible assets				
Goodwill (note 12.1)	**36**			
Other intangible assets (note 12.2)	**4 374**	2 913	**4 372**	2 913
	4 410	2 913	**4 372**	2 913
12.1 Goodwill				
Goodwill on subsidiaries				
Acquisitions	**36**			
Carrying amount at end of the year	**36**			

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	2010 Cost Rm	2010 Accumulated amortisation and impairment Rm	2010 Net book value Rm	2009 Cost Rm	2009 Accumulated amortisation and impairment Rm	2009 Net book value Rm
12. Goodwill and other intangible assets continued						
12.2 Other intangible assets						
12.2.1 Group						
Summary						
Computer software	5 466	1 094	4 372	3 661	748	2 913
Other intangible assets	13	11	2			
Total	5 479	1 105	4 374	3 661	748	2 913

	2009 Net book value Rm	2010 Additions[1] Rm	2010 Disposals Rm	2010 Amortisation Rm	2010 Impairments Rm	2010 Net book value[2] Rm
Movement						
Computer software	2 913	1 889	(84)	(204)	(142)	4 372
Other intangible assets		3		(1)		2
Total	2 913	1 892	(84)	(205)	(142)	4 374

	2008 Net book value Rm	Additions[1] Rm	Disposals Rm	Amortisation Rm	Impairments Rm	2009 Net book value[2] Rm
Movement						
Computer software	1 997	1 266	(104)	(151)	(95)	2 913
Total	1 997	1 266	(104)	(151)	(95)	2 913

[1] *During 2010, R76 million (2009: R47 million) of interest was capitalised.*

[2] *Includes work in progress of R3 503 million (2009: R1 829 million) for which amortisation has not yet commenced.*

	2010 Cost Rm	2010 Accumulated amortisation and impairment Rm	2010 Net book value Rm	2009 Cost Rm	2009 Accumulated amortisation and impairment Rm	2009 Net book value Rm
12. Goodwill and other intangible assets continued						
12.2 Other intangible assets continued						
12.2.2 Company						
Summary						
Computer software	**5 466**	**1 094**	**4 372**	3 661	748	2 913
Total	**5 466**	**1 094**	**4 372**	3 661	748	2 913

	2009 Net book value Rm	Additions[1] Rm	Disposals Rm	Amortisation Rm	Impairments Rm	2010 Net book value[2] Rm
Movement						
Computer software	2 913	**1 889**	**(84)**	**(204)**	**(142)**	**4 372**
Total	2 913	**1 889**	**(84)**	**(204)**	**(142)**	**4 372**

	2008 Net book value Rm	Additions[1] Rm	Disposals Rm	Amortisation Rm	Impairments Rm	2009 Net book value[2] Rm
Movement						
Computer software	1 997	1 266	(104)	(151)	(95)	2 913
Total	1 997	1 266	(104)	(151)	(95)	2 913

[1] *During 2010, R76 million (2009: R47 million) of interest was capitalised.*
[2] *Includes work in progress of R3 503 million (2009: R1 829 million) for which amortisation has not yet commenced.*

There are no significant intangible assets to which titles are restricted or which are pledged as security for liabilities.

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	2010 Cost Rm	2010 Accumulated depreciation Rm	2010 Net book value Rm	2009 Cost Rm	2009 Accumulated depreciation Rm	2009 Net book value Rm
13. Property and equipment						
13.1 Group						
Summary						
Property						
Freehold	1 650	308	1 342	956	289	667
Leasehold	1 888	200	1 688	640	103	537
	3 538	508	3 030	1 596	392	1 204
Equipment						
Computer equipment	6 315	3 741	2 574	5 660	3 741	1 919
Motor vehicles	472	228	244	467	242	225
Office equipment	472	218	254	396	175	221
Furniture and fittings	2 811	1 005	1 806	2 405	830	1 575
	10 070	5 192	4 878	8 928	4 988	3 940
Total	13 608	5 700	7 908	10 524	5 380	5 144

	2009 Net book value Rm	Additions[1] Rm	Disposals Rm	Depreciation Rm	2010 Net book value[2] Rm
Movement					
Property					
Freehold	667	695	(1)	(19)	1 342
Leasehold	537	1 262		(111)	1 688
	1 204	1 957	(1)	(130)	3 030
Equipment					
Computer equipment	1 919	1 403	(8)	(740)	2 574
Motor vehicles	225	128	(39)	(70)	244
Office equipment	221	83	(1)	(49)	254
Furniture and fittings	1 575	485	(2)	(252)	1 806
	3 940	2 099	(50)	(1 111)	4 878
Total	5 144	4 056	(51)	(1 241)	7 908

[1] *During 2010, R1 million (2009: R5 million) of interest was capitalised.*
[2] *Includes work in progress of R2 296 million (2009: R238 million) for which depreciation has not yet commenced.*

13. Property and equipment continued

13.1 Group continued

	2008 Net book value Rm	Additions Rm	Disposals Rm	Depreciation Rm	2009 Net book value Rm
Movement					
Property					
Freehold	685	1	(1)	(18)	667
Leasehold	183	410		(56)	537
	868	411	(1)	(74)	1 204
Equipment					
Computer equipment	1 649	907	(6)	(631)	1 919
Motor vehicles	225	99	(27)	(72)	225
Office equipment	201	60		(40)	221
Furniture and fittings	1 341	436	(4)	(198)	1 575
	3 416	1 502	(37)	(941)	3 940
Total	4 284	1 913	(38)	(1 015)	5 144

13.2 Company

	2010 Cost Rm	Accumulated depreciation Rm	Net book value Rm	2009 Cost Rm	Accumulated depreciation Rm	Net book value Rm
Summary						
Property						
Freehold	**1 648**	**308**	**1 340**	954	288	666
Leasehold	**1 888**	**200**	**1 688**	640	104	536
	3 536	**508**	**3 028**	1 594	392	1 202
Equipment						
Computer equipment	**6 268**	**3 703**	**2 565**	5 626	3 715	1 911
Motor vehicles	**452**	**217**	**235**	447	231	216
Office equipment	**468**	**215**	**253**	392	172	220
Furniture and fittings	**2 804**	**1 000**	**1 804**	2 399	826	1 573
	9 992	**5 135**	**4 857**	8 864	4 944	3 920
Total	**13 528**	**5 643**	**7 885**	10 458	5 336	5 122

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13. Property and equipment continued
13.2 Company continued

	2009 Net book value Rm	Additions[1] Rm	Disposals Rm	Depreciation Rm	2010 Net book value[2] Rm
Movement					
Property					
Freehold	666	694	(1)	(19)	1 340
Leasehold	536	1 263		(111)	1 688
	1 202	1 957	(1)	(130)	3 028
Equipment					
Computer equipment	1 911	1 397	(8)	(735)	2 565
Motor vehicles	216	123	(38)	(66)	235
Office equipment	220	83	(1)	(49)	253
Furniture and fittings	1 573	485	(2)	(252)	1 804
	3 920	2 088	(49)	(1 102)	4 857
Total	5 122	4 045	(50)	(1 232)	7 885

	2008 Net book value Rm	Additions[1] Rm	Disposals Rm	Depreciation Rm	2009 Net book value[2] Rm
Movement					
Property					
Freehold	683	2	(1)	(18)	666
Leasehold	182	410		(56)	536
	865	412	(1)	(74)	1 202
Equipment					
Computer equipment	1 642	903	(6)	(628)	1 911
Motor vehicles	217	93	(26)	(68)	216
Office equipment	200	60		(40)	220
Furniture and fittings	1 338	436	(4)	(197)	1 573
	3 397	1 492	(36)	(933)	3 920
Total	4 262	1 904	(37)	(1 007)	5 122

[1] *During 2010, R1 million (2009: R5 million) of interest was capitalised.*
[2] *Includes work in progress of R2 296 million (2009: R238 million) for which depreciation has not yet commenced.*

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

There are no significant property or equipment to which title is restricted or which are pledged as security for liabilities.

13.3 Valuation

The fair value of freehold property, based on valuations undertaken during 2010 by valuers registered under the Valuers Act 1982, was estimated at R1 591 million (2009: R1 055 million) for the group and R1 589 million (2009: R1 043 million) for the company.

	Group		Company	
	2010 Rm	2009 Rm	**2010 Rm**	2009 Rm
14. Ordinary share capital				
14.1 Authorised				
80 000 000 (2009: 80 000 000) ordinary shares of R1 each	**80**	80	**80**	80
1 000 000 000 (2009: 1 000 000 000) non-redeemable, non-cumulative, non-participating preference shares of R0,01 each	**10**	10	**10**	10
	90	90	**90**	90
14.2 Issued				
59 997 121 (2009: 59 997 120) ordinary shares of R1 each	**60**	60	**60**	60
During the year, one (2009: one) ordinary share of R1 was issued at a premium of R1 000 million (2009: R1 500 million) per ordinary share.				
	60	60	**60**	60
14.3 Unissued shares				
20 002 879 (2009: 20 002 880) ordinary shares of R1 each are under the general authority of the directors, whose authority expires at the annual general meeting to be held on 25 May 2011	**20**	20	**20**	20
1 000 000 000 (2009: 1 000 000 000) non-redeemable, non-cumulative, non-participating preference shares of R0,01 each are under the general authority of the directors, whose authority expires at the annual general meeting to be held on 25 May 2011	**10**	10	**10**	10
	30	30	**30**	30
15. Ordinary share premium				
Share premium on issue of shares	**25 230**	24 230	**25 230**	24 230

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	Group		Company	
	2010 Rm	2009 Rm	2010 Rm	2009 Rm
16. Trading liabilities				
Listed	**3 129**	754	**3 129**	754
Unlisted	**5 902**	15 953	**4 940**	14 990
	9 031	16 707	**8 069**	15 744
Comprising:				
Government, municipality and utility bonds	**1 998**	772	**1 998**	772
Mutual funds	**2**	3	**2**	3
Collateral	**1 238**	1 428	**1 238**	1 428
Repurchase agreements	**3 887**	13 512	**3 887**	13 512
Commodities	**471**		**471**	
Other instruments	**1 435**	992	**473**	29
	9 031	16 707	**8 069**	15 744
Maturity analysis				
The maturities represent periods to contractual redemption of the trading liabilities recorded.				
Repayable on demand	**95**	24	**95**	24
Maturing within 1 month	**1 602**	10 433	**1 603**	10 433
Maturing after 1 month but within 6 months	**2 525**	2 310	**1 562**	1 347
Maturing after 6 months but within 12 months	**1 198**	1 742	**1 198**	1 742
Maturing after 12 months	**3 609**	2 195	**3 609**	2 195
Undated liabilities	**2**	3	**2**	3
	9 031	16 707	**8 069**	15 744

	Group		Company	
	2010 Rm	2009 Rm	**2010 Rm**	2009 Rm
17. Deposit and current accounts				
Deposits from banks	**54 626**	57 833	**54 629**	57 857
Deposits from banks and central banks	**53 662**	57 335	**53 665**	57 359
Deposits from banks under repurchase agreements	**964**	498	**964**	498
Deposits from customers	**557 385**	520 027	**542 200**	502 047
Current accounts	**59 293**	52 539	**59 293**	52 539
Cash management deposits	**83 455**	72 970	**83 455**	72 970
Card creditors	**1 284**	1 233	**1 284**	1 233
Call deposits	**108 183**	111 035	**108 185**	111 035
Savings accounts	**18 887**	18 293	**18 887**	18 293
Term deposits	**189 782**	140 198	**185 534**	136 179
Negotiable certificates of deposit	**68 192**	98 489	**68 192**	98 489
Repurchase agreements	**352**		**352**	
Securitisation issuances	**10 941**	13 960		
Other funding	**17 016**	11 310	**17 018**	11 309
Deposit and current accounts	**612 011**	577 860	**596 829**	559 904

The carrying value of deposits and current accounts in the company and group was increased by R804 million (2009: increased by R214 million) for fair value adjustments arising from risks subject to fair value hedging relationships.

Maturity analysis

The maturities represent periods to contractual redemption of the deposit and current accounts recorded.

	Group 2010 Rm	Group 2009 Rm	Company 2010 Rm	Company 2009 Rm
Repayable on demand	**302 365**	285 273	**302 365**	283 924
Maturing within 1 month	**41 802**	35 898	**41 642**	35 754
Maturing after 1 month but within 6 months	**93 891**	98 268	**87 582**	92 794
Maturing after 6 months but within 12 months	**68 778**	61 559	**66 124**	58 818
Maturing after 12 months	**105 175**	96 862	**99 116**	88 614
	612 011	577 860	**596 829**	559 904

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		Group		Company	
		2010 Rm	2009 Rm	**2010 Rm**	2009 Rm
18.	**Current and deferred tax liabilities**				
	Current taxation liability	**2 074**	2 069	**2 099**	2 105
	Deferred taxation liability	**3**	946		939
		2 077	3 015	**2 099**	3 044
19.	**Other liabilities**				
19.1	**Summary**				
	Trading settlement liabilities	**104**	18	**104**	18
	Items in the course of transmission	**88**	120	**175**	180
	Provision for post-employment benefits (note 19.2)	**622**	953	**622**	953
	Cash-settled share-based payment liability (annexure E)	**886**	735	**886**	735
	Deferred bonus scheme (annexure E)	**77**	21	**77**	21
	Staff-related accruals	**1 728**	1 645	**1 722**	1 640
	Provision for restructuring costs	**165**		**164**	
	Other liabilities and accruals	**6 674**	4 573	**6 186**	4 168
		10 344	8 065	**9 936**	7 715
19.2	**Provision for post-employment benefits**				
	Balance at beginning of the year	**953**	969	**953**	969
	Net provision released	**(331)**	(16)	**(331)**	(16)
	Balance at end of the year	**622**	953	**622**	953
	Details on post-employment benefits are provided in note 33 on page 158.				

20. Subordinated debt

	Date issued	Rate %	Callable date	Rate after call date %	Notional value LCm	Carrying value[1] 2010 Rm	Notional value 2010 Rm	Carrying value[1] 2009 Rm	Notional value 2009 Rm
Unsecured, subordinated, redeemable bonds[2]									
Group and company									
Redeemable in 2012 (SBK 10) (Tier III)	2007/11/19	JIBAR[3] + 0,675			ZAR300	**302**	**300**	303	300
Redeemable in 2016 (SBK 5)	2004/11/17	9,50[4]	2011/11/17[5]	JIBAR[3] + 1,62	ZAR2 000	**2 035**	**2 000**	2 046	2 000
Redeemable in 2017 (USA private placement)	2007/07/31[6]	LIBOR[7] + 0,88 and 6,44[6]	2012/07/31	LIBOR[7] + 1,88	USD355	**2 404**	**2 548**	2 663	2 548
Redeemable in 2018 (SBK 8)	2006/04/10	8,20[8]	2013/04/10[5]	JIBAR[3] + 1,50	ZAR1 500	**1 528**	**1 500**	1 528	1 500
Redeemable in 2019 (SBK 11)	2009/04/09	CPI indexed[9]	2014/04/10[5]	RY[10] of 7,25	ZAR1 800	**2 072**	**1 800**	1 930	1 800
Redeemable in 2020 (SBK 7)	2005/05/24	9,63[8]	2015/05/24[5]	JIBAR[3]+1,97	ZAR3 000	**3 035**	**3 000**	3 036	3 000
Redeemable in 2021 (SBK 12)	2009/11/24	10,82	2016/11/24[5]	JIBAR[3] + 3,90	ZAR1 600	**1 619**	**1 600**	1 618	1 600
Redeemable in 2021 (SBK 13)	2009/11/24	JIBAR[3] + 2,20	2016/11/24[5]	JIBAR[3] + 4,20	ZAR1 150	**1 159**	**1 150**	1 161	1 150
Redeemable in 2023 (SBK 9)	2006/04/10	8,40[8]	2018/04/10[5]	JIBAR[3] + 1,68	ZAR1 500	**1 529**	**1 500**	1 529	1 500
Total subordinated debt						**15 683**	**15 398**	15 814	15 398

[1] The difference between the carrying and notional value represents transaction costs included in the initial carrying amounts, accrued interest together with the unamortised fair value adjustments relating to bonds hedged for interest rate risk.
[2] Tier II, unless otherwise stated.
[3] JIBAR is the three-month floating Johannesburg interbank agreed rate.
[4] Fixed annual coupon.
[5] The issuer may redeem on this date, or any subsequent interest payment date.
[6] Bonds issued in US dollars (USD355 million) redeemable on 31 July 2017, divided into two categories:
Category A – USD230 million bearing interest at 6,44% compounding semi-annually, switching to LIBOR plus 1,88% on 31 July 2012.
Category B – USD125 million at LIBOR plus 0,88%, switching to LIBOR plus 1,88% on 31 July 2012.
[7] LIBOR is the London interbank offered rate for three-month USD deposits.
[8] Fixed semi-annual coupon.
[9] The interest rate is calculated in terms of the pricing supplement using the base rate as defined adjusted for changes in the consumer price index (CPI) as published by Statistics South Africa.
[10] RY is the real yield, which is the return from an investment adjusted for the effects of inflation, compounded semi-annually.

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for the year ended 31 December 2010

21. Classification of assets and liabilities

Accounting classifications and fair values

The table below sets out the group's classification of financial assets and liabilities, and their fair values.

	Note	Held-for-trading[1] Rm	Designated at fair value Rm
Group			
2010			
Assets			
Cash and balances with the central bank	3		
Derivative assets	4.3	**105 221**	
Trading assets	5	**13 825**	
Pledged assets	6.1	**5 675**	**259**
Financial investments	7	**1 777**	**66 579**
Loans and advances to banks	8.1	**450**	**854**
Loans and advances to customers	8.1	**3**	**2 979**
Interest in group companies, associates and joint ventures	11	**23 906**	
Other financial assets			
Other non-financial assets			
		150 857	**70 671**
Liabilities			
Derivative liabilities	4.3	**102 476**	
Trading liabilities	16	**9 031**	
Deposits from banks	17		**5 671**
Deposits from customers	17		**55 204**
Subordinated debt	20		
Liabilities to group companies	11.3	**7 017**	
Other financial liabilities			
Other non-financial liabilities			
		118 524	**60 875**

[1] *Includes derivative assets or liabilities held-for-hedging. Refer to note 4.3.*

[2] *Carrying value has been used where it closely approximates fair values. Fair value estimates are generally subjective in nature, and are made as of a specific point in time based on the characteristics of the financial instruments and relevant market information. Where available, the most suitable measure for fair value is the quoted market price. In the absence of organised secondary markets for financial instruments, such as loans, deposits and unlisted derivatives, direct market prices are not always available. The fair value of such instruments was therefore calculated on the basis of well-established valuation techniques using current market parameters. The fair value is a theoretical value applicable at a given reporting date, and hence can only be used as an indicator of the value realisable in a future sale.*

All valuation models are validated before they are used as a basis for financial reporting by qualified personnel independent of the area that created the model. Wherever possible, the group compares valuations derived from models with quoted prices of similar financial instruments, and with actual values when realised, in order to further validate and calibrate the models. These techniques involve uncertainties and are significantly affected by the assumptions used and judgements made regarding risk characteristics of various financial instruments, discount rates, estimates of future cash flows, future expected loss experiences and other factors. Changes in assumptions could affect these estimates and the resulting fair values. Derived fair value estimates cannot necessarily be substantiated by comparison to independent markets and may not be realised in an immediate sale of the instruments.

	Held-to-maturity Rm	Loans and receivables Rm	Available-for-sale Rm	Other amortised cost Rm	Other non-financial assets/liabilities Rm	Total carrying amount Rm	Fair value[2] Rm
		18 181				18 181	18 181
						105 221	105 221
						13 825	13 825
						5 934	5 934
	6 760		4 272			79 388	79 500
		61 060				62 364	62 364
		471 075				474 057	477 330
		37 108			1 967	62 981	63 054
		3 386				3 386	3 386
					15 086	15 086	
	6 760	590 810	4 272		17 053	840 423	
						102 476	102 476
						9 031	9 031
				48 955		54 626	54 493
				502 181		557 385	558 295
				15 683		15 683	15 882
				31 649	1 218	39 884	39 884
				7 702		7 702	7 702
					4 719	4 719	
				606 170	5 937	791 506	

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Notes to the annual financial statements continued
for the year ended 31 December 2010

21. Classification of assets and liabilities continued

Accounting classifications and fair values continued

The table below sets out the group's classification of financial assets and liabilities, and their fair values.

	Note	Held-for-trading[1] Rm	Designated at fair value Rm
Group			
2009			
Assets			
Cash and balances with the central bank	3		
Derivative assets[3]	4.3	76 501	
Trading assets[3]	5	20 802	
Pledged assets	6.1	558	499
Financial investments	7	4 057	55 452
Loans and advances to banks	8.1	5	1 189
Loans and advances to customers	8.1	276	1 120
Interest in group companies, associates and joint ventures[3]	11	28 234	
Other financial assets			
Other non-financial assets			
		130 433	58 260
Liabilities			
Derivative liabilities[3]	4.3	75 196	
Trading liabilities	16	16 707	
Deposits from banks	17	3 452	2 682
Deposits from customers	17	4 636	44 404
Subordinated debt	20		
Liabilities to group companies	11.3	12 754	
Other financial liabilities			
Other non-financial liabilities			
		112 745	47 086

[1, 2] *Refer page 124.*

[3] *Reclassified to reflect the presentation consequences of the reclassifications and restatements in annexure B – reclassifications and restatements.*

Held-to-maturity Rm	Loans and receivables Rm	Available-for-sale Rm	Other amortised cost Rm	Other non-financial assets/liabilities Rm	Total carrying amount Rm	Fair value[2] Rm
	14 470				14 470	14 470
					76 501	76 501
					20 802	20 802
					1 057	1 057
2 151		348			62 008	62 054
	58 278				59 472	59 486
	464 832				466 228	465 989
	48 091			1 616	77 941	78 113
	2 581				2 581	2 581
				10 194	10 194	
2 151	588 252	348		11 810	791 254	
					75 196	75 196
					16 707	16 707
			51 699		57 833	57 833
			470 987		520 027	520 068
			15 814		15 814	15 837
			37 684		50 438	50 438
			6 036		6 036	6 036
				5 044	5 044	
			582 220	5 044	747 095	

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Notes to the annual financial statements continued

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21. Classification of assets and liabilities continued

Accounting classifications and fair values continued

The table below sets out the company's classification of financial assets and liabilities, and their fair values.

	Note	Held-for-trading[1] Rm	Designated at fair value Rm
Company			
2010			
Assets			
Cash and balances with the central bank	3		
Derivative assets	4.3	105 181	
Trading assets	5	13 453	
Pledged assets	6.1	5 675	259
Financial investments	7	1 777	66 579
Loans and advances to banks	8.1	450	854
Loans and advances to customers	8.1	3	2 979
Interest in group companies, associates and joint ventures	11	23 952	
Other financial assets			
Other non-financial assets			
		150 491	70 671
Liabilities			
Derivative liabilities	4.3	102 461	
Trading liabilities	16	8 069	
Deposits from banks	17		5 671
Deposits from customers	17		53 601
Subordinated debt	20		
Liabilities to group companies	11.3	7 017	
Other financial liabilities			
Other non-financial liabilities			
		117 547	59 272

[1, 2] Refer page 124.

Held-to-maturity Rm	Loans and receivables Rm	Available-for-sale Rm	Other amortised cost Rm	Other non-financial assets/liabilities Rm	Total carrying amount Rm	Fair value[2] Rm
	18 181				18 181	18 181
					105 181	105 181
					13 453	13 453
					5 934	5 934
6 760		4 272			79 388	79 500
	61 007				62 311	62 311
	452 214				455 196	458 148
	41 448			1 634	67 034	67 525
	2 581				2 581	2 576
				15 341	15 341	
6 760	575 431	4 272		16 975	824 600	
					102 461	102 461
					8 069	8 069
			48 958		54 629	54 497
			488 599		542 200	543 048
			15 683		15 683	15 882
			33 719	1 173	41 909	41 909
			7 492		7 492	7 492
				4 543	4 543	
			594 451	5 716	776 986	

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Notes to the annual financial statements continued
for the year ended 31 December 2010

21. Classification of assets and liabilities continued

Accounting classifications and fair values continued

The table below sets out the company's classification of financial assets and liabilities, and their fair values.

	Note	Held-for-trading[1] Rm	Designated at fair value Rm
Company			
2009			
Assets			
Cash and balances with the central bank	3		
Derivative assets[3]	4.3	76 449	
Trading assets[3]	5	20 377	
Pledged assets	6.1	558	499
Financial investments	7	4 057	55 067
Loans and advances to banks	8.1	5	1 189
Loans and advances to customers	8.1	276	1 120
Interest in group companies, associates and joint ventures[3]	11	28 274	
Other financial assets			
Other non-financial assets			
		129 996	57 875
Liabilities			
Derivative liabilities[3]	4.3	75 196	
Trading liabilities	16	15 744	
Deposits from banks	17	3 452	2 682
Deposits from customers	17	4 636	42 130
Subordinated debt	20		
Liabilities to group companies	11.3	12 754	
Other financial liabilities			
Other non-financial liabilities			
		111 782	44 812

[1, 2] Refer page 124.

[3] Reclassified to reflect the presentation consequences of the reclassifications and restatements in annexure B – reclassifications and restatements.

Held-to-maturity Rm	Loans and receivables Rm	Available-for-sale Rm	Other amortised cost Rm	Other non-financial assets/liabilities Rm	Total carrying amount Rm	Fair value[2] Rm
	14 470				14 470	14 470
					76 449	76 449
					20 377	20 377
					1 057	1 057
2 151		348			61 623	61 669
	58 082				59 276	59 276
	444 334				445 730	445 514
	52 072			1 287	81 633	82 164
	2 576				2 576	2 576
				10 093	10 093	
2 151	571 534	348		11 380	773 284	
					75 196	75 196
					15 744	15 744
			51 723		57 857	57 857
			455 281		502 047	502 094
			15 814		15 814	15 837
			39 831	75	52 660	52 660
			5 749		5 749	5 749
				5 010	5 010	
			568 398	5 085	730 077	

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22. Financial instruments measured at fair value

22.1 Group

22.1.1 Fair value hierarchy of instruments measured at fair value

The table below analyses financial instruments carried at fair value, by level of fair value hierarchy. The different levels are based on the extent that quoted prices are used in the calculation of the fair value of the financial instruments and the levels have been defined as follows:

Level 1 – fair value is based on quoted market prices (unadjusted) in active markets for identical instruments.

Level 2 – fair value is determined through valuation techniques based on observable inputs, either directly, such as prices, or indirectly, such as derived from prices. This category includes instruments valued using quoted market prices in active markets for similar instruments, quoted prices for identical or similar instruments in markets that are considered less than active or other valuation techniques where all significant inputs are directly or indirectly observable from market data.

Level 3 – fair value is determined through valuation techniques using significant unobservable inputs. This category includes all instruments where the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments where significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

	Level 1 Rm	Level 2 Rm	Level 3 Rm	Total Rm
2010				
Assets				
Derivative assets	1 077	103 577	567	105 221
Trading assets	5 361	8 244	220	13 825
Pledged assets	5 934			5 934
Financial investments	22 735	47 508	2 385	72 628
Loans and advances to banks	450	854		1 304
Loans and advances to customers	3	2 937	42	2 982
Interest in group companies	2 057	21 849		23 906
	37 617	184 969	3 214	225 800
Comprising:				
Held-for-trading				150 857
Designated at fair value				70 671
Available-for-sale				4 272
				225 800
Liabilities				
Derivative liabilities	2 057	99 849	570	102 476
Trading liabilities	2 476	6 555		9 031
Deposits from banks	3 899	1 772		5 671
Deposits from customers		54 755	449	55 204
Liabilities to group companies	8	7 009		7 017
	8 440	169 940	1 019	179 399
Comprising:				
Held-for-trading				118 524
Designated at fair value				60 875
				179 399

22. Financial instruments measured at fair value continued

22.1 Group continued

22.1.1 Fair value hierarchy of instruments measured at fair value continued

	Level 1 Rm	Level 2 Rm	Level 3 Rm	Total Rm
2009				
Assets				
Derivative assets	68	76 040	393	76 501
Trading assets	8 131	12 671		20 802
Pledged assets	1 057			1 057
Financial investments	12 698	45 221	1 938	59 857
Loans and advances to banks	5	1 189		1 194
Loans and advances to customers		1 217	179	1 396
Interest in group companies	5 403	22 831		28 234
	27 362	159 169	2 510	189 041
Comprising:				
Held-for-trading				130 433
Designated at fair value				58 260
Available-for-sale				348
				189 041
Liabilities				
Derivative liabilities	82	74 761	353	75 196
Trading liabilities	803	15 904		16 707
Deposits from banks	3 531	2 603		6 134
Deposits from customers	778	48 262		49 040
Liabilities to group companies		12 754		12 754
	5 194	154 284	353	159 831
Comprising:				
Held-for-trading				112 745
Designated at fair value				47 086
				159 831

Notes to the annual financial statements continued

for the year ended 31 December 2010

22. Financial instruments measured at fair value continued

22.1 Group continued

22.1.2 Reconciliation of level 3 financial assets

The table below sets out the reconciliation of financial assets that are measured at fair value based on inputs that are not based on observable market data (level 3):

	Derivative assets Rm	Trading assets Rm	Financial investments Rm	Loans and advances to customers Rm	Total Rm
Balance at 1 January 2009	336		1 864	286	2 486
Total gains/(losses) included in profit or loss:	57		23	(107)	(27)
Interest income			(1)	(107)	(108)
Trading revenue	57				57
Other revenue			24		24
Other comprehensive income			(4)		(4)
Purchases			63		63
Sales			(8)		(8)
Balance at 31 December 2009	393		1 938	179	2 510
Balance at 1 January 2010	**393**		**1 938**	**179**	**2 510**
Total gains/(losses) included in profit or loss:	**249**	**10**	**443**	**(137)**	**565**
Interest income				**(137)**	**(137)**
Trading revenue	**249**	**10**			**259**
Other revenue			**443**		**443**
Purchases			**71**		**71**
Sales			**(31)**		**(31)**
Settlements	**(75)**		**(36)**		**(111)**
Transfers into level 3[1]		**210**			**210**
Balance at 31 December 2010	**567**	**220**	**2 385**	**42**	**3 214**

[1] *During 2010, the valuation inputs of certain trading assets became unobservable. The fair value of the investments were transferred into level 3.*

22. Financial instruments measured at fair value continued

22.1 Group continued

22.1.3 Gains/(losses) for the year included in profit or loss for level 3 financial assets held at the end of the year

	Derivative assets Rm	Trading assets Rm	Financial investments Rm	Loans and advances to customers Rm	Total Rm
2010					
Interest income				**(136)**	**(136)**
Trading revenue	**249**	**10**			**259**
Other revenue			**426**		**426**
Total	**249**	**10**	**426**	**(136)**	**549**
2009					
Interest income			(1)	(107)	(108)
Trading revenue	57				57
Other revenue			36		36
Total	57		35	(107)	(15)

22.1.4 Reconciliation of level 3 financial liabilities

The table below sets out the reconciliation of financial liabilities that are measured at fair value based on inputs that are not based on observable market data (level 3):

	Derivative liabilities Rm	Deposits from customers Rm	Total Rm
Balance at 1 January 2009	461		461
Total gains included in profit or loss:			
Trading revenue	(108)		(108)
Balance at 31 December 2009	353		353
Balance at 1 January 2010	**353**		**353**
Total losses included in profit or loss:			
Trading revenue	**234**		**234**
Other comprehensive income	**16**		**16**
Purchases		**449**	**449**
Settlements	**(33)**		**(33)**
Balance at 31 December 2010	**570**	**449**	**1 019**

22.1.5 Losses/(gains) for the year included in profit or loss for level 3 financial liabilities held at the end of the year

	Derivative liabilities Rm	Deposits from customers Rm	Total Rm
2010			
Trading revenue	**234**		**234**
Total	**234**		**234**
2009			
Trading revenue	(108)		(108)
Total	(108)		(108)

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22. Financial instruments measured at fair value continued

22.1 Group continued

22.1.6 Sensitivity of fair value of level 3 financial instruments

The fair value of level 3 financial instruments is determined using valuation techniques which incorporate assumptions that are not supported by prices from observable current market transactions in the same instruments and are not based on available observable market data. Such assumptions include risk premiums, liquidity discount rates, credit risk, volatilities and correlations. Changes in these assumptions could affect the reported fair values of these financial instruments.

The fair value of level 3 financial instruments is determined using valuation techniques which incorporate assumptions based on unobservable inputs and are subject to management judgement. Although the group believes that its estimates of fair values are appropriate, changing one or more of these assumptions to reasonably possible alternative values could impact the fair value of the financial instruments. The table below indicates the valuation techniques and main assumptions used in the determination of the fair value of the level 3 financial instruments. The table further indicates the effect that a change in one or more of the inputs to a reasonably possible alternative assumption would have on profit or loss and other comprehensive income at the reporting date, where the change in the input would change the fair value of the financial instrument significantly. The changes in the inputs that have been used in the analysis below have been determined taking into account several considerations such as the nature of the instrument and the market within which the instrument is transacted.

			Effect on profit or loss		Effect on other comprehensive income	
	Valuation basis/ technique	Main assumptions	Favourable Rm	(Unfavourable) Rm	Favourable Rm	(Unfavourable) Rm
2010						
Derivative instruments	Discounted cash flow; Black-Scholes models	Discount-, liquidity discount-, risk-free- and volatility rates	**80**	**(80)**		
Trading assets	Discounted cash flow model	Discount and liquidity discount rates	**16**	**(16)**		
Financial investments	Discounted cash flow model; earnings multiple; sustainable earnings; combination techniques	Discount- and liquidity discount rates; earnings multiple	**245**	**(239)**		
Total			**341**	**(335)**		
2009						
Derivative instruments	Discounted cash flow; Black-Scholes models	Discount-, liquidity discount-, risk-free- and volatility rates	42	(42)		
Financial investments	Discounted cash flow model; earnings multiple; sustainable earnings; combination techniques	Discount- and liquidity discount rates; earnings multiple	196	(172)	1	(1)
Loans and advances to customers	Discounted cash flow model	Discount rate	9	(9)		
Total			247	(223)	1	(1)

22. Financial instruments measured at fair value continued

22.2 Company

22.2.1 Fair value hierarchy of instruments measured at fair value

	Level 1 Rm	Level 2 Rm	Level 3 Rm	Total Rm
2010				
Assets				
Derivative assets	1 077	103 537	567	105 181
Trading assets	4 989	8 244	220	13 453
Pledged assets	5 934			5 934
Financial investments	22 735	47 508	2 385	72 628
Loans and advances to banks	450	854		1 304
Loans and advances to customers	3	2 937	42	2 982
Interest in group companies	2 057	21 895		23 952
	37 245	184 975	3 214	225 434
Comprising:				
Held-for-trading				150 491
Designated at fair value				70 671
Available-for-sale				4 272
				225 434
Liabilities				
Derivative liabilities	2 057	99 850	554	102 461
Trading liabilities	2 476	5 593		8 069
Deposits from banks	3 899	1 772		5 671
Deposits from customers		53 152	449	53 601
Liabilities to group companies	8	7 009		7 017
	8 440	167 376	1 003	176 819
Comprising:				
Held-for-trading				117 547
Designated at fair value				59 272
				176 819

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22. Financial instruments measured at fair value continued

22.2 Company continued

22.2.1 Fair value hierarchy of instruments measured at fair value continued

	Level 1 Rm	Level 2 Rm	Level 3 Rm	Total Rm
2009				
Assets				
Derivative assets	68	75 988	393	76 449
Trading assets	7 704	12 673		20 377
Pledged assets	1 057			1 057
Financial investments	12 698	44 836	1 938	59 472
Loans and advances to banks	5	1 189		1 194
Loans and advances to customers		1 217	179	1 396
Interest in group companies	5 403	22 871		28 274
	26 935	158 774	2 510	188 219
Comprising:				
Held-for-trading				129 996
Designated at fair value				57 875
Available-for-sale				348
				188 219
Liabilities				
Derivative liabilities	82	74 761	353	75 196
Trading liabilities	803	14 941		15 744
Deposits from banks	3 531	2 603		6 134
Deposits from customers	777	45 989		46 766
Liabilities to group companies		12 754		12 754
	5 193	151 048	353	156 594
Comprising:				
Held-for-trading				111 782
Designated at fair value				44 812
				156 594

22. Financial instruments measured at fair value continued

22.2 Company continued

22.2.2 Reconciliation of level 3 financial assets

The table below sets out the reconciliation of financial assets that are measured at fair value based on inputs that are not based on observable market data (level 3):

	Derivative assets Rm	Trading assets Rm	Financial investments Rm	Loans and advances to customers Rm	Total Rm
Balance at 1 January 2009	336		1 864	286	2 486
Total gains/(losses) included in profit or loss:	57		23	(107)	(27)
Interest income			(1)	(107)	(108)
Trading revenue	57				57
Other revenue			24		24
Other comprehensive income			(4)		(4)
Purchases			63		63
Sales			(8)		(8)
Balance at 31 December 2009	393		1 938	179	2 510
Balance at 1 January 2010	**393**		**1 938**	**179**	**2 510**
Total gains/(losses) included in profit or loss:	**249**	**10**	**443**	**(137)**	**565**
Interest income				**(137)**	**(137)**
Trading revenue	**249**	**10**			**259**
Other revenue			**443**		**443**
Purchases			**71**		**71**
Sales			**(31)**		**(31)**
Settlements	**(75)**		**(36)**		**(111)**
Transfers into level 3[1]		**210**			**210**
Balance at 31 December 2010	**567**	**220**	**2 385**	**42**	**3 214**

[1] *During 2010, the valuation inputs of certain trading assets became unobservable. The fair value of the investments were transferred into level 3.*

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22. Financial instruments measured at fair value continued

22.2 Company continued

22.2.3 Gains/(losses) for the year included in profit or loss for level 3 financial assets held at the end of the year

	Derivative assets Rm	Trading assets Rm	Financial investments Rm	Loans and advances to customers Rm	Total Rm
2010					
Interest income				(136)	(136)
Trading revenue	249	10			259
Other revenue			426		426
Total	249	10	426	(136)	549
2009					
Interest income			(1)	(107)	(108)
Trading revenue	57				57
Other revenue			36		36
Total	57		35	(107)	(15)

22.2.4 Reconciliation of level 3 financial liabilities

The table below sets out the reconciliation of financial liabilities that are measured at fair value based on inputs that are not based on observable market data (level 3):

	Derivative liabilities Rm	Deposits from customers Rm	Total Rm
Balance at 1 January 2009	461		461
Total gains included in profit or loss:			
Trading revenue	(108)		(108)
Balance at 31 December 2009	353		353
Balance at 1 January 2010	353		353
Total losses included in profit or loss:			
Trading revenue	234		234
Purchases		449	449
Settlements	(33)		(33)
Balance at 31 December 2010	554	449	1 003

22.2.5 Losses/(gains) for the year included in profit or loss for level 3 financial liabilities held at the end of the year

	Derivative liabilities Rm	Deposits from customers Rm	Total Rm
2010			
Trading revenue	234		234
Total	234		234
2009			
Trading revenue	(108)		(108)
Total	(108)		(108)

22. Financial instruments measured at fair value continued

22.2 Company continued

22.2.6 Sensitivity of fair value of level 3 financial instruments

The fair value of level 3 financial instruments is determined using valuation techniques which incorporate assumptions that are not supported by prices from observable current market transactions in the same instruments and are not based on available observable market data. Such assumptions include risk premiums, liquidity discount rates, credit risk, volatilities and correlations. Changes in these assumptions could affect the reported fair values of these financial instruments.

The fair value of level 3 financial instruments is determined using valuation techniques which incorporate assumptions based on unobservable inputs and are subject to management judgement. Although the group believes that its estimates of fair values are appropriate, changing one or more of these assumptions to reasonably possible alternative values could impact the fair value of the financial instruments. The table below indicates the valuation techniques and main assumptions used in the determination of the fair value of the level 3 financial instruments. The table further indicates the effect that a change in one or more of the inputs to a reasonably possible alternative assumption would have on profit or loss and other comprehensive income at the reporting date, where the change in the input would change the fair value of the financial instrument significantly. The changes in the inputs that have been used in the analysis below have been determined taking into account several considerations such as the nature of the instrument and the market within which the instrument is transacted.

			Effect on profit or loss		Effect on other comprehensive income	
	Valuation basis/ technique	Main assumptions	Favourable Rm	(Unfavourable) Rm	Favourable Rm	(Unfavourable) Rm
2010						
Derivative instruments	Discounted cash flow; Black-Scholes models	Discount-, liquidity discount-, risk-free- and volatility rates	**80**	**(80)**		
Trading assets	Discounted cash flow model	Discount and liquidity discount rates	**16**	**(16)**		
Financial investments	Discounted cash flow model; earnings multiple; sustainable earnings; combination techniques	Discount- and liquidity discount rates; earnings multiple	**245**	**(239)**		
Total			**341**	**(335)**		
2009						
Derivative instruments	Discounted cash flow; Black-Scholes models	Discount-, liquidity discount-, risk-free- and volatility rates	42	(42)		
Financial investments	Discounted cash flow model; earnings multiple; sustainable earnings; combination techniques	Discount- and liquidity discount rates; earnings multiple	196	(172)	1	(1)
Loans and advances to customers	Discounted cash flow model	Discount rate	9	(9)		
Total			247	(223)	1	(1)

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23. Financial assets and financial liabilities designated at fair value through profit or loss

23.1 Loans and advances

The maximum exposure to credit risk for loans and advances designated at fair value through profit or loss for the group and company is R3 833 million (2009: R2 309 million). No credit derivatives were used to mitigate credit risk on these instruments.

There are no cumulative gains or losses due to credit risk. The change in fair value of the designated loans and advances that is attributable to changes in credit risk is determined as the amount of change in fair value that is not attributable to changes in market conditions.

23.2 Financial liabilities

The fair value movement of financial liabilities attributable to changes in credit risk cumulative to date is negligible (2009: negligible) for the group and company.

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

The amount that would contractually be required to pay at maturity for financial liabilities designated at fair value through profit or loss for the group is R55 806 million (2009: R49 039 million) and for the company is R54 203 million (2009: R46 805 million), R5 069 million lower (2009: R1 953 million higher) for the group and R5 069 million lower (2009: R1 993 million higher) for the company than the carrying amount.

	Group		Company	
	2010 Rm	2009 Rm	**2010 Rm**	2009 Rm
24. Contingent liabilities and commitments				
24.1 Contingent liabilities				
Letters of credit	**3 564**	4 052	**3 564**	4 052
Guarantees	**26 637**	23 977	**26 637**	23 977
	30 201	28 029	**30 201**	28 029
Loan commitments that are irrevocable over the life of the facility or are revocable only in response to material adverse changes are included in the risk and capital management section on page 59.				
24.2 Capital commitments				
Contracted capital expenditure	**1 902**	361	**1 902**	361
Capital expenditure authorised but not yet contracted	**4 382**	6 025	**4 382**	6 025
	6 284	6 386	**6 284**	6 386
The expenditure will be funded from internal resources.				
24.3 Operating lease commitments				
The future minimum lease payments under non-cancellable operating leases are:				
Properties				
Within 1 year	**687**	651	**683**	651
After 1 year but within 5 years	**1 546**	1 567	**1 527**	1 567
After 5 years	**335**	341	**335**	341
	2 568	2 559	**2 545**	2 559
Equipment				
Within 1 year	**18**	56	**18**	56
After 1 year but within 5 years	**22**	132	**22**	132
	40	188	**40**	188

These commitments comprise a number of separate operating leases in relation to property and equipment, none of which is individually significant to the group or company.

24. Contingent liabilities and commitments continued

24.4 Legal proceedings

In the conduct of its ordinary course of business, the group is exposed to various actual and potential claims, lawsuits and other proceedings relating to alleged errors and omissions, or non-compliance with laws and regulations. The directors are satisfied, based on present information and the assessed probability of claims eventuating, that the group has adequate insurance programmes and provisions in place to meet such claims.

	Group		Company	
	2010 Rm	2009 Rm	**2010 Rm**	2009 Rm
25. Income statement information				
25.1 Interest income				
Interest on loans and advances and investments	**47 078**	65 079	**45 890**	63 208
Unwinding of discount element of credit impairments for loans and advances (note 8.3)	**1 721**	1 655	**1 684**	1 632
Fair value adjustments on dated financial instruments	**1 274**	(933)	**1 281**	(914)
Dividends on unlisted financial investments	**1 561**	1 652	**1 559**	1 652
	51 634	67 453	**50 414**	65 578

Interest income reported above relates to financial assets not carried at fair value through profit or loss, except for R1 349 million profit (2009: R620 million loss) for the group and R1 325 million profit (2009: R700 million loss) for the company on financial assets that are at fair value through profit or loss.

	Group 2010 Rm	Group 2009 Rm	Company 2010 Rm	Company 2009 Rm
25.2 Interest expense				
Current accounts	**142**	212	**143**	210
Savings and deposit accounts	**9 680**	10 606	**9 694**	10 617
Foreign finance creditors	**522**	569	**522**	569
Subordinated debt	**1 511**	1 609	**1 511**	1 609
Other interest-bearing liabilities	**19 567**	32 957	**18 417**	31 316
	31 422	45 953	**30 287**	44 321

Interest expense reported above relates to financial liabilities not carried at fair value through profit or loss, except for R2 797 million (2009: R2 480 million) for the group and R2 765 million (2009: R2 343 million) for the company on financial liabilities that are at fair value through profit or loss.

	Group 2010 Rm	Group 2009 Rm	Company 2010 Rm	Company 2009 Rm
25.3 Fee and commission revenue				
Account transaction fees	**7 535**	7 142	**7 529**	7 137
Card-based commission	**3 232**	3 009	**2 786**	2 575
Knowledge-based fees and commission	**325**	349	**311**	337
Electronic banking fees	**1 593**	1 529	**1 593**	1 529
Insurance – fees and commission	**1 127**	1 021	**495**	430
Foreign currency service fees	**560**	637	**560**	637
Documentation and administration fees	**556**	626	**487**	581
Other	**1 341**	1 005	**1 601**	1 319
	16 269	15 318	**15 362**	14 545

All fee and commission revenue reported above relates to financial assets or liabilities not carried at fair value through profit or loss for the group and company.

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		Group		Company	
		2010 Rm	2009 Rm	**2010 Rm**	2009 Rm
25.	**Income statement information** continued				
25.4	**Fee and commission expenses**				
	Account transaction fees	**821**	445	**821**	445
	Card-based commission	**804**	734	**770**	700
	Electronic banking fees	**495**	445	**494**	445
	Insurance – fees and commission	**323**	292	**323**	292
	Documentation and administration fees	**52**	78	**52**	78
	Other	**44**	44	**44**	44
		2 539	2 038	**2 504**	2 004
	All fee and commission expenses reported above relate to financial assets or liabilities not carried at fair value through profit or loss for the group and company.				
25.5	**Trading revenue**				
	Commodities	**184**	157	**184**	157
	Foreign exchange	**1 898**	1 961	**1 898**	1 960
	Credit	**99**	(195)	**88**	(195)
	Interest rates	**192**	589	**192**	644
	Equities	**303**	365	**303**	330
	Other	**10**	84	**34**	86
		2 686	2 961	**2 699**	2 982
	Interest and dividend income included in trading revenue:				
	Net interest income	**577**	642	**572**	673
	Dividend income – listed	**97**	189	**97**	189
		674	831	**669**	862
25.6	**Other revenue**				
	Banking and other[1]	**923**	597	**823**	800
	Property-related revenue	**105**	98	**105**	98
	Insurance – bancassurance income	**519**	307	**519**	307
	Profit on realisation of available-for-sale financial assets[2]		136		136
	Net gains on financial instruments designated at fair value through profit or loss	**524**	248	**524**	248
		2 071	1 386	**1 971**	1 589

[1] Included in banking and other for the company is dividend income from subsidiaries of R85 million (2009: R105 million).
[2] Profit of Rnil (2009: R51 million) on realisation of Visa shares is included in profit on realisation of available-for-sale financial assets.

		Group		Company	
		2010 Rm	2009 Rm	**2010 Rm**	2009 Rm
25.	**Income statement information** continued				
25.7	**Credit impairment charges**				
	Net credit impairments raised for loans and advances	**7 067**	10 299	**7 003**	10 191
	Recoveries on loans and advances previously written off	**(708)**	(468)	**(712)**	(447)
		6 359	9 831	**6 291**	9 744
	Comprising:				
	Net specific credit impairment charges	**6 530**	9 672	**6 444**	9 573
	Specific credit impairment charges (note 8.3)	**7 238**	10 140	**7 156**	10 020
	Recoveries on loans and advances previously written off	**(708)**	(468)	**(712)**	(447)
	Portfolio credit impairment (reversals)/charges (note 8.3)	**(713)**	159	**(695)**	171
	Credit loss on off-balance sheet exposure	**542**		**542**	
		6 359	9 831	**6 291**	9 744
25.8	**Staff costs**				
	Salaries and allowances	**10 755**	9 237	**10 562**	9 048
	Equity-linked transactions (annexure E)	**358**	437	**358**	437
	Equity-settled share-based payments	**10**		**10**	
	Cash-settled share-based payments	**243**	394	**243**	394
	Equity participation plans (Tutuwa)	**58**	29	**58**	29
	Deferred bonus scheme	**47**	14	**47**	14
		11 113	9 674	**10 920**	9 485
25.9	**Restructuring costs**				
	Restructuring costs	**277**		**275**	
	Equity compensation plans	**27**		**27**	
	Share options and appreciation rights	**22**		**22**	
	Deferred bonus scheme	**5**		**5**	
		304		**302**	

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	Group		Company	
	2010 Rm	2009 Rm	**2010 Rm**	2009 Rm
25. Income statement information continued				
25.10 Other operating expenses				
Amortisation – intangible assets (note 12)	**205**	151	**204**	151
Auditors' remuneration	**109**	68	**105**	64
Audit fees – current year	**75**	49	**71**	45
Audit fees – prior year	**24**		**24**	
Fees for other services	**10**	19	**10**	19
Communication expense	**725**	721	**706**	707
Depreciation (note 13)	**1 241**	1 015	**1 232**	1 007
Property				
– Freehold	**19**	18	**19**	18
– Leasehold	**111**	56	**111**	56
Equipment				
– Computer equipment	**740**	631	**735**	628
– Motor vehicles	**70**	72	**66**	68
– Office equipment	**49**	40	**49**	40
– Furniture and fittings	**252**	198	**252**	197
Impairments – intangible assets (note 12)	**142**	95	**142**	95
IT	**2 741**	2 285	**2 742**	2 295
Operating lease charges	**1 212**	1 031	**1 206**	1 021
Premises	**620**	551	**623**	553
Professional fees	**1 213**	851	**1 192**	833
Profit on sale of property and equipment	**(21)**	(36)	**(21)**	(35)
Other expenses	**1 837**	1 880	**1 562**	1 830
	10 024	8 612	**9 693**	8 521

	Group 2010 Rm	Group 2009 Rm	Company 2010 Rm	Company 2009 Rm
26. Directors' emoluments				
Executive directors				
Emoluments of directors in respect of services rendered[1]:				
As directors of the company	**15**	23	**15**	23
While directors of the company				
– as directors of subsidiary companies				
– otherwise in connection with the affairs of the company or its subsidiaries				
Non-executive directors				
Emoluments of directors in respect of services rendered:				
As directors of the company	**3**	3	**3**	3
While directors of the company				
– as directors of subsidiary companies				
– otherwise in connection with the affairs of the company or its subsidiaries	**8**	2	**8**	2
	26	28	**26**	28

[1] *In order to align emoluments with the performance to which they relate, emoluments reflect the amounts accrued in respect of each year and not the amounts paid.*

	Group 2010 Rm	Group 2009 Rm	Company 2010 Rm	Company 2009 Rm
27. Taxation				
Indirect taxation (note 27.1)	**856**	582	**856**	581
Direct taxation (note 27.2)	**2 179**	2 144	**1 982**	2 011
	3 035	2 726	**2 838**	2 592
27.1 Indirect taxation				
Value added tax	**757**	496	**757**	496
Duties and other	**6**	8	**6**	7
Skills development levy (net of recoveries)	**93**	78	**93**	78
	856	582	**856**	581
27.2 Direct taxation				
Current year	**2 191**	2 145	**1 982**	2 011
South African normal tax	**3 568**	4 210	**3 398**	4 117
South African deferred tax	**(1 436)**	(2 020)	**(1 473)**	(2 061)
Normal STC	**2**			
Deferred STC	**21**	(81)	**21**	(81)
Foreign normal and withholding tax	**11**	16	**11**	16
Capital gains tax	**25**	20	**25**	20
Prior years	**(12)**	(1)		
South African normal tax	**(624)**	(1)	**(616)**	
South African deferred tax	**612**		**616**	
	2 179	2 144	**1 982**	2 011

The aggregate current and deferred tax relating to items charged or credited to other comprehensive income for the group and company amounted to a charge of R71 million (2009: R65 million charge).

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27. Taxation continued

27.2 Direct taxation continued

Income tax recognised in other comprehensive income

The table below sets out the amount of income tax relating to each component in other comprehensive income:

	Group			Company		
	Before tax Rm	Tax benefit/ (expense) Rm	Net of tax Rm	Before tax Rm	Tax benefit/ (expense) Rm	Net of tax Rm
2010						
Exchange differences on translating foreign operations	**(79)**		**(79)**	**(73)**		**(73)**
Net change in fair value on cash flow hedges	**(944)**	**264**	**(680)**	**(944)**	**264**	**(680)**
Realised fair value adjustments on cash flow hedges transferred to profit or loss	**704**	**(197)**	**507**	**704**	**(197)**	**507**
Net change in fair value of available-for-sale financial assets	**(30)**	**4**	**(26)**	**(30)**	**4**	**(26)**
	(349)	**71**	**(278)**	**(343)**	**71**	**(272)**
2009						
Exchange differences on translating foreign operations	(162)		(162)	(140)		(140)
Net change in fair value on cash flow hedges	(178)	50	(128)	(178)	50	(128)
Realised fair value adjustments on cash flow hedges transferred to profit or loss	(13)	4	(9)	(13)	4	(9)
Net change in fair value of available-for-sale financial assets	65	(7)	58	65	(7)	58
Realised fair value adjustments on available-for-sale financial assets transferred to profit or loss	(136)	18	(118)	(136)	18	(118)
	(424)	65	(359)	(402)	65	(337)

27. Taxation continued

27.2 Direct taxation continued

	Group 2010 %	Group 2009 %	Company 2010 %	Company 2009 %
South African tax rate reconciliation				
Total taxation charge for the year as a percentage of net income before indirect taxation	28	25	27	24
Value added tax, duties and skills development levy	(8)	(5)	(8)	(5)
STC		(1)		(1)
Direct taxation charge for the year as a percentage of profit before indirect taxation	20	19	19	18
The charge for the year has been reduced as a consequence of:				
Dividends received	5	7	6	7
Other non-taxable income	2	2	2	2
Other permanent differences	1		1	1
Standard rate of South African tax	28	28	28	28

28. Headline earnings

	2010 Gross Rm	2010 Tax Rm	2010 Non-controlling interest Rm	2010 Net Rm	2009 Gross Rm	2009 Tax Rm	2009 Net Rm
Group							
Profit for the year	10 167	(2 179)	(50)	7 938	10 324	(2 144)	8 180
Headline earnings adjustable items added/(reversed)	131	(35)		96	289	(28)	261
Loss on deemed disposal of associate – IFRS 3	10			10			
Profit on sale of property and equipment – IAS 16	(21)	5		(16)	(36)	8	(28)
Impairment of associates – IAS 28					366	(28)	338
Impairment of intangible assets – IAS 38	142	(40)		102	95	(26)	69
Fair value gains on available-for-sale assets – IAS 39					(136)	18	(118)
Headline earnings	10 298	(2 214)	(50)	8 034	10 613	(2 172)	8 441

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	2010			2009		
	Gross Rm	Tax Rm	Net Rm	Gross Rm	Tax Rm	Net Rm
28. Headline earnings continued						
Company						
Profit for the year	**9 593**	**(1 982)**	**7 611**	10 038	(2 011)	8 027
Headline earnings adjustable items added/(reversed)	**121**	**(35)**	**86**	122	(28)	94
Profit on sale of property and equipment – IAS 16	**(21)**	**5**	**(16)**	(35)	8	(27)
Impairment of associates – IAS 28				198	(28)	170
Impairment of intangible assets – IAS 38	**142**	**(40)**	**102**	95	(26)	69
Fair value gains on available-for-sale assets – IAS 39				(136)	18	(118)
Headline earnings	**9 714**	**(2 017)**	**7 697**	10 160	(2 039)	8 121

Headline earnings is calculated in accordance with Circular 3/2009 *Headline Earnings* issued by the South African Institute of Chartered Accountants at the request of the JSE Limited. The circular allows for the inclusion in headline earnings of any gains or losses on any sale of private equity joint ventures or associates held by a banking institution. These associates are to be ringfenced, refer to annexure D on page 181 for the required disclosure in terms of the circular.

	Group 2010	Group 2009	Company 2010	Company 2009
29. Earnings per share				
The calculations of basic earnings and headline earnings per ordinary share are as follows[1]:				
Earnings				
Basic earnings (Rm)	**7 938**	8 180	**7 611**	8 027
Headline earnings (Rm) (note 28)	**8 034**	8 441	**7 697**	8 121
Weighted average number of ordinary shares in issue (thousands)	**59 997**	59 997	**59 997**	59 997
Basic earnings per ordinary share (cents)	**13 231**	13 634	**12 686**	13 379
Headline earnings per ordinary share (cents)	**13 391**	14 069	**12 829**	13 536
Reconciliation of weighted average number of ordinary shares in issue (thousands)				
Shares in issue at beginning of the year	**59 997**	59 997	**59 997**	59 997
Effect of shares issued during the year				
Weighted average number of ordinary shares in issue (thousands)	**59 997**	59 997	**59 997**	59 997

[1] Basic earnings per ordinary share equals diluted earnings per share as there are no potential dilutive ordinary shares in issue.

	Group 2010 Rm	Group 2009 Rm	Company 2010 Rm	Company 2009 Rm
30. Dividends				
Ordinary dividends				
Dividend No. 122 of 1 667 cents per share paid on 2 April 2009 to the shareholder registered on 31 March 2009		1 000		1 000
Dividend No. 123 of 1 333 cents per share paid on 2 April 2009 to the shareholder registered on 31 March 2009		800		800
Dividend No. 124 of 2 500 cents per share paid on 2 April 2009 to the shareholder registered on 31 March 2009		1 500		1 500
Dividend No. 125 of 1 667 cents per share paid on 17 September 2009 to the shareholder registered on 16 September 2009		1 000		1 000
Dividend No. 126 of 3 833 cents per share paid on 1 April 2010 to the shareholder registered on 31 March 2010	**2 300**		**2 300**	
Dividend No. 127 of 1 167 cents per share paid on 1 April 2010 to the shareholder registered on 31 March 2010	**700**		**700**	
Dividend No. 128 of 1 667 cents per share paid on 28 May 2010 to the shareholder registered on 27 May 2010	**1 000**		**1 000**	
	4 000	4 300	**4 000**	4 300

On 2 March 2011 the following dividend was declared:
Dividend No. 129 of 2 500 cents per share payable on 1 April 2011, to the shareholder registered on 31 March 2011, bringing the total dividends declared in respect of 2010 to 4 167 cents per share (2009: 9 167 cents per share).

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		Group		Company	
		2010 Rm	2009 Rm	**2010 Rm**	2009 Rm
31.	**Statements of cash flows notes**				
31.1	**(Increase)/reduction in income-earning assets**				
	Financial investments	**(17 410)**	(2 000)	**(17 795)**	(2 907)
	Trading assets	**6 977**	(467)	**6 924**	(4 401)
	Pledged assets	**(4 877)**	1 186	**(4 877)**	1 186
	Loans and advances	**(13 543)**	(7 322)	**(15 285)**	(7 381)
	Net derivative assets	**(1 680)**	(9 698)	**(1 707)**	(9 598)
	Interest in group companies	**14 401**	28 287	**14 029**	28 235
	Other assets	**(1 155)**	3 744	**(730)**	3 725
		(17 287)	13 730	**(19 441)**	8 859
31.2	**Increase/(reduction) in deposits and other liabilities**				
	Deposits and current accounts	**34 151**	(30 308)	**36 925**	(28 922)
	Trading liabilities	**(7 676)**	(6 817)	**(7 675)**	(2 860)
	Liabilities to group companies	**(10 554)**	7 523	**(10 751)**	7 605
	Other liabilities	**2 430**	731	**2 388**	451
		18 351	(28 871)	**20 887**	(23 726)
31.3	**Direct taxation paid**				
	Current and deferred tax at beginning of the year	**(2 508)**	(3 150)	**(2 607)**	(3 258)
	Recognised in profit or loss	**(2 179)**	(2 144)	**(1 982)**	(2 011)
	Deferred capital gains tax on impairment of an associate		28		
	Deferred capital gains tax recognised in other comprehensive income	**71**	65	**71**	65
	Current and deferred tax at end of the year	**1 590**	2 508	**1 650**	2 607
		(3 026)	(2 693)	**(2 868)**	(2 597)
31.4	**Proceeds from issue of share capital to shareholder**				
	Ordinary share capital and share premium	**1 000**	1 500	**1 000**	1 500
		1 000	1 500	**1 000**	1 500
31.5	**Dividends paid**				
	Dividends to the ordinary shareholder	**4 000**	4 300	**4 000**	4 300
	Dividends to non-controlling shareholders in subsidiaries	**5**			
		4 005	4 300	**4 000**	4 300

32. Related party transactions

32.1 Parent

The Standard Bank of South Africa Limited is a wholly owned subsidiary of Standard Bank Group Limited.

32.2 Subsidiaries

Details of effective interest, investments in and loans to subsidiaries are disclosed in annexure C on page 180.

32.3 Associates and joint ventures

Details of effective interest, investments in and loans to associates and joint ventures are disclosed in annexure D on pages 181 and 182.

32.4 Key management personnel

Key management personnel for the group and company has been defined as: The Standard Bank of South Africa Limited's board of directors and Standard Bank Group Limited executive committee which was effective for 2010. Non-executive directors are included in the definition of key management personnel as required by IAS 24 *Related Party Disclosures*. The definition of key management includes the close members of family of key management personnel and any entity over which key management exercises control or joint control. Close members of family are those family members who may be expected to influence, or be influenced by, that individual in their dealings with The Standard Bank of South Africa Limited. They may include the individual's domestic partner and children, the children of the individual's domestic partner, and dependants of the individual or the individual's domestic partner.

	2010 Rm	2009 Rm
Key management personnel compensation		
Salaries and other short-term benefits	**98**	112
Post-employment benefits	**4**	4
Other long-term benefits	**2**	8
Termination benefits	**2**	
IFRS 2 value of share options and rights expensed	**48**	53
	154	177
Loans and advances		
Loans outstanding at beginning of the year	**19**	26
Loans granted during the year	**66**	392
Loans repaid during the year	**(35)**	(399)
Loans outstanding at end of the year	**50**	19
Net interest earned	**3**	2

Loans include mortgage loans, instalment sale and finance leases and credit cards. The above transactions are entered into in the normal course of business, under terms that are no more favourable than those arranged with customers. No impairment has been recognised in respect of loans granted to key management (2009: Rnil). The mortgage loans and instalment sale and finance leases are secured by the underlying assets and other loans are unsecured.

	2010 Rm	2009 Rm
Deposit and current accounts		
Deposits outstanding at beginning of the year	**264**	102
Net deposits received during the year	**263**	162
Deposits outstanding at end of the year	**527**	264
Net interest expense	**17**	11

Deposits include cheque, current and savings accounts. The above transactions are entered into in the normal course of business, under terms that are no more favourable than those arranged with customers.

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	2010 Rm	2009 Rm
32. Related party transactions continued		
32.4 Key management personnel continued		
Insurance		
Premiums received	**1**	1
The premiums received relate to life, disability and other insurance.		
Investment products		
Balance at beginning of the year	**935**	816
Investments placed during the year	**367**	314
Investments repaid during the year	**(240)**	(195)
Balance at end of the year	**1 062**	935
Net investment return credited	**159**	159
Third-party funds under management		
Fund value at beginning of the year	**589**	586
Net (withdrawals)/deposits including commission and other transaction fees	**(109)**	3
Fund value at end of the year	**480**	589
Other fees		
Financial consulting fees and commission	**14**	

Shares and share options held

Aggregate details of SBG shares and share options held by key management personnel.

	2010	2009
Shares beneficially owned (number)	**12 426 103**	10 982 526
Share options held (number)	**10 340 300**	10 769 150

32. Related party transactions
continued

32.5 Holding company, subsidiaries and fellow subsidiaries

	Holding company		Subsidiaries		Fellow subsidiaries[1]	
	2010 Rm	2009 Rm	**2010 Rm**	2009 Rm	**2010 Rm**	2009 Rm
Assets						
Group						
Assets outstanding at beginning of the year	**51**	51			**76 616**	101 199
Net movement for the year	**80**				**(15 075)**	(24 583)
Assets outstanding at end of the year	**131**	51			**61 541**	76 616
Interest income earned for the group					**1 881**	1 953
Non-interest revenue earned for the group	**2**				**848**	635
Company						
Assets outstanding at beginning of the year	**51**	51	**3 580**	3 555	**77 062**	101 618
Net movement for the year	**80**		**225**	25	**(14 927)**	(24 556)
Assets outstanding at end of the year	**131**	51	**3 805**	3 580	**62 135**	77 062
Interest income earned for the company			**236**	237	**2 177**	2 214
Non-interest revenue earned for the company	**2**		**331**	324	**779**	566
The loans issued to subsidiaries and fellow subsidiaries are repayable on demand. Interest is charged based on the group's internal calculated funding rate and loans are unsecured.						
Liabilities						
Group						
Liabilities outstanding at beginning of the year	**4 107**	3 335			**54 592**	50 799
Net movement for the year	**403**	772			**(12 308)**	3 793
Liabilities outstanding at end of the year	**4 510**	4 107			**42 284**	54 592
Interest expense for the group	**317**	364			**978**	668
Company						
Liabilities outstanding at beginning of the year	**4 107**	3 335	**2 658**	2 163	**54 156**	50 776
Net movement for the year	**403**	772	**(580)**	495	**(12 883)**	3 380
Liabilities outstanding at end of the year	**4 510**	4 107	**2 078**	2 658	**41 273**	54 156
Interest expense for the company	**317**	364	**146**	136	**971**	632

[1] *Includes both banking and insurance fellow subsidiaries.*

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	Cash balances		Interest earned		Fees charged	
	2010 Rm	2009 Rm	**2010 Rm**	2009 Rm	**2010 Rm**	2009 Rm
32. Related party transactions continued						
32.5 Holding company, subsidiaries and fellow subsidiaries continued						
Banking arrangements						
Liberty and its subsidiaries make use of banking facilities provided by the company.						
Cash and cash equivalents						
– Liberty	**68**	120	**8**	12		
– Liberty subsidiaries	**1 187**	1 767	**48**	71	**40**	29
	1 255	1 887	**56**	83	**40**	29

IT outsourcing arrangement

With effect from 1 October 2004, Liberty partially outsourced its IT services to the company in terms of an agreement that ran until 31 March 2010. A new contract was entered into extending the above arrangement until 31 December 2011. Fees charged for 2010 amounted to R19 million (2009: R20 million).

Software development

The company has contracted Liberty to develop a commission and specific customer information system for Standard Bank Financial Consultancy, a division of SBSA. Fees associated with this development have been recognised over five years with the completion date in 2010. Fees for the year amounted to R3 million (2009: R4 million). An annual renewable contract is now in place for an annual maintenance fee of R2,5 million, which is included in the fees for 2010.

Operating leases

Lease income

Liberty leases a Pretoria property from the company in terms of a lease entered into on 22 December 1999 for a period of 13,5 years terminating on 31 May 2013. Lease escalations are fixed at 12% per annum. Total lease receipts for the year amounted to R90 million (2009: R80 million).

Lease expense

The company leases several properties from Liberty, including 50% of its head office at 5 Simmonds Street, Johannesburg and various retail branches in shopping centres. These leases are governed by numerous separate lease agreements. Total lease payments for the year amounted to R63 million (2009: R59 million).

Bancassurance

Liberty has entered into a profit share agreement (renegotiated on 25 April 2002 for a minimum period until 31 December 2010, after which the contract may be terminated by either party on one year's notice) with the company for the sale and promotion of Liberty's insurance products. New business premium income in respect of this business in 2010 amounted to R4 407 million (2009: R4 812 million). In terms of the agreement Liberty pays between 80% and 90% of profits on simple products and 50% of profits on complex products through a preference dividend to the company. Income recognised for the year amounted to R463 million (2009: R366 million).

During 2010, Liberty and the company have conducted a detailed review of the existing bancassurance agreement and have agreed with effect from 1 January 2011 to expand the scope thereof to include asset management, investment and health products in addition to the insurance products. The agreement remains an evergreen agreement with a 24-month notice period for termination, but neither party may give notice of termination until February 2013.

Insurance

Certain insured risks of Liberty are included in the SBG insurance programme. These include R3 billion (2009: R3 billion) cover for crime, fraud and professional indemnity, R2 billion plus £100 million (2009: R2 billion plus £100 million) directors' and officers' cover and R760 million (2009: R760 million) assets all risks cover. The assets all risks premiums include South African Special Risks Insurance Association cover of R500 million (2009: R500 million). The proportionate share of premiums charged to Liberty by SBG for the year amounted to R15 million (2009: R10 million).

32. Related party transactions continued

32.5 Holding company, subsidiaries and fellow subsidiaries continued

Asset management fees

Asset management fees of R28 million (2009: R7 million) were paid to Stanlib Asset Management Limited by The Standard Bank Group Retirement Fund in 2010.

Dividend purchase agreement

In May 2007, Liberty entered into a dividend purchase agreement with SBSA. In terms of the agreement, the rights to dividend income from certain share investments were acquired by SBSA. The cost of the rights to dividends was R888 million (2009: R1 004 million).

Guarantee transactions

As part of the risk management process a number of collateralised guarantee transactions have been entered into with Standard Bank Plc to the value of R10 844 million during the year of which R2 828 million remains outstanding at year end. Under the transaction, the company provides financial guarantees to Standard Bank Plc and places a deposit for the value of the loan exposure which is assigned as collateral for the obligations under the guarantee contract. Under IFRS the deposit is recognised on the statement of financial position and guarantee fees are accrued over the life of the deal.

32.6 Transactions with a shareholder of the parent

The following transactions took place between SBSA and Industrial and Commercial Bank of China, a 20% shareholder of SBG:

	2010 Rm	2009 Rm
Revenue		
Interest revenue	**6**	5
Total revenue earned	**6**	5
Deposits		
Deposits outstanding at beginning of the year	**1 150**	622
Deposits (repaid)/received during the year	**(197)**	528
Deposits outstanding at the end of the year	**953**	1 150

32.7 Other contracts

Saki Macozoma, a director of the group, has a shareholding of 23% in Safika, which is a member of three different consortia that were party to the Tutuwa transactions. Safika holds 2,5% of Liberty Holdings and 1,4% of SBG. The group has an effective interest of 17,25% in Safika and SBG's total effective holding in Safika is 20,33%.

Cyril Ramaphosa, a director of the group, has a 33,08% shareholding in Shanduka, which is a member of the Tutuwa consortium. Shanduka holds 1,44% in Liberty Holdings and 0,94% in SBG. SBG holds an effective interest of 12,23% in Shanduka.

During the year, SBSA agreed to exit its 33% investment in Jonah Capital (Proprietary) Limited through a share buy-back totalling R56,4 million. The balance of the shares are held by trusts controlled by Sam Jonah KBE, a director of the group, the Jonah family and company management. The divestiture was completed after 31 December 2010.

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32. Related party transactions continued

32.8 Post-employment benefit plans

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

	2010 Rm	2009 Rm
Fee income	**44**	35
Deposits held with the bank	**540**	309
Interest paid	**170**	183
Value of assets under management	**8 956**	9 658
Investments held in bonds and money market	**387**	67
Number of SBG shares held (thousands)	**1 908**	5 059

33. Post-employment benefits

	Group		Company	
	2010 Rm	2009 Rm	**2010 Rm**	2009 Rm
Amounts recognised as assets in the statement of financial position (note 10.2)				
Retirement fund (note 33.1)	**215**		**215**	
Post-employment healthcare benefits – provider fund (note 33.2)	**252**	178	**252**	178
	467	178	**467**	178
Amounts recognised as liabilities in the statement of financial position (note 19.2)				
Retirement fund (note 33.1)		294		294
Post-employment healthcare benefits – medical aid (note 33.2)	**622**	659	**622**	659
	622	953	**622**	953

The total amount recognised as an expense for the defined contribution plan operated by the group amounted to R482 million (2009: R484 million).

33.1 Retirement fund

Membership of the principal fund, the Standard Bank Group Retirement Fund exceeds 95% of SBSA's permanent staff. The fund, one of the ten largest in South Africa, is a defined contribution fund governed by the Pension Funds Act, 1956. Member-elected trustees represent 50% of the trustee board. The assets of the fund are held independently of the company's assets.

The fund is subject to statutory financial review by actuaries at an interval of not more than three years. The latest full actuarial valuation was performed on 31 December 2009 and, in the opinion of the actuary, the fund is considered to be financially sound. The next actuarial valuation is to be performed on 31 December 2012.

From 1 January 1995 new employees became entitled to defined contribution benefits only. Employees who were members of the fund on 31 December 1994, were entitled to guaranteed benefits under the old rules of the defined benefit fund. Given the defined benefit nature of the guaranteed benefits, the entire plan is classified as a defined benefit plan and accounted for as such. A specific liability was recognised within the fund to provide for the guaranteed defined benefits.

On 1 November 2009 the fund introduced individual member investment choice for defined contribution members and the pre-1995 members could choose to give up their guaranteed defined benefits and instead accept an offer of a 10% enhancement to their actuarial reserve values. Over 90% of the pre-1995 defined benefit members accepted the offer and converted to defined contribution plans.

33. Post-employment benefits continued

33.1 Retirement fund continued

	Group 2010 Rm	Group 2009 Rm	Company 2010 Rm	Company 2009 Rm
The amounts recognised in the statement of financial position in respect of the retirement fund are determined as follows:				
Present value of funded obligations	**20 306**	19 378	**20 306**	19 378
Fair value of plan assets	**(22 053)**	(21 110)	**(22 053)**	(21 110)
Surplus	**(1 747)**	(1 732)	**(1 747)**	(1 732)
Unrecognised actuarial gains	**1 532**	2 026	**1 532**	2 026
Included in other (assets)/liabilities in the statement of financial position	**(215)**	294	**(215)**	294
Unrecognised actuarial gains or losses are deferred and fully recognised in profit or loss over a period not exceeding the estimated service lives of the employees.				
Movement in the present value of funded obligations				
Balance at beginning of the year	**19 378**	19 349	**19 378**	19 349
Current service cost and interest cost	**2 258**	2 395	**2 258**	2 395
Contributions paid by employees	**432**	405	**432**	405
Actuarial gains	**(228)**	(1 596)	**(228)**	(1 596)
Benefits paid	**(1 534)**	(1 175)	**(1 534)**	(1 175)
Balance at end of the year	**20 306**	19 378	**20 306**	19 378
Movement in the fair value of plan assets				
Balance at beginning of the year	**21 110**	19 349	**21 110**	19 349
Expected return on plan assets	**2 201**	2 050	**2 201**	2 050
Contributions received	**862**	808	**862**	808
Actuarial (losses)/gains	**(586)**	78	**(586)**	78
Benefits paid	**(1 534)**	(1 175)	**(1 534)**	(1 175)
Balance at end of the year	**22 053**	21 110	**22 053**	21 110
Plan assets consist of the following:				
Cash	**2 911**	2 778	**2 911**	2 778
Equities	**8 667**	11 982	**8 667**	11 982
Government bonds	**5 182**	2 772	**5 182**	2 772
Property and other	**5 293**	3 578	**5 293**	3 578
	22 053	21 110	**22 053**	21 110

Plan assets include R15 million (2009: R11 million) of property held by the group.

The group expects to pay R509 million in contributions to the Standard Bank retirement funds in 2011 (2010: R535 million).

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	Group		Company	
	2010 Rm	2009 Rm	**2010 Rm**	2009 Rm
33. Post-employment benefits continued				
33.1 Retirement fund continued				
The amounts recognised in profit or loss are determined as follows:				
Current service cost	**430**	558	**430**	558
Interest cost	**1 828**	1 837	**1 828**	1 837
Return on plan assets	**(2 201)**	(2 050)	**(2 201)**	(2 050)
Net actuarial gain recognised in the year	**(135)**	(27)	**(135)**	(27)
Curtailment cost		(69)		(69)
Included in staff costs	**(78)**	249	**(78)**	249
Actual return on plan assets	**1 520**	2 128	**1 520**	2 128

The expected long-term rate of return is based on the expected long-term returns on equities, cash and bonds. The split between the individual asset categories is considered in setting these assumptions. Adjustments are made to reflect the effect of expenses.

	2010 Rm	2009 Rm	2008 Rm	2007 Rm	2006 Rm
Historical information					
Group and company					
Present value of funded obligations	**20 306**	19 378	19 349	22 486	20 049
Fair value of plan assets	**(22 053)**	(21 110)	(19 349)	(22 486)	(20 049)
Surplus	**(1 747)**	(1 732)			
Experience adjustments arising on plan liabilities	**(227)**	(1 596)	4 959	(1 592)	(2 278)
Experience adjustments arising on plan assets	**(586)**	78	(4 908)	1 049	2 205

33. Post-employment benefits continued

33.2 Post-employment healthcare benefits

The bank provides the following post-employment healthcare benefits to its employees:

Provider fund

A post-employment healthcare benefit fund provides eligible employees, who were in service on 29 February 2000, with a lump sum benefit on retirement enabling them to purchase an annuity to be applied towards their post-employment healthcare costs. This benefit is prefunded in a provident fund and replaced the subsidy arrangement that was in place prior to this. Any shortfall in the payment to be made by these employees towards their healthcare costs subsequent to retirement is the responsibility of the employee. The last statutory actuarial valuation was performed on 1 April 2010 and reflected an excess in the fund.

Post-employment medical aid

The liability represents a post-employment healthcare benefit scheme that covers all employees who retired before 1 March 2000. The liability is unfunded and is valued every year using the projected unit credit method. The latest full statutory actuarial valuation was performed on 31 December 2010. The next actuarial valuation is to be performed on 31 December 2011.

	Group		Company	
	2010 Rm	2009 Rm	**2010 Rm**	2009 Rm
The amounts recognised in the statement of financial position in respect of post-employment healthcare benefits are determined as follows:				
Present value of unfunded defined benefit obligation	**622**	659	**622**	659
Present value of funded defined benefit obligation	**694**	554	**694**	554
Total present value of defined benefit obligations	**1 316**	1 213	**1 316**	1 213
Fair value of plan assets	**(1 340)**	(1 237)	**(1 340)**	(1 237)
Surplus	**(24)**	(24)	**(24)**	(24)
Unrecognised actuarial gains	**394**	505	**394**	505
Included in the statement of financial position	**370**	481	**370**	481
Comprising:				
Provider fund	**(252)**	(178)	**(252)**	(178)
Post-employment medical aid	**622**	659	**622**	659
	370	481	**370**	481

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	Group		Company	
	2010 Rm	2009 Rm	**2010 Rm**	2009 Rm
33. Post-employment benefits continued				
33.2 Post-employment healthcare benefits continued				
Movement in the present value of defined benefit obligations				
Balance at beginning of the year	**1 213**	1 100	**1 213**	1 100
Current service cost and interest cost	**143**	130	**143**	130
Actuarial losses	**121**	97	**121**	97
Benefits paid	**(161)**	(114)	**(161)**	(114)
Balance at end of the year	**1 316**	1 213	**1 316**	1 213
Movement in the fair value of plan assets				
Balance at beginning of the year	**1 237**	1 103	**1 237**	1 103
Expected return on plan assets	**121**	107	**121**	107
Actuarial gains	**91**	91	**91**	91
Benefits paid	**(109)**	(64)	**(109)**	(64)
Balance at end of the year	**1 340**	1 237	**1 340**	1 237
Plan assets consist of the following:				
Cash	**210**	42	**210**	42
Equities	**856**	871	**856**	871
Government bonds	**116**	174	**116**	174
Property and other	**158**	150	**158**	150
Balance at end of the year	**1 340**	1 237	**1 340**	1 237
Plan assets include Rnil (2009: R19 million) of investments in own equity by the group.				
The group expects to pay R51 million in contributions to post-employment healthcare benefit plans in 2011 (2010: R52 million).				
The amounts recognised in profit or loss are determined as follows:				
Current service cost	**30**	30	**30**	30
Interest cost	**113**	100	**113**	100
Expected return on plan assets	**(121)**	(107)	**(121)**	(107)
Net actuarial gains recognised in the year	**(81)**	(13)	**(81)**	(13)
Included in staff costs	**(59)**	10	**(59)**	10
Actual return on plan assets	**212**	198	**212**	198

33. Post-employment benefits continued

33.2 Post-employment healthcare benefits continued

Assumed medical inflation rates have a significant effect on the amounts recognised in profit or loss. A one percentage point change in the medical inflation rate would have the following effects on amounts recognised in 2010 and 2009:

	2010		2009	
	1% increase Rm	1% decrease Rm	1% increase Rm	1% decrease Rm
Sensitivity analysis for post-employment medical aid fund				
Group and company				
Effect on the aggregate of the current service cost and interest cost	**5**	**(4)**	6	(5)
Effect on the defined benefit obligation	**57**	**(50)**	62	(53)

	2010 Rm	2009 Rm	2008 Rm	2007 Rm	2006 Rm
Historical information					
Group and company					
Present value of defined benefit obligations	**1 316**	1 213	1 100	1 177	1 434
Fair value of plan assets	**(1 340)**	(1 237)	(1 103)	(1 332)	(1 167)
(Surplus)/unfunded obligations	**(24)**	(24)	(3)	(155)	267
Experience adjustments arising on plan liabilities	**(166)**	(112)	89	285	(191)
Experience adjustments arising on plan assets	**91**	91	(276)	136	168

The principal actuarial assumptions used for accounting purposes were:

	Retirement fund %	Provider fund %	Post-employment medical aid %
2010			
Discount rate	**8,26**	**9,00**	**8,26**
Return on investments	**8,26**	**9,25**	**8,26**
Salary/benefit inflation	**5,62**	**8,00**	
CPI inflation	**4,62**	**6,00**	**4,62**
Medical inflation			**6,92**
Remaining service life of employees (years)	**13,42**	**14,00**	
2009			
Discount rate	9,50	9,50	9,50
Return on investments	10,50	9,75	9,50
Salary/benefit inflation	7,00	8,00	
CPI inflation	6,00	6,00	6,00
Medical inflation			8,00
Remaining service life of employees (years)	15,00	15,00	

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	Group		Company	
	2010 Rm	2009 Rm	**2010 Rm**	2009 Rm
34. Reclassification of financial assets				
Amount reclassified from held-for-trading to loans and receivables at amortised cost				
In accordance with the amendments to IAS 39 and IFRS 7 *Reclassification of Financial Assets,* the group and company reclassified assets from held-for-trading to loans and receivables for which there was a clear change of intent to hold the assets for the foreseeable future rather than to exit or trade in the short term. No loans were reclassified during the current year.				
Carrying value of reclassified financial assets at end of the year	**2 484**	2 775	**929**	869
Fair value of reclassified financial assets at end of the year	**2 481**	2 718	**942**	850
A fair value gain after tax of R72 million (2009: R18 million loss) for the group and R32 million (2009: R17 million loss) for the company would have been recognised in 2010 had this reclassification not been done.				
The table below sets out the amounts actually recognised in profit or loss:				
Period before reclassification				
Trading income		(29)		(111)
Period after reclassification				
Net interest income	**39**	179	**9**	31

Annexure A – detailed accounting policies

The principal accounting policies applied in the presentation of the annual financial statements are set out below.

1. Basis of consolidation

Subsidiaries

The annual financial statements of subsidiaries are consolidated from the date on which the group acquires control, up to the date that control ceases. For this purpose, subsidiaries are entities over which the group, directly or indirectly, has the power to govern the financial and operating policies to obtain benefits from its activities. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the group controls another entity.

Intra-group transactions, balances and unrealised gains and losses are eliminated on consolidation. Unrealised losses are eliminated in the same manner as unrealised gains, but only to the extent that there is no evidence of impairment.

Accounting policies of subsidiaries conform to the policies adopted by the group.

Investments in subsidiaries are accounted for at cost less impairment losses in the company annual financial statements. The carrying amounts of these investments are reviewed annually and impaired when necessary.

SPEs

SPEs are entities created to accomplish a narrow and well-defined objective such as the securitisation of financial assets. These entities may take different legal forms. An SPE, including a securitisation vehicle, is consolidated when the substance of the relationship between the group and the SPE indicates that the group controls the entity.

Business combinations

The acquisition method of accounting is used to account for the acquisition of subsidiaries by the group. The consideration transferred is measured as the sum of the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the acquisition date. Transaction costs for any business combinations prior to 1 January 2010 are capitalised as part of the consideration transferred. Transaction costs on or after 1 January 2010 are recognised within profit or loss as and when they are incurred.

The group elects to initially measure non-controlling interests on the acquisition date at either fair value or at the non-controlling interest's proportionate share of the subsidiary's identifiable net assets.

Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any non-controlling interest. The excess of the consideration transferred, the value of non-controlling interest recognised and the acquisition date fair value of any previously held equity interest in the subsidiary over the subsidiary's fair value of identifiable net assets acquired is recorded as goodwill and accounted for in terms of accounting policy 6 – *Intangible assets*.

Annexure A – detailed accounting policies continued

If the consideration transferred, the value of non-controlling interest recognised and the acquisition date fair value of any previously held equity interest in the subsidiary is less than the fair value of the net assets of the subsidiary acquired, the difference, referred to as a gain from a bargain purchase, is recognised directly in profit or loss.

When a business combination occurs in stages, the previously held equity interest is remeasured to fair value at the acquisition date and any resulting gain or loss is recognised in profit or loss.

Transactions with non-controlling interests

Transactions with non-controlling interests that do not result in the gain or loss of control, are accounted for as transactions with equity holders of the group. For purchases of additional interests from non-controlling interests, the difference between the purchase consideration and the group's proportionate share of the subsidiary's additional net asset value acquired, is accounted for directly in equity. Profits or losses on the partial disposal (where a change in ownership occurs and control is not lost) of the group's interest in a subsidiary to non-controlling interests are also accounted for directly in equity.

Common control transactions

Common control transactions, in which the company is the ultimate parent entity both before and after the transaction, are accounted for at book value in the company's financial statements with no gain or loss recognised in profit or loss.

2. Foreign currency translations

Functional and presentation currency

Items included in the annual financial statements of each of the group's entities are measured using the currency of the primary economic environment in which the entity operates (functional currency).

The consolidated and separate annual financial statements are presented in South African rand, which is the functional and presentation currency of SBSA and the group respectively.

Group companies

The results and financial position of all foreign operations (excluding those in hyperinflationary economies) that have a functional currency different from the group's presentation currency are translated into the group's presentation currency as follows:

- Assets and liabilities (including goodwill and fair value adjustments arising on acquisition) are translated at the closing rate on the reporting date.
- Income and expenses are translated at average exchange rates for the month, to the extent that such average rates approximate actual rates.
- All resulting foreign exchange differences are accounted for directly in a separate component of other comprehensive income (OCI), being the foreign currency translation reserve.

On the partial disposal of a subsidiary that includes a foreign operation, a proportionate share of the balance of the foreign currency translation reserve is transferred to the non-controlling interests. For all other partial disposals of a foreign operation, the proportionate share of the balance of the foreign currency translation reserve is reclassified to profit or loss.

On disposal (where a change in ownership occurs and control is lost) of a subsidiary that includes a foreign operation, the relevant amount in the foreign currency translation reserve is transferred to profit or loss at the time at which the profit or loss on disposal of the foreign operation is recognised.

Transactions and balances

Foreign currency transactions are translated into the respective functional currencies of group entities at exchange rates prevailing at the date of the transactions. Foreign exchange gains or losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies at year end exchange rates, are recognised in profit or loss (except when recognised in OCI as qualifying cash flow hedges and qualifying net investment hedges).

Non-monetary assets and liabilities denominated in foreign currencies that are measured at historical cost are translated using the exchange rate at the transaction date, and those measured at fair value are translated at the exchange rate at the date that the fair value was determined. Exchange differences on non-monetary items are accounted for based on the classification of the underlying items. Foreign exchange gains or losses on equities classified as available-for-sale financial assets are recognised in the available-for-sale reserve in OCI whereas the exchange differences on equities that are classified as held at fair value through profit or loss are reported as part of the fair value gain or loss in profit or loss.

Foreign currency gains and losses on intra-group loans are recognised in profit or loss except where the settlement of the loan is neither planned nor likely to occur in the foreseeable future. In these cases the foreign currency gains or losses are initially recognised in the group's foreign currency translation reserve. These gains and losses are recognised in profit or loss either on disposal (loss of control of a subsidiary, loss of significant influence over an associate or the loss of joint control over a jointly controlled entity that includes a foreign operation) or partial disposal (a reduction in an entity's ownership interest in a foreign operation other than a disposal) of an associate or jointly controlled entity that includes a foreign operation. In the case of a partial disposal of a subsidiary that includes a foreign operation, the proportionate share of the cumulative amount of the exchange differences recognised in OCI are reclassified to the non-controlling interests in that foreign operation. In the company's annual financial statements, these gains or losses are recognised in profit or loss.

3. Cash and cash equivalents

Cash and cash equivalents disclosed in the statement of financial position and statement of cash flows consist of cash and balances with central banks. Cash and balances with central banks comprise coins and bank notes and balances with central banks.

4. Financial instruments

Initial recognition and measurement

Financial instruments include all financial assets and liabilities. These instruments are typically held for liquidity, investment, trading or hedging purposes. All financial instruments are initially recognised at fair value plus directly attributable transaction costs, except those carried at fair value through profit or loss where transaction costs are recognised immediately in profit or loss. Financial instruments are recognised (derecognised) on the date the group commits to purchase (sell) the instruments (trade date accounting).

Subsequent measurement

Subsequent to initial measurement, financial instruments are measured either at fair value or amortised cost, depending on their classifications as follows:

Held-to-maturity

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that management has both the positive intent and ability to hold to maturity. Were the group to sell more than an insignificant amount of held-to-maturity investments, the entire category would be tainted and reclassified as available-for-sale assets with the difference between amortised cost and fair value being accounted for in OCI.

Held-to-maturity investments are carried at amortised cost, using the effective interest method, less any impairment losses.

Trading assets and liabilities

Trading assets and liabilities are classified as held-for-trading and include those financial assets and liabilities acquired or incurred principally for the purpose of selling or repurchasing in the near term, those forming 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, and commodities that are acquired principally by the group for the purpose of selling in the near future and generating a profit from fluctuations in price or broker-traders' margin. Derivatives are also categorised as held-for-trading, unless they are designated as hedging instruments.

Subsequent to initial recognition, the financial instruments' fair values are remeasured at each reporting date. All gains and losses arising from changes in fair value are recognised in profit or loss as trading revenue within non-interest revenue.

Interest and dividends on trading assets and liabilities are included in trading revenue.

Financial assets and liabilities designated at fair value through profit or loss

The group designates certain financial assets and liabilities, other than those classified as held-for-trading, as at fair value through profit or loss when:

- this designation eliminates or significantly reduces an accounting mismatch that would otherwise arise. Under this criterion, the main classes of financial instruments designated by the group are loans and advances to customers and debt securities in issue. The designation significantly reduces measurement inconsistencies that would have otherwise arisen if the related derivatives were treated as held-for-trading and the underlying financial instruments were carried at amortised cost.
- groups of financial assets, financial liabilities or both are managed, and their performance evaluated, on a fair value basis in accordance with a documented risk management or investment strategy, and reported to the group's key management personnel on a fair-value basis. Under this criterion, certain private equity, short-term insurance and other investment portfolios have been designated at fair value through profit or loss; or
- financial instruments contain one or more embedded derivatives that significantly modify the instruments' cash flows.

The fair value designation is made on initial recognition and is irrevocable. Subsequent to initial recognition, the fair values are remeasured at each reporting date. Gains or losses arising from changes in fair value are recognised in interest income (expense) for all debt financial assets (financial liabilities) and in other revenue within non-interest revenue for all equity instruments.

Private equity and property equity investments designated at fair value through profit or loss in terms of the scope exemption in IAS 28 *Investments in Associates,* are accounted for in the designated at fair value through profit or loss category.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than those classified by the group as at fair value through profit or loss or available-for-sale. This category includes purchased loans.

Loans and receivables are measured at amortised cost using the effective interest method, less any impairment losses. Origination transaction costs and origination fees received that are integral to the effective rate are capitalised to the value of the loan and amortised through interest income as part of the effective interest rate. The majority of the group's advances are included in the loans and receivables category.

Available-for-sale

Financial assets classified by the group as available-for-sale are generally strategic capital investments held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices, or non-derivative financial assets that are not classified within another category of financial assets.

Available-for-sale financial assets are subsequently measured at fair value. Unrealised gains or losses arising from changes in the fair value of available-for-sale financial assets are recognised directly in the available-for-sale reserve until the financial asset is derecognised or impaired. When debt (equity) available-for-sale

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Annexure A – detailed accounting policies continued

financial assets are disposed of, the cumulative fair value adjustments in OCI are transferred to interest income (other revenue).

Interest income, calculated using the effective interest rate method, is recognised in profit or loss. Dividends received on available-for-sale instruments are recognised in profit or loss when the group's right to receive payment has been established. Foreign exchange gains or losses on available-for-sale debt (equity) instruments are recognised in profit or loss (OCI).

Reclassification of financial assets

The group may choose to reclassify non-derivative trading assets out of the held-for-trading category if the financial asset is no longer held for the purpose of selling it in the near term. Financial assets that would not otherwise have met the definition of loans and receivables are permitted to be reclassified out of the held-for-trading category only in rare circumstances. In addition, the group may choose to reclassify financial assets that would meet the definition of loans and receivables out of the held-for-trading or available-for-sale categories if the group, at the date of reclassification, has the intention and ability to hold these financial assets for the foreseeable future or until maturity.

Reclassifications are made at fair value as of the reclassification date. Effective interest rates for financial assets reclassified to loans and receivables, held-to-maturity and available-for-sale categories are determined at the reclassification date. Subsequent increases in estimates of cash flows adjust the financial asset's effective interest rates prospectively.

On reclassification of a trading asset, all embedded derivatives are reassessed and, if necessary, accounted for separately.

Fair value

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's-length transaction.

The best evidence of the fair value of a financial instrument on initial recognition is the transaction price, such as the fair value of the consideration paid or received, unless the fair value is evidenced by comparison with other observable current market transactions in the same instrument, without modification or repackaging, or based on valuation techniques such as discounted cash flow models and option pricing models whose variables include only data from observable markets.

When such valuation models, with only observable market data as inputs, indicate that the fair value differs from the transaction price, this initial difference, commonly referred to as day one profit or loss, is recognised in profit or loss immediately. If non-observable market data is used as part of the input to the valuation models, any resulting difference between the transaction price and the model value is deferred. The timing of the recognition of deferred day one profit or loss is determined individually. It is either amortised over the life of the transaction, deferred until the instrument's fair value can be determined using market observable inputs, or realised through settlement, depending on the nature of the instrument and availability of market observable inputs.

Subsequent to initial recognition, the fair values of financial assets and liabilities are based on quoted market prices or dealer price quotations for financial instruments traded in active markets. If the market for a financial asset is not active or the instrument is unlisted, the fair value is determined using applicable valuation techniques. These include the use of recent arm's-length transactions, discounted cash flow analyses, pricing models and valuation techniques commonly used by market participants.

Where discounted cash flow analyses are used, estimated future cash flows are based on management's best estimates and the discount rate is a market-related rate at the reporting date for a financial asset or liability with similar terms and conditions.

Where the fair value of investments in unquoted equity instruments and derivatives that are linked to and must be settled by delivery of such unquoted equity instruments are unable to be reliably determined, those instruments are measured at cost less impairment losses. Impairment losses on these financial assets are not reversed.

Impairment of financial assets

Assets carried at amortised cost

The group assesses at each reporting date whether there is objective evidence that a loan or group of loans is impaired. A loan or group of loans is impaired if objective evidence indicates that a loss event has occurred after initial recognition and that loss event has a negative effect on the estimated future cash flows of the loan or group of loans that can be estimated reliably.

Criteria that are used by the group in determining whether there is objective evidence of impairment include:

- known cash flow difficulties experienced by the borrower;
- a breach of contract, such as default or delinquency in interest and/or principal payments;
- breaches of loan covenants or conditions;
- it becoming probable that the borrower will enter bankruptcy or other financial reorganisation; and
- where the group, for economic or legal reasons relating to the borrower's financial difficulty, grants the borrower a concession that the group would not otherwise consider.

The group first assesses whether there is objective evidence of impairment individually for loans that are individually significant, and individually or collectively for loans that are not individually significant. Non-performing loans include those loans for which the group has identified objective evidence of default, such as a breach of a material loan covenant or condition as well as those loans for which instalments are due and unpaid for 90 days or more. The impairment of non-performing financial loans takes account of past loss experience adjusted for changes in economic conditions and the nature and level of risk exposure since the recording of the historic losses.

When a loan carried at amortised cost has been identified as specifically impaired, the carrying amount of the loan is reduced to an amount equal to the present value of estimated future cash flows, including the recoverable amount of any collateral, discounted at the financial asset's original effective interest rate. The carrying amount of the loan is reduced through the use of a specific credit impairment account and the loss is recognised as a credit impairment charge in profit or loss.

If the group determines that no objective evidence of impairment exists for an individually assessed loan, whether significant or not, it includes the loan in a group of loans with similar credit risk characteristics and collectively assesses for impairment. Loans that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment for impairment.

Impairment of groups of loans that are assessed collectively is recognised where there is objective evidence that a loss event has occurred after the initial recognition of the group of loans but before the reporting date. In order to provide for latent losses in a group of loans that have not yet been identified as specifically impaired, a credit impairment for incurred but not reported losses is recognised based on historic loss patterns and estimated emergence periods. Groups of loans are also impaired when adverse economic conditions develop after initial recognition, which may impact future cash flows. The carrying amount of groups of loans is reduced through the use of a portfolio credit impairment account and the loss is recognised as a credit impairment charge in profit or loss.

Increases in loan impairments and any subsequent reversals thereof, or recoveries of amounts previously impaired, are reflected in profit or loss. Previously impaired loans are written off once all reasonable attempts at collection have been made and there is no realistic prospect of recovering outstanding amounts. Any subsequent reductions in amounts previously impaired are reversed by adjusting the allowance account with the amount of the reversal recognised as a reduction in impairment for credit losses in profit or loss. Subsequent recoveries of previously written off loans are recognised in profit or loss.

Subsequent to impairment, the effects of discounting unwind over time as interest income.

Renegotiated loans

Loans that would otherwise be past due or impaired and whose terms have been renegotiated and exhibit the characteristics of a performing loan are reset to performing loan status. Loans whose terms have been renegotiated are subject to ongoing review to determine whether they are considered to be impaired or past due.

Available-for-sale financial assets

Available-for-sale financial assets are impaired if there is objective evidence of impairment, resulting from one or more loss events that occurred after initial recognition but before the reporting date, that have a negative impact on the future cash flows of the asset. In addition, an available-for-sale equity instrument is considered to be impaired if a significant or prolonged decline in the fair value of the instrument below its cost has occurred. In that instance, the cumulative loss, measured as the difference between the acquisition price and the current fair value, less any previously recognised impairment losses on that financial asset, is transferred from OCI to profit or loss.

If, in a subsequent period, the amount relating to an impairment loss decreases and the decrease can be linked objectively to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed through profit or loss for available-for-sale debt instruments. Any reversal of an impairment loss in respect of an available-for-sale equity instrument is recognised directly in OCI.

Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the statement of financial position when there is a legally enforceable right to set-off the recognised amounts and there is an intention to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Income and expenses are presented on a net basis only when permitted by the accounting standards, or for gains and losses arising from a group of similar transactions.

Derivative financial instruments and hedge accounting

A derivative is a financial instrument whose value changes in response to an underlying variable, requires little or no initial net investment and is settled at a future date. Derivatives are initially recognised at fair value on the date on which the derivatives are entered into and subsequently remeasured at fair value as described under the heading "Fair value" on page 168.

All derivative instruments are carried as assets when the fair value is positive and as liabilities when the fair value is negative, subject to offsetting principles as described under the heading "Offsetting financial instruments" above.

Embedded derivatives included in hybrid instruments are treated and disclosed as separate derivatives when their economic characteristics and risks are not closely related to those of the host contract, the terms of the embedded derivative are the same as those of a stand-alone derivative and the combined contract is not measured at fair value through profit or loss. The financial host contracts are accounted for and measured applying the rules of the relevant financial instrument category.

The method of recognising fair value gains or losses depends on whether the derivatives are designated as hedging instruments, and if so, the nature of the hedge relationship, or if they are classified as held-for-trading.

Annexure A – detailed accounting policies continued

Derivatives that qualify for hedge accounting
When derivatives are designated in a hedge relationship, the group designates them as either:
- hedges of the fair value of recognised financial assets or liabilities or firm commitments (fair value hedges);
- hedges of highly probable future cash flows attributable to a recognised asset or liability, a forecast transaction, or a highly probable forecast intra-group transaction in the consolidated annual financial statements (cash flow hedges); or
- hedges of net investments in a foreign operation (net investment hedges).

Hedge accounting is applied to derivatives designated in this way provided certain criteria are met. The group documents, at the inception of the hedge relationship, the relationship between hedged items and hedging instruments, as well as its risk management objective and strategy for undertaking various hedging relationships. The group also documents its assessment, both at the inception of the hedge and on an ongoing basis, of whether the hedging instruments are highly effective in offsetting changes in fair values or cash flows of hedged items.

Fair value hedges
Where a hedging relationship is designated as a fair value hedge, the hedged item is adjusted for the change in fair value in respect of the risk being hedged. Gains or losses on the remeasurement of both the derivative and the hedged item are recognised in profit or loss. Fair value adjustments relating to the hedging instrument are allocated to the same line item in profit or loss as the related hedged item. Any hedge ineffectiveness is also recognised in the same line item in profit or loss as the related hedged item.

If the derivative expires, is sold, terminated, exercised, no longer meets the criteria for fair value hedge accounting, or the designation is revoked, then hedge accounting is discontinued. The adjustment to the carrying amount of a hedged item, for which the effective interest method is used, is amortised to profit or loss as part of the hedged item's recalculated effective interest rate over the period to maturity.

Cash flow hedges
The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges are recognised in the cash flow hedging reserve. The ineffective part of any gain or loss is recognised immediately in profit or loss as trading revenue.

Amounts recognised in OCI are transferred to profit or loss in the periods in which the hedged forecast cash flows affect profit or loss. However, when the forecast transaction that is hedged results in the recognition of a non-financial asset or a non-financial liability, the cumulative gains or losses recognised previously in OCI are transferred and included in the initial measurement of the cost of the asset or liability.

If the derivative expires, is sold, terminated, exercised, no longer meets the criteria for cash flow hedge accounting, or the designation is revoked, then hedge accounting is discontinued. The cumulative gains or losses recognised in OCI remain in OCI until the forecast transaction is recognised in the case of a non-financial asset or a non-financial liability, or until the forecast transaction affects profit or loss in the case of a financial asset or a financial liability. If the forecast transaction is no longer expected to occur, the cumulative gains or losses recognised in OCI are immediately transferred to profit or loss and classified as trading revenue.

Derivatives that do not qualify for hedge accounting
All gains or losses from changes in the fair values of derivatives that do not qualify for hedge accounting are recognised immediately in profit or loss as trading revenue.

Borrowings
Borrowings are recognised initially at fair value, generally being their issue proceeds, net of directly attributable transaction costs incurred. Borrowings are subsequently measured at amortised cost and interest is recognised using the effective interest method.

Preference shares, which carry a mandatory coupon, or are redeemable on a specific date, at the occurrence of a contingent future event, at the option of the shareholder or if dividend payments are not discretionary, are classified as financial liabilities or compound financial instruments. All other preference shares are classified as equity. Dividends on preference shares classified as financial liabilities are accounted for as interest on an amortised cost basis using the effective interest method.

Financial guarantee contracts
A financial guarantee contract is a contract that requires the group (issuer) to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument.

Financial guarantee liabilities are initially recognised at fair value, which is generally equal to the premium received, and then amortised over the life of the financial guarantee. Subsequent to initial recognition, the financial guarantee liability is measured at the higher of the present value of any expected payment, when a payment under the guarantee has become probable, and the unamortised premium.

Derecognition of financial instruments
Financial assets are derecognised when the contractual rights to receive cash flows from the financial assets have expired, or where the group has transferred its contractual rights to receive cash flows on the financial asset such that it has transferred substantially all the risks and rewards of ownership of the financial asset. Any interest in transferred financial assets that is created or retained by the group is recognised as a separate asset or liability.

The group enters into transactions whereby it transfers assets recognised in its statement of financial position, but retains either all or a portion of the risks or rewards of the transferred assets. If all or substantially all risks and rewards are retained, then the transferred assets are not derecognised. Transfers of assets with the retention of all or substantially all risks and rewards include securities lending and repurchase agreements.

When assets are sold to a third party with a concurrent total rate of return swap on the transferred assets, the transaction is accounted for as a secured financing transaction, similar to repurchase transactions. In transactions where the group neither retains nor transfers substantially all the risks and rewards of ownership of a financial asset, it derecognises the asset if control over the asset is lost. The rights and obligations retained in the transfer are recognised separately as assets and liabilities as appropriate.

In transfers where control over the asset is retained, the group continues to recognise the asset to the extent of its continuing involvement, determined by the extent to which it is exposed to changes in the value of the transferred asset.

Financial liabilities are derecognised when they are extinguished, such as when the obligation is discharged, cancelled or expires. Where an existing financial liability is replaced by another from the same party on substantially different terms, or the terms of an existing financial liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, with the difference in the respective carrying amounts being recognised in profit or loss.

Sale and repurchase agreements and lending of securities

Securities sold subject to linked repurchase agreements are reclassified in the statement of financial position as pledged assets when the transferee has the right by contract or custom to sell or repledge the collateral. The liability to the counterparty is included under deposit and current accounts or trading liabilities, as appropriate.

Securities purchased under agreements to resell, at either a fixed price or the purchase price plus a lender's rate of return, are recorded as loans granted under resale agreements and included under trading assets or loans and advances to other banks or customers, as appropriate. The difference between the purchase and sales price is treated as interest and amortised over the life of the reverse repurchase agreement using the effective interest method.

Securities lent to counterparties are retained in the annual financial statements and are classified and measured in accordance with the measurement policy above. Securities borrowed are not recognised in the annual financial statements unless sold to third parties. In these cases, the obligation to return the securities borrowed, is recorded at fair value as a trading liability.

Income and expenses arising from the securities borrowing and lending business are recognised over the period of the transactions.

Commodities

Commodities that are acquired principally by the group for the purpose of selling in the near future and generating a profit from fluctuations in price or broker-traders' margin are measured at fair value less cost to sell and are reported as trading assets. All changes in fair value less cost to sell are recognised in trading revenue in the period of the change.

Forward contracts to purchase or sell commodities, where net settlement occurs or where physical delivery occurs and the commodities are held to settle another derivative contract, are recognised as derivative financial instruments and measured at fair value. All changes in fair value are recognised in trading revenue in the period of the change.

5. Interest in associates and joint ventures

Associates and jointly controlled entities

Associates are those entities in which the group has significant influence, but not control, over the financial and operating policies. Significant influence generally accompanies, but is not limited to, a shareholding of between 20% and 50% of the voting rights.

A jointly controlled entity is one where a contractual arrangement establishes joint control over the economic activity of the entity.

Interests in associates and jointly controlled entities are accounted for using the equity method and are measured in the consolidated statement of financial position at an amount that reflects the group's share of the net assets of the associate or jointly controlled entity (including goodwill).

Equity accounting involves recognising the investment initially at fair value, including goodwill, and subsequently adjusting the carrying value for the group's share of the associates' and jointly controlled entities' income and expenses and OCI. Equity accounting of losses in associates and jointly controlled entities is restricted to the interests in these entities, including unsecured receivables or other commitments, unless the group has an obligation or has made payments on behalf of the associate or jointly controlled entity. Unrealised intra-group profits are eliminated in determining the group's share of equity accounted profits. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

Equity accounting is applied from the date on which the entity becomes an associate or jointly controlled entity up to the date on which it ceases to be an associate or jointly controlled entity. The accounting policies of associates and jointly controlled entities have been changed where necessary to ensure consistency with the policies of the group.

Private equity and property equity investments, which are associates, are either designated on initial recognition at fair value through profit or loss, or equity accounted.

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Annexure A – detailed accounting policies continued

Investments in associates and jointly controlled entities are accounted for at cost less impairment losses in the company's annual financial statements.

Jointly controlled operations

Jointly controlled operations exist where two or more venturers combine their operations, resources or expertise to market or distribute jointly a particular product. Each venturer recognises the assets it controls, the liabilities and expenses that it incurs, and its share of the gains and losses in respect of its interest in the joint venture.

6. Intangible assets

Goodwill

Goodwill represents the excess of the consideration transferred (including transaction costs for acquisitions prior to 1 January 2010) over the group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities of the acquired subsidiary, associate or jointly controlled entity at the date of the acquisition. The group's interest in acquired subsidiaries takes into account any non-controlling interest (refer to accounting policy 1 – *Basis of consolidation*).

Goodwill arising on the acquisition of subsidiaries is reported in the statement of financial position as part of "Goodwill and other intangible assets". Goodwill arising on the acquisition of associates or jointly controlled entities is included in "Interest in associates and joint ventures" in the statement of financial position (refer to accounting policy 5 – *Interest in associates and joint ventures*). Goodwill is allocated to cash-generating units and tested annually for impairment. A gain from a bargain purchase is recognised as income in profit or loss in the period in which it arises. Gains or losses on the disposal of an entity are determined after taking into account the carrying amount of goodwill (if any) relating to the entity sold.

Computer software

Costs associated with developing or maintaining computer software programmes and the acquisition of software licences are generally recognised as an expense as incurred. However, direct computer software development costs that are clearly associated with an identifiable and unique system, which will be controlled by the group and have a probable future economic benefit beyond one year, are recognised as intangible assets. Capitalisation is further limited to development costs where the group is able to demonstrate its intention and ability to complete and use the software, the technical feasibility of the development, the availability of resources to complete the development, how the development will generate probable future economic benefits and the ability to reliably measure costs relating to the development. Direct costs include software development employee costs and an appropriate portion of relevant overheads.

Expenditure subsequently incurred on computer software is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates.

Direct computer software development costs recognised as intangible assets are amortised on the straight-line basis at rates appropriate to the expected useful lives of the assets (two to ten years), and are carried at cost less accumulated amortisation and accumulated impairment losses. The carrying amount of capitalised computer software is reviewed annually and is written down when impaired.

Other intangible assets

The group recognises the costs incurred on internally generated intangible assets such as brands, customer lists, customer contracts and similar rights and assets, in profit or loss as incurred.

The group capitalises brands, customer lists, customer contracts and similar rights acquired in business combinations.

Capitalised intangible assets are measured at cost less accumulated amortisation and accumulated impairment losses. Amortisation is recognised in profit or loss on a straight-line basis over the estimated useful lives of intangible assets, not exceeding 20 years, from the date that they are available for use.

Amortisation methods, useful lives and residual values are reviewed at each financial year end and adjusted, if necessary. There have been no changes in the estimated useful lives from those applied in the previous financial year.

7. Property and equipment

Equipment and owner-occupied properties

Equipment, furniture, vehicles and other tangible assets are measured at cost less accumulated depreciation and accumulated impairment losses. Cost includes expenditure that is directly attributable to the acquisition of the asset. Where significant parts of an item of property or equipment have different useful lives, they are accounted for as separate items (major components) of property and equipment.

Costs that are subsequently incurred are included in the asset's carrying amount or are recognised as a separate asset, as appropriate, only when it is probable that future economic benefits will flow to the group and the cost of the item can be measured reliably. Expenditure, which does not meet these criteria, is recognised in profit or loss as incurred. Depreciation, impairment losses or gains and losses on disposal of assets are included in profit or loss.

Owner-occupied properties are held for use in the supply of services or for administrative purposes.

Property and equipment are depreciated on the straight-line basis over the estimated useful lives of the assets to their residual values. Land is not depreciated. Leasehold buildings are depreciated over the period of the lease or over a lesser period, as is considered appropriate.

The assets' residual values, useful lives and the depreciation method applied are reviewed, and adjusted if appropriate, at each financial year end.

The estimated useful lives of tangible assets for the current financial year are as follows:

Property	– 40 years
Computer equipment	– 3 to 5 years
Motor vehicles	– 5 years
Office equipment	– 5 to 10 years
Furniture and fittings	– 5 to 13 years
Capitalised leased assets	– over the shorter of the lease term or its useful life

There has been no change to the estimated useful lives from those applied in the previous financial year.

8. Capitalisation of borrowing costs

Borrowing costs that relate to qualifying assets, such as assets that necessarily take a substantial period of time to get ready for their intended use or sale and which are not measured at fair value, are capitalised. All other borrowing costs are recognised in profit or loss.

9. Impairment of non-financial assets

Intangible assets that have an indefinite useful life and goodwill are tested annually for impairment and additionally when an indicator of impairment exists. Intangible assets that are subject to amortisation and other non-financial assets are reviewed for impairment at each reporting date and tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

An impairment loss is recognised in profit or loss for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher amount of an asset's fair value less costs to sell and value in use. Fair value less costs to sell is determined by ascertaining the current market value of an asset and deducting any costs related to the realisation of the asset. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For the purposes of assessing impairment, assets that cannot be tested individually are grouped at the lowest levels for which there are separately identifiable cash inflows from continuing use (cash-generating units). Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the units, and then to reduce the carrying amounts of the other assets in the unit on a pro rata basis.

An impairment loss in respect of goodwill is not reversed. In respect of other non-financial assets, impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed through profit or loss only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

10. Leases

Group as lessee

Leases, where the group assumes substantially all the risks and rewards of ownership, are classified as finance leases. Finance leases are capitalised at the inception of the lease at the lower of the fair value of the leased asset and the present value of the minimum lease payments. Lease payments are separated using the interest rate implicit in the lease to identify the finance cost, which is recognised in profit or loss over the lease period, and the capital repayment, which reduces the liability to the lessor.

Leases of assets are classified as operating leases if the lessor retains a significant portion of the risks and rewards of ownership. Payments made under operating leases, net of any incentives received from the lessor, are recognised in profit or loss on a straight-line basis over the term of the lease. Contingent rentals are expensed as they are incurred. When an operating lease is terminated before the lease period has expired, any payment required to be made to the lessor by way of penalty is recognised as an expense in the period in which termination takes place.

Group as lessor

Lease and instalment sale contracts are primarily financing transactions, with rentals and instalments receivable, less unearned finance charges, being included in "Loans and advances" in the statement of financial position.

Finance charges earned are computed using the effective interest method, which reflects a constant periodic rate of return on the investment in the finance lease. Initial direct costs and fees are capitalised to the value of the lease receivable and accounted for over the lease term as an adjustment to the effective rate of return. The benefits arising from investment allowances on assets leased to clients are accounted for in the direct taxation line.

Leases of assets under which the group retains a significant portion of the risks and rewards of ownership are classified as operating leases. When an operating lease is terminated before the lease period has expired, any payment required by the lessee by way of a penalty is recognised as income in the period in which termination takes place.

11. Provisions and contingent liabilities

Provisions are recognised when the group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate of the amount of the obligation can be made. Provisions are determined by discounting the expected future cash flows using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the liability.

A provision for restructuring is recognised when the group has approved a detailed formal plan, and the restructuring either has commenced or has been announced publicly. Future operating costs or losses are not provided for.

Annexure A – detailed accounting policies continued

A provision for onerous contracts is recognised when the expected benefits to be derived by the group from a contract are lower than the unavoidable cost of meeting its obligations under the contract. The provision is measured at the present value of the lower of the expected cost of terminating the contract and the expected net cost of continuing with the contract. Before a provision is established, the group recognises any impairment loss on the assets associated with that contract.

Contingent liabilities include certain guarantees, other than financial guarantees, and letters of credit pledged as collateral security. Contingent liabilities are not recognised in the annual financial statements but are disclosed in the notes to the annual financial statements unless they are remote.

12. Employee benefits

Post-employment benefits

Defined contribution plans

The group operates a defined contribution plan, based on a percentage of pensionable earnings funded by both employer companies and employees, the assets of which are generally held in separate trustee administered funds. Contributions to these plans are recognised as an expense in profit or loss in the periods during which services are rendered by employees.

Defined benefit plans

The group also operates a defined benefit plan, with membership generally limited to employees who were in the employment of the various companies at specified dates. Employer companies contribute to the cost of benefits taking account of the recommendations of the actuaries. Statutory actuarial valuations are required every three years using the projected unit credit method. Interim valuations are also performed annually at the financial year end.

The liability recognised in the statement of financial position in respect of defined benefit pension plan is measured at the present value of the estimated future cash outflows, using interest rates of government bonds with maturity dates that approximate the expected maturity of the obligations, less the fair value of plan assets, together with adjustments for unrecognised actuarial gains and losses and past service costs.

The group's current service costs are recognised as expenses in the current year. Past service costs, experience adjustments and the effect of changes in actuarial assumptions are recognised in profit or loss in the current year to the extent that they relate to vested benefits of retired employees or past service. For active employees, these items are recognised in profit or loss systematically over a period not exceeding the expected remaining service period of employees.

The group operates an unfunded post-employment medical aid scheme, with membership limited to employees who were retired or in the employment of the various companies at specified dates and complying with specific criteria. For past service, the group recognises and provides for the actuarially determined present value of post-employment medical aid employer contributions using the projected unit credit method. Independent qualified actuaries carry out annual valuations of these obligations. Unrecognised actuarial gains or losses are accounted for over a period not exceeding the remaining working life of active employees. Actuarial gains or losses in respect of vested benefits of retired employees are recognised immediately in profit or loss.

Termination benefits

Termination benefits are recognised as an expense when the group is committed, without realistic possibility of withdrawal, to a formal detailed plan to terminate employment before the normal retirement date, or to provide termination benefits as a result of an offer made to encourage voluntary redundancy. Termination benefits for voluntary redundancies are recognised as an expense if the group has made an offer encouraging voluntary redundancy, it is probable that the offer will be accepted, and the number of acceptances can be estimated reliably.

Short-term benefits

Short-term benefits consist of salaries, accumulated leave payments, profit share, bonuses and any non-monetary benefits such as medical aid contributions.

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided.

A liability is recognised for the amount expected to be paid under short-term cash bonus plans or accumulated leave if the group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

13. Tax

Normal tax

Direct taxation includes current and deferred tax. Current tax and deferred tax are recognised in profit or loss except to the extent that it relates to a business combination (relating to a measurement period adjustment where the carrying amount of the goodwill is greater than zero), or items recognised directly in equity or in OCI.

Current tax represents the expected tax payable on taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustments to tax payable in respect of previous years.

Deferred tax is recognised in respect of temporary differences arising between the tax bases of assets and liabilities and their carrying values for financial reporting purposes. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted at the reporting date. Deferred tax is not recognised for the following temporary differences:

- the initial recognition of goodwill;
- the initial recognition of assets and liabilities in a transaction that is not a business combination, which affects neither accounting nor taxable profits or losses; and
- investments in subsidiaries and jointly controlled entities where the group controls the timing of the reversal of temporary differences and it is probable that these differences will not reverse in the foreseeable future.

The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of the asset or liability and is not discounted.

Deferred tax assets are recognised to the extent that it is probable that future taxable income will be available against which the unused tax losses can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Current and deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously.

STC

To the extent that it is probable that dividends will be declared against which unused STC credits can be utilised, a deferred tax asset is recognised for STC credits.

The STC effect of dividends paid on equity instruments is recognised in the period in which the company declares the dividend. For financial instruments, such as redeemable preference shares that are classified as liabilities, the STC relating to any contractual payments is accrued in the same period as the interest accrual.

Indirect tax

Indirect taxes, including non-recoverable value added tax, skills development levies and other duties, are recognised in profit or loss and disclosed separately in the income statement.

14. Non-current assets held-for-sale and disposal groups

Non-current assets, or disposal groups comprising assets and liabilities that are expected to be recovered primarily through sale rather than continuing use, are classified as held-for-sale.

Immediately before classification as held-for-sale, the assets (or components of a disposal group) are remeasured in accordance with the group's accounting policies and tested for impairment (refer accounting policy 9 – *Impairment of non-financial assets*). Thereafter, the assets (or components of a disposal group) are measured at the lower of their carrying amount and fair value less costs to sell. Impairment losses on initial classification as held-for-sale and subsequent gains or losses on remeasurement are recognised in profit or loss.

15. Equity

Share issue costs

Incremental external costs directly attributable to a transaction that increases or decreases equity are deducted from equity, net of related tax. All other share issue costs are expensed.

Dividends on ordinary shares

Dividends are recognised in equity in the period in which they are declared. Dividends declared after the reporting date are disclosed in the dividends note.

16. Equity-linked transactions

Equity compensation plans

The group operates both equity-settled and cash-settled share-based compensation plans. All share options issued after 7 November 2002 that had not vested by 31 December 2004 are accounted for as share-based payment transactions.

The fair value of equity-settled share options is determined on the grant date and accounted for as staff costs over the vesting period of the share options, with a corresponding increase in the share-based payment reserve. Non-market vesting conditions, such as the resignation of employees and retrenchment of staff, are not considered in the valuation but are included in the estimate of the number of options expected to vest. At each reporting date, the estimate of the number of options expected to vest is reassessed and adjusted against profit or loss and equity over the remaining vesting period.

On vesting of share options, amounts previously credited to the share-based payment reserve are transferred to retained earnings through an equity transfer. On exercise of equity-settled share options, proceeds received are credited to share capital and premium.

Share-based payments settled in cash are accounted for as liabilities at fair value until settled. The liability is recognised over the vesting period and is revalued at every reporting date and on settlement. Any changes in the liability are recognised in profit or loss.

Equity participation plans

Equity participation rights issued in terms of the group's Tutuwa initiative to black managers had not vested by 31 December 2004 and are accounted for as equity-settled share-based payment transactions as described under equity compensation plans.

17. Revenue and expenditure

Revenue is derived substantially from the business of banking and related activities and comprises interest income, fee and commission revenue, trading revenue and other non-interest revenue.

Net interest income

Interest income and expense (with the exception of those borrowing costs that are capitalised – refer to accounting policy 8 – *Capitalisation of borrowing costs*) are recognised in profit or loss on an accrual basis using the effective interest method for all interest-bearing financial instruments, except for those classified at fair value through profit or loss. In terms of the effective interest method, interest is recognised at a rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, where appropriate, a shorter period, to the net carrying amount of the financial asset or financial liability. Direct incremental transaction costs incurred and origination fees received, including loan commitment fees, as a result of bringing margin-yielding assets or liabilities into the statement of financial position, are capitalised to the carrying amount of financial instruments that are not at fair value through profit or loss and amortised as interest income or expense over the life of the asset or liability as part of the effective interest rate.

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Annexure A – detailed accounting policies continued

Where the estimates of payments or receipts on financial assets (except those that have been reclassified – refer to accounting policy 4 – *Financial instruments*) or financial liabilities are subsequently revised, the carrying amount of the financial asset or financial liability is adjusted to reflect actual and revised estimated cash flows. The carrying amount is calculated by computing the present value of the estimated cash flows at the financial asset or financial liability's original effective interest rate. Any adjustment to the carrying value is recognised in net interest income.

Where financial assets have been impaired, interest income continues to be recognised on the impaired value based on the original effective interest rate.

Fair value gains or losses on realised debt financial instruments, including amounts removed from OCI in respect of available-for-sale debt financial assets, and excluding those classified as held-for-trading, are included in net interest income.

Dividends received on preference share investments form part of the group's lending activities and are included in interest income.

Non-interest revenue

Net fee and commission revenue

Fee and commission revenue, including transactional fees, account servicing fees, investment management fees, sales commission, placement fees and syndication fees are recognised as the related services are performed. Loan commitment fees for loans that are not expected to be drawn down are recognised on a straight-line basis over the commitment period. Loan syndication fees, where the group does not participate in the syndication or participates at the same effective interest rate for comparable risk as other participants, are recognised as revenue when the syndication has been completed. Syndication fees that do not meet these criteria are capitalised as origination fees and amortised as interest income.

The fair value of issued financial guarantee contracts on initial recognition is amortised as income over the term of the contract.

Fee and commission expense included in net fee and commission revenue are mainly transaction and service fees relating to financial instruments, which are expensed as the services are received.

Trading revenue

Trading revenue comprises all gains or losses from changes in the fair value of trading assets and liabilities, together with related interest income, expense and dividends.

Other revenue

Other revenue includes gains or losses on equity instruments designated at fair value through profit or loss, and dividends relating to those financial instruments.

Gains or losses on equity available-for-sale financial assets are transferred from OCI to profit or loss on realisation of the investments. Dividends on these instruments are recognised in profit or loss.

Dividend income

Dividends are recognised in profit or loss when the right to receipt is established. Scrip dividends are recognised as dividends received where the dividend declaration allows for a cash alternative.

Short-term insurance income

Short-term insurance income includes premium income, commission and policy fees earned as well as net incurred claim losses and broker commission paid. Annual business income is accounted for on the accrual basis and comprises the cash value of commission and fees earned when premiums or fees are payable directly to the group. Direct commission income is accounted for as and when cash is received and comprises the cash value of commission earned when premiums are payable directly to the underwriters.

Customer loyalty programmes

The group operates a customer loyalty programme in terms of which it undertakes to provide goods and services to certain customers. The reward credits are accounted for as a separately identifiable component of the fee and commission income transactions of which they form a part. The consideration allocated to the reward credits is measured at the fair value of the reward credit and recognised over the period in which the customer utilises the reward credits.

Expenses relating to the provision of the reward credits are recognised as an expense as they are incurred.

18. Segment reporting

An operating segment is a component of the group engaged in business activities, whose operating results are reviewed regularly by management in order to make decisions about resources to be allocated to segments and assessing segment performance. The group's identification of segments and the measurement of segment results is based on the group's internal reporting to management.

Transactions between segments are priced at market-related rates.

19. Fiduciary activities

The group commonly acts as trustees and in other fiduciary capacities that result in the holding or placing of assets on behalf of individuals, trusts, post-employment benefit plans and other institutions. These assets and the income arising thereon are excluded from these annual financial statements as they are not assets of the group.

20. Comparative figures

Where necessary, comparative figures within notes have been restated to conform to changes in presentation in the current year.

21. New standards and interpretations not yet adopted

The following new or revised standards and amendments are not yet effective for the year ended 31 December 2010 and have not been applied in preparing these annual financial statements.

Pronouncement	Title	Effective date
IAS 24 (revised)	***Related Party Disclosures*** The revised standard contains an amended definition of related parties and includes disclosure requirements for commitments between related parties. The revised standard will be applied retrospectively and may result in additional related party disclosures.	Annual periods beginning on or after 1 January 2011
IFRS 7 (amendments)	***Financial Instruments: Disclosures*** The amendments will assist users of annual financial statements to evaluate the risk exposures relating to transfers of financial assets and the effect of those risks on an entity's financial position. The amendment seeks to promote additional transparency in the reporting of transfer transactions, particularly those that involve the securitisation of financial assets.	Annual periods beginning on or after 1 July 2011
IFRS 9	***Financial Instruments*** This standard forms part of the International Accounting Standard Board's project to replace the existing standard on the recognition and measurement of financial instruments. This standard 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 standard also differs from existing requirements for accounting for financial assets in various other areas, such as embedded derivatives and the recognition of fair value adjustments in OCI. The standard also requires that all changes in fair value of financial liabilities that are designated at fair value through profit or loss due to changes in own credit risk be recognised within OCI. The standard will be applied retrospectively (subject to the standard's transitional provisions). The impact on the annual financial statements has not yet been fully determined.	Annual periods beginning on or after 1 January 2013

The following improvements to IFRS are also not yet effective for the year end 31 December 2010 and have not been applied in preparing these annual financial statements. None of these is expected to have a significant impact on the annual financial statements when adopted:

Pronouncement	Title	Effective date
Improvements to IFRS 2010	Amendments to the following pronouncements:	
	– IAS 34 *Interim Financial Reporting*	Annual periods beginning on or after 1 January 2011
	– IFRS 7 *Financial Instruments: Disclosures*	Annual periods beginning on or after 1 January 2011

Annexure B – reclassifications and restatements

Statements of financial position reclassifications and restatements for the prior years' disclosures

	December 2009				December 2008			
	As previously reported Rm	Derivative contracts[1] Rm	Repurchase agree-ments[2] Rm	Restated Rm	As previously reported Rm	Derivative contracts[1] Rm	Repurchase agree-ments[2] Rm	Restated Rm
Group								
Assets								
Cash and balances with the central bank	14 470			14 470	13 547			13 547
Derivative assets	122 462	(45 961)		76 501	164 542	(51 075)		113 467
Trading assets	22 644		(1 842)	20 802	24 019			24 019
Pledged assets	1 057			1 057	2 243			2 243
Financial investments	62 008			62 008	60 079			60 079
Loans and advances	525 700			525 700	527 452			527 452
Loans and advances to banks	59 472			59 472	51 026			51 026
Loans and advances to customers	466 228			466 228	476 426			476 426
Current taxation asset	142			142	86			86
Deferred taxation asset	365			365	320			320
Other assets	4 211			4 211	7 955			7 955
Interest in group companies, associates and joint ventures	76 099		1 842	77 941	102 794			102 794
Goodwill and other intangible assets	2 913			2 913	1 997			1 997
Property and equipment	5 144			5 144	4 284			4 284
Total assets	837 215	(45 961)		791 254	909 318	(51 075)		858 243
Equity and liabilities								
Equity	44 159			44 159	39 074			39 074
Equity attributable to the ordinary shareholder	44 159			44 159	39 074			39 074
Liabilities	793 056	(45 961)		747 095	870 244	(51 075)		819 169
Derivative liabilities	121 157	(45 961)		75 196	172 744	(51 075)		121 669
Trading liabilities	16 707			16 707	23 524			23 524
Deposit and current accounts	577 860			577 860	608 168			608 168
Deposits from banks	57 833			57 833	65 582			65 582
Deposits from customers	520 027			520 027	542 586			542 586
Current taxation liability	2 069			2 069	489			489
Deferred taxation liability	946			946	3 067			3 067
Other liabilities	8 065			8 065	7 528			7 528
Subordinated debt	15 814			15 814	11 809			11 809
Liabilities to group companies	50 438			50 438	42 915			42 915
Total equity and liabilities	837 215	(45 961)		791 254	909 318	(51 075)		858 243

[1] A review of the group's derivative positions was undertaken during the course of the year to determine whether the presentation applied was in accordance with international best practice. The group's cross-currency interest rate swap contracts incorporate, as standard market practice, reset dates on which cash flows are exchanged to manage the credit risk on the contracts' notional amounts. These cash flows have historically been presented as derivative assets and liabilities, separately from the underlying derivative contract. Following the review it was decided to present the cash flows, together with the underlying derivative contract, as a single contractual relationship with the group's counterparty. The group believes that this treatment better reflects the nature of the underlying transactions and the credit risk of its relationship with its counterparty.

[2] The group routinely enters into soft (for example maize) and hard (for example precious metals) commodity based financing transactions. Hard commodity based financing transactions within the trading book have historically been accounted for as either outright purchases, by recognising a commodity and related derivative forward sales agreement, or sales, through derecognition of the commodity and recognition of a related derivative forward purchase agreement. The group has revised the accounting treatment for these transactions based on market practice and analogy to IFRS requirements for similar financing transactions with a financial instrument underlying. The group's revised policy treats certain of the group's hard commodity based financing transactions as either buy to sell backs (collateralised lending), where a reverse repurchase agreement within trading assets is recognised, or sell to buy backs (collateralised borrowing), where the commodity continues to be recognised together with a repurchase agreement within trading liabilities. These financing transactions are accounted for in accordance with the group's existing accounting policy for "Sale and repurchase agreements and lending of securities". The revised accounting treatment has resulted in reclassification adjustments in the statement of financial position with no impact on reserves.

	December 2009				December 2008			
	As previously reported Rm	Derivative contracts[1] Rm	Repurchase agree-ments[1] Rm	Restated Rm	As previously reported Rm	Derivative contracts[1] Rm	Repurchase agree-ments[1] Rm	Restated Rm
Company								
Assets								
Cash and balances with the central bank	14 470			14 470	13 547			13 547
Derivative assets	122 410	(45 961)		76 449	164 518	(51 075)		113 443
Trading assets	22 219		(1 842)	20 377	19 660			19 660
Pledged assets	1 057			1 057	2 243			2 243
Financial investments	61 623			61 623	58 787			58 787
Loans and advances	505 006			505 006	506 651			506 651
Loans and advances to banks	59 276			59 276	50 785			50 785
Loans and advances to customers	445 730			445 730	455 866			455 866
Current taxation asset	140			140	75			75
Deferred taxation asset	297			297	216			216
Other assets	4 197			4 197	7 922			7 922
Interest in group companies, associates and joint ventures	79 791		1 842	81 633	106 383			106 383
Goodwill and other intangible assets	2 913			2 913	1 997			1 997
Property and equipment	5 122			5 122	4 262			4 262
Total assets	819 245	(45 961)		773 284	886 261	(51 075)		835 186
Equity and liabilities								
Equity	43 207			43 207	38 288			38 288
Equity attributable to the ordinary shareholder	43 207			43 207	38 288			38 288
Liabilities	776 038	(45 961)		730 077	847 973	(51 075)		796 898
Derivative liabilities	121 157	(45 961)		75 196	172 672	(51 075)		121 597
Trading liabilities	15 744			15 744	18 604			18 604
Deposit and current accounts	559 904			559 904	588 826			588 826
Deposits from banks	57 857			57 857	65 582			65 582
Deposits from customers	502 047			502 047	523 244			523 244
Current taxation liability	2 105			2 105	484			484
Deferred taxation liability	939			939	3 065			3 065
Other liabilities	7 715			7 715	7 458			7 458
Subordinated debt	15 814			15 814	11 809			11 809
Liabilities to group companies	52 660			52 660	45 055			45 055
Total equity and liabilities	819 245	(45 961)		773 284	886 261	(51 075)		835 186

[1] *Refer to page 178 for explanations of reclassifications and restatements.*

Annexure C – subsidiaries

Subsidiaries	Nature of operation	Issued share capital Rm	Effective holding 2010 %	Effective holding 2009 %	Book value of shares 2010 Rm	Book value of shares 2009 Rm	Net indebtedness 2010 Rm	Net indebtedness 2009 Rm
Accelerator Fund 1 (Proprietary) Limited[1]	Securitisation vehicle							
Accelerator Fund 2 (Proprietary) Limited[1]	Securitisation vehicle							(121)
Blue Bond Investments Limited	Participation mortgage bond finance	*	**100**	100	**	**	**196**	259
Blue Granite Investments No. 1 (Proprietary) Limited[1]	Securitisation vehicle						**668**	434
Blue Granite Investments No. 2 (Proprietary) Limited[1]	Securitisation vehicle						**16**	8
Blue Granite Investments No. 3 (Proprietary) Limited[1]	Securitisation vehicle						**(167)**	(169)
Blue Granite Investments No. 4 (Proprietary) Limited[1]	Securitisation vehicle						**209**	267
Blue Titanium Conduit Limited[1]	Asset-backed commercial paper conduit						**783**	(5)
Diners Club (SA) (Proprietary) Limited	Travel and entertainment card	*	**100**	100	**	**	**497**	608
Out of the Blue Originator (Proprietary) Limited	Bond originators	*	**100**	100	**	**		7
Siyakha Fund (Proprietary) Limited[1]	Securitisation vehicle						**(268)**	(198)
Standard Bank Insurance Brokers (Proprietary) Limited	Insurance broking	*	**100**	100	***	***	**(264)**	(257)
Miscellaneous	Finance companies		****	****	**72**	25	**57**	89
Total investment in subsidiaries					**72**	25	**1 727**	922

The detailed information is only given in respect of subsidiaries which are material to the financial position of the group.

All subsidiaries are incorporated within South Africa.

[1] *SPE, no shareholding.*

* *Issued share capital less than R1 million.*

** *Book value less than R1 million.*

*** *Held indirectly.*

**** *Various holdings.*

Annexure D – associates and joint ventures

	Edu-Loan (Proprietary) Limited		Safika Holdings (Proprietary) Limited[1]		RCS Investment Holdings (Proprietary) Limited	
Ownership structure	Associate		Associate		Associate	
Nature of business	Student loans		Investment holding company		Finance	
Year end	December		February		March	
Date to which equity accounted	31 December 2010		31 December 2010		31 December 2010	
	2010	2009	**2010**	2009	**2010**	2009
Effective holding	**29%**	29%	**17%**	17%	**45%**	45%
	Rm	Rm	**Rm**	Rm	**Rm**	Rm
Carrying value	**41**	35	**306**	282	**623**	570
Statement of financial position[2]						
Non-current assets	**14**	11	**3 703**	4 291	**96**	89
Current assets	**338**	315	**602**	286	**2 732**	2 750
Non-current liabilities	**(36)**	(55)	**(1 083)**	(2 297)	**(1 634)**	(1 633)
Current liabilities	**(190)**	(164)	**(421)**	(385)	**(283)**	(312)
Loans to entities[3]	**154**	51			**92**	630
Attributable income before impairment	**9**	11	**38**	68	**82**	74

	Dairy Belle (Proprietary) Limited		Reatile Resources (Proprietary) Limited		Other associates	
Ownership structure	Associate		Associate		Associate	
Nature of business	Dairy products		Investment holding company		Various	
Year end	September		February		Various	
Date to which equity accounted	31 December 2010		31 December 2010		31 December 2010	
	2010	2009	**2010**	2009	**2010**	2009
Effective holding	**50%**	50%	**20%**	20%	**Various**	Various
	Rm	Rm	**Rm**	Rm	**Rm**	Rm
Carrying value	**30**	38	**33**	24	**52**	87
Statement of financial position[2]						
Non-current assets	**492**	414	**170**	45	**592**	810
Current assets	**587**	434	**146**	137	**234**	414
Non-current liabilities	**(580)**	(435)	**(41)**	(12)	**(418)**	(697)
Current liabilities	**(350)**	(277)	**(91)**	(99)	**(216)**	(285)
Loans to entities[3]	**224**	346			**38**	86
Attributable income before impairment	**(9)**	(12)	**8**	4	**8**	63

[1] *Accounted for as an associate as SBG has a 20% shareholding.*

[2] *Represents the summarised financial information of the associates and joint ventures.*

[3] *These loans are provided on an arm's-length basis.*

Annexure D – associates and joint ventures continued

	Credit Suisse Standard Securities (Proprietary) Limited		Integrated Processing Solutions (Proprietary) Limited		Other joint ventures	
Ownership structure	Joint venture		Joint venture		Joint ventures	
Nature of business	Stockbroker		Banking		Various	
Year end	February		December		Various	
Date to which equity accounted	31 December 2010		31 December 2010		31 December 2010	
	2010	2009	**2010**	2009	**2010**	2009
Effective holding	**50%**	50%	**50%**	50%	**Various**	Various
	Rm	Rm	**Rm**	Rm	**Rm**	Rm
Carrying value	**180**	185	**41**	34	**3**	39
Statement of financial position[1]						
Non-current assets	**35**	29	**29**	20	**2**	109
Current assets	**567**	726	**86**	81	**9**	162
Non-current liabilities					**(5)**	(6)
Current liabilities	**(391)**	(532)	**(39)**	(32)	**(9)**	(1)
Loans to entities[2]					**1**	
Attributable income before impairment	**(6)**	25	**7**	10	**(3)**	(9)

	Total associates and joint ventures		Private equity/venture capital associates and joint ventures[3]	
Ownership structure	Various		Various	
Nature of business	Various		Various	
Year end	Various		Various	
Date to which equity accounted	31 December 2010		31 December 2010	
	2010	2009	**2010**	2009
Effective holding	**Various**	Various	**Various**	Various
	Rm	Rm	**Rm**	Rm
Carrying value	**1 309**	1 294	**426**	449
Statement of financial position[1]				
Non-current assets	**5 133**	5 818	**4 907**	5 561
Current assets	**5 301**	5 305	**1 574**	1 271
Non-current liabilities	**(3 797)**	(5 135)	**(2 082)**	(3 441)
Current liabilities	**(1 990)**	(2 087)	**(1 082)**	(1 046)
Loans to entities[2]	**509**	1 113	**264**	432
Attributable income before impairment	**134**	234	**42**	130
Impairments included in non-interest revenue	**43**		**43**	
Fair value	**1 325**	1 466	**426**	609

[1] *Represents the summarised financial information of the associates and joint ventures.*
[2] *These loans are provided on an arm's-length basis.*
[3] *Included in total associates and joint ventures.*

All investments in associates and joint ventures, other than those recognised at fair value through profit or loss in accordance with IAS 39, made by a private equity organisation, are ringfenced for headline earnings purposes. On the disposal of these associates and joint ventures held by the private equity division of the group, profit or loss on the disposal will be included in headline earnings in terms of Circular 3/2009 *Headline Earnings*, issued by the South African Institute of Chartered Accountants at the request of the JSE Limited.

Annexure E – equity-linked transactions

Share-based payments

	2010 Rm	2009 Rm
Summary of the group and company's share incentive schemes and expenses recognised in staff costs:		
Equity-settled share-based payments	10	
Cash-settled share-based payments	243	394
Equity participation plans (Tutuwa)	58	29
Deferred bonus scheme	47	14
Total expenses recognised in staff costs	358	437
Expenses recognised in restructuring costs:		
Share options and appreciation rights	22	
Deferred bonus scheme	5	
Total expenses recognised in restructuring costs	27	
Summary of the liability recognised in other liabilities:		
Cash-settled share-based payment liability	886	735
Deferred bonus scheme	77	21
Total liability recognised in other liabilities	963	756

Equity compensation plans

The group's share incentive schemes enable key management personnel and senior employees of SBSA to benefit from the performance of SBG shares.

SBG has two equity-settled schemes, namely the Group Share Incentive Scheme and the Equity Growth Scheme. The Group Share Incentive Scheme confers rights to employees to acquire ordinary shares at the value of the SBG share price at the date the option is granted. The Equity Growth Scheme was implemented in 2005 and represents appreciation rights allocated to employees. The eventual value of the right is effectively settled by the issue of shares equivalent in value to the value of the rights.

The two schemes have three different sub-types of vesting categories as illustrated by the table below:

Vesting categories	Year	% vesting	Expiry
Type A	3, 4, 5	50, 75, 100	10 years
Type B	5, 6, 7	50, 75, 100	10 years
Type C	2, 3, 4	50, 75, 100	10 years

Equity-settled share-based payments

A reconciliation of the movement of share options is detailed below:

	Option price range (rand) 2010	Number of options 2010	Number of options 2009
Group Share Incentive Scheme			
Options outstanding at beginning of the year		12 120 682	19 036 650
Transfers		522 150	(1 640 000)
Granted	111,94 – 114,60	1 438 750	
Exercised	25,00 – 98,00	(5 233 932)	(5 275 968)
Lapsed	27,81 – 111,94	(536 050)	
Options outstanding at end of the year		8 311 600	12 120 682

Share options were exercised regularly throughout the year. The weighted average share price for the year was R107,49 (2009: R86,14).

Annexure E – equity-linked transactions continued

Equity compensation plans continued

Equity-settled share-based payments continued

The following options granted to employees, including executive directors, had not been exercised at 31 December 2010:

Number of ordinary shares	Option price range (rand)	Weighted average price (rand)	Option expiry period
688 400	30,90 – 33,50	31,42	Year to 31 December 2011
701 600	27,80 – 35,70	28,10	Year to 31 December 2012
1 360 800	27,70 – 32,19	27,93	Year to 31 December 2013
2 353 650	40,65 – 50,91	40,95	Year to 31 December 2014
312 100	64,27 – 65,60	65,43	Year to 31 December 2015
760 400	79,50	79,50	Year to 31 December 2016
599 500	98,00 – 107,91	98,50	Year to 31 December 2017
56 400	89,00 – 92,00	91,65	Year to 31 December 2018
40 000	62,39 – 65,00	62,44	Year to 31 December 2019
1 438 750	111,94 – 114,60	111,96	Year to 31 December 2020
8 311 600			

The following options granted to employees, including executive directors, had not been exercised at 31 December 2009:

Number of ordinary shares	Option price range (rand)	Weighted average price (rand)	Option expiry period
464 000	25,00 – 28,15	25,64	Year to 31 December 2010
2 594 732	30,90 – 35,90	31,90	Year to 31 December 2011
1 142 900	27,80 – 35,70	28,09	Year to 31 December 2012
2 270 200	27,70 – 32,19	27,94	Year to 31 December 2013
3 449 450	39,90 – 62,00	40,94	Year to 31 December 2014
413 200	59,90 – 65,60	65,06	Year to 31 December 2015
944 900	76,40 – 85,80	79,53	Year to 31 December 2016
784 900	97,95 – 107,91	98,38	Year to 31 December 2017
56 400	91,72	91,72	Year to 31 December 2018
12 120 682			

The share options granted during the year were valued using a Black-Scholes option pricing model. Each grant was valued separately. The weighted fair value of the options granted per vesting type and the assumptions utilised are illustrated below:

	Type A		Type B	
	2010	2009	2010	2009
Number of options granted	868 500		570 250	
Weighted average fair value at grant date (rand)	40,24		42,23	
The principal inputs are as follows:				
Weighted average share price (rand)	111,95		111,94	
Weighted average exercise price (rand)	111,95		111,94	
Expected life (years)	5,9		5,9	
Expected volatility (%)	35,7 – 38,1		35,7 – 38,1	
Risk-free interest rate (%)	7,1 – 8,7		7,1 – 8,7	
Dividend yield (%)	3,7		3,7	

The options granted during the year which are expected to vest, have an estimated fair value of R44 million (2009: Rnil).

Equity compensation plans continued

Cash-settled share-based payments

A reconciliation of the movement of appreciation rights is detailed below:

	Average price range (rand)	Number	
	2010	2010	2009
Equity Growth Scheme			
Reconciliation			
Rights outstanding at beginning of the year		39 474 852	30 621 030
Transfers		1 044 050	(1 166 600)
Granted	102,00 – 116,80	11 572 441	12 605 000
Exercised[1]	101,30 – 118,00	(2 417 567)	(553 337)
Lapsed	60,35 – 117,30	(3 241 564)	(2 031 241)
Rights outstanding at end of the year[2]		46 432 212	39 474 852

[1] *During the year 502 474 (2009: 105 173) SBG shares were issued to settle the appreciated rights value.*
[2] *At the end of the year the group would need to issue 9 219 286 (2009: 8 624 672) SBG shares to settle the outstanding appreciated rights value.*

The Equity Growth Scheme rights are only awarded to individuals in employment of a group entity domiciled within South Africa. The group is required to ensure that employees' tax arising from benefits due in terms of the scheme is paid in accordance with the Fourth Schedule of the Income Tax Act of South Africa. Where employees have elected not to fund the tax from their own resources the tax due is treated as a diminution of the gross benefits due under the scheme. A total of 462 899 (2009: 5 095) SBG shares were issued and sold to settle the employees' tax due during the year. This amount settled reduces the liability due in respect of the outstanding appreciated rights value.

The following rights granted to employees, including executive directors, had not been exercised at 31 December 2010:

Number of rights	Option price range (rand)	Weighted average price (rand)	Option expiry period
3 436 049	62,88 – 69,50	65,59	Year to 31 December 2015
5 534 380	76,40 – 87,00	79,61	Year to 31 December 2016
4 918 592	94,50 – 117,30	98,41	Year to 31 December 2017
10 675 950	69,99 – 100,08	91,80	Year to 31 December 2018
10 998 550	62,39 – 99,00	64,23	Year to 31 December 2019
10 868 691	102,00 – 116,80	111,01	Year to 31 December 2020
46 432 212			

The following rights granted to employees, including executive directors, had not been exercised at 31 December 2009:

Number of rights	Option price range (rand)	Weighted average price (rand)	Option expiry period
4 385 600	60,35 – 70,00	65,61	Year to 31 December 2015
6 132 202	74,00 – 87,00	79,58	Year to 31 December 2016
5 467 500	94,50 – 117,30	98,45	Year to 31 December 2017
11 289 950	69,99 – 100,08	91,77	Year to 31 December 2018
12 199 600	62,39 – 100,00	64,50	Year to 31 December 2019
39 474 852			

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Annexure E – equity-linked transactions continued

Equity compensation plans continued

Cash-settled share-based payments continued

The share appreciation rights granted during the year were valued using a Black-Scholes option pricing model. Each grant was valued separately. The weighted fair value of the options granted per vesting type and the assumptions utilised are illustrated below:

	Type A		Type B	
	2010	2009	**2010**	2009
Number of appreciation rights granted	**6 908 553**	8 211 500	**4 663 888**	4 393 500
Weighted average fair value at grant date (rand)	**39,85**	22,50	**41,73**	23,81
The principal inputs are as follows:				
Weighted average share price (rand)	**111,39**	64,02	**111,26**	65,06
Weighted average exercise price (rand)	**111,39**	64,02	**111,26**	65,06
Expected life (years)	**5,9**	6,1	**6,9**	7,0
Expected volatility (%)	**35,5 – 38,3**	35,5 – 38,8	**35,5 – 38,3**	35,5 – 38,8
Risk-free interest rate (%)	**6,9 – 8,8**	7,7 – 9,0	**7,0 – 8,9**	7,7 – 9,0
Dividend yield (%)	**3,7**	3,7	**3,7**	3,7

The appreciation rights granted during the year which are estimated to vest have a fair value of R351 million (2009: R217 million) at grant date.

Equity participation plans

Tutuwa initiative

SBG entered into a BEE transaction during 2004 which included black managers of the group. This resulted in the recognition of a share-based payment expense. The resultant equity instrument was valued using a number of valuation techniques including the Black-Scholes model and discounted cash flow methods. Due to the uniqueness of the instrument, the mid-point of the range of valuations was used arriving at a value of R8,50 per SBG instrument granted to black managers. This value is expensed over the vesting period ending 31 December 2010. The group has recognised a total expense of R58 million (2009: R29 million) relating to this initiative. Changes to the terms of the preference share agreements have resulted in an additional IFRS 2 expense of R39 million for the year ended 31 December 2010, included in the total expense above.

Deferred bonus scheme

It is essential for the group to retain key skills over the longer term. This is done particularly through share-based incentive plans. The purpose of these plans is to align the interests of the group, its subsidiaries and employees, as well as to attract and retain skilled, competent people.

The group has implemented a scheme to defer a portion of incentive bonuses over a minimum threshold for key management and executives. This improves the alignment of shareholder and management interests by creating a closer linkage between risk and reward, and also facilitates retention of key employees.

All employees who are awarded short-term incentives over a certain threshold, will now be subject to a mandatory deferral of a percentage of their cash incentive into the deferred bonus scheme. Vesting of the deferred bonus occurs after three years, conditional on continued employment at that time. The final payment of the deferred bonus is calculated with reference to the SBG share price at payment date. To enhance the retention component of the scheme, additional increments on the deferred bonus become payable at vesting and one year thereafter. Variables on thresholds and additional increments in the deferred bonus scheme are subject to annual review by the remuneration committee, and may differ from one performance year to the next.

The provision in respect of liabilities under the scheme amounts to R77 million at 31 December 2010 (2009: R21 million), and the amount charged for the year, including restructuring costs, was R52 million (2009: R14 million), after hedging activities.

Equity participation plans continued

	Units 2010	Units 2009
Reconciliation		
Units outstanding at beginning of the year	**1 154 244**	
Granted	**758 122**	1 162 261
Exercised	**(4 675)**	
Lapsed	**(123 225)**	(8 017)
Units outstanding at end of the year	**1 784 466**	1 154 244
Weighted average fair value at grant date (rand)	**96,41**	53,39
Expected life (years)	**3,00**	3,00
Risk-free interest rate (%)	**6,24**	7,89
Dividend yield (%)	**3,45**	4,42

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Annexure F – segmental statement of financial position

	Personal & Business Banking	
	2010 Rm	2009 Rm
Group		
Assets		
Cash and balances with the central bank	**5 273**	4 400
Derivative assets	**(5)**	25
Trading assets		
Pledged assets		
Financial investments	**28**	15
Loans and advances	**356 050**	344 650
Loans and advances to banks	**344**	410
Loans and advances to customers	**355 706**	344 240
Current and deferred taxation	**(95)**	(60)
Other assets	**2 593**	2 506
Interest in group companies, associates and joint ventures	**326**	411
Goodwill and other intangible assets	**2 742**	1 889
Property and equipment	**3 564**	4 015
Total assets	**370 476**	357 851
Equity and liabilities		
Equity	**19 874**	17 817
Equity attributable to the ordinary shareholder	**19 872**	17 817
Ordinary share capital	**4**	
Ordinary share premium	**4**	4
Reserves	**19 864**	17 813
Non-controlling interest	**2**	
Liabilities	**350 602**	340 034
Derivative liabilities	**16**	
Trading liabilities		
Deposit and current accounts	**339 977**	330 705
Deposits from banks	**(4)**	(24)
Deposits from customers	**339 981**	330 729
Current and deferred taxation	**(245)**	(274)
Other liabilities	**2 703**	2 607
Subordinated debt	**8 108**	7 171
Liabilities to group companies	**43**	(175)
Total equity and liabilities	**370 476**	357 851

[1] *2009 figures restated, refer annexure B – reclassifications and restatements.*

	Corporate & Investment Banking		Other services		Total	
	2010 Rm	2009[1] Rm	**2010 Rm**	2009 Rm	**2010 Rm**	2009[1] Rm
	12 908	10 070			**18 181**	14 470
	105 440	76 285	**(214)**	191	**105 221**	76 501
	14 077	21 058	**(252)**	(256)	**13 825**	20 802
	5 934	1 057			**5 934**	1 057
	77 037	59 837	**2 323**	2 156	**79 388**	62 008
	183 126	183 239	**(2 755)**	(2 189)	**536 421**	525 700
	62 006	59 061	**14**	1	**62 364**	59 472
	121 120	124 178	**(2 769)**	(2 190)	**474 057**	466 228
	100	255	**482**	312	**487**	507
	2 340	1 489	**734**	216	**5 667**	4 211
	60 092	74 958	**2 563**	2 572	**62 981**	77 941
	1 154	879	**514**	145	**4 410**	2 913
	389	380	**3 955**	749	**7 908**	5 144
	462 597	429 507	**7 350**	3 896	**840 423**	791 254
	14 597	13 658	**14 446**	12 684	**48 917**	44 159
	14 557	13 658	**14 446**	12 684	**48 875**	44 159
	21	21	**35**	39	**60**	60
			25 226	24 226	**25 230**	24 230
	14 536	13 637	**(10 815)**	(11 581)	**23 585**	19 869
	40				**42**	
	448 000	415 849	**(7 096)**	(8 788)	**791 506**	747 095
	102 418	75 154	**42**	42	**102 476**	75 196
	9 031	16 707			**9 031**	16 707
	282 215	259 205	**(10 181)**	(12 050)	**612 011**	577 860
	54 629	57 786	**1**	71	**54 626**	57 833
	227 586	201 419	**(10 182)**	(12 121)	**557 385**	520 027
	3 456	5 077	**(1 134)**	(1 788)	**2 077**	3 015
	4 981	3 758	**2 660**	1 700	**10 344**	8 065
	6 299	5 470	**1 276**	3 173	**15 683**	15 814
	39 600	50 478	**241**	135	**39 884**	50 438
	462 597	429 507	**7 350**	3 896	**840 423**	791 254

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Annexure G – disclosure in terms of the Home Loan and Mortgage Disclosure Act

The tables below set out the disclosure required in terms of the Home Loan and Mortgage Disclosure Act. As agreed with the Department of Human Settlements this disclosure is only provided for new loan applications received and therefore excludes re-advances. It relates to South African applications received and excludes staff home loans.

		Received	Approved	Declined[1]	Disbursed
2010					
Number of applications		**163 136**	**71 496**	**91 640**	**36 589**
Value of applications	Rm	**102 931**	**47 514**	**55 417**	**24 678**
2009					
Number of applications		102 233	33 697	68 536	21 127
Value of applications	Rm	60 978	22 542	38 436	13 774
Total number of applications per race group					
2010					
African		**66 769**	**23 215**	**43 554**	**10 392**
Indian		**9 265**	**4 911**	**4 354**	**2 549**
Coloured		**12 860**	**5 330**	**7 530**	**2 591**
White		**73 409**	**37 616**	**35 793**	**20 898**
Unknown[2]		**833**	**424**	**409**	**159**
		163 136	**71 496**	**91 640**	**36 589**
2009					
African		38 066	9 060	29 006	5 797
Indian		5 838	2 466	3 372	1 733
Coloured		8 333	2 278	6 055	1 763
White		49 829	19 823	30 006	11 634
Unknown[2]		167	70	97	200
		102 233	33 697	68 536	21 127
Total number of applications by province					
2010					
Eastern Cape		**6 444**	**3 064**	**3 380**	**1 659**
Free State		**5 413**	**2 363**	**3 050**	**1 256**
Gauteng		**88 568**	**36 046**	**52 522**	**18 044**
KwaZulu-Natal		**18 620**	**8 727**	**9 893**	**4 603**
Limpopo		**3 079**	**1 507**	**1 572**	**748**
Mpumalanga		**6 444**	**3 394**	**3 050**	**1 602**
North West		**5 147**	**2 390**	**2 757**	**1 322**
Northern Cape		**1 430**	**672**	**758**	**434**
Western Cape		**27 991**	**13 333**	**14 658**	**6 921**
		163 136	**71 496**	**91 640**	**36 589**
2009					
Eastern Cape		3 718	1 282	2 436	943
Free State		2 723	1 024	1 699	579
Gauteng		56 911	17 481	39 430	10 595
KwaZulu-Natal		11 727	4 290	7 437	2 693
Limpopo		1 746	612	1 134	403
Mpumalanga		3 685	1 491	2 194	817
North West		3 121	1 074	2 047	605
Northern Cape		780	312	468	225
Western Cape		17 822	6 131	11 691	4 267
		102 233	33 697	68 536	21 127

[1] *Declines are due to lack of affordability, unacceptable credit record, insufficient documentation, unacceptable security and ineligible application.*

[2] *While customers are requested to indicate their racial grouping to assist SBSA with the compilation of this information, it would go against the spirit of the Constitution of South Africa to compel them to do so.*

In preparing this disclosure the following definitions have been applied:

Application – a completed and signed home loan application form that is supported by all documentation required by a financial institution.

Home loan – a loan or advance by a financial institution to a person for purposes of constructing, purchasing, renovating or improving in any such way the person's home, with the security of a registered mortgage bond or any other form of acceptable security.

Additional information

Credit ratings

	Short term	Long term	Outlook
Ratings as at 2 March 2011 for the company are detailed below:			
Fitch Ratings			
Issuer default rating	**F2**	**BBB+**	**Stable**
Local currency issuer default rating		**BBB+**	**Stable**
National rating	**F1+ (ZAF)**	**AA (ZAF)**	**Stable**
RSA Sovereign rating			
Foreign currency issuer default rating	**F2**	**BBB+**	**Stable**
Local currency issuer default rating		**A**	**Stable**
Moody's Investor Services			
Foreign currency deposit rating	**P-2**	**A3**	**Stable**
Local currency deposit rating	**P-1**	**A1**	**Stable**
RSA Sovereign rating			
Foreign currency		**A3**	**Stable**
Local currency		**A3**	**Stable**
Standards & Poor's			
Local currency		**BBBpi**	
RSA Sovereign rating			
Foreign currency	**A-2**	**BBB+**	**Stable**
Local currency	**A-1**	**A**	**Stable**

Financial and other definitions

Basic earnings per ordinary share (cents)	Earnings attributable to the ordinary shareholder divided by the weighted average number of ordinary shares in issue.
Capital adequacy ratio (%)	Capital as a percentage of risk-weighted assets.
Cost-to-income ratio (%)	Operating expenses as a percentage of total income including share of profits/(losses) from associates and joint ventures.
Credit loss ratio (%)	Total impairment charges on loans and advances per the income statement as a percentage of average gross loans and advances.
Effective taxation rate (%)	Direct and indirect taxation as a percentage of income before taxation.
Headline earnings (Rm)	Earnings attributable to the ordinary shareholder excluding goodwill gain or impairment, capital profits and losses, and profits and losses on available-for-sale financial instruments transferred to profit or loss.
Headline earnings per ordinary share (cents)	Headline earnings divided by the weighted average number of ordinary shares in issue.
International Financial Reporting Standards (IFRS)	International accounting standards issued by the International Accounting Standards Board.
Loans-to-deposits ratio (%)	Loans and advances as a percentage of deposit and current accounts.
Loss given default (LGD)	Amount of a counterparty's obligation to the group that is not expected to be recovered after default and is expressed as a percentage of the exposure at default.
Net asset value (Rm)	Equity attributable to the ordinary shareholder.
Net asset value per ordinary share (cents)	Net asset value divided by the number of ordinary shares in issue at year end.
Non-interest revenue to total income (%)	Non-interest revenue as a percentage of total income.

Financial and other definitions continued

Portfolio credit impairments (Rm)	Impairment for latent losses inherent in groups of loans and advances that have not yet been specifically impaired.
Probability of default (PD)	Probability of a counterparty not making full and timely repayment of credit obligations over a specific time horizon.
Profit attributable to the ordinary shareholder (Rm)	Profit for the year attributable to the ordinary shareholder.
Return on average risk-weighted assets (%)	Headline earnings as a percentage of average risk-weighted assets.
Return on equity (ROE) (%)	Headline earnings as a percentage of average ordinary shareholder's funds.
Risk-weighted assets (Rm)	Determined by applying prescribed risk weightings to on- and off-balance sheet exposures according to the relative credit risk of the counterparty.
Special purpose entity (SPE)	An entity created to accomplish a narrow and well-defined objective.
Specific credit impairments (Rm)	Impairment for specific identified credit losses on loans and advances, net of the present value of estimated recoveries.
Tutuwa	Tutuwa is SBG's black economic empowerment ownership initiative entered into in terms of the Financial Sector Charter.
Weighted average number of ordinary shares (number)	The weighted average number of ordinary shares in issue during the year.

Acronyms and abbreviations

ALCO	Asset and liability committee
ATM	Automated teller machine
Banks Act	South African Banks Act, 1990
Basel	Basel Capital Accord
BEE	Black economic empowerment
BSD	Bank Supervision Department
BSMEs	Black small and medium enterprises
CAGR	Compound annual growth rate
Charter	Financial Sector Charter
CPI	Consumer price index
CRO	Chief risk officer
CSI	Corporate social investment
dti	Department: Trade and Industry
dti codes	Department: Trade and Industry's Codes of Good Practice for Broad-based Black Economic Empowerment
EAD	Exposure at default
GRCC	Governance, risk and compliance cluster
GROC	Group risk oversight committee
IAS	International Accounting Standards
ICAAP	Internal capital adequacy assessment process
IFRIC	International Financial Reporting Interpretations Committee
IFRS	International Financial Reporting Standards
IT	Information technology
JIBAR	Johannesburg interbank agreed rate
JSE	The securities exchange in Johannesburg
King Code	The Code of Corporate Practices and Conduct set out in the King Report on Corporate Governance for South Africa 2009
LCm	Millions of local currency
LIBOR	London interbank offered rate
LTV	Loan-to-value
NCA	National Credit Act
OCI	Other comprehensive income
RCMC	Risk and capital management committee
Rm	Millions of rand
ROE	Return on equity
SA	South Africa
SARB	South African Reserve Bank
SBG	Standard Bank Group Limited
SBSA	The Standard Bank of South Africa Limited
SMEs	Small and medium enterprises
SPE	Special purpose entity
Standard Bank	The Standard Bank of South Africa Limited and its subsidiaries
STC	Secondary tax on companies
TCM	Treasury and capital management
Tier I	Primary capital
Tier II	Secondary capital
Tier III	Tertiary capital
the code	Code of Banking Practice
the company	The Standard Bank of South Africa Limited
the group	The Standard Bank of South Africa Limited and its subsidiaries
Tutuwa	Black economic empowerment ownership
USD	United States dollar
VaR	Value-at-risk
ZAR	South African rand

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