Annual integrated report 2010

Standard Bank

www.standardbank.com

Corporate profile

Standard Bank Group is the largest African bank by assets and earnings

- Total assets of R1 341 billion (USD202 billion)[1]
- Headline earnings of R11,3 billion (USD1,5 billion)[1]
- Market capitalisation of R170 billion (USD25,7 billion)
- Employs more than 53 000 people
- Tier I capital adequacy ratio 12,9%
- Voted best bank in Africa for 2010 in *The Banker* awards
- Ranked 106th in the world by *The Banker* magazine by tier I capital

Offers a range of banking and related financial services

- Operates in 17 countries in Africa and 13 countries outside Africa with an emerging markets focus
- Owns a controlling stake in the South African listed insurance company, Liberty Holdings Limited
- Strategic links to China, Brazil, Russia, Argentina and Turkey

Three business units: Personal & Business Banking, Corporate & Investment Banking and Wealth – Liberty

- One of the four full-service South African banks
- 148-year history in South Africa
- Listed on the JSE since 1970
- Started building a franchise outside southern Africa in early 1990s

[1] Normalised, refer to page 51.

Scope of the report

Standard Bank's reporting aims to provide an accurate, balanced, complete and comparable view of our business.

The annual integrated report has been compiled in accordance with the integrated reporting principles 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 annual integrated report has been structured and compiled to provide financial and non-financial information aimed at a wide range of stakeholders with varying needs. We acknowledge that this is the first step in integrated reporting and that local and international guidelines on integrated reporting are still in an early stage of development.

In addition to the annual integrated report, we produce a full suite of reporting publications which includes the sustainability report and an analysis of financial results which is available on the attached CD and online.

Please visit our website www.standardbank.com for the latest financial information, current credit ratings and recent announcements; as well as our sustainability website www.standardbank.com under sustainable development for more information on sustainability within our organisation.

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Connecting Africa to the world and the world to Africa.

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The year in review

Financial performance, share statistics and credit ratings

All results within this report are presented on a normalised basis, unless otherwise indicated as being on an International Financial Reporting Standards (IFRS) basis. Results are normalised to correct the distortions caused by IFRS' treatment of the group's Black Economic Empowerment Ownership initiative and by group share exposures entered into to facilitate client trading activities or for the benefit of Liberty policyholders, deemed to be treasury shares. Refer to page 51 for the principal differences between normalised and IFRS results.

Headline earnings 11 283 million

2009: **R11 718 million**

Headline earnings per ordinary share 716 cents

2009: **757 cents**

Return on equity 12,5%

2009: **13,6%**

Dividends per share 386 cents

2009: **386 cents**

Net asset value per share 5 726 cents

2009: **5 612 cents**

Credit loss ratio 1,04%

2009: **1,60%**

Net interest margin 3,01%

2009: **3,21%**

Cost-to-income ratio 61,7%

2009: **52,4%**

Tier I capital adequacy ratio 12,9%

2009: **11,9%**

Long-term funding ratio 26,6%

2009: **25,1%**

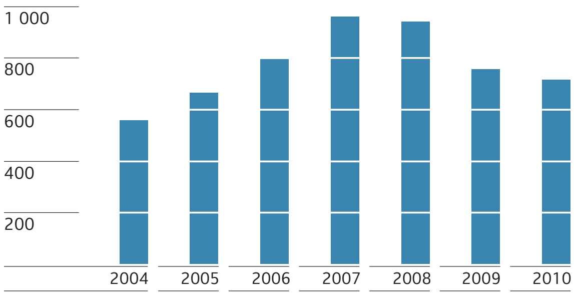
Normalised embedded value of Liberty R26 billion

2009: **R24 billion**

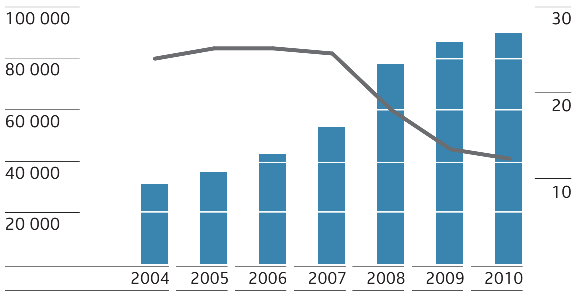
Third-party assets under management R512 billion

2009: **R527 billion**

Headline earnings per share (HEPS)
Cents



Return on ordinary equity (ROE)
Rm %

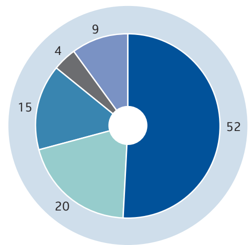


Shareholders' funds (average)
ROE

Share statistics

	2010	2009
Share price (cents)		
High for the year	11 800	10 500
Low for the year	10 075	5 915
Closing	10 755	10 200
Shares traded		
Number of shares ('000)	1 169 927	1 489 890
Value of shares (Rm)	125 756	128 351
Turnover in shares traded (%)	74,2	96,2
Market indicators (closing)		
JSE All Share Index	32 119	27 666
JSE Banks Index	40 985	36 675
MSCI Emerging Markets Index	1 151	989

Shareholders by geographic region
%



- South Africa (2009: 54%)
- China (2009: 20%)
- United States of America (2009: 15%)
- United Kingdom (2009: 3%)
- Other foreign shareholders (2009: 8%)

Credit ratings

The Standard Bank of South Africa Limited (SBSA)[1]

	Long term
Fitch Ratings	
Foreign currency issuer default rating	BBB+
RSA Sovereign ratings: foreign currency	BBB+
Moody's	
Foreign currency deposit rating	A3
RSA Sovereign ratings: foreign currency	A3

[1] SBSA is the largest operating entity within the group.

The year in review continued

Non-financial performance

Clients and service

South African CEBS[1] survey result 8,85 out of ten[2,4]

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

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

2009: **R21,1 million**

Technology and infrastructure

Number of branches 1 257

2009: **1 110**

IT spend – banking activities R7 160 million

2009: **R6 087 million**

Our people

Number of employees[4] 53 351

2009: **51 411**

Training spend R612 million

2009: **R552 million**

Leadership development programme participants 3 965

2009: **3 740**

Environment

Carbon footprint 177 289 metric tons of CO_2[2,4]

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

Socioeconomic development

Corporate social investment expenditure R132 million

2009: **R101 million**

Transformation score[2,3] 92,83 out of 107

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

[1] *Customer Evaluation of Bank Service – overall branch rating.*
[2] *Specific to The Standard Bank of South Africa Limited (SBSA).*
[3] *Verified by Empowerdex.*
[4] *Externally assured, please refer to page 111.*

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.

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 a USD2 billion bond for the National Treasury of South Africa.

Liberty won the best employer in the investment and insurance category in the *Corporate Research Foundation* Best Employers survey.

Awarded the **Best Investment Bank in Africa**, the Best Investment Bank in South Africa and the Best Debt House in Africa by *Global Finance* magazine.

Stanlib won seven of the annual *Raging Bull Awards* which recognise the top performers in the investment and unit trust industry.

Best Bank in Africa, South Africa, Lesotho, Malawi, Uganda and Zimbabwe in the prestigious *The Banker* awards.

Global Business Coalition recognised Standard Bank with a Commended award for **Excellence in Business Action** for our partnership with the Global Business Fund in its fight against HIV/Aids, tuberculosis and malaria.

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

Ranked the Best Investment Bank in Africa, Best Bank in South Africa and Best Investment Bank in Nigeria by *Euromoney* magazine.

In *The Banker Investment Banking Awards* Standard Bank won **Most Innovative Investment Bank from Africa 2010.**

Standard Bank won the **Development Finance Initiative of the Year award** in the *Africa Investor Agribusiness Awards* for its implementation of the Smallholder Farmers and Agribusinesses funding.

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The year in review continued

Highlights

Highest service levels
Our focus on customer service delivered the highest levels of service in 14 years in South Africa as measured by independent bank service surveys.

Shari'ah banking
Stanbic Bank Tanzania launched its first Shari'ah-compliant products.

Facilitating trade
Standard Bank started offering its customers across all its operations yuan bank accounts to facilitate trade with China. The accounts will reduce our customers' exposure to fluctuations in the value of the US dollar.

A new inclusive banking division
We established a dedicated inclusive banking unit in South Africa.

Improved customer retention
In Liberty, the customer retention programme was successful and a significant improvement in policyholder persistency was achieved.

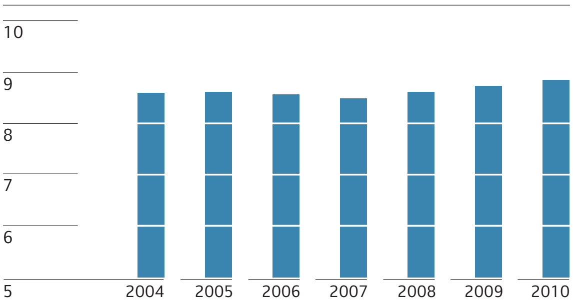
New solar hybrid energy installed
A hybrid solar energy efficient water-heating system was installed at a head office building in Johannesburg. This is expected to save 5% of the building's annual energy consumption.

106 new branches in the rest of Africa
Our operations in the rest of Africa increased their presence with 106 additional branches and 138 ATMs.

Assisting Chinese tourists
We enabled Chinese tourists holding China UnionPay cards to withdraw cash from Standard Bank ATMs in South Africa and transact at retail outlets that have Standard Bank point-of-sale devices countrywide.

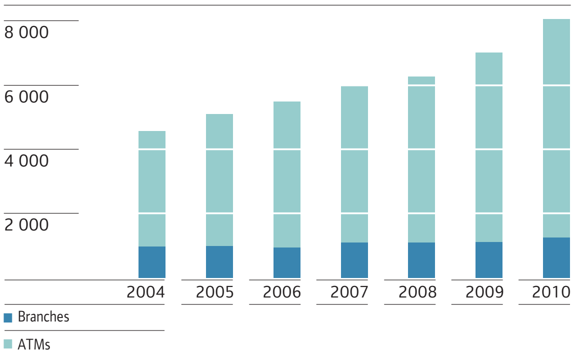
A first in Angola
We opened our first branch in Angola.

CEBS survey (branches)



Source: Customer Evaluation of Bank Service (CEBS) customer satisfaction surveys conducted by Markinor, Synovate and Plus 94.

Points of representation



Challenges

- Revenues continued to be under pressure due to the slow economic recovery, low interest rates, weak credit demand and low levels of client activity.
- As a result, we had to focus on our cost base during 2010. This has included delaying and downsizing various IT projects, significantly reducing marketing and sponsorship costs and cutting travel and conference costs.
- We also retrenched predominantly senior staff at our head offices in Johannesburg and London and retrenched staff in Argentina earlier in the year, to ensure the long-term sustainability of our business.
- The South African banking market is highly competitive and there is heightened focus by global banks on emerging markets, including our target growth markets in Africa.
- Changes in global regulators' approach has resulted in a review of regulatory capital and liquidity requirements.

During challenging times, our values continue to serve as the framework within which we act.

Our values

- Serving our customers
- Growing our people
- Delivering to our shareholders
- Being proactive
- Working in teams
- Guarding against arrogance
- Respecting each other
- Upholding the highest levels of integrity

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Economic review

Review by Goolam Ballim, group economist

Introduction: After the great recession

The world's economy is still recovering from the synchronised contraction that reached its nadir in early 2009. Emphatic government and central bank interventions, in both advanced and emerging economies, delivered the initial recovery impulses. This was followed by consumer spending which added some semblance of a self-sustaining dimension to global growth prospects.

Emerging markets led this revival. Public sector spending, reduced interest rates, vigorous investment programmes and an expanding consumer body provided the thrust.

Nonetheless, significant risks still permeate the world's markets. The post-recession environment is characterised by fragile public finances and labour markets in developed economies, and asset bubbles, accelerating inflation and overvalued currencies in emerging markets.

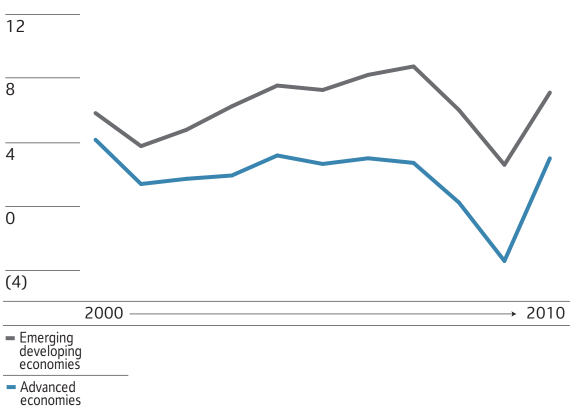
Indeed, the high probability that was ascribed to another recession ("double-dip") in 2010 was testimony to the fragility of the revival. The surfacing of debt servicing difficulties among the governments of select European nations early in 2010 and a sharp slowdown in the US during the third quarter cast doubt on the sustainability of the global economic recovery.

With regard to the former, the notion that sovereign credit defaults could weigh on the financial services sectors in Europe, and elsewhere, with ripples to worldwide consumer and investment markets, was deemed credible. Measures of credit health spiked to alarming levels in May, and it was only subsequent to the cumulative policy interventions by the European Union, the International Monetary Fund (IMF) and the European Central Bank that a semblance of calm was restored.

After contracting by almost 1% in 2009, the global economy expanded by 5% last year. The advanced markets, collectively, mustered 2,5%, and the emerging and developing world 7%.

Growth in advanced and emerging developing economies

%



Source: IMF

Stunted advanced economies

Unlike previous post-recession episodes, the US economy has experienced a meek recovery. Growth in 2010 at about 2,5% was below potential and weighed on by the high level of unemployment and a still weak housing market. The government's substantial support measures added about one percentage point to growth last year, and an easing in consumers' desire to rebuild savings added impetus to spending. The US is likely to continue recovering gradually — although medium-term prospects face strain from the fading impact of fiscal stimulus, substantial idle production capacity and a tepid decline in unemployment.

Europe suffered exceedingly during the downturn, contracting by close to 5% in 2009. Then, only a handful of economies mustered positive growth. Further, early last year, concerns about fiscal sustainability in Greece sparked anxiety about similar crises in the wider euro region and beyond.

Encouragingly, during the latter part of the year, the region gained from the resurgence in global trade with capital exporting nations notably benefiting. The inventory cycle also aided the revival. Still, mainstream European economies expanded by about 1,8% in 2010, heralding a weak upturn by historical contrast. Further, the accelerated fiscal consolidation will impress on the likelihood of a moderate prospective growth performance.

Japan's economy experienced a broad-based improvement in 2010. Fiscal stimulus buoyed households' spending and improved exports supported investment in capital equipment. Nonetheless, Japan's growth last year was shallower than the pre-crisis experience.

Dynamic emerging economies

The emerging markets showed extraordinary resilience in the depths of the recession and have largely driven the resurgence. Growth in the first half of last year was above trend in various regions and slowed to a sustainable but still vigorous pace later in the year.

China expanded by more than 10% in 2010, with exports and private consumption buttressing output. Notably, retail sales sustained double-digit growth throughout the year. Nonetheless, the authorities sought to cool activity in infrastructure investment and especially real estate in larger cities, which has been exhibiting frothy price growth.

In India, favourable profit growth, buoyant credit demand, strong labour markets and rising disposable income supported the economy. This manifested in brisk consumer spending on durable goods and firms' focus on machinery investment. The Indian economy expanded by about 9% last year, although with some loss of momentum in the latter period.

The Central and South American regions experienced a mixed performance last year. Nations linked more strongly to the advanced world underperformed, whereas those economies with commodities-centred production and stronger ties to emerging countries performed better.

In particular, the external environment was less favourable for Mexico and the Caribbean nations which are dependent on a mixture of trade, workers' remittances and tourism from the US. In South America, Brazil and Argentina gained from robust demand and high prices for commodities from Asian nations, as well as vibrant intra-regional trade growth. Expansionary macroeconomic policies were also supportive.

Africa is different, this time

Africa's economic growth slowed to about 2% in 2009 but then accelerated to 5% last year, fractionally lower than the performance in the pre-crisis era.

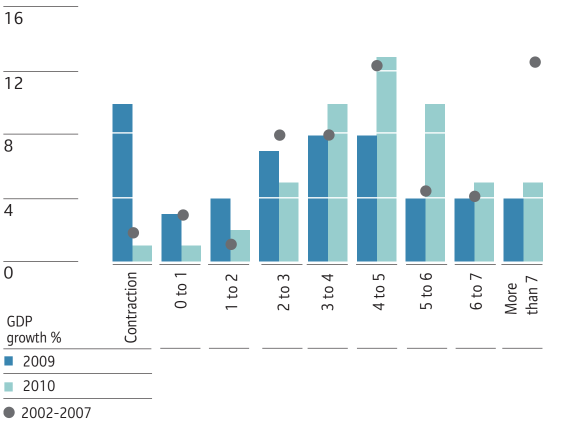
The relatively mild downturn and swift recovery demonstrates markedly improved macroeconomic conditions from previous decades. The confluence of low inflation, strong fiscal frameworks, falling public debt and increased foreign exchange reserves was instrumental to the continent's resilience.

Furthermore, diverse sources of growth have helped ensure generally firmer and sturdier output growth. These include vibrant expansion in personal incomes and investment, and stronger and better prioritised public spending. Strengthened diplomatic and trade relationships with Asia have also been beneficial.

Nonetheless, across the continent, the focus of fiscal policy will rotate from stimulus to consolidation, and nations with comparatively weaker policy systems, mostly in West Africa, will grow relatively slower.

Economic normalisation across Africa

Number of countries



Source: IMF, Standard Bank research

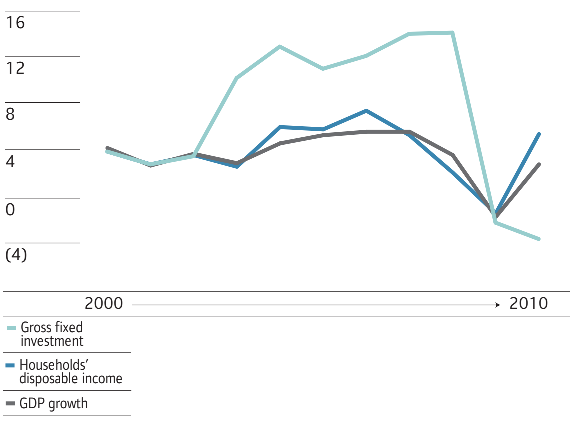
South Africa lags

South Africa's economy suffered a brutal growth crunch in the two years through 2009. After sustaining approximately 5% annual growth for several years prior to the crisis, the economy shrunk by almost 2% in 2009. The recuperation in 2010 was tepid, with countercyclical policies, a revival in global trade and a restocking cycle helping to usher close to 3% real growth. Fairly contained inflation and strong salary growth provided additional relief.

Nevertheless, a more convincing return to trend-growth failed to materialise amid consumer deleveraging, surplus idle capacity and shallow corporate earnings growth. Notably, investment has languished as firms await signal of firm and sustained growth in private spending.

South African growth picture

% year-on-year



Source: SARB

Conclusion

Events of the past three years have accentuated the crucial role a healthy financial system plays in the wellbeing of an economy. There is a clear co-directional and mutually reinforcing relationship between financial markets and the real economy.

Before the recession, conventional wisdom posited that improved macroeconomic management, augmented by enhanced financial sophistication and risk mitigation, manifested in structurally less volatile global output, inflation and employment.

However, the benign mood caused an increase in indebtedness throughout the financial system. Leverage was considered secure, founded on continuously rising asset prices, especially housing. Even after the collapse of Bear Sterns, very few recognised that the world was as precariously poised, on the cusp of the deepest recession since the Great Depression of 1929. In retrospect, sentiment had unmoored from systemic economic underpinnings.

Now, the world's economy has yet to fully shake off the effects of the great recession and be assured that the prospective path holds prosperity. Markets with low external balances and inflation, secure and stable financial systems, sustainable public finances, and a more varied growth platform, will perform better as the world struggles towards to a more benign growth era.

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Chairman's report to stakeholders

Report by Fred Phaswana

"Our focus on Africa positions us uniquely in our domestic market, as the gateway to African opportunity, and also in other emerging markets that seek to participate in the considerable growth that Africa offers. Along with our global focus on key sectors where we are strong, this is a robust and sustainable strategy."

Fred Phaswana
Chairman

Discussed in this report:

- Material issues
- Directorate
- Appreciation

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My first year as chairman of the Standard Bank Group has been a process of discovery. I am a businessman, not a banker, so the initial months of my tenure were spent learning about the business of banking and understanding the vastly changed landscape in which we operate. Having seen this process through, I can attest both to the soundness of Standard Bank's financial position and the validity of its business strategy. I firmly believe that Standard Bank has a sustainable future.

My arrival at Standard Bank coincided with one of the most challenging periods in the history of the global financial services sector, and South Africa's first recession in 17 years. At first, the comparatively prudent business practices and supportive regulatory environment shielded South African banks from the brunt of the global financial crisis. But as 2010 unfolded it became clear that the impact on the domestic economy was greater and more prolonged than had been anticipated. This was exacerbated in our case by the greater exposure of Standard Bank's operations to the global environment. The effect on our financial performance was severe, as you will read in the reports that follow. However, what has stood out for me in this difficult period is Standard Bank's resilience to the ebbs and flows of the world economy – even when those are as extreme as they have been in the last two years.

Our organisation operates in a world that is constantly changing and we cannot be impervious to that. In my view, Standard Bank has made tremendous progress in developing a large and growing business able to adapt constantly to change. In the past year there has been further recalibration of the group's strategy in response to substantive shifts in the global financial services environment. We are now more focused on entrenching our domestic banking franchises in markets in Africa, and leveraging our competitive advantages and specialised sector expertise to conduct cross-border business between selected emerging markets. Our focus on Africa and the way we have organised and deployed resources in recent years to fulfil our business objectives on the continent, position us uniquely in our domestic market, as the gateway to African opportunity. We are similarly differentiated in other emerging markets that seek to participate in the considerable growth that Africa offers. Along with our global focus on key sectors where we are strong, this is a robust and sustainable strategy.

Material issues

In determining the group's strategy, the board considers the full range of issues that influence the sustainability of our business and that of the social, economic and physical environments in which we operate and which, in turn, have a direct impact on our future viability. We consider an issue to be material if it influences our ability to remain commercially viable and relevant to the environments in which we operate. After detailed engagement with our internal and external stakeholders we identified six broad material issues in 2010, which form the basis of my report.

Sustainable long-term financial performance

The global and domestic economic environments in 2010 placed significant pressure on our ability to generate revenue and it became clear that we would have to apply more stringent cost management to counteract this risk. The decision to implement a retrenchment process was a difficult but necessary measure to improve our financial position in the medium term and protect the sustainability of our performance over the long term. This represented the first stage in a longer process; the next was to ensure that our strategic objectives were absolutely clear and that the inevitable – and sometimes imperceptible – culture shift that follows any retrenchment became a catalyst for the achievement of these objectives.

Another area of potential risk for the group is the impact of the new global banking regulations being introduced to safeguard against a repeat of the recent financial crisis. The group remains well capitalised with a tier I ratio of 12,9%, which is well above our internal targets and at levels slightly higher than those at December 2009. Standard Bank participated in the quantitative impact study that the Basel Committee conducted during 2010 and preliminary results showed that our tier I capital adequacy ratio would decrease marginally under the proposed Basel III framework. We are confident, however, that we are adequately capitalised to meet the new requirements and fulfil our strategic objectives.

Governance, regulation and stakeholder engagement

The board is committed to sound governance practices and endorses the principles of the King Code, which came into effect on 1 March 2010. While the King Code is voluntary, in effect it becomes regulated through its inclusion in the JSE Listings Requirements and the new Companies Act, which at the time of writing, was yet to be promulgated. Be that as it may, the King Code is recognised as international best practice and we are committed to apply its recommendations. Standard Bank has completed an extensive analysis to identify where our current governance practices differ from the recommendations, and no material gaps exist. We have established a system to apply the principles of the King Code, except for those instances where the board decides that certain principles are not appropriate, in which case we will provide reasons for this. During 2010, the board reviewed all board and committee mandates and agendas to identify and include the appropriate King Code considerations.

We believe that maintaining governance best practice, and complying with all applicable legislative and regulatory requirements, equates to enhancing shareholder value and supporting the stability and growth of our markets over the long term. We engage with regulators and other governing bodies to participate in shaping the regulatory environments in which we operate, and implement the systems and processes necessary to meet our obligations in a way that drives business value.

Chairman's report to stakeholders continued

We build and sustain strategic relationships with a range of stakeholders to manage social expectations, minimise reputational risk and form strategic partnerships. We seek to build partnerships with organisations that enhance our own sustainability as well as our contribution to sustainable development, and we participate in many different industry bodies and institutions that give us the opportunity to interact with our broad and diverse stakeholder base.

Sustainable and responsible financial services

Our customers – current and future – are the life-blood of our business and it is our responsibility to develop innovative and appropriate approaches to meet their evolving needs. Ensuring that our banking systems are able to support continuous improvement in the quality of our service to customers remains a key focus in our operations in South Africa and the rest of Africa, and we continue to invest in management and infrastructure capacity in these markets.

Standard Bank has over the years demonstrated its strong commitment to providing banking services to the low-income market and has in the past year embarked on an inclusive banking strategy to reach millions of economically active people who fall outside the mainstream financial sector. We have also established schemes to facilitate access to finance for small and medium-sized businesses further afield in Africa.

Since Standard Bank adopted the Equator Principles in 2009, we have made good progress in integrating the principles as a risk management measure when assessing project finance. In 2010, eleven projects were financed according to the principles and we are investigating the feasibility of applying social and environmental measures to other forms of lending.

Socioeconomic development

The most fundamental contribution we make to the economies in which we operate is the delivery of a robust business supported by sustainable revenues. This allows us to pay dividends to our shareholders, salaries to our employees, payments to our suppliers, investments in community projects and make tax payments to governments.

Standard Bank recognises that the private sector has an additional responsibility to assist governments in finding solutions to development challenges, particularly in the emerging markets from which we serve our customers. We partner with organisations that lead global efforts to fight poverty and HIV/Aids and provide solutions in support of the development of important sectors such as agriculture, infrastructure and healthcare.

Our transformation progress is currently measured against the Department: Trade and Industry's Codes of Good Practice for Broad-based Black Economic Empowerment (dti codes). During 2010, accredited verification agencies conducted independent assessments of the black economic empowerment (BEE) performance in terms of the dti codes of SBSA. SBSA qualifies as a level two contributor in a nine level model, with a verified overall score of 92,83. The dti codes exclude access to financial services and empowerment financing, which are important tenets of the Financial Sector Charter. Given their importance in driving economic transformation, SBSA has established internal targets for these elements and continues to contribute to their advancement. We continue to engage with all stakeholders in our efforts to resolve the hurdles to the adoption of the Financial Sector Charter, which we believe provides a specific and workable framework for advancing transformation and equitable growth in the South African financial sector, as a sector code.

Standard Bank concluded its BEE ownership transaction in October 2004, which transferred 10% direct ownership of our South African operations to the Tutuwa BEE consortium. In 2010, agreement was reached between the government, financial institutions, labour and community organisations to set the direct black equity target at 15% in line with the dti codes. It was agreed that financial institutions should have the option to invest in other transformation areas such as enterprise development, cooperative financing and procurement to achieve the additional 5%. Our view is that this is the preferred route for the bank.

A positive and consistent employee experience

Our people and leadership teams underpin our sustainable competitive advantage. The attraction, retention and continuous development of our human capital is central to our business strategy. To remain a sustainable employer, we have to ensure that our human capital practices support the development of the skills required to fulfil our strategic objectives. Our key focus areas in this regard are leadership development, performance management, recruitment, remuneration, talent management, coaching and mentoring, and training and development.

In an increasingly complex financial services environment, it is critical that we equip our people with the capacity to meet the demands of our business environments. One of the ways we can do this is to ensure that our organisational structures are optimised in the support they provide. During the year we streamlined our internal structures to eliminate duplication of roles and create centres of excellence in centralised functions. I believe it is also important to encourage teamwork as a means of integrating functions across our markets and sharing knowledge and expertise. Teamwork promotes an inclusive, collaborative culture in which everyone can contribute and perform, and has become a watchword throughout the group.

The environment

We have a responsibility to manage the environmental impacts of our activities on society and to respond strategically to the risks that global environmental and social pressures may have on our ability to create sustainable value for our shareholders.

As a financial services group, we have direct and indirect impacts on 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 we implemented in 2010 enables us to track and manage environment-related aspects of our operations such as energy, water, carbon emissions and waste management. SBSA has set environmental efficiency targets for energy, water and paper consumption, paper recycling and waste production, using 2009 as the base year.

Climate change is a significant global challenge and one which will impact the potential of markets in Africa and other emerging economies to grow and develop. We have engaged in high-level discussions with a number of governments on how to assist African nations to adapt to the impacts of climate change, including managing water stress and the degradation of agricultural land. We actively participate in initiatives that create awareness of the cost of climate change and generate carbon prices, and we finance energy efficiency projects in African countries to overcome energy shortages and generate tradable carbon credits. 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.

During the year we became a member of the United Nations Environment Programme (UNEP) Finance Initiative, a global partnership between UNEP and the financial sector, and we are also represented at the Global Reporting Initiative (GRI) Organisation Stakeholder Council, which sets reporting frameworks on sustainability issues.

Directorate

Due to a change in executive responsibilities within the Industrial and Commercial Bank of China (ICBC), Kaisheng Yang resigned from the board as director and deputy chairman, and from all board committees on which he served on 8 October 2010. Hongli Zhang was appointed to these positions on the same date. Mr Zhang has extensive financial and banking experience, which is enhancing cooperation between ICBC and the group.

Rick Menell, member of the board since 1997 and the SBSA board since 1995, resigned on 4 February 2011 due to a potential 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.

The King Code recommends that the independence of non-executive directors be assessed by the board on an annual basis.

Two non-executive directors have served on the board for more than three terms, namely Doug Band and Saki Macozoma. After a rigorous review, the board has 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 the group's strategic empowerment partners, Safika and Shanduka; Hongli Zhang and Yagan Liu, the non-executive directors representing ICBC, the group's largest shareholder, are similarly not independent.

The board engaged an external facilitator in 2010 to perform an independent review of its performance. The process is under way 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 board received feedback on the assessment of the performance of its committees in 2010. No major areas of concern were highlighted other than the increasing information needs of members due to the changing regulatory landscape.

Appreciation

This has been an extremely stressful year for our people given the pressure on profitability and the retrenchment process undertaken. I wish to thank them for the considerable effort they have put into their work and the strength they continue to display under the most challenging of conditions. However, I do perceive an improvement in morale across the group, which is most pleasing, and I trust that this enthusiasm and positive mindset will continue in the coming year.

My colleagues on the board have supported me with their wise counsel and valuable guidance in a year that has required a very high level of involvement.

I wish to extend my gratitude to our customers, shareholders and other stakeholders for their continued support.

Fred Phaswana
Chairman

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Chief executive's report to stakeholders

Report by Jacko Maree

"We have withstood challenges in the past and have emerged stronger and more resilient. Standard Bank remains the largest bank in Africa by earnings and assets, with a recognised and trusted brand, and an extremely strong balance sheet.

We have refined our strategy in the last year to align it with changes in the financial services environment. We are now more focused on entrenching our full-service banking franchises in chosen African markets, and leveraging our competitive advantages and specialised sector expertise to connect our customers within Africa, and between Africa and other selected emerging markets."

Jacko Maree
Group chief executive

Discussed in this report:

- Overview of the year
- Strategic focus
- Appreciation
- Prospects

2010 was an extremely challenging and demanding year as we navigated our way through a banking landscape that has changed significantly in the aftermath of the global financial and economic crisis.

Continued pressure as a result of the global recession, slow economic recovery, low interest rates, subdued credit demand and a strong rand have impacted our revenues, both locally and globally. These challenges are clearly reflected in our results for the year to 31 December 2010.

Standard Bank Group normalised HEPS were 715,9 cents for the 2010 year, down 5% on 2009. Within banking activities, lower revenues coupled with continued investment in people, premises and systems, as well as once-off restructuring expenses, more than offset the benefits of reduced credit impairments and resulted in a decline in banking activities headline earnings of 15%. Significant operational improvements in the insurance business and positive investment markets resulted in Liberty recording good growth in earnings and consequently group headline earnings were down 4%. An ROE of 12,5% (2009: 13,6%) was recorded.

This result was very different from what we had planned at the beginning of the year. We did not anticipate how gradual the recovery in our markets would be nor did we see interest rates going as low as they did in South Africa and elsewhere in Africa. For the first time in many years we had to contend with declining revenues. It became clear in the second half of the year that much tougher cost management was necessary.

After a detailed analysis of our cost base we cut costs in a range of areas. As staff costs are our largest expense item, we halted recruitment in virtually all parts of the business and implemented a retrenchment process aimed at removing inefficiencies, mainly impacting head office managers and executives in Johannesburg and London. Customer-facing staff and those in high-growth geographies were largely unaffected. In total, 1 641 permanent and temporary employees in Johannesburg and London were retrenched. This process resulted in once-off pre-tax costs of R610 million. Including a restructuring process undertaken in Argentina earlier in 2010 where 307 permanent employees were retrenched, the group incurred total non-recurring restructuring costs of R781 million in 2010, reported centrally in the group's segmental analysis.

The retrenchments in Johannesburg and London were conducted according to due process, in a manner that was fair and respectful of our employees' rights and dignity. We consulted with the South African bank union, Sasbo, and formed a collective consultation forum in London. 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.

Other cost-saving measures included downsizing or delaying IT projects, reducing consulting services and cutting back travel and conference costs. Certain sponsorship agreements will not be renewed in May 2011.

Cost management will remain a key focus in 2011. Where feasible, we will relocate roles to less expensive jurisdictions and will continue to improve the efficiency of our operational structures. The restructuring process has proved effective in breaking the group's recent trend of relatively high cost growth. We anticipate that the banking group's total operating expenses for 2011 will be at the same level as the 2010 cost base including restructuring costs.

To best position our human capital to meet the demands of the business environment and achieve our strategic objectives, we streamlined our internal structures during the year. Our strategy requires structures that function globally and can connect customers. Extensive systems renewal in recent years, particularly in risk, capital management and trading is enhancing our global effectiveness. To further refine our business architecture, we have realigned our common group enabling functions of finance, governance and assurance, risk, human resources, legal and compliance, marketing and communication across the three pillars of Personal & Business Banking, Corporate & Investment Banking and Wealth – Liberty. This is eliminating duplication and improving cost-efficiency and consistency.

We have also streamlined the composition of the group executive committee to the chief executive and the three deputy group chief executives. The heads of Corporate & Investment Banking and Liberty and the financial director attend all meetings; other executives are invited to attend meetings that address their area of responsibility.

I have also reallocated certain senior responsibilities to ensure the execution of our refined strategy. Ben Kruger will assume responsibility for both major banking business lines, Corporate & Investment Banking and Personal & Business Banking.

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Chief executive's report continued

He will be responsible for optimising client relationships and revenue generation across the banking group. Sim Tshabalala will continue as the chief executive of SBSA, the group's largest banking operation. Standard Bank's South African base remains the springboard for its expansion and he will continue to ensure that the requisite level of attention is paid to preserving and growing the franchise in Standard Bank's home market. Peter Wharton-Hood will maintain his accountability for operations and IT across the banking group. In addition, he will be assuming responsibility for the effective and efficient operation of all banks outside South Africa.

It sometimes seems ungracious to celebrate success when times are hard but I think it is important to acknowledge the recognition we have received in a range of areas. This reflects not only the hard work of our people and teams throughout the organisation but also the underlying strength of the Standard Bank Group.

We were ranked 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. We won the Best Bank in Africa, South Africa, Lesotho, Malawi, Uganda and Zimbabwe in the prestigious *The Banker* awards and *Euromoney* ranked us as the Best Investment Bank in Africa, Best Bank in South Africa and Best Investment Bank in Nigeria.

Our chairman, Fred Phaswana, and a number of our board directors were acknowledged by the *Sunday Times* Top 20 Trailblazers as being among the most influential black directors of JSE-listed companies in South Africa. In recognition of Standard Bank's contribution to the fight against HIV/Aids and malaria, the Global Business Coalition awarded a Business Action award for the work the bank has done with the Global Fund.

South Africa successfully hosted the 2010 FIFA World Cup™. Standard Bank made a crucial contribution to the infrastructure development that was needed to make this world class event a reality.

Strategic focus

Standard Bank Group, overall, is in good health. We are well capitalised, profitable and have a clear growth path, despite an uncomfortable cost-to-income ratio of 61,7% and an ROE of 12,5%. We have therefore, over and above the necessary action taken on costs, looked very carefully at our business strategy and refined our strategy to align it to changes in the group's operating environments.

The bank has been in operation for almost 150 years providing banking services to individuals, companies and governments. We have withstood challenges in the past and have emerged stronger and more resilient. We remain the largest bank in Africa by earnings and assets, with a recognised and trusted brand, a well-capitalised strong balance sheet, and our South African base remains an ideal springboard for our expansion in Africa. Our strategy is sound. After extensive debate, we believe that a fundamental revision of the strategy is unwarranted, but that some refinement and tightening of strategic focus is required.

Strengthening our focus on Africa

Africa is at our core. We will continue to build first-class, on-the-ground banking franchises in chosen markets in Africa, investing in people, branch networks and systems. Our rapid pace of investment in those countries has not been vindicated by recent revenue trends. Nevertheless, we are confident that future revenue flows will justify these investments in infrastructure. As we create stronger annuity revenue streams and customer relationships in our domestic operations, these will provide greater opportunity to leverage our cross-border investment banking and global markets capabilities.

The long-term growth potential of Africa affirms our decision to invest in high-potential markets on the continent. It has been estimated that Africa's collective gross domestic product will increase from USD1,6 trillion in 2010 to USD2,6 trillion in 2015 and that economic growth will expand by an annual average real rate of 5,5% during this five-year period. Furthermore, Africa's total trade is expected to grow from USD654 billion in 2009 to approximately USD1,6 trillion in 2015 and its share of global trade to almost double to 6% over the same period, as urbanisation and improved living standards in Brazil, India and China fuel demand for African resources and African consumer markets grow. The specialist knowledge and experience we have gained over many years, of key African economies, and the natural resources that drive their growth, has positioned us advantageously to facilitate trade and originate financial transactions within Africa and between Africa and other selected emerging markets.

Leveraging our sector expertise to serve emerging markets

The international banking landscape has changed considerably since Standard Bank embarked on a strategy to build its presence in emerging markets outside Africa. Impacted by the global and economic crisis, many of our operations outside South Africa consume more capital than their current levels of return justify, while the ability of our operations outside Africa to compete effectively as domestic players has been limited by the growth and increasing sophistication and competitiveness of the financial services sectors in key emerging markets, which are being rapidly globalised. Overlapping head office structures in expensive locations, which we are addressing, have compounded this challenge.

We no longer have ambitions to buy or build additional domestic businesses in markets outside of Africa. However, we will connect other selected emerging markets to Africa and to each other, applying our sector expertise, particularly in natural resources, globally.

Our long-standing global natural resources franchise will retain its importance and remains a key focus area. We will continue to improve our sector coverage, expand our activities across the entire commodity value chain and put more of our people closer to our clients in the countries in which they operate.

Our strategic partnership with the ICBC remains an important element of our strategy. As the partnership matures, it offers us an invaluable opportunity to capitalise on increasing trade and investment activity between China, Africa and other selected emerging markets. We will continue building robust banking systems for Chinese clients in Africa. Standard Bank was the sole adviser for a major acquisition by the world's largest utility company, State Grid Corporation of China, of power transmission companies in Brazil in 2010. We have a strong pipeline of other Chinese cross-border transactions across our targeted economic sectors in Africa, Russia and Brazil which enable us to meet our customers' investment banking needs and support their operational footprint outside their domestic markets. We have also made progress in the extension of transactional products and services to Chinese customers operating in Africa.

Capital management

In the context of our refocused strategic ambitions, tight capital management is fundamental. Now that we have more clarity on the proposed Basel III requirements, we have a clearer framework for optimising the deployment of capital across the group. This will be addressed from 2011 and over time will result in lower amounts of capital being allocated outside Africa.

Given the strong capital position of the group and the improving outlook described below, a final cash dividend of 245 cents has been declared, bringing the full dividend for the year to 386 cents, the same level as the prior three years. This declaration results in dividend cover for the year of 1,85 times, compared to the group's medium-term dividend cover objective of 2,5 times.

Appreciation

I would like to express my sincere thanks to all my Standard Bank colleagues for their efforts in what has been an incredibly difficult year.

Prospects

Signs are that the global economy will continue to recover slowly, but the combined threats of rising inflation in developing economies and budget deficits in Europe pose risks to economic growth.

In sub-Saharan Africa, we expect domestic demand to remain firm given rising real incomes and sustained private and public investment. In addition, exports are expected to benefit from the reorientation of trade toward the faster-growing markets in Asia. Africa is firmly in the company of the emerging markets outperforming the global economy in the medium term. However, growth will remain contingent on the improving health of the global economy and while there is certainly appetite for investment-led growth, there are a number of African countries facing significant political risk in the coming year.

Strategically we are well positioned and our capital adequacy is strong. After two extremely difficult years we are focusing on improving our ROE through revenue generation and cost containment.

We have taken decisive action to address our cost base, improve operational efficiency and close poorly performing business lines. We believe these initiatives, combined with an ongoing decline in credit impairments, will have a positive impact on our financial performance and that we are well positioned to resume growth in earnings.

Jacko Maree

Jacko Maree
Group chief executive

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Strategy

Our refined strategy

- **We aspire to build the leading African financial services organisation using all our competitive advantages to the full.**
- **We will focus on delivering superior sustainable shareholder value by serving the needs of our customers through first-class, on-the-ground operations in chosen countries in Africa. We will also connect other selected emerging markets to Africa and to each other, applying our sector expertise, particularly in natural resources, globally.**
- **Our key differentiator is people who are passionate about our strategy, wherever in the world they are based.**

What does this refinement mean?

Africa is at our **core**.

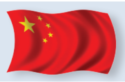
We will **continue** to build **first-class** on-the-ground banks.

We are **confident** that future revenue plans will justify current investment in infrastructure.

We **no longer** have ambitions to **buy or build** additional **domestic** businesses in markets outside Africa.

We will **connect** other selected emerging markets to Africa and to each other, **particularly** in the natural resources sector.

China continues to be a key differentiator for us.



Tight capital management is **fundamental**.

Sustainable competitive advantages

We have a unique African footprint

South Africa is an emerging market

with **well developed, leading-edge and highly competitive financial markets.** We have a successful business with exportable and replicable:

- products and solutions;
- systems and infrastructure; and
- risk and capital management practices.

High service ethic

in dealing with customers underscored by independent surveys.

Proven community relevance

particularly given the complex socioeconomic environment of South Africa.

Strategic partner of ICBC

Strategic relationships

Our **strategic relationship** with ICBC provides us with a strong partnership with one of the strongest players **in the future global economy**.

Active in carbon credits

since 2003, and our broad set of carbon-trading capabilities **enables us to pioneer green financing in Africa through deployment of local, market-specific solutions and partnerships.**

Understanding customer needs

We understand the needs of both international customers, **where connectivity is critical,** and local customers, where **product and service offerings benefit from scale advantages and local knowledge.**

Growing businesses

Successful track record in **growing businesses organically in new markets and geographies.**

Acquisitions

Proven experience in **making and integrating acquisitions in foreign markets** as evidenced in Argentina, Nigeria and Kenya in recent times.

A successful track record

in building businesses on a global scale as evidenced by our commodities and natural resources business.

Experience

in **taking banking to the unbanked**, which is a key requirement in most emerging markets battling with the eradication of poverty.

Key strategic deliverables

Our key strategic deliverables remain unchanged for 2011. Below we have reported on our progress during 2010.

Promote a nimble and proactive approach to our customers.

- We successfully raised the largest global bond issued by South Africa.
- We established a dedicated inclusive banking unit to strengthen our service to economically active people outside the mainstream financial services sector.
- We launched a pilot host-to-host system to facilitate the banking needs of Chinese corporate clients across Africa.
- We completed several successful cross-border transactions.

Deliver superior returns and sustainable growth for shareholders.

- The financial results were disappointing. Revenues continued to be under pressure due to the slow economic recovery, low interest rates, weak credit demand and low levels of client activity.
- We focused on our cost base in order to ensure the sustainability of our business and of its returns to shareholders. A return on equity of 12,5% was delivered, below the group's cost of equity of 13,3%.

Constantly balance risk and return, as well as appropriate corporate governance.

- We operated within accepted risk tolerance levels on key risk indicators.
- The King Code was successfully implemented during 2010.

Grow, develop and recognise our people.

- Despite the challenges faced by the group, we remained committed to providing opportunities for our people to learn and grow.

Ensure that our values live and grow within the organisation.

- Difficult decisions regarding retrenchments, sponsorships and business lines were taken in order to protect the long-term sustainability of the business. Integrity and respecting our employees' rights and dignity remained a priority.

Ensure that the three core business units work together and maximise synergies.

- We revised the business operating model to maximise synergies and eliminate inefficiencies in our three core business units.

Build a strong and unified brand.

- Our brand was ranked the top banking brand in South Africa, 3rd in Africa and valued at USD2,3 billion by UK-based Brand Finance for industry magazine *The Banker*.

Deploy our scarce capital appropriately.

- Total capital adequacy ratio of 15,3% and tier I capital adequacy of 12,9%.
- The impact of the new Basel capital standards was internally assessed and we are confident of the group's positioning in this regard.
- Capital adequacy of Liberty Group Limited remained strong at 2,7 times the required cover.
- We maintained our dividend.

Create a world-class infrastructure, with the emphasis on cost efficiency.

- Despite a difficult year, investment in infrastructure continued.
- We continued the replacement of our core banking system in South Africa and in certain African countries we have begun a process to replace legacy core banking systems with highly standardised systems.
- We invested in a world-class data centre in Midrand.
- We also opened a branch in Angola and significantly expanded our branch network in Nigeria.

Business structure

Standard Bank Group

Personal & Business Banking

Headline earnings

R4 750 million

2009: R3 874 million

Banking and other financial services to individual customers and small- to medium-sized enterprises in South Africa, rest of Africa, Argentina and Channel Islands

What we offer

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

Corporate & Investment Banking

Headline earnings

R5 248 million

2009: R7 467 million

Corporate and investment banking services to governments, parastatals, larger corporates, financial institutions and international counterparties, in southern Africa and other selected emerging markets

What we offer

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

Wealth – Liberty

Headline earnings

R1 393 million

2009: R72 million

Life insurance and investment management activities of group companies in the Liberty Holdings Group

What we offer

- Long-term investments
- Long-term risk – life and disability
- Pension fund management
- Endowment and retirement annuities
- Corporate benefits
- Healthcare and health insurance
- Investment-related advice and solutions

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Our global presence

Africa is at our core

Countries of representation

17 countries in Africa, 13 countries outside Africa, 30 countries of representation

In Africa

– Angola
– Botswana
– Democratic Republic of Congo
– Ghana
– Kenya
– Lesotho
– Malawi
– Mauritius
– Mozambique
– Namibia
– Nigeria
– South Africa
– Swaziland
– Tanzania
– Uganda
– Zambia
– Zimbabwe

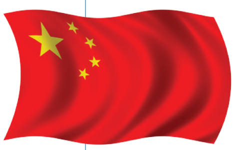
Outside Africa

– Argentina
– Brazil
– China (including Hong Kong)
– Isle of Man
– Japan
– Jersey
– Russian Federation
– Singapore
– Taiwan
– Turkey
– United Arab Emirates
– United Kingdom
– United States of America

Our strategy in action

Case study 1

Standard Bank advised State Grid Corporation of China on its landmark acquisition in Brazil



Standard Bank acted as the sole financial adviser to the **State Grid Corporation of China (SGCC)** on its **USD1,8 billion** acquisition of 100% ownership of seven power transmission companies in **Brazil**. This landmark acquisition is one of the largest investments made by a **Chinese** company in **Brazil**.

SGCC, the world's largest utility, with more than one billion customers and more than 1,6 million employees, has bought the seven companies from Spanish groups Cobra, Elecnor, Isolux and Abengoa.

Standard Bank combined its significant investment banking expertise, its government and corporate access and its on-the-ground capabilities in Brazil and China to complete the transaction. The group's deep understanding and long-standing presence in these markets played a key role in ensuring a high-quality solution for the SGCC.

This landmark transaction, the largest and most significant of its kind in Brazil, is testament to Standard Bank's cross-border capabilities, both in China and in Brazil where Standard Bank is advising clients on a number of major infrastructure transactions.

The Stock Purchase Agreement was signed in May 2009, regulatory approvals were granted in subsequent months and the transaction was closed in late December 2010.

Case study 2

South Africa National Treasury USD2 billion global bond

In this landmark deal, Standard Bank, in its capacity as Joint Lead Manager, successfully raised a **USD2 billion** bond for the **National Treasury of South Africa**. This transaction constitutes the largest global bond offering by the National Treasury to date. The success of this transaction was a result of teams across the US, UK, Asia and South Africa working together to ensure an integrated solution was put forward to the client and executed within a remarkable **48 hour timeframe**. The National Treasury managed to raise the full USD2 billion (the single largest bond ever raised in South Africa).

Standard Bank has been recognised with the Overall Emerging Market Deal of the Year 2010 in the *EuroWeek* Awards for this landmark transaction.

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Our history

Where we come from

1857

In June 1857 a group of businessmen had a vision to establish the Standard Bank of Port Elizabeth. The dream was pursued by John Paterson, the man behind the idea, who sailed to England to encourage British investors to support the scheme.

1862

Two years after the appearance of its prospectus, The Standard Bank of British South Africa was established. On 15 October 1862 the bank was incorporated and registered as a limited liability company. Its capital was fixed at £1 000 000 with 10 000 shares of £100 each.

1863

Operations commenced immediately in London and by January 1863 the bank's agents in Port Elizabeth, Alexander Croll & Company, were discounting bills. Over the next 50 years a branch network was established throughout southern Africa. The Port Elizabeth office was to remain Standard Bank's South African headquarters for 23 years.

1962

In 1962 a subsidiary company was formed to carry on business in South and South West Africa (now Namibia) under the bank's old name. The name Standard Bank Limited was adopted for the holding company in England (subsequently to become Standard Chartered Bank plc).

1964

Standard Bank Development Corporation was formed. It would later be known as Standard Corporate and Merchant Bank and, eventually, became the Corporate & Investment Banking division.

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1969

Standard Bank Group was established in 1969 as Standard Bank Investment Corporation – the holding company of SBSA.

1970

Listed on the Johannesburg Stock Exchange

1987

Standard Chartered sold its 39% stake in Standard Bank Group in 1987, transferring complete ownership of the holding company to South Africa.

1988

The re-establishment of Standard Bank's African links began in 1988, with the establishment of a branch in Swaziland.

1991/92

In 1991 Standard Bank established a bank in Botswana and in 1992 acquired ANZ Grindlays' operations in Botswana, Kenya, Uganda, Zaire, Zambia and Zimbabwe, and minority holdings in banks in Ghana and Nigeria.

The group also expanded further afield. Standard Bank London was established in 1992 and in the same year operations in Jersey and the Isle of Man were acquired. Two years later, the Isle of Man presence was broadened considerably with the acquisition of Standard Chartered's banking activities on the island.

1999/2000

1999

Acquired a controlling stake in Liberty in 1999.

1999 – 2000

Nedcor attempts a takeover bid of Standard Bank. The attempt fails.

2001/02/03

2001

Acquisition of Commercial Bank of Malawi.

2002

Acquisition of Uganda Commercial Bank.

2003

Acquired control of Banco Standard Totta de Mocambique. Establishment of investment banks in Russia and Brazil.

2006/07

2006

In 2006 the bank opened a representative office in Angola, the continent's fastest growing economy.

2007

Standard Bank took control of BankBoston Argentina with effect from 1 April 2007 and renamed it Standard Bank Argentina.

Standard Bank acquired a 61% share of Dundas Ünlü with effect 1 September 2007 and commenced operations under the name of Standard Ünlü.

Standard Bank's Nigerian operations, Stanbic Bank (Nigeria), were merged with those of IBTC Chartered Bank Plc and the group acquired control of the resulting entity.

In December 2007, shareholders approved the transaction whereby the Industrial and Commercial Bank of China (ICBC) invested R36,7 billion in Standard Bank for a 20% shareholding.

2008/09

2008

A 60% interest in CfC Bank (renamed CfC Stanbic Holdings) in Kenya was acquired effective 1 June 2008 in a transaction which combined the group's Kenyan operations with CfC Bank.

CfCBank

Standard Bank increased its effective holding in Liberty from 32,8% to 53,7% during the year and simplified its holding structure.

2009

Acquired 36% interest in Troika Dialog Group in Russia.

2010

Standard Bank acquired the 50% it did not own of Credit Suisse Standard Securities, and renamed it SBG Securities, which commenced operating in January 2011.

Opened our first branch in Angola.

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Our brand

1958 1967 1970 2000

- As a multinational organisation we drive business growth through the three key business units of Personal & Business Banking, Corporate & Investment Banking and Wealth – Liberty. In order to prevent brand confusion, in certain countries in which Standard Chartered Bank is present, our subsidiaries trade under the name Stanbic Bank. Liberty is separately listed and has its own well recognised logo.

- Standard Bank has recently been independently evaluated and ranked as the most valuable banking brand in South Africa*. We moved up the global rankings from position number 105 in 2010 to position 77 in 2011 with a brand value of USD2,3 billion, 31 places and USD400 million ahead of our nearest domestic competitor.

- Standard Bank has been proudly involved as a sponsor of a number of sporting teams as well as sporting and cultural events.

- Difficult times and a reassessment of marketing priorities necessitated a review of Standard Bank's South African sports sponsorships in 2010. However, we retain our presence in key jazz and arts projects, as we feel they make a socially relevant contribution to our country's heritage, and we are able to move our customers forward through the platforms they provide. Similarly, our sponsorship agreement with the Confederation of African Football remains in effect until 2016, as it supports business strategies on the African continent.

*2011 BrandFinance® Banking 500


BRAND·FINANCE®
MOST VALUABLE SOUTH AFRICAN BANKING BRAND
2011
The Banker
Bank of the Year 2010
SOUTH AFRICA
LET'S BE THE
BEST
at doing what
keeps our
customers
Moving Forward
Our ranking as Best Bank and Most Valuable Banking Brand* in South Africa confirms our commitment to keeping our customers moving forward. www.standardbank.co.za
Moving Forward™
Standard Bank
*2011 BrandFinance® Banking 500
Authorised financial services and registered credit provider (NCRCP15)
The Standard Bank of South Africa Limited (Reg. No. 1962/000738/06). SBSA 78806/02-11
Moving Forward is a trademark of The Standard Bank of South Africa Limited

Our socioeconomic impact

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

Distribution of wealth created

	2010		2009	
	Rm	**%**	Rm	%
Wealth created	**44 363**		40 773	
Distribution of wealth				
Employees	**21 872**	**49**	19 871	49
Government	**6 563**	**15**	6 442	16
Ordinary shareholders	**5 974**	**14**	4 850	12
Non-controlling and preference shareholders	**2 233**	**5**	942	2
Corporate social investment	**132**		101	
Retentions to support future business growth	**7 589**	**17**	8 567	21
Wealth applied	**44 363**	**100**	40 773	100

Externally assured, please refer to page 111.

Empowerment deals financed by Standard Bank amounted to more than **R20,0 billion**[1] since 2004.

Dividends paid to the participants of the group's Black Economic Empowerment Ownership (Tutuwa) initiative, **R340 million** in the current year.

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

The end of 2010 marked the last vesting date for the Tutuwa Managers Trusts and the estimated wealth created for **6 185** black managers was **R2,4 billion.**

Committed **USD2,5 million** to the Investment Climate Facility for Africa to create a better climate for investment on the African continent over five years.

Financial Literacy Outreach Programme reached **41 000** South Africans in the current year.

Employees distributed over **15 000** mosquito nets to communities in Mozambique, Namibia and Nigeria, as part of the World Malaria Day campaign in 2010.

Provided carbon financing to projects responsible for a total abatement of approximately **20 million tons** of greenhouse gases in 2010.

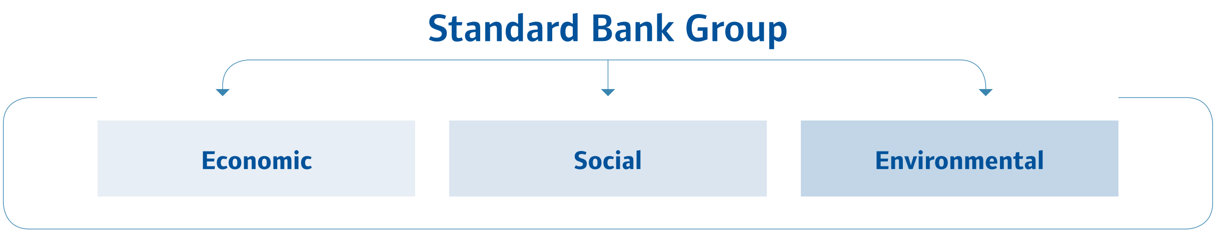
[1] *Verified by Empowerdex.*

Introduction

Ensuring our sustainability

"Because the company is so integral to society, it is considered as much a citizen of a country as is a natural person who has citizenship. It is expected that the company will be and will be seen to be a responsible citizen. This involves social, environmental and economic issues – the triple context in which companies in fact operate."

The King Code



The group has a proud record of ensuring its sustainability for nearly 150 years through difficult and benign times. Sustainability is at the heart of our business and integrated in the way we operate as a group. Our strategy is designed to ensure the long-term sustainability of our business. The chairman's report contains the material issues that influence our ability to remain commercially viable and relevant to the environments in which we operate and the chief executive's report sets out the group's strategy to remain sustainable in the years ahead. In the sections that follow we discuss how we address our material issues and how the group's strategy to date has been executed in our operations.

We believe our operations can only provide returns to shareholders on a sustainable basis if our people and systems can provide solutions to our customers within an environment of appropriate corporate governance, where risks are adequately identified and managed and where we consider our impact on our stakeholders and environment. The sections that follow address these issues, collectively referred to as sustainability.

Ensuring our sustainability

Executive committee

The group has reviewed and streamlined the role and composition of the group executive committee (exco) commencing January 2011. The revised members of exco are the group chief executive and the three deputy group chief executives. The head of Corporate & Investment Banking, Rob Leith, the head of Liberty, Bruce Hemphill and the group financial director, Simon Ridley, attend all exco meetings. Other executives attend exco meetings on invitation.

Exco responsibilities have been reallocated to ensure the execution of our refined strategy. Ben Kruger will assume responsibility for both major banking business lines, Corporate & Investment Banking and Personal & Business Banking. He will be responsible for optimising client relationships and revenue generation across the banking group. Sim Tshabalala will continue as the chief executive of The Standard Bank of South Africa (SBSA), the group's largest banking operation. Standard Bank's South African base remains the springboard for its expansion and he will continue to ensure that the requisite level of attention is paid to preserving and growing the franchise in Standard Bank's home market. Peter Wharton-Hood will maintain his accountability for operations and IT across the banking group. In addition, he will be assuming responsibility for the effective and efficient operation of all banks outside South Africa.

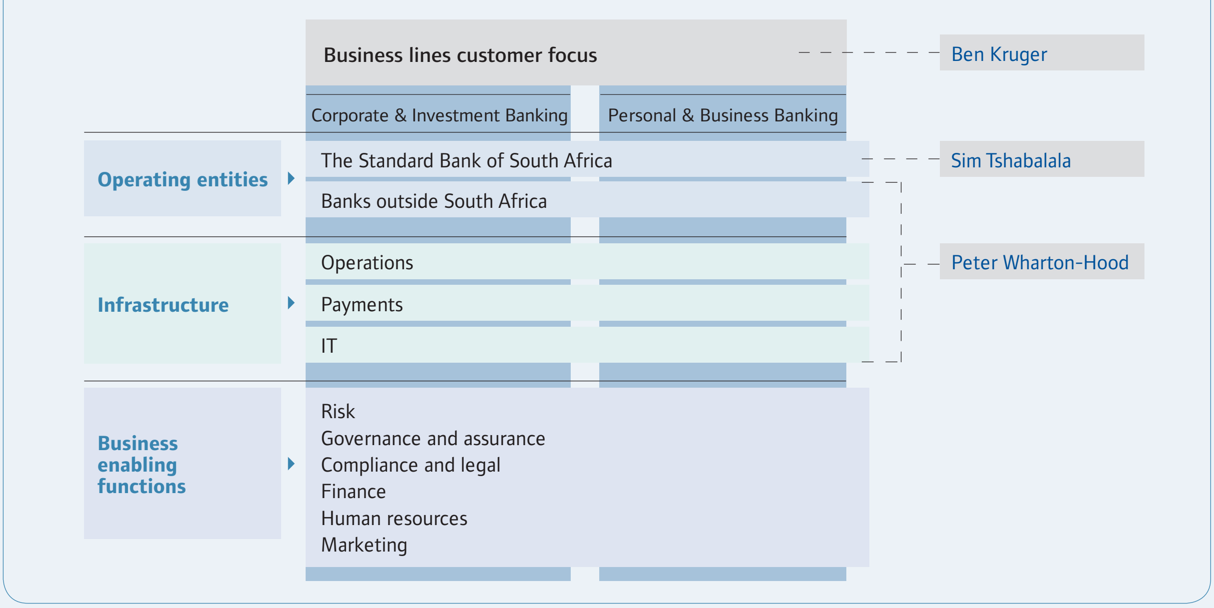
Jacko Maree (55)
Group chief executive
BCom (Stellenbosch),
MA (Oxford), PMD (Harvard)
Joined the group 1980,
appointed to exco 1995

Ben Kruger (51)
Group deputy chief executive
BCom (Hons) (Pretoria),
CA (SA), AMP (Harvard)
Joined the group 1985,
appointed to exco 2000

Sim Tshabalala (43)
Group deputy chief executive
and chief executive –
The Standard Bank
of South Africa
BA LLB (Rhodes), LLM
(University of Notre Dame –
USA), HDip Tax (Wits), AMP
(Harvard)
Joined the group 2000,
appointed to exco 2001

Peter Wharton-Hood (45)
Group deputy chief executive
BCom (Hons) (Wits), CA (SA),
AMP (Harvard)
Joined the group 1997,
appointed to exco 1999

Change in responsibilities of deputy group chief executives to better execute our strategy in banking operations



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Financial review

Simon Ridley

"2010 will be remembered as a difficult year and our financial performance was disappointing. Severe pressure on our revenue streams more than offset the benefit we have seen from a significant improvement in the credit environment and a strong recovery in our insurance operations. We took action to reduce our cost base while we continued to invest in critical infrastructure and expansion of our franchise in growth regions in Africa."

This report provides:

- an overview of the key features of the 2010 financial results;
- a general description of how the group generates its revenue and the risks it faces in doing so;
- a description of the impact of the economic environment on key financial ratios;
- an analysis of the financial position and income statement of the banking activities;
- an overview of the financial performance of Liberty;
- commentary on the capital and liquidity position of the group;
- details of the dividend to shareholders; and
- an overview of financial priorities for 2011.

Simon Ridley
Group financial director

The financial results and related commentary are on a normalised basis, unless otherwise indicated as being on an IFRS basis. Refer to page 51 for principal differences between normalised and IFRS results. The group's financial position and performance over the past seven years is summarised on pages 54 to 61 and key ratios are provided on both a normalised and IFRS basis.

Financial results and ratios

		Change %	2010 Rm	2009 Rm
ROE	%		**12,5**	13,6
Headline earnings	Rm	(4)	**11 283**	11 718
Headline earnings per ordinary share	cents	(5)	**715,9**	756,9
Dividend per ordinary share	cents		**386**	386
Tier I capital adequacy ratio	%		**12,9**	11,9
Net asset value per share	cents	2	**5 726**	5 612
Net interest margin	%		**3,01**	3,21
Non-interest revenue to total income	%		**50,8**	49,8
Credit loss ratio	%		**1,04**	1,60
Cost-to-income ratio	%		**61,7**	52,4

Operating environment

The pace of the global economic recovery remained slow throughout 2010. Many advanced economies faced low consumer confidence, reduced household income and rising unemployment. This placed pressure on global growth, estimated to amount to 2,7% for the year. Uncertainty remained a feature of financial markets, further undermining economic recovery.

Most emerging economies including those in Africa are estimated to have grown at above 6% for 2010, given their stronger footing going into the global economic crisis. Emerging economies, are however, heavily reliant on demand from advanced economies, which is running below pre-crisis levels.

The South African economy was slow to recover from its first recession in 17 years and grew by 2,8% in 2010. Low inflation and interest rates and a modest recovery in house prices eased the pressure on consumers, leaving them in a better position to repay debt.

In this economic environment customers remained reluctant to take on new debt given high household debt-to-income ratios. South African corporates, while in generally good shape, also remained cautious and limited their activity both in terms of direct investment and corporate activity. 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 in the short term as it continued to invest in high growth markets in Africa. Moderate cost growth was exacerbated by the once-off costs of our restructuring programme. 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, but the credit loss ratio remained above the historic average as the lagged impact of the 2009 recession had not fully run its course. Earnings contributed by Liberty have shown a welcome recovery off a low base.

For banking operations, 2010 will be remembered as a difficult year in the context of the economic cycle and the group's banking performance was disappointing. The group's headline earnings per share were down by 5% to 715,9 cents per share and the group recorded an ROE of 12,5%. On an IFRS basis headline earnings per share reduced by 5% to 735,2 cents per share and an ROE of 12,7% was recorded.

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 declined by 1%, largely as a result of deleveraging by corporate clients and low risk appetite, coupled with the translation impact of the stronger rand exchange rate on loans outside South Africa. 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 in most of the markets in which the group operates. The endowment impact of lower average interest rates on capital and transactional balances compressed net interest margins by 38 basis points and reduced net interest income by R2,9 billion.
- **Impact of reduced corporate activity on trading revenues**

  Corporate & Investment Banking's trading performance was negatively impacted by a marked slowdown in corporate activity and flows in financial markets following the European sovereign debt crisis in the second quarter of 2010.
- **Restructuring**

  As the persistence of revenue pressure became evident, the group reviewed its operating cost base, including staff costs. As a result, the group retrenched 953 permanent and 688 temporary employees across the group in Johannesburg and London in the last quarter of 2010. In addition to this, there were 307 permanent employees in Argentina retrenched in the first half of 2010, bringing the total

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reduction in permanent and temporary positions to 1 948. The group also undertook a number of other actions to reduce and defer costs. Once-off restructuring costs of R781 million were incurred in aggregate in 2010.

– **A significant improvement in credit losses**

The group's credit loss ratio improved from high levels of 1,60% in 2009 to 1,04% in 2010, and credit impairments reduced by R4,6 billion. Lower interest rates in 2010 benefited the debt servicing ability of clients, resulting in substantially 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. Portfolio impairments against corporate performing loans were reduced by R777 million due to improved watchlists across the group and lower default trends.

– **A strong recovery in earnings contributed by Liberty**

Liberty's contribution to group headline earnings improved to R1 393 million (2009: R72 million) and increased as a percentage of group headline earnings to 12% (2009: 1%). In the first six months of 2009 the results of Liberty were impacted by actions to reduce equity market risk, strengthening of policyholder withdrawal, paid up and lapse assumptions and losses due to rand strength. The 2010 results benefited from a strong improvement in equity markets evidenced by a 16% rise in the JSE All Share Index; a positive return on fixed income instruments; improved persistency and improved claim ratios in corporate risk and credit life.

– **Continued investment in systems and expansion in the rest of Africa**

The group's investment in systems continued and a new business online application system as well as new international rates and foreign exchange systems were launched in 2010. A new core banking system is being implemented and will be piloted in two African countries in 2011. The group invested in 106 new branches in the rest of Africa and completed a world-class data centre to support its operations.

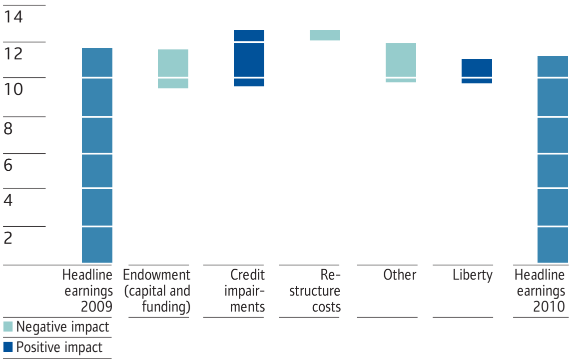
– **Negative translation impact of a stronger rand exchange rate**

During 2010, the rand exchange rate strengthened against most currencies in which the group operates. The closing rand exchange rate strengthened by 10% from R7,37 to R6,64 against the dollar. The resulting reduction in capital consolidated from outside South Africa, disclosed within the foreign currency translation reserve and including related hedging activities, amounted to R4,3 billion.

– **Curtailed operations**

Certain activities which are non-core in relation to our refocused strategy have been curtailed. These activities incurred a loss of R1 098 million in 2010 and include credit impairments arising from a portfolio of structured loans to high net worth individuals outside Africa and fair value write downs of investments in distressed debt in Asia.

Significant changes in headline earnings
Rbn



How the group generates its revenue and key risks that it faces in doing so

The group generates its revenue from four broad sources: net interest income, fee and commission revenue, trading revenue and income from insurance activities.

Net interest income contributed around half of total income and represents the difference between interest received by the group on funds advanced to customers and otherwise invested and the interest paid by the group to depositors and other providers of finance. Funds advanced to individual customers include home loans, instalment sale and finance leases on vehicles and other assets as well as credit card facilities granted by the group. Corporate loans include corporate lending facilities, structured finance, project finance and trade finance. Interest rates charged are determined by considering numerous factors that influence the risk that the customer will not repay the funds advanced. This risk, credit risk, is reflected in credit impairment charges in the group's income statement.

The group requires funding for its lending and investment activities. Funding is obtained in the form of deposits placed by customers on which interest is payable. The interest rates on deposits are dependent on the term and size of the deposits and macroeconomic variables. Interest rates on assets and liabilities do not reprice at the same time and assets and liabilities consist of both fixed rate and floating rate instruments, resulting in interest rate risk to the group. The group uses its shareholders' funds to finance both equity related investments and a small portion of the loan book. Shareholders require a return in the form of dividends and growth in share price and no interest is paid on shareholders' funds. The benefit of this "free funding" is termed the "endowment effect" and reduces during times of declining interest rates.

Deposits placed on demand can be withdrawn at any stage and banks therefore manage the liquidity risk that could materialise if a significant portion of total deposits is withdrawn without cash available to settle these withdrawals, or if deposits being redeemed cannot be replaced with new deposits.

The group holds minimum reserve balances with central banks and minimum amounts of liquid assets as well as voluntary liquidity buffers in its many licensed banking subsidiaries. Banks in most jurisdictions are typically able to access liquidity from central banks. This is normally priced at a central bank repurchase rate and is a small component of a bank's funding base, but is an important central bank determined pricing trigger for managing monetary policy.

Non-interest revenue consists of two significant income classes grouped under fee and commission revenue and trading revenue, as well as a combination of diverse other non-interest revenue sources.

Fee and commission revenue is generated through transactional banking activities of corporates, small and medium businesses and individual customers. These fees and commissions are earned on banking transactions through various channels, which include branches, ATMs, telephone banking, point of sale devices as well as internet-based transactions such as online business banking, internet banking and trading products. The group also earns knowledge-based fees from corporate advisory and loan structuring activities as well as financial planning and insurance marketing and broking services. The principal risks incurred in earning fees and commissions are operational risk and reputational risk.

Trading revenue is generated from trading activities on products such as foreign exchange, commodity, credit, interest rates and equities. These trading activities are predominantly related to client flows and are managed within the group's risk tolerance levels. Through these activities the group is exposed to market risk as market prices on these products may increase or decrease net of the reduction in risk due to offsetting trades with counterparties and other clients. The group generates revenue through the margins earned on accepting trading positions with clients and managing the net market risk trading exposure within its trading operations. To earn trading revenue, the group takes on and manages market risk, counterparty risk included in credit risk and operational risk arising from large and complex trading operations.

Other revenue sources include underwriting profit and investment revenue from the group's short-term insurance operations, profit-sharing arrangements relating to the group's long-term insurance operations as well as gains on property, private equity and strategic investment activities.

Liberty is 53,7% owned by Standard Bank Group and contributed 12% to the group's 2010 headline earnings. Liberty operates primarily in South Africa and has a presence in twelve other African countries. Liberty generates underwriting profits from its long-term insurance operations. Underwriting profit is earned over the life of an insurance product based on the difference between premiums received and investment returns earned and claims paid on the life or disability risks insured. These operations expose the group to changes in mortality, longevity, morbidity and withdrawal risks that are included under underwriting risks. Liberty also provides long-term investment products and advisory services to clients and receives fees and shares in the investment return of assets managed on behalf of third parties. It also generates revenue through property investment and health insurance activities.

Return to shareholders

The group's shareholders are the primary providers of capital. They carry the ultimate business risk should the operations not be profitable and the value invested by them be eroded by a decline in the group's share price. Shareholders are rewarded for accepting this risk through biannual distributions from the earnings of the group, and the possibility of growth in share price. Share price growth is dependent on the group's ability to generate shareholders' equity on an annual basis at a rate that exceeds the rate that shareholders would expect for an investment with the risk profile of the group and expected future growth in returns. Further detail on economic returns is provided on page 50.

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Impact of the economic environment on key financial ratios

The table below sets out the key financial ratios that drive the earnings and ultimately the value of the group. The table also sets out the external economic factors influencing these value drivers assuming no management action, an indication of how these economic factors influenced the performance of the group in 2010 and the expected impact of these economic factors in 2011. Economic statistics provided relate to South Africa which is the origin of 95% (2009: 80%) of the headline earnings of the group.

Impact of economic factors on key financial ratios

Key financial ratio	Economic factor impacting key financial ratio	Impact on 2010	Expected impact on 2011
Growth in loans and advances	Debt-to-disposable income level	X	✓
	GDP growth	X	✓
	Interest rates	◇	✓
Net interest margin	Interest rates	X	◇
Credit loss ratio	Number of insolvencies and liquidations	✓	✓
	Collateral values	✓	✓
	Debt-to-disposable income level	X	✓
Growth in non-interest revenue			
– Growth in fee and commission revenue	GDP growth and inflation	X	✓
– Growth in trading revenue	Market trading volumes	X	✓
	Market price volatility	X	◇
Growth in operating expenses	GDP growth	✓	X
	Inflation rate	✓	X
Effective tax rate	Corporate tax rates	◇	◇
Translation impact of the rand exchange rate on income from operations outside South Africa	Average rand exchange rate	X	✓
Growth in long-term insurance revenue	Equity market performance	✓	◇
	Persistency of policy revenue	✓	✓
	Debt-to-disposable income level	X	✓
Growth in ordinary shareholders' equity in operations outside South Africa	Closing rand exchange rate	X	✓

✓ – Improvement resulting in a positive impact on key financial ratio

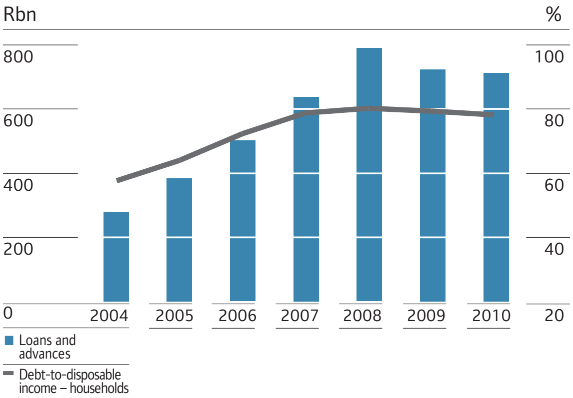
X – Deterioration resulting in a negative impact on key financial ratio

◇ – Neutral

– Growth in loans and advances

Loans and advances represent the largest asset class on the group's balance sheet. This asset class provides the group with its largest source of revenue in the form of interest income and creates cross-selling opportunities in the form of transactional fees and insurance-related revenues. Growth in loans and advances within the risk levels accepted by the group is therefore essential to increasing revenue. Growth in loans and advances in the personal market in particular is dependent on customers' ability to service debt. The debt-to-disposable income ratio in South Africa provides a measure of the ability of households to service existing loans and also assume further debt. The graph below illustrates the noticeable rise in debt-to-disposable income levels up to 2008 that resulted in strong growth in loans and advances.

Loans and advances and South African debt-to-disposable income



Since 2008, the debt-to-disposable income ratio has declined moderately as clients reduced debt levels and economic circumstances restricted acceptance of further debt. This deleveraging by clients was a key factor in the reduction in the loans and advances book of 1% (2009: 8% reduction).

GDP, a key indicator of economic activity, contracted in South Africa by 1,7% in 2009 and grew by 2,8% in 2010. GDP across the sub-Saharan Africa region grew by 2,6% in 2009 and an estimated 5,0% in 2010. Continued pressure on lending growth remained in the period after 2008 as capital repayments exceeded new loans granted.

Debt-to-disposable income levels are not expected to reduce significantly over the short to medium term. It is, however, expected that a slow improvement in disposable income levels coupled with a moderate improvement in economic growth will be positive for loan growth in 2011.

– Net interest margin

The net interest margin is a ratio that represents the profit margin between the interest rate earned on lending products and investments and the interest rate paid on related deposits and other funding. Benchmark lending rates such as the prime interest rate in South Africa are key economic factors that cause variation in the net interest margin. Within this variation, a key dynamic is the impact of interest rates on transactional balances and shareholders' equity, termed the endowment impact.

During times when interest rates decline, as experienced since December 2008 in South Africa, banks earn lower interest rates on prime-linked lending products like home loans, vehicle and asset finance and card products. The interest rates on the deposits in transactional accounts are not prime-linked and decline to a lesser extent than the reduction in the interest rate earned on the lending products. This results in a reduction in the net interest margin. The outcome is referred to as a negative endowment impact and will take place during times of declining interest rates. When interest rates increase, the increase in the interest rate earned on the prime-linked lending products is greater than the increase in the interest rate paid on deposits in transactional accounts, resulting in an increase in the net interest margin and a resulting positive endowment impact.

Equity invested by ordinary shareholders is a second form of funding that results in an endowment impact. As equity bears no interest cost, and equity funding is used to partially finance lending products that are prime-linked, the margin between the interest earned on lending products and the "free" or equity funding will increase when interest rates increase and reduce when interest rates decline.

During 2010 interest rates in South Africa reduced to their lowest levels in 36 years, resulting in a significant negative endowment impact of 38 basis points (R2,9 billion) when compared to 2009. The graph on the next page illustrates the negative impact of the lower interest rates on the group's net interest margin.

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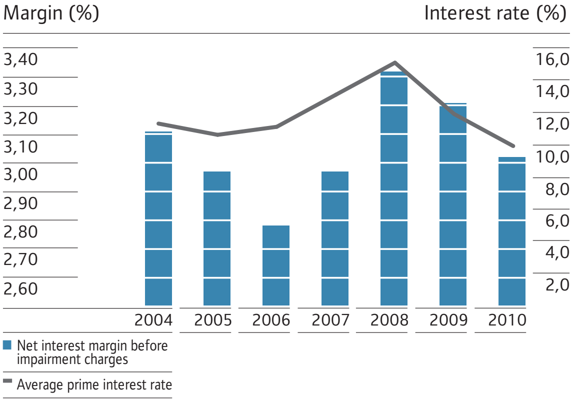
Net interest margin and South African average prime interest rate



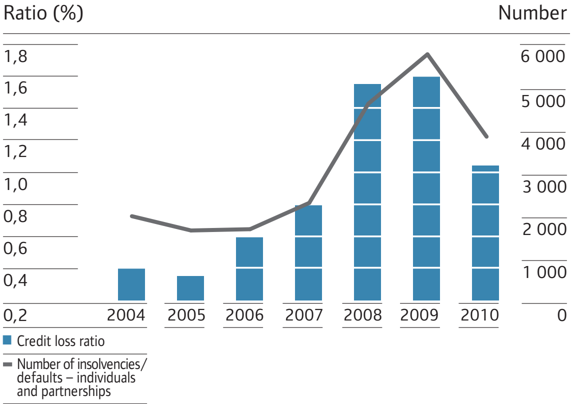
The endowment risk emanating from the anticipated turn in the economic cycle is hedged as and when it is considered opportune, using derivative instruments such as swaps and interest rate swaptions. A significant component of the group's endowment risk resides within the SBSA balance sheet, and during the recent rate cutting cycle experienced in South Africa the asset and liability committee regularly reviewed the exposure and hedging opportunities. With the general market consensus of 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. While net interest income has been negatively impacted by the recent downturn in rates, the group is well positioned for a rate tightening cycle.

Interest rates are expected to remain low during most of 2011. The endowment impact is therefore not expected to become positive until later in 2011 and will continue to place pressure on the net interest margin in the short term.

– Credit loss ratio

The credit loss ratio is the credit impairments charge expressed as a percentage of the average loan balance and indicates the loss to the group resulting from the inability of customers to repay loans during the year. For every rand owed by customers, the group on average incurred a loss of 1,04 cents (2009: 1,60 cents). Insolvencies and defaults recorded in the economy as well as debt-to-disposable income levels described earlier, provide an indication of the stress consumers experience. The graph below illustrates the significant increase in insolvencies and defaults in South Africa in 2008 and 2009 and the related impact on the credit loss ratio. Insolvencies and defaults reduced in 2010 and the credit loss ratio benefited from the improvement. Further improvement in the insolvencies and defaults is expected in 2011.

Credit loss ratio and number of South African insolvencies



– Growth in non-interest revenue

Non-interest revenue consists mainly of fee and commission revenue and trading revenue.

Growth in fee and commission revenue is dependent on transactional banking volumes, which are a function of economic activity and of the competitive environment for banking services. In addition, inflationary increases in the cost base are considered in determining increases in fee and commission tariffs and lower inflation played a role in restricting growth in net fee and commission revenue to 3%.

Growth in trading revenue is largely dependent on trading volumes and how volatility effects trading spreads. The group's trading revenue is substantially a function of client trading volumes and the margin between offer prices and bid prices. The group trades products in a wide range of markets which may or may not have quoted statistics on market volumes and no single indicator can serve as a reasonable proxy for such activity levels.

Modest increases in GDP and inflation and improved trading volumes are expected in 2011 and should support growth in non-interest revenue.

– Growth in operating expenses

Inflation is the economic factor that provides the best indicator of external pressure on growth in operating expenses over an extended period. Growth in operating expenses, is however, impacted by numerous internal factors as well, such as growth in staff numbers and investments in branch and IT infrastructure and business volumes. Average CPI inflation reduced from 7,1% in 2009 to 4,3% in 2010 and assisted in limiting cost growth in South Africa. Infrastructure investment and the pursuit of organic growth opportunities in the rest of Africa placed upward pressure on operating expenditure.

The inflation rate in South Africa is expected to increase modestly, with some upside risk, and will result in moderate cost growth in 2011. The group has taken significant steps to address its cost base in 2010, the benefits of which will only be evident from 2011 onwards.

– Effective tax rate

Corporate tax rates remained unchanged in most of the countries in which the group operates and no significant changes are anticipated in 2011.

– Translation impact of the rand exchange rate on income from operations outside South Africa

The group's net income from operations outside South Africa is translated into rand at an average exchange rate for consolidation purposes. A stronger average rand exchange rate results in a reduction in the rand equivalent of foreign earnings, but lower earnings outside South Africa in 2010 reduced the impact of the exchange rate in the current year.

The rand was one of the currencies that appreciated most against the US dollar in 2010 and it is expected to depreciate modestly in 2011, which will benefit earnings growth from outside South Africa.

– Growth in earnings from long-term insurance

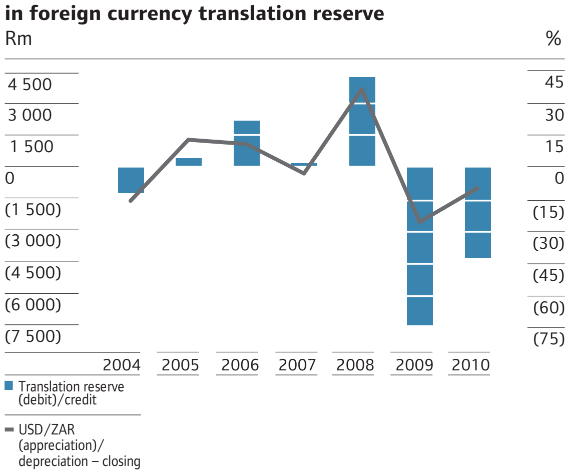
Liberty's earnings are dependent on numerous factors, including policyholder and investor behaviour and growth, which are not analysed here, as well as returns from investments. The performance of the JSE in South Africa has a direct impact on earnings from the insurance operations. The JSE All Share Index increased by 16% and supported Liberty's earnings growth. In addition, the ability of customers to continue making contractual payments improved due to extensive management intervention following the severe pressure experienced in 2009.

– Growth in ordinary shareholders' equity in operations outside South Africa

The group's ordinary shareholders' funds are kept in various currencies in foreign operations and changes in the closing rates of these currencies have an impact on the rand value of ordinary shareholders' funds. The combined impact of all foreign currency movements resulted in a R4,3 billion reduction in shareholders' funds, accounted for directly in equity.

The graph below illustrates the dollar movement and changes in the foreign currency translation reserve over the past seven years. The foreign currency translation reserve will benefit if moderate rand depreciation occurs, as anticipated.

Exchange rate movement and changes in foreign currency translation reserve



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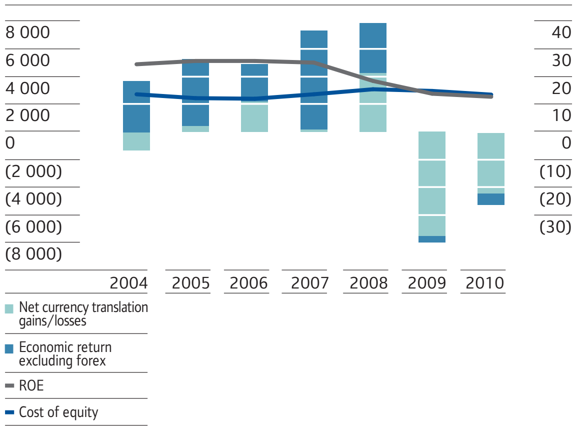
– Economic value added

Shareholders expect a return, measured as return on equity in excess of the group's cost of equity, to ensure the creation of shareholder value. In calculating economic value added on a comprehensive basis, the group also includes direct reserve movements, such as movements in the foreign currency translation reserve, in the calculation of economic value added. In the economic climate described earlier, economic value of R6,8 billion was created (net of a foreign currency translation loss of R4,3 billion) compared to a cost of equity of R12,0 billion, resulting in an economic loss of R5,2 billion. The seven-year trend of economic value added is disclosed alongside and reflects the economic value added up to 2008, and the negative economic value in the past two years that were characterised by the global financial crisis and rand strength.

Economic return, ROE and cost of equity



Business unit performance

	Change %	Headline earnings 2010 Rm	Headline earnings 2009 Rm	ROE 2010 %	ROE 2009 %	Cost of equity estimates 2010 %	Cost of equity estimates 2009 %
Personal & Business Banking	23	**4 750**	3 874	**17,9**	15,1	**14,8**	16,6
Corporate & Investment Banking	(30)	**5 248**	7 467	**12,7**	18,8	**17,3**	18,8
Central and other	(>100)	**(108)**	305			**13,3**	14,6
Banking activities	(15)	**9 890**	11 646	**11,8**	14,5	**13,4**	14,9
Liberty	>100	**1 393**	72	**21,9**	1,2	**11,1**	12,1
Standard Bank Group	(4)	**11 283**	11 718	**12,5**	13,6	**13,3**	14,6

Business unit performance

Personal & Business Banking's headline earnings grew by 23% to R4 750 million in spite of flat revenues and were 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 17,9% (2009: 15,1%).

Corporate & Investment Banking's headline earnings fell 30% to R5 248 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 16%. A significant improvement in credit experience helped offset revenue pressures although costs escalated as the business continued to build its franchise in the rest of Africa. The decline in profitability resulted in an ROE of 12,7% (2009: 18,8%).

Liberty's headline earnings attributable to Standard Bank were R1 393 million for the year compared to R72 million reported in the prior year, a significant improvement indicating a return to more normal levels of earnings from core insurance operations. The significant recovery in earnings resulted from substantially improved persistency and from the impact of investment markets on Liberty's book. Positive returns on bonds, equity and preference shares assisted in strong growth in investment income and gains and ROE improved to 21,9% (2009: 1,2%).

Further information on the financial performance of each business unit is provided in the business unit reviews commencing on page 62.

Geographic performance

South African banking headline earnings ended the year down slightly with mixed fortunes within the two major business units; Personal & Business Banking SA up 35% and Corporate & Investment Banking SA down 15%.

Revenues from banking operations in the rest of Africa grew by 2% in a difficult operating environment, with headwinds including low levels of client activity, low interest rates and the translation impact of a stronger rand. This revenue pressure occurred in a year of continued investment in IT, infrastructure and people in anticipation of future business growth, together with write offs and provisions of R290 million after tax following an extensive review of financial controls across all countries. Headline earnings in the rest of Africa were 38% lower than the prior year.

Overall, headline earnings from our businesses outside Africa were 87% down on the prior year. Personal & Business Banking outside Africa (comprising the Personal & Business Banking division of our operations in Argentina and our offshore banking and wealth businesses in the Channel Islands previously reported within Corporate & Investment Banking) grew earnings during the period and Personal & Business Banking in Argentina ended the year profitably. Corporate & Investment Banking outside Africa saw a 34% decrease in revenues. Although restrained significantly in the second half, cost growth in these operations and write downs and provisions in discontinued and curtailed operations, led to headline earnings for Corporate & Investment Banking outside Africa being down 95%.

Losses on curtailed activities

Certain activities which are non-core in relation to our refocused strategy have been curtailed and are in the process of being wound down. These activities incurred a loss of R1 098 million (USD150 million) in 2010 and include credit impairments arising from a portfolio of structured loans to high net worth individuals outside of Africa and fair value write downs of investments in distressed debt in Asia. Please refer to page 74 of the Corporate & Investment Banking review for further detail.

Geographic performance

		Headline earnings		ROE	
	Change %	2010 Rm	2009 Rm	2010 %	2009 %
South Africa	13	10 664	9 399	19,4	18,9
Banking activities	(1)	9 271	9 327	19,0	21,4
Liberty	>100	1 393	72	21,9	1,2
Rest of Africa	(38)	746	1 202	6,4	10,0
Outside Africa	(87)	186	1 479	0,9	7,6
– ongoing	(11)	1 284	1 446		
– curtailed	(>100)	(1 098)	33		
Central funding		(313)	(362)		
Standard Bank Group	(4)	11 283	11 718	12,5	13,6

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Banking activities balance sheet analysis

Total assets in banking activities increased by 3% to R1 112 billion, or by 6% if the impact of the stronger closing rand exchange rate is excluded. The main contributors to this growth were an increase in derivative assets, financial investments and cash balances with banks and central banks. Refer to page 54 in the seven-year review for the normalised statement of financial position and page 210 in the annual financial statements for the IFRS statement of financial position.

Total loans and advances decreased by 1%, with Corporate & Investment Banking reporting a decline of 7% and Personal & Business Banking growth of 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 South African prime lending rate, allowed for more favourable lending criteria. The number of loan applications received increased by 47% and the value of new loans registered grew by 58%, but these favourable growth numbers were 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 in South Africa increased from 27,2% to 27,7%.
- Instalment sale and finance leases declined by 7% as capital repayments on an ageing book exceeded new business values. New passenger vehicle sales in South Africa 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 in South Africa reduced from 19,3% to 17,6%.
- Card debtors decreased by 2% as customers became more hesitant to incur credit card debt and the number of accounts dropped by 1%. Market share in South Africa reduced from 34,4% to 32,1%.

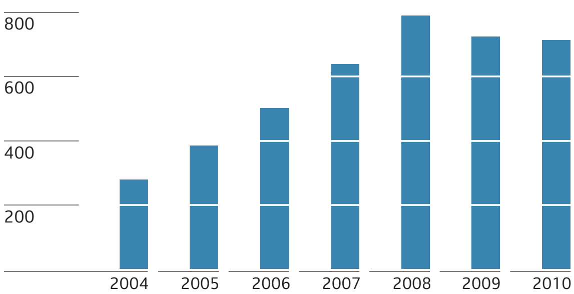
Corporate customers remained risk averse and preferred to deleverage balance sheets. The decline of 7% in loans and advances in Corporate & Investment Banking resulted from maturing term loans as corporate customers preferred short-term finance. Lending growth was hampered by low demand for foreign currency loans, reduced placements with banks outside Africa and an adverse translation impact from the stronger rand exchange rate. This was partly offset by lending growth in an expanded branch network in Nigeria.

Deposit and current accounts increased by 4%. 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 89,5% (2009: 94,1%).

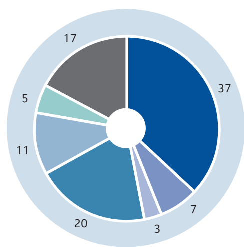
Financial investments grew by 20% and cash and balances with banks were 15% up as a higher liability base required additional investment in government stock and balances with banks held for liquidity purposes.

Subordinated debt reduced by 12% due to the scheduled redemption of subordinated debt.

Loans and advances
Rbn



Composition of gross loans and advances



- Mortgage loans (2009: 35%)
- Instalment sale and finance leases (2009: 8%)
- Card debtors (2009: 3%)
- Term loans (2009: 21%)
- Overdrafts and other demand loans (2009: 10%)
- Loans granted under resale agreements (2009: 5%)
- Other term loans (2009: 18%)

Trading assets were 8% lower, mainly due to a reduction in trading positions and related collateral in the equity and commodity trading desks. Trading liabilities decreased by 39% as a consequence of a reduction in short equity trading positions and the maturity of a large repurchase agreement.

Derivative assets increased by 21% and derivative liabilities by 25% following increased client trading activities in interest rate and foreign exchange derivatives towards the end of the year.

The group's ordinary shareholders' funds grew by 4%. The group retained earnings by declaring a final dividend in respect of the 2009 financial year as a scrip distribution with a cash alternative; 57% of shareholders accepted the scrip offer. Shareholders' funds deployed outside South Africa are exposed to foreign currency translation movements resulting from the translation of these funds into rand. The closing rand exchange rate strengthened 10% against the dollar to R6,64, resulting in a foreign currency translation reversal of R4,3 billion, which includes related hedging activities. The currency profile of the deployment of the net asset value of the group and the related hedging positions are disclosed in the table below.

Currency analysis of net asset value

	Total Rm	Rand Rm	Dollar Rm	Sterling Rm	Euro Rm	ZAR linked Rm	Naira Rm	Other Rm
2010								
Underlying exposures	**90 755**	**61 275**	**13 107**	**2 304**	**19**	**2 132**	**4 294**	**7 624**
Changes due to hedging strategies			**1 614**	**1 151**			**(33)**	**(2 732)**
Actual exposures	**90 755**	**61 275**	**14 721**	**3 455**	**19**	**2 132**	**4 261**	**4 892**
2009								
Underlying exposures	87 454	55 022	13 687	2 889	817	1 567	4 776	8 696
Changes due to hedging strategies			(8 897)	2 429	9 001		(183)	(2 350)
Actual exposures	87 454	55 022	4 790	5 318	9 818	1 567	4 593	6 346

Closing currency profile of net asset value

	Total %	Rand %	Dollar %	Sterling %	Euro %	ZAR linked %	Naira %	Other %
2010 before hedging	**100**	**68**	**14**	**3**		**2**	**5**	**8**
2010 after hedging	**100**	**68**	**16**	**4**		**2**	**5**	**5**
2009 before hedging	100	63	16	3	1	2	5	10
2009 after hedging	100	63	5	6	11	2	5	8

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Income statement analysis

Net interest income

Net interest income was down by 8% as a result of pressure on the net interest margin, which reduced by 20 basis points to 3,01%, and a 1% reduction in loans and advances. Interest margins in Corporate & Investment Banking contracted to 1,61% (2009: 1,81%) and in Personal & Business Banking to 4,45% (2009: 4,67%).

The main reason for the reduced net interest margins was the negative endowment impact on capital and reserves (20 basis points) and transactional balances (18 basis points), brought about by the almost 200 basis point decline in the average South African 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 IAS 39 *Financial Instruments: Recognition and Measurement* (IAS 39) discount on expected recoveries of non-performing loans to interest income. Interest margins benefited from further reductions in the effective cost of central banks' 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. A decline in trading assets and other non-interest earning assets reduced the dilutive impact on margins.

Movement in average assets, net interest income and margin for banking activities

	Average banking assets Rm	Net interest income Rm	Net interest margin %
2009	982 399	31 493	3,21
Net non-interest earning assets	(210 909)	3 201	1,29
Interest earning assets – 2009	771 490	34 694	4,50
Impact of volume changes	**(17 003)**	**(7)**	
Impact of rate changes		**(4 155)**	**(0,54)**
Lending margin		**(805)**	**(0,10)**
– Client yield[1]		**902**	**0,12**
– Cost of funding[2]		**(1 707)**	**(0,22)**
Unwinding of discount on credit impairments – IAS 39		**(34)**	
Funding margin		**(360)**	**(0,05)**
Endowment – funding		**(1 408)**	**(0,18)**
Endowment – capital and reserves		**(1 524)**	**(0,20)**
Assets held for liquidity purposes		**(68)**	**(0,01)**
Other treasury and banking activities		**44**	
Change in composition of balance sheet			**0,09**
Interest earning assets – 2010	**754 487**	**30 532**	**4, 05**
Net non-interest earning assets	**205 391**	**(1 605)**	**(1, 04)**
2010	**959 878**	**28 927**	**3, 01**
Net interest income change %		(8)	
Average assets change %	(2)		

[1] *Client yield changes refer to the difference in movement between average client rates and base lending rates.*

[2] *Cost of funding changes refer to the difference in movement between base lending rates and an allocated cost of funding based on the term nature of the asset.*

Non-interest revenue

Non-interest revenue declined by 4% during the year with net fee and commission revenue up 3%, trading revenue down 21% and other revenue up 15%.

Net fee and commission revenue benefited from growth of 14% in the number of current accounts in South Africa and an increase of 22% in points of representation in the rest of Africa. Higher transaction volumes coupled with annual price increases resulted in growth of 5% 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 in South Africa. Credit card volumes and values remained under pressure but growth in debit card volumes supported a 10% rise in card-based commission. Insurance fees and commission increased by 10% 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. Trading revenues across most desks and geographies were negatively impacted, with the biggest effect felt in commodity and foreign exchange trading outside Africa. Credit trading was impacted by the USD60 million curtailed operation trading loss referred to on page 74. No trading desks recorded losses for the year, testament to our client-focused franchise. Interest rate trading in South Africa was negatively impacted by reduced liquidity in the interest rate market and low client flows. Trading revenue in 2009 included the group's previously wholly owned Russian subsidiary ZAO Standard Bank that was sold to Troika Dialog Group in September 2009. The results of the group's 36% share in Troika Dialog Group are included in share of profit from associates. The translation impact of the strong average rand reduced trading revenue by 10%.

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 fair value write downs of unlisted property investments in South Africa.

Non-interest revenue

	Change %	2010 Rm	2009 Rm
Net fee and commission revenue	3	**18 641**	18 108
Fee and commission revenue	5	**21 914**	20 840
Account transaction fees	5	**8 383**	7 994
Electronic banking	6	**1 748**	1 644
Knowledge-based fees and commission	(3)	**2 929**	3 015
Card-based commission	10	**3 817**	3 481
Bancassurance	10	**1 422**	1 290
Documentation and administration fees		**999**	1 004
Foreign currency service fees	4	**1 082**	1 042
Other	12	**1 534**	1 370
Fee and commission expense	(20)	**(3 273)**	(2 732)
Trading revenue	(21)	**8 428**	10 621
Commodities	(27)	**1 421**	1 936
Forex	(12)	**3 754**	4 275
Credit	(48)	**694**	1 341
Interest rates	(17)	**1 624**	1 966
Equities	(11)	**799**	901
Other	(33)	**136**	202
Other revenue	15	**2 854**	2 488
Banking and other	16	**1 152**	995
Property-related revenue	(25)	**334**	448
Insurance – bancassurance income	31	**1 368**	1 045
Total non-interest revenue	(4)	**29 923**	31 217

Credit impairment charges

Credit impairment charges reduced by 38% and the credit loss ratio improved to 1,04% (2009: 1,60%). Non-performing loans as a percentage of gross loans and advances reduced from 6,5% in 2009 to 5,8% in 2010 with improvements across most portfolios. A detailed analysis of performing and non-performing loans is provided in the risk management section on page 158.

The charge for non-performing loans reduced by 31% notwithstanding new impairments of R586 million relating to curtailed operations. 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.

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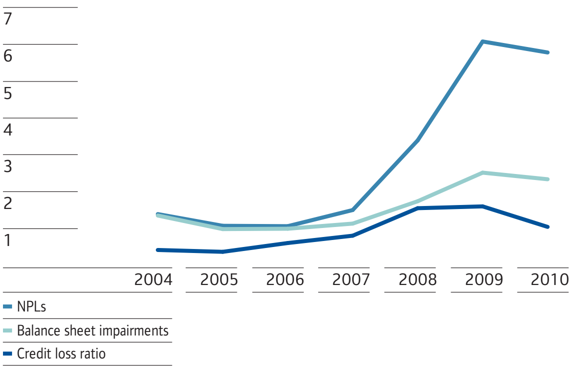
Credit loss history (as a percentage of gross loans and advances)
%



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

The improved credit environment and healthier customer risk profiles allowed portfolio credit impairment reversals across most portfolios. Portfolio impairments in other loans and advances were increased by R280 million due to risk on recoveries following new legislation on business rescue and the deregistration of companies by the regulator due to non-compliance. In corporate loans portfolios default risk continued to subside and watchlists reflected improvements and the combined effects of these resulted in a R777 million reduction in portfolio impairments.

Income statement impairment charges (net of recoveries)

	Specifically impaired loans					
	Specific impairment loss Rm	IAS 39 discount[1] Rm	Total Rm	Portfolio credit impairment charges Rm	Total impairment charges Rm	Credit loss ratio %
2010						
Personal & Business Banking	**5 811**	**1 024**	**6 835**	**25**	**6 860**	**1,65**
Mortgage loans	**2 338**	**725**	**3 063**	**(40)**	**3 023**	**1,15**
Instalment sale and finance leases	**1 069**	**89**	**1 158**	**(142)**	**1 016**	**1,93**
Card debtors	**807**	**79**	**886**	**(73)**	**813**	**3,78**
Other loans and advances	**1 597**	**131**	**1 728**	**280**	**2 008**	**2,54**
Corporate & Investment Banking	**1 266**	**34**	**1 300**	**(777)**	**523**	**0,16**
Corporate loans	**1 156**	**34**	**1 190**	**(777)**	**413**	**0,14**
Commercial property finance	**110**		**110**		**110**	**0,33**
Central and other				**141**	**141**	
Total banking activities	**7 077**	**1 058**	**8 135**	**(611)**	**7 524**	**1,04**
2009						
Personal & Business Banking	7 428	1 924	9 352	522	9 874	2,38
Mortgage loans	2 403	1 361	3 764	255	4 019	1,59
Instalment sale and finance leases	1 664	143	1 807	266	2 073	3,49
Card debtors	1 199	220	1 419	(180)	1 239	5,61
Other loans and advances	2 162	200	2 362	181	2 543	3,16
Corporate & Investment Banking	2 354	73	2 427	298	2 725	0,74
Corporate loans	2 078	73	2 151	298	2 449	0,73
Commercial property finance	276		276		276	0,82
Central and other				(502)	(502)	
Total banking activities	9 782	1 997	11 779	318	12 097	1,60

[1] *Discounting of expected recoveries in terms of IAS 39.*

Operating expenses in banking activities

The group's cost-to-income ratio deteriorated to 61,7% (2009: 52,4%) as revenue, including profit from associates and joint ventures, reduced by 5% and operating expenses increased by 12%. Once-off restructuring costs of R781 million carried centrally pushed overall cost growth for the year from 9% to 12%. Personal & Business Banking and Corporate & Investment Banking reported increases of 10% and 6% in operating expenses and cost-to-income ratios of 60,2% and 63,8%, respectively. Costs grew by 18% on a constant currency measure.

Operating expenses in banking activities

	Change %	2010 Rm	2009 Rm
Staff costs	9	**19 542**	17 848
Other operating expenses	9	**16 333**	14 979
Restructuring cost		**781**	
Total operating expenses	12	**36 656**	32 827
Cost-to-income ratio		**61,7%**	52,4%

Staff costs and headcount

Staff costs increased by 9% following a 5% increase in headcount and higher than inflation wage increases. The staff numbers at December 2010 include staff members notified of retrenchment in October 2010 whose consultation period only ended in January 2011. After adjusting for the reduction in headcount as a result of the restructuring process, the staff complement is up 3% on 2009 or approximately 1 200 people. In the rest of Africa, the group increased its branch representation and, as a result, staff numbers were increased in Nigeria, Uganda and Zambia as well as in the rest of Africa's central enabling functions. Within South Africa, 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.

Variable remuneration costs increased by 5%, mainly due to the amortisation of prior years' awards of deferred compensation.

Headcount

	Change %	2010	2009
Headcount by business unit			
Personal & Business Banking	5	**36 645**	34 882
Corporate & Investment Banking	3	**9 601**	9 312
Central and other	8	**1 879**	1 743
Banking activities	5	**48 125**	45 937
Headcount by geography			
South Africa	2	**29 937**	29 387
Rest of Africa	11	**12 748**	11 490
Outside Africa	8	**5 440**	5 060
Banking activities	5	**48 125**	45 937

Staff costs

	Change %	2010 Rm	2009 Rm
Fixed remuneration	14	**14 089**	12 313
Variable remuneration	5	**3 680**	3 489
Charge for incentive payments	(1)	**3 239**	3 261
Charge for deferred incentive schemes	93	**441**	228
Other staff costs	(13)	**1 773**	2 046
IFRS 2 share-based payment expense	1	**306**	304
Other	(16)	**1 467**	1 742
Total staff costs	9	**19 542**	17 848
Variable remuneration as a % of total staff costs		**18,8**	19,5

Other operating expenses

The increase in other operating expenses was 9% in Personal & Business Banking and 7% in Corporate & Investment Banking. The group continued to invest in IT and infrastructure to achieve efficiencies across its operations and increase its presence in key markets. The group is upgrading its core banking systems in South Africa and the rest of Africa, has implemented a new

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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 hardware maintenance 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.

The group grew its presence in strategic markets in Africa, implemented community banking, increased ATMs and performed branch refurbishments in South Africa and moved to new offices in London late in 2009 which increased premises and related costs. Other costs were impacted by additional use of professional fees across a range of projects and increased marketing and advertising costs relating to global branding initiatives. The favourable translation impact of the stronger average rand exchange rate reduced cost growth by 7%.

Other operating expenses

	Change %	2010 Rm	2009 Rm
Information technology	9	**3 431**	3 146
Depreciation, amortisation and impairments	20	**2 522**	2 101
Communication	3	**1 221**	1 183
Premises	7	**2 762**	2 575
Other	7	**6 397**	5 974
Total other operating expenses	9	**16 333**	14 979

Analysis of total information technology function spend

	Change %	2010 Rm	2009 Rm
IT staff costs	33	**2 214**	1 669
IT licences, maintenance and related costs	9	**3 431**	3 146
Depreciation and amortisation	19	**1 247**	1 045
Other	18	**268**	227
Total	18	**7 160**	6 087

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 various head office environments. As a result of this review and the retrenchments earlier in the year in Argentina, the roles of 1 260 permanent employees in South Africa, London and Argentina were made redundant.

The non-recurring cost for the year of restructuring processes amounts to R781 million, which includes R171 million relating to a restructuring process undertaken in Argentina earlier in 2010.

Share of profit from associates and joint ventures

The banking activities' share of profit from associates and joint ventures grew to R584 million as a large impairment in 2009 did not recur and the investment in Troika Dialog Group, acquired in October 2009, contributed R370 million. Of the income of R370 million equity accounted from Troika Dialog Group, R113 million related to our share of the operating profit of Troika and R257 million related to the recovery of underlying asset values post acquisition.

Liquidity and capital

International loan and debt capital markets have remained accessible albeit more volatile, since the Eurozone sovereign debt crisis. The group maintained its prudent approach to liquidity and capital management during 2010.

Standard Bank executed a number of key term loan funding transactions, taking advantage of pockets of well-priced liquidity. Compared to the 2008/2009 financial crisis, global interbank funding conditions remained relatively stable, tenures have lengthened and spreads have compressed. In the South African market, 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 SBSA successfully placed R4,35 billion of 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 R106,8 billion at 31 December 2010 (R118,6 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 26,6% at 31 December 2010 (2009: 25,1%).

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 a tier I capital adequacy ratio of 12,9% (2009: 11,9%), core tier I capital of 12,0% (2009: 11,0%) and total capital adequacy of 15,3% (2009: 15,1%).

Standard Bank Group capital adequacy ratios

	Minimum regulatory requirement %	Target ratios %	2010 %	2009 %
Total capital adequacy ratio	9,75	11 – 12	**15,3**	15,1
Tier I capital adequacy ratio	7,0	9,0	**12,9**	11,9
Core tier I capital adequacy ratio	5,25		**12,0**	11,0
Perpetual preference shares as % of tier I	<25,0		**6,9**	7,7
Tier II and III as % of tier I	<100,0		**18,5**	27,1
Subordinated tier II debt as % of tier I	<50,0		**25,4**	32,1

The implementation of the treasury and capital management operating model, described in more detail in the risk management section of the report, will increase the focus on enhancing shareholder value by providing a financial resource management function that is optimised, comprehensive and integrated across capital, liquidity, ratings and portfolio management.

The economic capital of banking activities at R46,1 billion (2009: R45,5 billion) reflects the capital requirement to cover the risk profile of the group. The economic capital coverage ratio, representing the extent to which minimum economic capital requirements are covered by available financial resources, was 1,89 times (2009: 1,79 times) indicating a high level of coverage of available financial resources in relation to risk assumed.

Capital adequacy of the group's main life insurance entity, Liberty Group Limited, continued to benefit from the group's market risk mitigation strategies and remained strong at 2,7 times the required cover (2009: 2,8 times).

Further details relating to capital adequacy and economic capital are provided in the risk and capital management section on pages 132 to 137.

The Basel Committee on Banking Supervision (BCBS) recently published the "Global regulatory framework for more resilient banks and banking systems" and "International framework for liquidity risk measurement, standards and monitoring" as part of the BCBS's reforms to strengthen global capital and liquidity regulations with the goal of promoting a more resilient banking sector.

The new Basel capital standards were internally assessed to determine the impact on the capital position of SBSA and the group. The group also participated in the quantitative impact study that the BCBS conducted during 2010 and the preliminary results showed that our tier I capital adequacy ratio would decrease under the new regulations to 10,3% and the total capital adequacy ratio will reduce to 14,0%, but will remain well above the proposed minimum requirements. We are confident, however, that we are adequately capitalised to meet the new requirements. Continuous focus on the impact assessment and implementation of these proposals over the next two years will ensure an appropriately calibrated total level of risk-weighted assets, qualifying capital and leverage ratio.

The BCBS published liquidity standards as part of its reforms, introducing the concepts of a liquidity coverage ratio and a net stable funding ratio. These two ratios aim respectively to promote short-term stability of the bank's liquidity profile by ensuring that it has sufficient high quality liquid resources to survive an acute stress for one month, and secondly to create resilience over a longer time horizon by establishing further incentives for banks to secure more stable sources of funding on an ongoing structural basis. The liquidity standards are likely to prove to be onerous and will be costly for term borrowers, depending on the extent of national discretion applied by the domestic banking regulators.

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Economic returns

	Change %	2010 Rm	2009 Rm
Average ordinary equity	4	**90 019**	86 342
Cost of equity estimates		**13,3**	14,6
Headline earnings	(4)	**11 283**	11 718
Cost of equity charge	5	**(11 949)**	(12 597)
Economic losses on headline earnings	24	**(666)**	(879)
Other changes in net asset value	37	**(4 512)**	(7 153)
Net currency translation movement		**(4 325)**	(7 509)
Cash flow hedge (losses)/gains		**(214)**	85
Fair value gains on available-for-sale assets		**105**	249
Change in shareholding of subsidiary		**(41)**	
Other changes in equity		**(37)**	22
Total economic returns	36	**(5 178)**	(8 032)

Economic returns

Risk-based performance measures are used across the group to calculate economic profit generated and assess and manage the creation of shareholder value. Economic profit is embedded in the group's performance measurement approaches and is used to evaluate individual transactions and business unit performance.

Economic profit is calculated as normalised headline earnings, adjusted for direct reserve movements, less a cost of capital charge. The cost of capital is based on allocated economic capital and calculated using a cost of equity measure based on the industry standard capital asset pricing model.

The lower economic loss of the group of R5,2 billion (2009: R8,0 billion) was attributable to the reduced cost of equity of 13,3% (2009: 14,6%), which primarily resulted from a decline in the South African risk-free rate. The reduced headline earnings and impact of a stronger rand on the group's foreign currency translation reserve contributed significantly to the negative total economic returns of the group.

Dividends

With a strong tier I capital adequacy ratio, an improving outlook for profitability and easing economic stress in our chosen markets, a final cash dividend of 245 cents per share (2009: 245 cents) has been declared bringing the total dividend declared in respect of 2010 to 386 cents per share (2009: 386 cents). This represents a dividend cover of 1,85 times (2009: 1,96 times). The group's medium-term objective remains 2,5 times.

Priorities for 2011

The priorities of the group's finance function in 2011 are to:

- optimise the allocation of the key financial resources of capital and liquidity in order to improve the group's return on equity;
- facilitate strict control over costs to improve the group's overall profitability and enhance returns to shareholders;
- evaluate and respond appropriately to proposed changes in the liquidity and capital regimes introduced by Basel III;
- ensure the highest standards of execution are applied to the group's corporate activity;
- analyse the impact of and prepare for changes in accounting standards relating to financial instruments;
- evaluate opportunities for further standardisation, alignment of processes and efficiencies brought about by the creation of a group finance enabling function;
- integrate the group's financial reporting systems with new banking IT platforms, implement a revised budgeting and forecasting system, automate key risk and finance processes and standardise and define the group's future general ledger; and
- continue to provide relevant and reliable financial information to the group's stakeholders, including regulators, tax authorities and shareholders.

Explanation of principal differences between normalised and IFRS results

Description of normalised adjustments

The group's consolidated financial statements are prepared in accordance with, and comply with, IFRS as issued by both the International Accounting Standards Board (IASB) and the Accounting Practices Board of South Africa. The group normalises or adjusts the IFRS results for three specific accounting circumstances where IFRS does not reflect the underlying economic and legal substance of the following arrangements (the normalised adjustments):

- the group's Black Economic Empowerment Ownership (Tutuwa) initiative;
- group shares held by Liberty for the benefit of policyholders; and
- group share exposures entered into to facilitate client trading activities.

A common element in these transactions relates to shares in issue which are deemed by IFRS to be treasury shares. Consequently, the net value of the shares is recognised as a deduction against equity; and the number of shares used for per share calculation purposes is materially lower than the economic substance, resulting in inflated per share ratios. With regard to segmental and product reporting, the normalising adjustments have been made within Liberty, and central and other. The results of the other business units are unaffected.

Black Economic Empowerment Ownership (Tutuwa) initiative

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

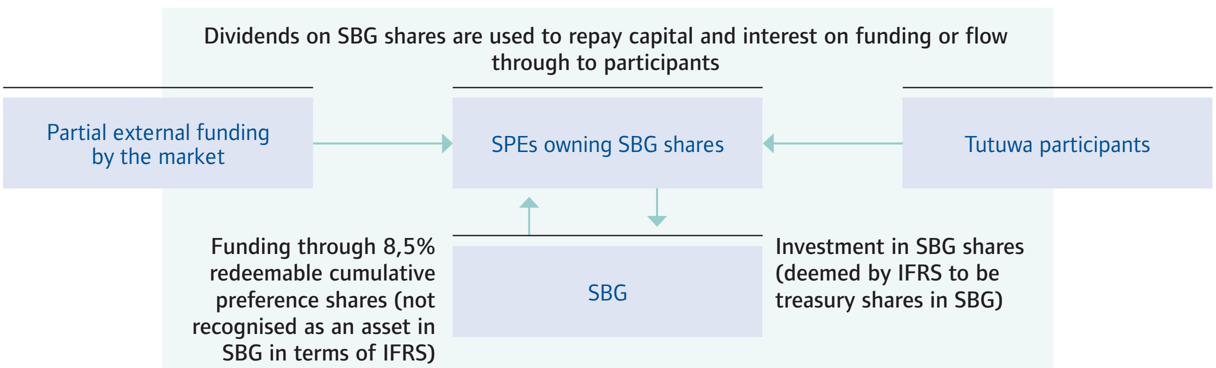
The group obtained financing through the issue of perpetual preference shares. These funds were used to subscribe for 8,5% redeemable, cumulative preference shares issued by special purpose entities (SPEs) controlled by the Standard Bank Group (SBG). These SPEs purchased SBG shares. Subsequently, the SPEs containing these shares were sold to black participants. The capital and dividends on the redeemable preference shares issued by the SPEs are repayable from future ordinary dividends received, or the proceeds from the disposal of SBG shares held.

As a result of SBG's contingent right to receive its own dividends back in the form of yield and capital on the redeemable preference shares, the subsequent sale of the SPEs and consequent delivery of the SBG shares to the black participants, although legally effected, is not accounted for as a sale.

Consequently, the IFRS accounting treatment followed until full redemption, or third-party financing is obtained, is:

- the redeemable preference shares issued by the SPEs and subscribed for by SBG are not recognised as financial assets, but eliminated against equity as a negative empowerment reserve;
- the negative empowerment reserve represents SBG shares held by the SPEs that are deemed to be treasury shares in terms of accounting conventions;
- to the extent that preference dividends are received from the SPEs, these are eliminated against the ordinary dividends paid on the SBG shares held by the SPEs;
- preference dividends accrued but not received, due to cash distributions paid to participants increase the empowerment reserve;
- for purposes of the calculation of earnings per share, the weighted average number of shares in issue is reduced by the number of shares held by those SPEs that have been sold to the black participants. The shares will be restored on full redemption of the preference shares, or to the extent that the preference share capital is financed by a third party; and
- perpetual preference shares issued by SBG for the purposes of financing the transaction, are classified as equity. Dividends paid on the perpetual preference shares are accounted on declaration and not on an accrual basis.

Tutuwa initiative



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Explanation of principal differences between normalised and IFRS results continued

The 'normalised' adjustment:

- recognises a loan asset by reversing the elimination of the redeemable preference shares against equity;
- accrues for preference dividends receivable on the loan asset within interest income;
- adds back the number of shares held by the black participants to the weighted number of shares in issue, for purposes of calculating normalised per share ratios; and
- adjusts dividends declared on perpetual preference shares to an accrual basis.

In December 2007 the group obtained financing external to SBG for a portion of the financing provided to the SPEs. As a result, the negative empowerment reserve was reduced by the value of the external financing obtained of R1 billion and a proportion of the SBG shares held by the SPEs (24,7 million shares) are no longer deemed to be treasury shares for accounting purposes.

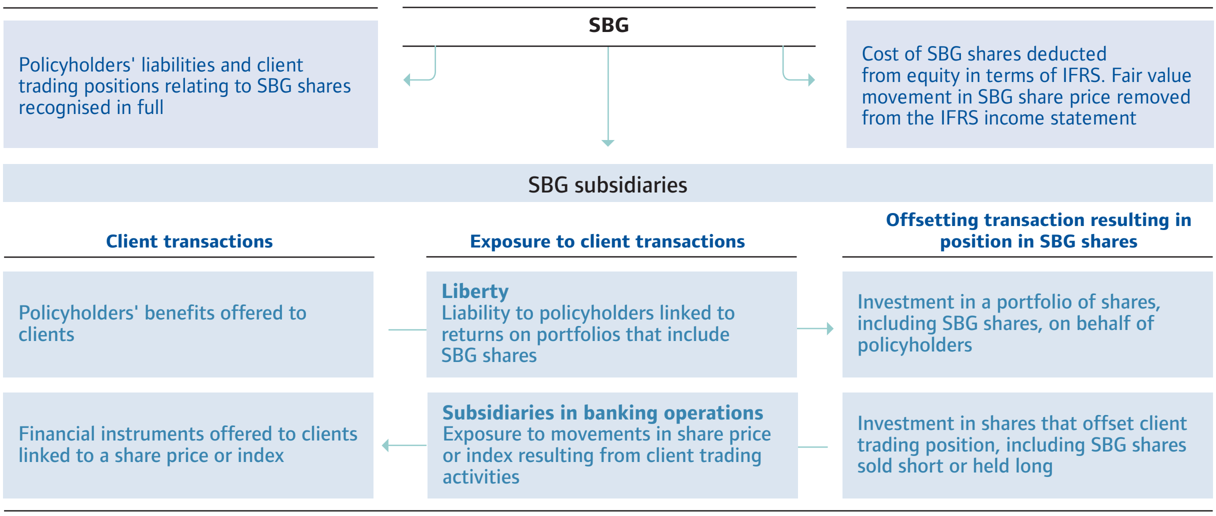
In March 2008 11,1% of the Tutuwa participants' shares were sold to ICBC with the proceeds being partly utilised for the repayment of their preference share liability, thereby releasing a further 11,0 million ordinary shares previously deemed by IFRS to be treasury shares.

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

The group acquires or sells short its own shares for two distinct business reasons:

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

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



In terms of IAS 32 *Financial Instruments: Presentation* (IAS 32), trades by subsidiaries in the group's shares held on behalf of policyholders and group share exposures to facilitate client trading activities are deemed to be treasury shares for accounting purposes. The accounting consequences in the consolidated IFRS group financial statements are:

- the cost price of shares purchased by subsidiaries as well as any funds received by subsidiaries from selling the group's shares short are set off against or added to ordinary shareholders' equity and non-controlling interest in the group financial statements;
- all the fair value movements are eliminated from the income statement, reserves and non-controlling interests where applicable; and
- dividends received on group shares are eliminated against dividends paid.

No corresponding adjustment is made to the policyholder liabilities or trading positions with customers. As a result, the application of IAS 32 gives rise to a mismatch in the overall equity and income statement of the group. The liability to policyholders and client trading position, along with the change in policyholders' liabilities and profit or loss recognised on the client trading position is therefore not eliminated even though the corresponding interest in the group's shares is eliminated and treated as treasury shares acquired or issued.

With regards to the group shares held for the benefit of Liberty policyholders, the weighted average number of shares in issue for per share figures is calculated by deducting the full number of group shares held (100%), not the IFRS effective 53,7% owned by the group, as IFRS (IAS 33 *Earnings per Share*) does not contemplate non-controlling interest portions of treasury shares. This treatment exaggerates the reduction in the weighted average number of shares used to calculate per share ratios.

For purposes of calculating the normalised results, the adjustments described above are reversed and the group shares held on behalf of policyholders and to facilitate client trading activities are treated as issued to parties external to the group.

Adjustments to IFRS results

	Headline earnings			Ordinary shareholders' equity
	Banking activities Rm	Liberty Rm	Standard Bank Group Rm	Standard Bank Group Rm
IFRS – 2010	**9 751**	**1 218**	**10 969**	**87 073**
Tutuwa initiative	**196**	**40**	**236**	**2 758**
Share exposures held to facilitate client trading activities	**(57)**		**(57)**	**(59)**
Group shares held for the benefit of Liberty policyholders		**135**	**135**	**983**
Normalised – 2010	**9 890**	**1 393**	**11 283**	**90 755**
IFRS – 2009	11 629	(376)	11 253	84 022
Tutuwa initiative	229	49	278	2 584
Share exposures held to facilitate client trading activities	(212)		(212)	(537)
Group shares held for the benefit of Liberty policyholders		399	399	1 385
Normalised – 2009	11 646	72	11 718	87 454

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Seven-year review

Consolidated normalised statement of financial position[1]

	2010 USDm	2010 GBPm	2010 EURm
Assets			
Banking activities	167 452	108 055	125 353
Cash and balances with central banks	4 318	2 787	3 233
Financial investments, trading and pledged assets	27 480	17 732	20 571
Loans and advances	107 383	69 293	80 386
Current and deferred tax assets	225	145	168
Derivative and other assets	24 162	15 592	18 088
Interest in associates and joint ventures	661	426	495
Goodwill and other intangible assets	1 350	871	1 010
Property and equipment	1 873	1 209	1 402
Liberty	34 569	22 307	25 878
Total assets	202 021	130 362	151 231
Equity and liabilities			
Equity	16 297	10 516	12 199
Equity attributable to ordinary shareholders	13 668	8 820	10 232
Preference share capital and premium	829	535	620
Non-controlling interest	1 800	1 161	1 347
Liabilities	185 724	119 846	139 032
Banking activities	153 466	99 030	114 884
Deposit and current accounts	119 975	77 418	89 812
Derivative and other liabilities	25 072	16 179	18 769
Trading liabilities	4 669	3 013	3 495
Current and deferred tax liabilities	472	305	354
Subordinated debt	3 278	2 115	2 454
Liberty	32 258	20 816	24 148
Total equity and liabilities	202 021	130 362	151 231

[1] *Figures included in the seven-year review have been restated where necessary to provide a meaningful comparison of performance over the years.*

Exchange rates utilised to convert the 31 December 2010 statement of financial position:
USD – 6,64 (2009: 7,37)
GBP – 10,29 (2009: 11,88)
EUR – 8,87 (2009: 10,61)

CAGR %	2010 Rm	2009 Rm	2008 Rm	2007 Rm	2006 Rm	2005 Rm	2004 Rm
14	1 111 885	1 077 637	1 245 704	950 203	758 841	591 806	498 194
17	28 675	24 983	25 697	20 618	14 343	12 636	11 380
13	182 466	171 972	174 230	165 873	152 305	104 152	89 453
17	713 025	723 507	790 087	637 868	501 506	383 775	277 592
6	1 492	1 329	1 197	1 058	969	867	1 041
6	160 437	134 025	236 554	112 046	83 767	85 772	114 997
57	4 388	4 265	2 057	1 660	1 130	812	294
63	8 965	7 827	8 364	5 659	1 043	517	483
27	12 437	9 729	7 518	5 421	3 778	3 275	2 954
12	229 535	220 151	212 640	222 083	202 838	171 770	117 192
14	1 341 420	1 297 788	1 458 344	1 172 286	961 679	763 576	615 386
16	108 210	104 498	105 143	77 489	64 187	50 620	43 634
18	90 755	87 454	85 902	58 406	48 352	37 994	33 172
11	5 503	5 503	5 503	5 503	5 503	2 991	2 991
8	11 952	11 541	13 738	13 580	10 332	9 635	7 471
14	1 233 210	1 193 290	1 353 201	1 094 797	897 492	712 956	571 752
14	1 019 018	987 151	1 155 479	887 042	708 276	553 639	464 664
16	796 635	768 548	843 815	680 097	531 571	403 807	320 106
6	166 480	138 509	238 819	122 325	104 516	103 636	115 294
11	31 001	51 118	48 155	60 545	52 507	31 705	16 266
(1)	3 137	4 374	5 213	5 161	4 166	3 901	3 338
14	21 765	24 602	19 477	18 914	15 516	10 590	9 660
12	214 192	206 139	197 722	207 755	189 216	159 317	107 088
14	1 341 420	1 297 788	1 458 344	1 172 286	961 679	763 576	615 386

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Seven-year review continued

Consolidated normalised income statement[1]

	2010 USDm	2010 GBPm	2010 EURm
Banking activities			
Net interest income	3 952	2 560	2 979
Non-interest revenue	4 088	2 648	3 082
Net fee and commission revenue	2 547	1 650	1 920
Trading revenue	1 151	746	868
Other revenue	390	252	294
Total income	8 040	5 208	6 061
Credit impairment charges	1 028	666	775
Net specific credit impairment charges	1 111	720	838
Portfolio credit impairment (reversal)/charges	(83)	(54)	(63)
Income after credit impairment charges	7 012	4 542	5 286
Operating expenses	5 008	3 244	3 775
Staff costs	2 670	1 729	2 013
Restructuring costs	107	69	80
Other operating expenses	2 231	1 446	1 682
Net income before goodwill	2 004	1 298	1 511
Goodwill impairment/(gain)	4	3	3
Net income before associates and joint ventures	2 000	1 295	1 508
Share of profit/(loss) from associates and joint ventures	80	52	60
Net income before indirect taxation	2 080	1 347	1 568
Indirect taxation	166	108	125
Profit before direct taxation	1 914	1 239	1 443
Direct taxation	444	287	335
Profit for the year	1 470	952	1 108
Attributable to non-controlling interests and preference shareholders	136	88	102
Banking activities profit attributable to ordinary shareholders	1 334	864	1 006
Liberty			
Profit for the year	369	239	278
Attributable to non-controlling interests	189	122	142
Liberty profit attributable to ordinary shareholders	180	117	136
Attributable to group ordinary shareholders	1 514	981	1 142
Headline earnings	1 541	998	1 162

[1] *Figures included in the seven-year review have been restated where necessary to provide a meaningful comparison of performance over the years.*

Exchange rates utilised to convert the 2010 income statement:
USD – 7,32 (2009: 8,42)
GBP – 11,30 (2009: 13,09)
EUR – 9,71 (2009: 11,67)

CAGR %	2010 Rm	2009 Rm	2008 Rm	2007 Rm	2006 Rm	2005 Rm	2004 Rm
16	28 927	31 493	32 117	22 896	17 001	13 357	11 619
13	29 923	31 217	29 448	24 747	19 165	15 616	14 096
13	18 641	18 108	17 607	14 511	11 825	10 107	8 913
14	8 428	10 621	9 463	7 216	4 852	3 721	3 750
12	2 854	2 488	2 378	3 020	2 488	1 788	1 433
15	58 850	62 710	61 565	47 643	36 166	28 973	25 715
39	7 524	12 097	11 342	4 590	2 733	1 207	1 050
41	8 135	11 779	9 346	3 764	2 022	1 006	1 041
	(611)	318	1 996	826	711	201	9
13	51 326	50 613	50 223	43 053	33 433	27 766	24 665
16	36 656	32 827	30 390	24 706	19 105	16 091	14 694
15	19 542	17 848	16 951	14 488	11 001	9 370	8 377
	781						
17	16 333	14 979	13 439	10 218	8 104	6 721	6 317
7	14 670	17 786	19 833	18 347	14 328	11 675	9 971
	30	42	5	(376)	15	24	48
7	14 640	17 744	19 828	18 723	14 313	11 651	9 923
	584	(34)	234	283	218	200	97
7	15 224	17 710	20 062	19 006	14 531	11 851	10 020
21	1 218	1 469	1 136	917	604	562	389
6	14 006	16 241	18 926	18 089	13 927	11 289	9 631
5	3 248	3 763	4 093	4 164	3 376	2 536	2 387
7	10 758	12 478	14 833	13 925	10 551	8 753	7 244
33	993	1 031	1 409	817	363	274	177
6	9 765	11 447	13 424	13 108	10 188	8 479	7 067
6	2 704	320	1 892	3 480	3 372	1 949	1 924
1	1 381	248	1 251	2 505	2 412	1 447	1 334
14	1 323	72	641	975	960	502	590
6	11 088	11 519	14 065	14 083	11 148	8 981	7 657
7	11 283	11 718	14 150	13 153	10 818	9 013	7 511

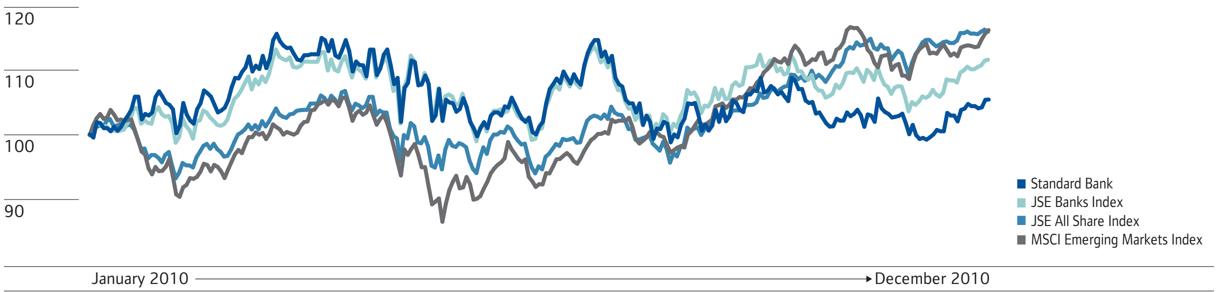
Seven-year review continued

Share statistics and market indicators – normalised[1]

	CAGR %	2010	2009	2008	2007	2006	2005	2004
Share statistics								
Dividend cover (times)		**1,9**	2,0	2,4	2,5	2,5	2,5	2,4
Dividend yield (%)		**3,6**	3,8	4,7	3,9	3,4	3,5	3,5
Earnings yield (%)		**6,7**	7,4	11,4	9,6	8,4	8,8	8,5
Price earnings ratio (times)		**15,0**	13,5	8,8	10,4	11,9	11,4	11,8
Price-to-book ratio (times)		**1,9**	1,8	1,5	2,4	2,7	2,7	2,7
Number of shares traded (millions)		**1 169,9**	1 490,0	1 383,5	1 056,8	1 014,9	841,8	892,6
Turnover in shares traded (%)		**74,2**	96,2	92,2	77,2	74,7	62,2	66,3
Market capitalisation (Rm)	11	**170 471**	158 942	126 576	137 370	128 769	102 524	88 969
Market indicators at 31 December								
Standard Bank Group share price (cents)								
– high for the year		**11 800**	10 500	10 250	11 950	9 650	7 875	6 750
– low for the year		**10 075**	5 915	6 602	9 000	6 850	5 750	3 686
– closing	9	**10 755**	10 200	8 300	10 008	9 450	7 581	6 580
Prime overdraft rate (closing) (%)		**9,0**	10,5	15,0	14,5	12,5	10,5	11,0
JSE All Share Index (closing)	17	**32 119**	27 666	21 509	28 958	24 915	18 097	12 657
JSE Banks Index (closing)	10	**40 985**	36 675	30 566	35 876	36 121	29 234	22 975
ZAR exchange rates (closing)								
USD	3	**6,64**	7,37	9,31	6,81	7,05	6,36	5,63
GBP	(1)	**10,29**	11,88	13,64	13,64	13,80	10,95	10,82
EUR	2	**8,87**	10,61	13,02	10,00	9,29	7,52	7,66

[1] *Figures included in the seven-year review have been restated where necessary to provide a meaningful comparison of performance over the years.*

Share price performance

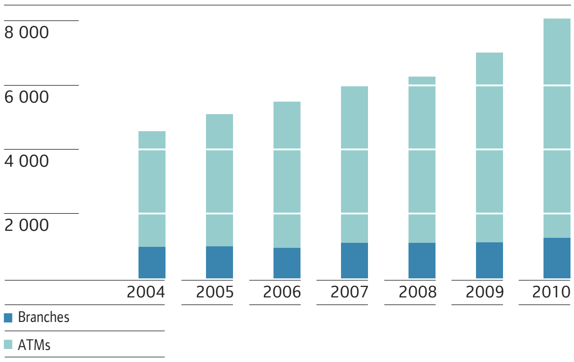


Capital adequacy, employee and other relevant statistics[1]

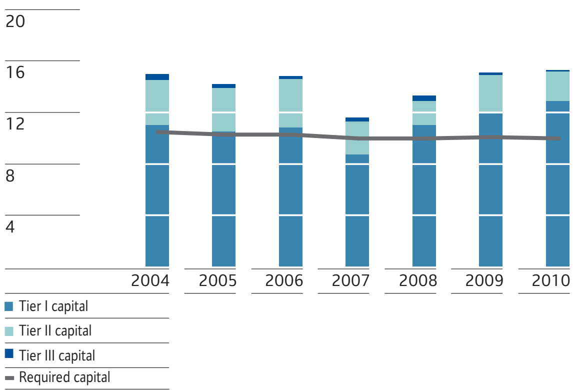
	CAGR %	2010	2009	2008	2007	2006	2005	2004
Capital adequacy[2]								
Risk-weighted assets (Rm)	15	**620 064**	599 822	614 960	554 473	421 187	318 279	265 148
Tier I capital[3] (Rm)	18	**79 996**	71 354	67 726	48 336	45 415	33 553	29 111
Total capital[3] (Rm)	16	**94 805**	90 712	81 597	64 301	62 468	45 328	39 722
Tier I capital to risk-weighted assets[3] (%)		**12,9**	11,9	11,0	8,7	10,8	10,5	11,0
Total capital to risk-weighted assets[3] (%)		**15,3**	15,1	13,3	11,6	14,8	14,2	15,0
Employee statistics								
Number of employees								
– banking activities	5	**48 125[4]**	45 937	45 315	44 301	37 703	36 131	35 283
– group	5	**53 351[4]**	51 411	50 321	48 905	42 265	40 245	39 080
Employee turnover rate (%)		**10,1**	10,0	12,1	13,0	15,0[5]	12,7[5]	9,7[5]
Normalised headline earnings per employee[6] (rand)	0	**205 506**	253 521	298 113	274 937	264 568	232 294	201 230
Points of representation[6]								
ATMs	11	**6 816**	5 912	5 174	4 916	4 538	4 131	3 603
Banking branches and service centres	4	**1 257**	1 110	1 106	1 103	951	984	975
Customer service								
Customer evaluation of branch service rating[5] (out of ten)		**8,9**	8,7	8,6	8,5	8,6	8,6	8,6
Social investment and environment								
Corporate social investment spend[7] (Rm)	17	**132,3**	101,2	92,4	64,9	61,9	61,2	n/a[8]
Carbon footprint[5] (metric tons CO_2)	13	**177 289**	154 538	168 824	122 884	n/a[8]	n/a[8]	n/a[8]

[1] *Figures included in the seven-year review have been restated where necessary to provide a meaningful comparison of performance over the years.*
[2] *In accordance with Basel II principles relating to the treatment of insurance entities, insurance operations are excluded from the capital base of the banking group and its related risk-weighted assets. Capital in insurance operations in excess of statutory minimum requirements is not recognised in group capital.*
[3] *Capital includes unappropriated profit.*
[4] *953 permanent employees received notice of retrenchment prior to 31 December 2010, most of whom had not left the group at this date as their consultative period ended in 2011.*
[5] *South African banking activities only.*
[6] *Banking activities.*
[7] *Excludes the rest of Africa.*
[8] *Information not available.*

Points of representation



Capital adequacy[1]
%



[1] *Basel II implemented 1 January 2008. Risk-weighted assets and capital adequacy 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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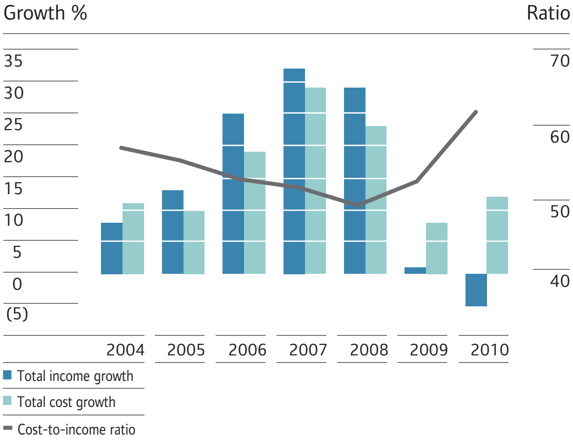
Seven-year review continued

Results and ratios – normalised[1]

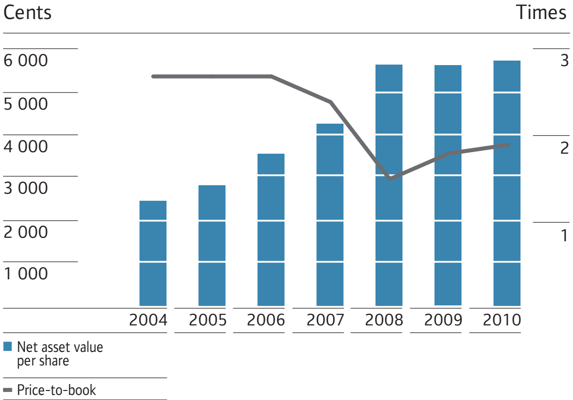
	CAGR %	2010	2009	2008	2007	2006	2005	2004
Standard Bank Group								
Share statistics								
Listed on JSE Limited (millions)								
– weighted average		**1 576,1**	1 548,2	1 501,1	1 369,2	1 358,4	1 353,4	1 345,8
– end of period		**1 585,0**	1 558,3	1 525,0	1 372,6	1 362,6	1 352,4	1 352,1
Share statistics per ordinary share (cents)								
Basic earnings	4	**703,5**	744,0	937,0	1 028,5	820,7	663,6	569,0
Headline earnings	4	**715,9**	756,9	942,6	960,6	796,4	666,0	558,1
Distributions	9	**386,0**	386,0	386,0	386,0	320,0	267,0	231,5
Net asset value	15	**5 726,7**	5 612,3	5 632,9	4 255,1	3 548,4	2 809,4	2 453,4
ROE (%)		**12,5**	13,6	18,2	24,8	25,4	25,4	24,2
Normalised headline earnings per business unit (Rm)								
Personal & Business Banking	7	**4 750**	3 874	4 739	5 674	4 816	3 879	3 170
Corporate & Investment Banking	5	**5 248**	7 467	7 948	6 706	5 033	4 185	3 883
Central and other		**(108)**	305	822	(200)	126	329	47
Liberty	23	**1 393**	72	641	973	843	620	411
	7	**11 283**	11 718	14 150	13 153	10 818	9 013	7 511
Banking activities normalised								
Selected returns and ratios								
Headline earnings contribution (Rm)	6	**9 890**	11 646	13 509	12 180	9 975	8 393	7 100
Return on equity (%)		**11,8**	14,5	18,6	24,7	25,3	25,6	24,9
Net interest margin (%)		**3,01**	3,21	3,32	2,95	2,78	2,97	3,09
Non-interest revenue to total income (%)		**50,8**	49,8	47,8	51,9	53,0	53,9	54,8
Cost-to-income ratio (%)		**61,7**	52,4	49,2	51,6	52,5	55,2	56,9
Credit loss ratio (%)		**1,04**	1,60	1,55	0,80	0,60	0,36	0,41
Effective taxation rate (%)		**29,3**	29,5	26,1	26,7	27,4	26,1	27,7

[1] *Figures included in the seven-year review have been restated where necessary to provide a meaningful comparison of performance over the years.*

Cost and income growth



Price-to-book and net asset value per share

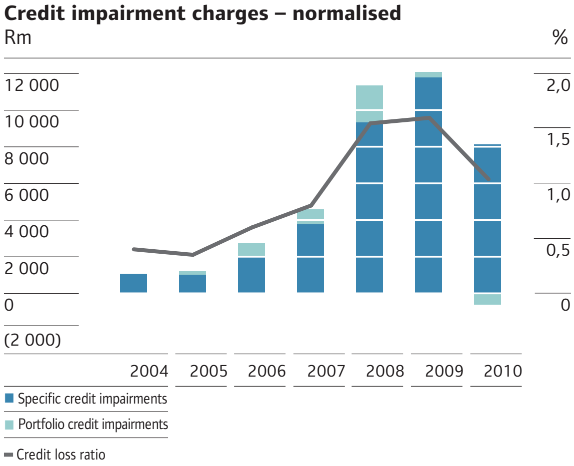


Results and ratios – IFRS[1]

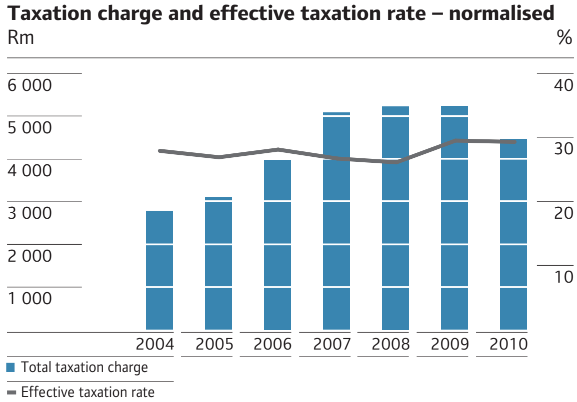
	CAGR %	2010	2009	2008	2007	2006	2005	2004
Standard Bank Group								
Share statistics								
Number of ordinary shares in issue in terms of IFRS (millions)								
– weighted average		**1 492,0**	1 459,3	1 398,9	1 231,0	1 216,7	1 205,2	1 321,7
– end of period		**1 505,1**	1 474,3	1 430,6	1 256,9	1 224,9	1 206,7	1 252,9
Share statistics per ordinary share (cents)								
Basic earnings	4	**722,1**	757,5	995,9	1 109,0	864,5	699,7	581,4
Headline earnings	4	**735,2**	771,1	1 002,0	1 033,4	837,4	702,3	570,3
Distributions	9	**386,0**	386,0	386,0	386,0	320,0	267,0	231,5
Net asset value	17	**5 785,2**	5 698,9	5 728,5	4 270,1	3 503,8	2 706,1	2 310,8
ROE (%)		**12,7**	13,7	19,1	26,7	27,4	27,9	26,1
IFRS headline earnings per business unit (Rm)								
Personal & Business Banking	7	**4 750**	3 874	4 739	5 674	4 816	3 879	3 170
Corporate & Investment Banking	5	**5 248**	7 467	7 948	6 706	5 033	4 185	3 883
Central and other		**(247)**	288	642	(526)	(208)	(16)	78
Liberty	20	**1 218**	(376)	688	867	547	416	407
	6	**10 969**	11 253	14 017	12 721	10 188	8 464	7 538
Banking activities IFRS								
Selected returns and ratios								
Headline earnings contribution (Rm)	5	**9 751**	11 629	13 329	11 854	9 641	8 048	7 131
Return on equity (%)		**11,9**	14,9	19,0	26,1	27,3	28,0	27,0
Net interest margin (%)		**3,00**	3,19	3,31	2,93	2,74	2,92	3,08
Non-interest revenue to total income (%)		**51,1**	50,2	48,0	52,3	53,5	54,5	55,0
Cost-to-income ratio (%)		**61,8**	52,3	49,3	51,9	53,0	55,8	57,1
Credit loss ratio (%)		**1,05**	1,60	1,55	0,80	0,61	0,36	0,41
Effective taxation rate (%)		**29,7**	29,8	26,3	27,2	28,1	26,9	27,9

[1] *Figures included in the seven-year review have been restated where necessary to provide a meaningful comparison of performance over the years.*

Credit impairment charges – normalised



Taxation charge and effective taxation rate – normalised



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Business unit reviews

Personal & Business Banking

Headline earnings
R4 750 million

2009: **R3 874 million**

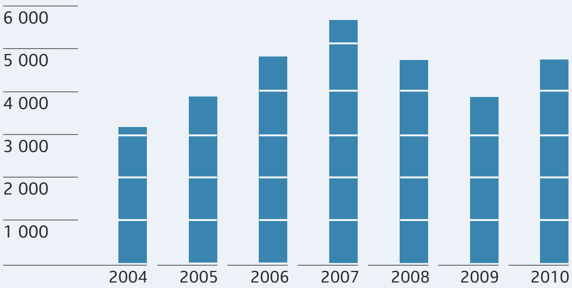
Return on equity
17,9%

2009: **15,1%**

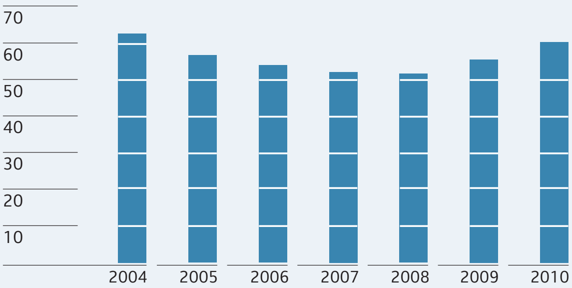
"In tough market conditions, we grew headline earnings despite flat revenues while achieving record levels of customer service and continuing to invest in key initiatives for future growth. Significant advances in the development of the distribution network in the rest of Africa offer the capacity to transform our Personal & Business Banking franchise."

Peter Wharton-Hood, *group deputy chief executive*

Headline earnings
Rm



Cost-to-income ratio
%



Credit loss ratio
1,65%

2009: **2,38%**

Cost-to-income ratio
60,2%

2009: **55,4%**

What we offer

Personal & Business Banking offers banking and other financial services to almost 12 million individual customers and small and medium enterprises in South Africa, 13 countries in sub-Saharan Africa, Argentina and the Channel Islands. We strive to continuously maintain high standards of service for our customers.

2010 highlights

- Our focus on customer service delivered the highest levels of service in 14 years in South Africa and we were once again acknowledged as the best bank for customer service by independent bank service surveys.
- We were recognised as the number one business bank in South Africa by the Sunday Times/Brandhouse survey.
- A substantial decline in credit impairments supported a solid financial performance by the domestic business.
- Our emphasis on growing transactional accounts contributed to 14% growth in the number of personal and business current accounts in South Africa and a steady increase in the number of accounts in other African countries.
- We established a dedicated inclusive banking unit to strengthen our service to economically active people outside the mainstream financial services sector.
- Our operations in the rest of Africa ramped up their expansion programme with the opening of 106 new branches, of which 73 were in Nigeria.
- Efforts to scale and right-size our Argentina operations are bearing fruit with increased sales across products lines and segments.

Priorities in 2011

- Maintain our high levels of customer service.
- Maintain a good balance between prudent cost containment and investment in future growth.
- Grow our transactional account base.
- Deliver relevant inclusive banking products in South Africa and improve our share of this market.
- Continue the roll out of the SAP core banking system in South Africa and complete the implementation of a new core banking system for the rest of Africa in pilot countries Nigeria and Namibia.

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Business unit reviews continued

Personal & Business Banking continued

Overview

Standard Bank's Personal & Business Banking division is well established in southern Africa and has made significant progress in contributing to the group's strategy of building solid universal banks in high-potential markets in the rest of Africa.

Operating conditions in the domestic personal and business banking market continued to be negatively impacted by the aftermath of the global financial crisis and a delayed economic recovery. Inflation remained low allowing interest rates to reach their lowest level in more than three decades, resulting in lower debt-servicing costs which helped customers service existing debt. However, the sustained high levels of household debt, a fragile labour market and a very hesitant residential property market were all unsupportive of lending growth.

The Personal & Business Banking franchise in Africa was similarly impacted by difficult market and economic conditions, but significant progress was achieved in building the necessary capacity and infrastructure to position the bank for future growth. The expansion in Africa requires significant investment ahead of revenue growth and this is a deliberate strategy to establish a convenient and accessible distribution network capable of serving rapid growth in demand for banking services on the continent.

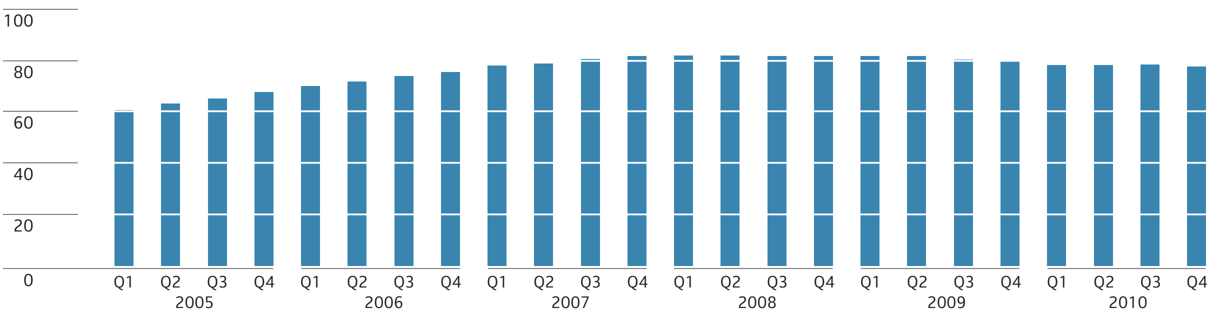
Even though the international economic environment was volatile, with the focus on the debt and fiscal deficit constraints in many European countries, and US economic indicators not meeting growth expectations, the Argentinian economy was relatively stable in terms of interest rate and foreign exchange variables. The economy is being stimulated by government expenditure and sustained retail consumption given the high inflation environment, coupled with negative real interest rates. Within this environment the Argentinian franchise is very

active in growing the customer base and credit portfolios while maintaining high credit standards. The business is well on track towards a sustainable scale.

Financial performance

In challenging conditions, Personal & Business Banking demonstrated resilience and produced headline earnings of R4 750 million, up 23% from the prior year. Margins remained under pressure due to a R1,7 billion negative endowment impact of low interest rates on deposit balances and capital, higher funding costs and a continued slowdown in new business volumes. The results were positively impacted by more contained credit impairment charges which declined 31%

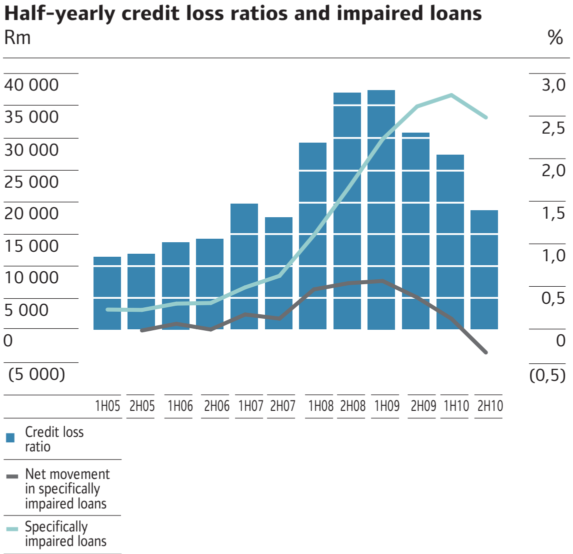
Ratio of household debt-to-disposable income
%



Source: SARB Financial Stability Review

to R6,9 billion, although these remain elevated in absolute terms. The cost-to-income ratio remains high at 60,2%, and we have undertaken a range of cost-cutting measures, including retrenchments, as part of the group's restructuring process. An ROE of 17,9% was achieved, and Personal & Business Banking contributed 42% to group headline earnings.

Half-yearly credit loss ratios and impaired loans



Analysis of performance by geography

Personal & Business Banking in South Africa reported headline earnings of R4 644 million, up 35% on 2009. Margins remained under pressure due to the negative endowment and funding impacts but significant savings were realised in credit impairment charges and the credit loss ratio declined to 1,73% from 2,60% in the prior year.

The rest of Africa also experienced margin compression, compounded by the strengthening of the rand against the major African currencies, as well as an increase in credit impairment charges arising from the write down of long outstanding balance sheet items. Investment spend to expand the Personal & Business Banking franchise in strategic growth markets in Africa continued apace. All of these factors contributed to a small loss of R14 million from the rest of Africa. The key drivers, however, are all moving in the right direction – increased customer numbers, a focus on cross-selling of products within this increased customer base, an expanded footprint with more branches and points of representation to position the franchise for growth, and positive asset and liability growth, albeit slower than expected.

Headline earnings from outside Africa includes the Personal & Business Banking division of our operations in Argentina, and banking operations in the Isle of Man and Jersey, previously reported as part of Corporate & Investment Banking. In Argentina loan sales more than doubled compared to the previous year, mainly due to new business strategies capitalising on consumption-driven market conditions. As a result, loan portfolios increased by 43%, well ahead of the private financial system. However, high inflation and a politicised wage increase process increased the cost base substantially. The franchise has turned strongly profitable. The deposit base of the Isle of Man franchise declined by 15% in rand (6% in US dollars), mainly due to a decline in term deposits, however this remains a sought-after destination for our private banking clients. In Jersey the management team experienced headwinds and considerable effort was made to reduce levels of operational risk.

Analysis of performance by product

Total income and headline earnings by product

	Total income		Headline earnings	
	2010 Rm	2009 Rm	**2010 Rm**	2009 Rm
Mortgage lending	**4 805**	4 476	**310**	(578)
Instalment sale and finance leases	**2 751**	2 955	**86**	(486)
Credit cards	**4 525**	4 693	**659**	616
Transactional and lending products	**19 846**	20 089	**2 454**	3 466
Bancassurance and wealth	**3 048**	2 642	**1 241**	856
Personal & Business Banking	**34 975**	34 855	**4 750**	3 874

The mortgage lending book returned to profitability during the year, generating headline earnings of R310 million. Muted asset growth of 5% remained a concern during the year. In South Africa, however, new business applications increased an encouraging 47%, and R28 billion of new home loans were registered during the year. This was supported by the purchase of R3 billion of the SA Home Loans book. Standard Bank is committed to a multi-channel strategy in the origination of home loans. Our primary focus however is on strengthening our internal channels. We have contracted with mortgage originators on flexible and more favourable economic terms. We continued to price new business more appropriately for risk and increased funding costs, with the weighted average concession

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Personal & Business Banking continued

to prime offered on new business being 20 basis points in 2010, compared with 79 basis points in 2009 and 150 basis points before the financial crisis.

The level of non-performing loans (NPLs) in mortgage lending remained a concern for most of the year and peaked in September 2010. At the end of 2010, NPLs made up 9,4% of the total book compared with 10,1% at the end of 2009. The low interest rate environment and improved debt servicing ability of customers resulted in lower new defaults compared to the prior year and a 25% reduction in credit impairment charges, with the credit loss ratio down to 1,15% from 1,59%.

In vehicle and asset finance, payouts improved during the year due to improving economic conditions, relatively strong domestic sales of motor cars off a low base and the business markets starting to benefiting from an uptick in the economy. New business volumes in South Africa in the motor business were up 34% while non-motor grew only 2%. In Argentina the car, bus and truck markets were very active during 2010. We maintained our leadership position of more than 10% market share in this product group by relying on two main pillars – our strong relationship with dealers and manufacturers, as well as competitive financing. Despite this increased new business, increasing capital repayments on an ageing book resulted in an overall 7% decrease in the aggregate vehicle and asset finance book year-on-year. NPLs continue to decline to 5,3% of the book while the credit loss ratio was 1,93% compared to 3,49% in 2009. Overall, the vehicle and asset finance book also returned to profitability, with headline earnings of R86 million.

Income from credit cards was down 4%, following lower average card holder balances from reduced spend, coupled with higher pay-downs. Card products, however, recorded a commendable increase in headline earnings for the year to R659 million. Fraud losses were significantly reduced as we continued to roll out chip and pin cards and the credit loss ratio decreased from 5,61% to 3,78%. In South Africa, new account growth in card slowly gained momentum off a low base. Argentina credit card sales increased in 2010 due to a heightened focus on customer cross-sell. The overall card debtors book shrank 2% overall given lower average balances.

Transactional and deposit product margins continued to be adversely affected by the negative endowment effect of declining interest rates across the African continent. Personal markets continued to drive transaction-led customer acquisition. Current account balances in the personal markets in South Africa showed positive growth, with balances up 11%, and in the business segment balances grew 3%. Small and medium enterprises' deposit balances remained under pressure with year end balances flat on the prior year while savings and investment balances declined. Transaction banking accounts in the rest of Africa grew by almost 100 000. Most of this account growth was from personal banking customers. Growth in fee and commission revenue was driven by inflationary price increases combined with growth in the transactional base.

We experienced a growth in demand for term lending within the business segment, which showed an increase in both the number of accounts and the average balance per account. Other lending in Nigeria increased as a result of our branch network expansion and marketing campaigns. The credit loss ratio improved to 2,54%, although the macroeconomic environment remained challenging.

Bancassurance and wealth comprises insurance-related businesses across the African continent as well as wealth businesses in the Isle of Man and Jersey, previously reported as part of Corporate & Investment Banking. We continued to forge closer operational ties with Liberty to deliver growth in bancassurance volumes and we reported a 45% increase in headline earnings to R1,2 billion (2009: R856 million). In the domestic market, there was a marginal increase in the penetration rate for all products and simple embedded and short-term insurance products benefited from improved claims loss ratios and repricing. During the year, revised terms of the bancassurance arrangement with Liberty were agreed and the agreement was signed at the beginning of 2011.

Strategy

Standard Bank's strategy is to serve the full value chain of customers in our domestic operation – from the most basic to the most sophisticated of financial services needs – and to maintain high standards of customer service and cost effective delivery channels. Our full service banking model in South Africa provides the base of knowledge and experience required for geographic expansion and we apply lessons learnt in our home market to our operations in other emerging markets.

Excellent consistent customer service

We continued to invest in management and infrastructure capacity during the year to ensure that our banking systems support continuous improvement in the quality of service to clients. We continued to invest in our branch network and ATM infrastructure to enhance accessibility and convenience. To facilitate the bank's growing focus on inclusive banking, a longer-term plan has been initiated to double the number of points of representation in our network in South Africa but include cashless, low cost operations in appropriate locations to provide convenient access for these customers. During 2010 focus was placed on the continued roll out of new branches and ATMs in the rest of Africa, particularly in high-growth markets, such as Nigeria, to build capacity for future growth.

Physical attacks on our ATM network continued to decline during the year and additional surveillance technology will be employed on ATMs in 2011 to combat the worrying increase in debit card fraud. The trend in phishing attacks continued to be a challenge in South Africa and across the African continent during the year. It remains incumbent on our customers to be alert to the threat of phishing as we do everything we can to protect the confidentiality of our online customers' banking details, through the offer of freely available software to internet banking customers, emailing internet security tips and always being vigilant with respect to fraudulent sites and closing them down as soon as possible. By year end we had managed to significantly reduce the number of daily phishing attacks on our customers and are now within industry norms.

Customer service received an additional boost from improved levels of IT service while ATM availability achieved record levels in excess of 97% in South Africa. The implementation of a new core banking system to further enhance customer service and reduce operating costs is progressing in South Africa.

Our service efforts were rewarded for the second consecutive year with the *Ask Africa Orange Index* award for the best customer service in banking in South Africa and we were rated the leading business bank in South Africa by the *Sunday Times/ Brandhouse* survey. This recognition is consistent with other independent customer service measures such as Outlook, Customer Evaluation of Banking Services (CEBS) and Blue Index, where our customer service levels are the highest since the CEBS measurement began 14 years ago.

Invigorate a sales-driven culture

Transactional account-holders engage more actively with their bank, enabling it to develop stronger core banking relationships which facilitates responsible credit granting and greater opportunity for cross-selling. An increased focus on transaction-led customer acquisition resulted in an 11% increase in personal current accounts, a 19% increase in new youth market accounts and a 3% increase in business accounts, reaffirming our leading position in the retail market for deposits. The division's attention to existing customers resulted in a 25% growth in migrations to higher level accounts.

Personal & Business Banking increased its risk appetite responsibly within group risk parameters in loan products such as home loans, unsecured personal lending, business lending, agricultural loans and credit cards. We continue to price more appropriately for credit and liquidity risks and actively manage margins. Loan approval rates across all portfolios increased by 4% compared to the previous year, however, asset growth remained muted during the year. The debt servicing ability of customers remained under pressure as household debt ratios remained high, resulting in little appetite for new credit as they continued to deleverage and rebuild their balance sheets.

Engaged and committed people

Our people worked in an extremely difficult environment which included the retrenchment of 441 staff from the domestic and African head office operations during the announced restructuring process towards the end of the year and net reduction of support area staff in the operations in Argentina

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Personal & Business Banking continued

earlier in 2010. We consulted closely with the major labour union in South Africa during this retrenchment process to ensure that affected staff members were treated fairly and with dignity. The delivery of excellent customer service relies heavily on the performance of staff and under these stressful conditions we were able to maintain high levels of competence which, with a range of initiatives, translated into improved service levels.

The well-being of our staff is of paramount importance. We reduced the number of high-risk branches significantly given concerns for staff safety. We maintained high levels of investment in the development of our people at our Global Leadership Centre and in other executive and staff development programmes. Focus continues to be maintained on employment equity and the constraints placed on recruitment do not detract from this.

Inclusive banking

Standard Bank has over the years demonstrated its commitment to providing banking services to the low-income market. While the bank has until 2010 focused largely on transactional accounts for this market segment through our EPlan and Mzansi offerings, we are now focusing on a larger suite of products in this market. Recent economic conditions have precluded a more aggressive approach to credit extension, but as the interest rate environment for customers has improved and job losses stabilised, Standard Bank has embarked on a comprehensive inclusive banking strategy to reach approximately nine million economically active people who fall outside the mainstream financial sector in South Africa.

To effectively serve the inclusive banking market, Standard Bank has developed an understanding of the requirements of unbanked, but bankable customers, and created models that are low cost, convenient and accessible, and scalable and replicable, without compromising quality of service. Standard Bank is focusing on four financial products for this market: a basic transactional account, a low-income loan and credit life protection policy, a funeral policy and a basic savings product to attempt to inculcate a culture of saving.

In 2010, more than 50 loan centres were opened along high density commuter routes and 7 500 "bank shops" installed and activated to serve bankable customers in previously disadvantaged areas in South Africa. These non-intimidating, accessible, low cost loan centres have increased the loan approval rate in this market from 33% to 55%, with a focus on retention of good customers to build a repeat customer base.

Standard Bank is committed to providing access to housing finance for low-income customers, from those households who earn more than R3 500 per month to those whose monthly income is up to R15 500. We have worked hard to grow this book responsibly, re-evaluating our risk appetite and initiating a new scorecard to improve risk predictability, while at the same time forming a collections team focusing on affordable housing loans, and proactively managing accounts to reduce defaults. During 2010, we granted end-user loans of R2,5 billion in this segment, an increase of 52% year-on-year, and had 28% market share of new registrations. The focus is ensuring that we have the right product offering based on customer insight with the appropriate risk management strategy. We are committed to playing a leading role in providing low cost housing beyond just having the biggest market share.

African expansion

Beyond South Africa's borders, we continued to focus on our strategy to grow our presence selectively in high-potential markets in Africa.

Standard Bank's Personal & Business Banking strategy beyond South Africa's borders in Africa is to develop strong domestic banks able to compete and provide services to personal and business customers, with a range of products and services to meet their needs. During 2010 we embarked on a focused strategy to build a business banking franchise to service the needs of the rapidly growing medium-size business market which has a higher cross-sell ratio of products to customers. This also has the potential to develop a number of private banking and high net worth individuals as clients. The franchise has made significant progress in developing the systems and appropriately skilled human capacity to build the distribution network necessary to serve the personal and business banking market, and has achieved solid organic growth in recent years with a base of over two million customers served by 454 branches.

Personal & Business Banking has narrowed its business banking focus to key economic sectors, with agriculture, in particular, offering significant growth potential. We have embarked on a number of initiatives in association with international funding agencies and multinational corporations to provide funding to small growers and commercial farmers along the sector's full value and distribution chains.

Investment in infrastructure gained significant momentum in 2010 as we invested for future growth, with the completion of 106 new branches in the rest of Africa (73 located in Nigeria). It has been decided to replace the ageing core banking systems in most countries in the rest of Africa and a new system, backed by state-of-the-art Finacle technology, will be rolled out in pilot countries Nigeria and Namibia in 2011 and extended to other countries thereafter.

In 2010, we launched our first Shari'ah banking products in Tanzania. We currently offer two transactional and current accounts which adhere to the rules and principles of Shari'ah law, and are developing additional products to widen the scope of this offering.

Standard Bank continues to explore alternative ways to provide customers in lower income segments access to more formal banking products. We see mobile banking as an important growth market in the rest of Africa and we are investing in developing suitable mobile banking capabilities to be rolled out across the network.

We have embarked on a significant exercise to develop collections capabilities and gather customer transaction data in African countries so that we can extend credit responsibly. Our lending business in Africa has grown by 12% in the past year, with particular growth in Nigeria.

Working with the regulators

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. It was clear from the findings of the Jali Committee that the focus of the panel was to encourage competition among the banks through transparency, comparability and ease of switching bank accounts. Of the 28 recommendations made by the committee, 15 were within Standard Bank's ability to change or influence and we have responded to these recommendations, which focus largely on penalty fees on dishonoured debit orders and transparency of ATM transaction and banking fees. The remaining recommendations require input and guidance from National Treasury, the South African Reserve Bank, 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.

Standard Bank has played a leading role in ongoing efforts to improve the efficacy of the debt review process implemented under the auspices of the National Credit Act. We have made good progress in reducing our debt review portfolio, we play a leading role at industry level and we have improved our engagement with the National Credit Regulator and debt counsellors.

Outlook for 2011

In the domestic market, our outlook remains optimistic in a challenging environment which is likely to continue to be characterised by relatively modest asset growth, a sustained low interest rate environment and ongoing cost pressures. The mediocre performance of the property market seen in 2010 is set to continue for some time and we expect house prices to remain sluggish over the short to medium term. Households are still concerned about their financial health and are unwilling to take on new long-term debt commitments. We expect earnings growth in 2011 to be supported by further reductions in credit impairments and sensible cost containment.

Customer service excellence remains the foundation of our business and we will continue to focus on growing our transactional account base and delivering on our inclusive banking offering.

Significant advances in the development of a convenient and accessible distribution network in the rest of Africa offer the capacity to transform our Personal & Business Banking franchise on the continent. We will continue to strengthen our presence in markets with higher earnings potential, while maintaining a strong focus on costs and risk management.

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Corporate & Investment Banking

Headline earnings
R5 248 million

2009: **R7 467 million**

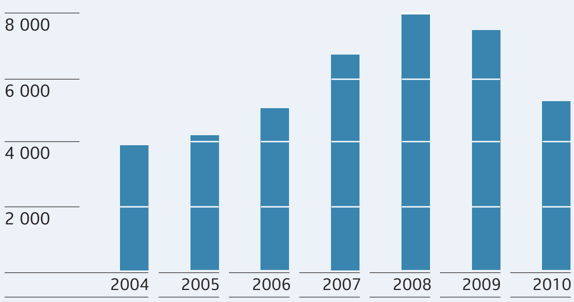
Return on equity
12,7%

2009: **18,8%**

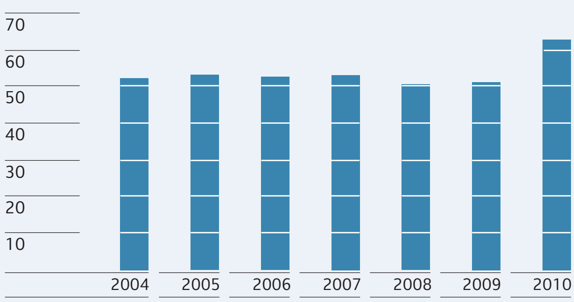
"Corporate & Investment Banking was impacted by the combination of limited client activity as market uncertainty prevailed and an increasingly competitive business environment. This required tighter execution of our strategy, resulting in the closure of poorly performing business lines and the deployment of resources in areas where they could be most competitive."

Rob Leith, *Chief executive: Corporate & Investment Banking*

Headline earnings
Rm



Cost-to-income ratio
%



Credit loss ratio
0,16%

2009: **0,74%**

Cost-to-income ratio
63,8%

2009: **51,2%**

What we offer

Corporate & Investment Banking offers services to governments, parastatals, larger corporates, financial institutions and international counterparties in Africa and other emerging markets with links to Africa or the natural resources sector. A customer-centric business model supports effective and personalised interaction with customers.

2010 highlights

- Successfully executed significant cross-border transactions.
- Sole adviser to State Grid of China in the successful acquisition of seven power transmission companies in Brazil.
- Successfully raised the largest global bond issued by South Africa to date.
- First branch opened in Angola.
- Client-centric focus streamlined with the development of investment banking coverage teams providing sector expertise.
- Increased investment in IT and systems in Africa.
- Launched pilot host-to-host system to facilitate the banking needs of Chinese corporate clients across Africa.
- Strategic investment in global advisory, physical commodities and equities businesses to strengthen client offerings.
- Agreed termination of the cash equities joint venture with Credit Suisse in South Africa and rebranding of this now wholly owned operation as SBG Securities.

Priorities in 2011

- Unrelenting focus on serving clients.
- Increase focus on revenues but remain very disciplined on costs.
- Pursue ongoing organic growth in Africa to build strong domestic banks.
- Focus on being a connector between Africa and selected emerging markets through our sector expertise, particularly in natural resources.

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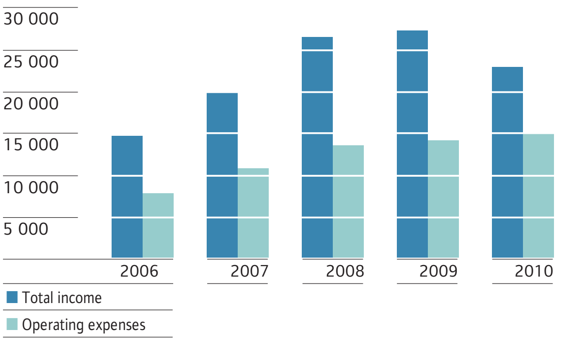
Corporate & Investment Banking continued

Overview

Standard Bank's Corporate & Investment Banking division serves a wide range of clients in their requirements for banking, finance, trading, investment and advisory services. Over the past two decades, Corporate & Investment Banking has evolved in line with the globalisation of capital markets and the growing sophistication of financing requirements in emerging markets. A strong reputation and globally integrated core product expertise has positioned the bank to participate in the development of capital markets particularly in the rest of Africa.

Successfully concluded the USD1,8 billion State Grid Corporation of China transaction, see pages 23 and 76 for details.

Total income and operating expenses
Rm



The year started with upbeat expectations for Corporate & Investment Banking's performance to return to pre-crisis levels, on the back of indications of a tentatively recovering global economy and a return to growth in the domestic economy. The European sovereign debt crisis served as a stark reminder of the risk inherent in the global economy and trade all but ceased as the high volatility and uncertainty suppressed client activity. In addition, regulatory responses following the 2008 financial crisis have led to higher funding charges driven by requirements to hold additional capital and liquidity buffers.

Trading volumes declined across most desks in the global markets portfolio, including forex, interest rate, commodities and equities asset classes. Standard Bank continues to have a very small proprietary trading book, so the low client activity drove a steady decline in deal flow. Despite the difficult trading conditions, however, there were no loss-making desks. Global markets focused on developing capability in physical commodities, particularly in Asia, and the build out of the equities business. Standard Bank aims to build the leading equities franchise in Africa and needed to be able to offer cash equity services to clients in South Africa to complete our client offering. The acquisition of sole control of CSSS, renamed SBG Securities, in early 2011 completes this client offering across sub-Saharan Africa and bodes well for capturing deal flow in 2011.

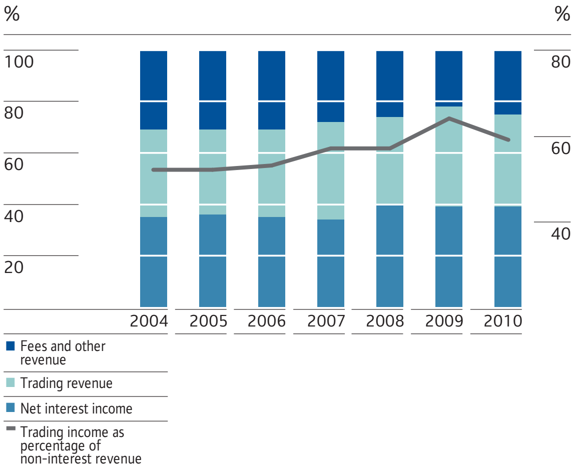
Investment banking was also impacted as concerns about European debt and the slow economic recovery reduced the appetite for credit of corporate clients. There were, however, some bright spots during the year, including the conclusion of landmark transactions in South Africa, sub-Saharan Africa, Latin America and Asia, a growing pipeline of cross-border opportunities and increasing demand for advisory and capital market services from companies investing in Africa. We have focused and streamlined the business to provide bespoke finance and advisory solutions to our clients in the sectors we understand well.

The transactional products and services portfolio was impacted by low corporate cash flows as the global climate of uncertainty led clients to retain their cash. Competitors have invested heavily in their technology capabilities placing pressure on our technology advantage. However, we subsequently increased our focus on client service in the South African market with the domestic operation working hard to maintain its leadership position. This contributed to retention and growth in the client base, particularly in the public and retail sectors, and an increase in transactional volumes and cash management deposits in South Africa.

In these difficult market conditions, Corporate & Investment Banking introduced a range of cost-cutting measures to right-size the cost base for the lower revenues experienced. Retrenchments were undertaken in both South Africa and our operation in London, where the effects of the slow global economy were most acutely felt. As a result, our London office was worst affected in this process, with almost 20% of the London headcount being retrenched, most of whom were senior staff. We focused on identifying areas of operational inefficiency and duplication, and client-facing staff were therefore largely unaffected. However, strategic investments were maintained in IT, operations, processes and the infrastructure necessary to continue expanding in high-potential markets in Africa.

Financial performance

Income contribution



The difficult market conditions witnessed in the first half of the year continued with market uncertainty continuing to have a detrimental impact on client deal flow and consequently negatively impacting revenues and headline earnings. Headline earnings were down 30% to R5 248 million, compounded by the translation effect of a stronger rand and on a constant currency basis, earnings were down 26%. ROE of 12,7% was recorded, while the cost-to-income ratio increased to 63,8% as revenues fell but investment in staff and technology continued, albeit at a slower pace in the second half. Corporate & Investment Banking contributed just under 50% to group headline earnings in this difficult operating environment. Credit impairment charges continued to reduce significantly from the prior year, as the global economy experienced sluggish recovery, and the likelihood of clients defaulting lessened. The credit loss ratio improved to 0,16% from 0,74% in the prior year. The flow of new defaults into impaired loans was significantly lower than the prior year, and there was a net writeback of the impairments against the performing loan portfolio. The balance sheet remains healthy – impairments as a percentage of total gross loan exposure decreased from 1,34% to 1,13%.

Total income and headline earnings by product

	Total income		Headline earnings	
	2010 Rm	2009 Rm	**2010 Rm**	2009 Rm
Global markets	**9 657**	12 463	**2 116**	4 142
Investment banking	**6 424**	6 252	**2 548**	1 459
Transactional products and services	**6 109**	6 863	**1 142**	1 632
Principal investment management	**729**	742	**170**	175
Troika/Russia		305	**370**	26
Curtailed operations	**(256)**	395	**(1 098)**	33
Corporate & Investment Banking	**22 663**	27 020	**5 248**	7 467

Overall revenue in global markets of almost R9,7 billion was down 23% from the relatively high base set in the prior year, due to reduced client volumes. The forex desk saw increased turnover from corporate clients but profit was restrained by margin compression. Furthermore, the rand's failure to break out of a narrow range, combined with stable low interest rates across most currencies, provided limited trading opportunities. Credit trading and commodities reflected subdued results following the European debt crisis, coupled with widening spreads. The rest of Africa produced a robust set of results, including a particularly strong first quarter from higher interest rate trading revenues on the back of higher bond volumes. Headline earnings were down 49% to R2,1 billion, as a result of

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Business unit reviews continued

Corporate & Investment Banking continued

an increase in costs from the build out of trading platforms as well as increased staff costs.

Investment banking reported a 3% increase in revenue, up to R6,4 billion, despite the negative endowment effect impacting margins. The performance was underpinned by a good performance from debt capital markets, equity capital markets, structured finance and advisory related services. South Africa and the rest of Africa delivered solid results, with the business witnessing a significant improvement in term lending. Outside Africa endured a challenging year, characterised by a slowdown in client execution due to market uncertainty. The global advisory business performed well and played a major role in a number of high profile deals. The domestic business continues to utilise local relationships and expertise and the cross-border franchise gained momentum through its core sectors. Investment banking witnessed a significant turnaround in credit impairments, which assisted the pleasing increase in headline earnings to R2,5 billion.

Income from transactional products and services was down 11% to R6,1 billion, predominantly impacted by margin compression caused by the negative endowment effect on transactional balances across South Africa and the rest of Africa. Cash management and current account deposits grew in South Africa benefiting from improved client services. However, increased competition in the markets for deposits further compressed margins. To preserve our competitive advantage we continued to make significant investment in IT platforms to maintain market leadership in South Africa and to grow our franchise in the rest of Africa with the roll out of key branches.

Principal investment management, previously included in investment banking, comprises investments in private equity, real estate and debt funds. Lower fair value gains during 2010 impacted this business.

The underlying performance in Troika was satisfactory during 2010. We equity accounted USD51 million of earnings of which USD16 million represented our share of the operating profit of Troika and USD35 million related to the recovery of underlying asset values post acquisition.

Certain activities which are non-core in relation to our refocused strategy have been curtailed and are in the process of being wound down. These activities incurred a loss of R1 098 million (USD150 million) in 2010 and include credit impairments arising from a portfolio of structured loans to high net worth individuals in London and fair value write downs of investments in distressed debt in Asia. In prior years, the results of these businesses were reported in investment banking.

The group previously operated a structured lending business from its London offices that extended loans to high net worth individuals resident in emerging markets who typically owned businesses that were existing customers of the bank. This type of business has been discontinued in the group's international operations outside Africa. The remaining exposure at the end of 2010 is approximately USD200 million net of provisions. We believe that adequate provision for impairment has been made against these exposures and although some of these exposures are fully impaired, collection and recovery activities are being pursued vigorously.

The loss attributable to distressed debt in Asia relates to exposures to an acquired portfolio of non-performing loans of USD500 million. Following severe pressure on the fair values of distressed debt in 2007, the group's debt trading operations in Asia bought distressed debt at a discount with the intention of collecting the outstanding debt at a profit. Of the total USD500 million initial exposure, USD310 million has been collected to date and fair value gains of USD110 million, net of the USD60 million loss noted below, have been recognised to date, leaving an exposure of USD300 million at fair value at 31 December 2010. The opportunities relating to this business have diminished and this business has been discontinued in Asia, with the remaining exposures being wound down.

After tax losses on curtailed operations were made up as follows:

	USDm
Losses on structured loans to high net worth individuals	90
Credit impairment charges	80
Operating expenses in banking activities	10
Distressed debt in Asia – trading loss	60
	150

Strategy

Our strategy has been refined during 2010 and is to continue to build first-class on-the-ground banks in chosen markets on the African continent in which we have a presence, and to connect other selected emerging markets to Africa and to each other, applying our sector expertise, particularly in natural resources, globally.

South Africa remains our springboard for growth and we will continue to preserve and invest in our South African franchise. In the rest of Africa we will focus on building a more resilient business by managing costs and becoming more efficient. Our in-country operations serve the full range of corporate and investment banking needs of domestic clients and offer clients the capacity to undertake large cross-border transactions using expertise and balance sheets in our businesses in London and South Africa. In leveraging our links with other major emerging economies, such as China and Brazil, we have the necessary expertise and sector specialisation to provide a full service corporate and investment offering to international clients who wish to invest in Africa or other emerging economies.

Our long-standing global natural resources franchise will retain its importance and remains a key focus area. We will continue to improve our sector coverage, expand our activities across the entire commodity value chain and put more of our people closer to our clients in the countries in which they operate.

The franchise's leading position in its selected product lines and geographic markets was recognised by numerous local and international awards during the year. Key awards included:

- *Euromoney* – Best Investment Bank in Africa, Best Investment Bank in Nigeria
- *Global Trade Review* – Best Trade Finance Bank in sub-Saharan Africa
- *Emeafinance* – Best Project Finance House
- *Credit Magazine* – Best Bond from Africa (USD2 billion bond for the South African National Treasury).

Standard Bank's participation in the following major projects undertaken in Africa was recognised by Emeafinance:

- Moropule B power station (Botswana)
- Kayelekera Uranium Mine (Malawi)
- Oando's purchase of a stake in Shell's offshore oil blocks in Nigeria.

Part of Standard Bank's crucial contribution to the infrastructure development funding in South Africa was in its role as joint lead arranger to the National Treasury to raise a bond of USD2 billion in global markets. The success of this deal was built on the way an integrated Corporate & Investment Banking team combined their expertise in South Africa, the United States, the United Kingdom and Asia to conclude the largest global bond issued by South Africa to date. This deal was recently awarded the "Overall Emerging Market Deal of the Year 2010" from *EuroWeek*, for the 5,5% USD2 billion bond, due in 2020. Significantly, this acknowledgement is a result of an annual poll undertaken by *EuroWeek* of major international financial institutions, deal makers and peers in emerging markets.

Consolidating our presence in Africa

There has been ongoing investment in management, specialist product teams and infrastructure capacity in selected African markets in recent years. We have strengthened our focus on our areas of expertise, including mining and metals, oil and gas, power and infrastructure, and telecommunications, and have positioned our corporate and investment business to facilitate and capture financing and advisory opportunities associated with these flows. This includes structured trade and commodity finance products, advisory services and a range of risk mitigation services, such as hedging of interest rate, currency or commodity exposures.

Standard Bank de Angola opened its first branch in Angola in 2010, following the granting of a banking licence to operate as a full-service bank. We will initially offer corporate and business banking products and services to clients, which will extend to retail customers in the future.

Nigeria remains key to our strategy on the African continent. Stanbic IBTC proved to be a solid, well-capitalised bank with good customers through the banking crisis in Nigeria which started in 2009. We have carefully considered the best route forward for us in quickly growing our presence in this key market. We have thus far proved that we have the capacity to grow our branch network organically and although we will consider future acquisition opportunities that may arise, we are pursuing an aggressive organic growth strategy.

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Corporate & Investment Banking continued

Standard Bank plays a major role in driving infrastructure development on the continent through its involvement in four key Pan African infrastructure funds. We have also entered into an agreement with China Guangdong Nuclear Power Company and the ICBC, to collaborate on nuclear power projects in South Africa. In another important initiative, Standard Bank has signed a memorandum of understanding with China Railway Group to facilitate funding for rail and infrastructure projects in Africa.

Corporate & Investment Banking has performed well in the trade of physical commodities in Africa, serving the growing demand for commodities from China with an offering that covers the full value chain from structured finance to off-take agreements with producers and sales.

Since adopting the Equator Principles in 2009, we have made good progress in integrating the principles as a risk management measure when selecting projects to finance. In 2010, eleven projects were financed according to the principles.

Standard Bank has developed relationships with global donor organisations such as the World Bank, USAID and the Global Fund to facilitate not only trade in sub-Saharan Africa but also the distribution of funds to projects all over the world to combat HIV/Aids, malaria and tuberculosis. We provide financial and project management expertise as well as practical support and services to grant-receiving projects. While initiatives of this nature contribute to the improved efficiency and effectiveness of the donor funding process in Africa, they also position Standard Bank as the banker of choice to donor organisations and non-governmental organisations in Africa.

We engage in high-level discussions with a number of governments on ways to assist African countries to adapt to the impacts of climate change. A practical example of our involvement in initiatives to enhance energy efficiency is to help replace kerosene lamps with hand-held light-emitting diode (LED) lights in 1,5 million homes in Tanzania, funded by buying the carbon credits generated by the large-scale replacement of fossil fuel lighting.

Building Sino-Africa relations

China continues to be critical to our strategy. Our relationship with ICBC is maturing and our team in China is now at full strength across coverage sectors and product areas. Our China cross-border business has recently completed a landmark deal in which we were the sole adviser to SGCC on its acquisition of seven power transmission companies in Brazil. In this significant transaction, our ability to combine investment banking expertise, government and corporate access, and on-the-ground capabilities in China and Brazil enabled us to successfully conclude the USD1,8 billion acquisition by the world's largest utility company. While we have a strong pipeline of Chinese cross-border transactions across different sectors in Africa, Brazil and Russia, the finalisation of many of these transactions has been slow. We have also secured a strong position as the largest commercial lender in Mongolia, having experienced record growth in new assets in the resource-rich country. Our transactional products and services offering has been strengthened by the launch of the first phase of a pilot host-to-host system to facilitate the banking needs of Chinese corporate clients across Africa, allowing them to make payments for imports or receive proceeds for exports on the African continent in China's official currency.

Presence in other selected emerging markets

Our strategy outside Africa has not changed, but it is now more focused and we have a clear understanding of the areas in which we have a strong competitive advantage. We no longer have ambitions to buy or build additional domestic businesses in markets outside Africa. We need a presence or a partnership in each of China, Brazil, Russia and India, which are key to our cross-border strategy and success, though we do not need to own banks in each of these countries.

Our international operations headquartered in London are not a stand-alone business but are integral to the group strategy, as these operations provide a dollar balance sheet necessary for cross-border business. These operations are also critical in our ability to attract and employ the specialist skills needed in our cross-border business. In today's lower return environment, however, the international operations are disproportionately large. It is anticipated that the balance sheet, headcount and capital base of the operations outside Africa will decrease over time.

The year ahead

All indications are that 2011 will be another challenging year, but we are confident about improving our position from 2010. Being the "go-to" bank for Africa provides us with an undeniable unique advantage over many of our competitors and by locking this into our core strategy, the year ahead holds promise.

We have narrowed our focus and closed underperforming business lines and we are beginning to run our operations more efficiently, so that they can withstand continuing revenue headwinds given the fragilities still evident in the global economic recovery. The upcoming year will still be a challenging period for Corporate & Investment Banking, but we are confident that management actions undertaken to focus the business will ensure we emerge in better shape for the current operating environment. After an intense inward-focused period we now need to turn our attentions to the revenue generating capabilities of the franchise, ever mindful of containing costs.

Post announcement of the group's results on 3 March 2011 – disposal of Troika Dialog

On 11 March 2011, the disposal of Troika Dialog was agreed upon and announced. TDM Limited Partnership (TDMP), the 63,6% controlling shareholder of Troika Dialog, Sberbank of Russia (Sberbank), the largest bank in Russia, Central and Eastern Europe, and Standard Bank Group announced that they had agreed on the terms of the transaction by means of which Sberbank proposes to acquire Troika Dialog. Under the agreed terms, Sberbank will acquire the entire shareholding of Troika Dialog (comprising TDMP's 63,6% and Standard Bank Group's 36,4% shareholding) for an upfront cash consideration of USD1 billion plus an earn-out payment at the end of 2013. Standard Bank Group will sell all of its shareholding in Troika Dialog for an initial cash amount equal to its carrying value at 31 December 2010 of USD372 million, and will receive an earn-out payment of approximately 8% of any increase in the value of Troika Dialog as at the end of 2013. This enables the group to participate in the growth of the value of the business over time and provides a platform for enhanced cooperation with the leading banking group in Russia.

Standard Bank Group became a significant shareholder in Troika Dialog, a leading independent Russian investment bank, in September 2009, through a transaction in which the group invested USD300 million in Troika Dialog (comprising cash of USD200 million and the net asset value of the group's wholly owned Russian banking subsidiary, ZAO Standard Bank, which was transferred to Troika Dialog), in exchange for its final shareholding of 36,4% of Troika Dialog. The transaction is subject to formal documentation and a number of regulatory approvals. The completion date in respect of the transaction is expected to be in the last quarter of 2011 and the initial proceeds on such disposal would be received only at that time.

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Business unit reviews continued

Wealth – Liberty

Headline earnings attributable to the group
R1 393 million

2009: **R72 million**

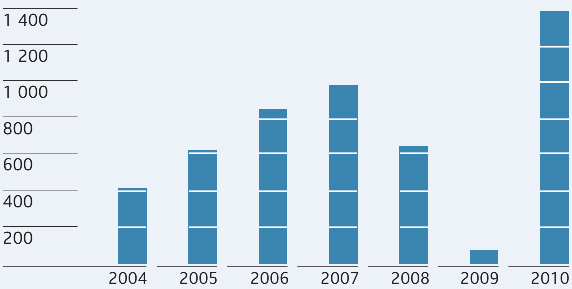
Return on equity
21,9%

2009: **1,2%**

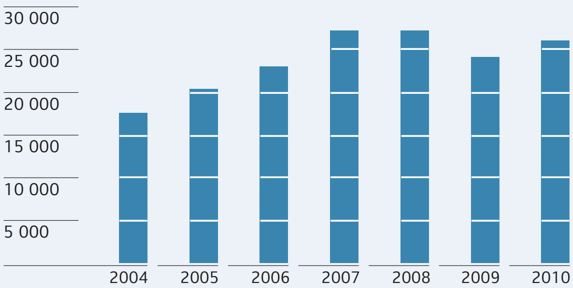
> "Liberty made strong operational progress during 2010 and delivered a good set of financial results. Significant progress was made on numerous fronts."

Bruce Hemphill, *chief executive: Liberty Holdings*

Headline earnings – SBG share
Rm



Normalised embedded value
Rm



Normalised embedded value R26 billion

2009: **R24 billion**

Third-party assets under management R232 billion

2009: **R200 billion**

What we offer

Standard Bank's wealth activities comprise the group's 53,7% investment in Liberty Holdings and a bancassurance joint venture with Liberty, which offers retail assurance and investment products, and short-term insurance. Liberty offers life insurance and investment and wealth management solutions to individual and corporate customers in selected African markets. In recent years, Liberty has expanded its focus from life insurance to broader wealth management, including life insurance, asset management, property, health and specialised wealth management. Liberty is expanding its reach in Africa and developing additional distribution channels to meet the challenging needs of its customers.

2010 highlights

– Persistency tracking well within assumptions.
– New business margin improvement.
– Investment performance improving.

Priorities in 2011

– Focus on volumes, costs, value of new business and product innovation.
– Systematically build Stanlib's ability and reputation for sustainable excellent investment performance.
– Leverage market opportunities for the corporate and property businesses.
– Pursue further growth in Liberty Africa and Liberty Health.

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Business unit reviews continued

Wealth – Liberty continued

Overview

The 2010 results are reflective of the significant operational progress achieved, particularly in the retail business, supported by positive investment markets. Material progress has been made on customer retention, the ability to manage the balance sheet within risk appetite, the appointment of a new management team in Stanlib and the extended scope of the bancassurance agreement with Liberty.

While Liberty has not yet achieved its full potential, the focus is clear and a strong management team is in place to deliver against strategy.

Financial performance

The financial results reported for the wealth activities are the consolidated results of our 53,7% investment in Liberty Holdings Limited. Bancassurance results are included in Personal & Business Banking. Liberty recorded a strong earnings result with BEE normalised headline earnings being R2 597 million for the year ended 31 December 2010, compared to the R135 million reported for 2009. Of these headline earnings R1 393 million was attributable to Standard Bank (2009: R72 million). This is a significant improvement indicating a return to relatively normal levels of earnings from core insurance operations and a positive investment performance, despite the sluggish South African economic recovery and the lingering investment market uncertainty throughout 2010.

BEE normalised headline earnings – Liberty Holdings

	2010 Rm	2009 Rm
Retail insurance	**899**	(82)
Liberty Corporate	**103**	(29)
LibFin	**1 443**	(8)
Stanlib	**361**	362
Liberty Properties	**96**	80
Liberty Africa	**10**	29
Liberty Health	**(43)**	(47)
Other	**(272)**	(170)
BEE normalised headline earnings	**2 597**	135

The progress made by Retail SA in improving policyholder persistency is well ahead of initial estimates and while it is still too early to adjust long-term persistency assumptions, persistency operating variances were net positive excluding any release of short-term provisions. Management is confident of ongoing progress in this area.

The focus on quality in Retail SA insurance sales has resulted in lower volumes and lower new business margins. Margins have been negatively affected by acquisition cost inefficiency combined with continuing conservative persistency assumptions. Improving new business margin is a matter of priority.

Returns on the shareholder investment portfolio reflect strong fourth quarter equity market performance and by design are comparable to a low risk balanced portfolio. The asset/liability positions were managed within mandated risk limits and capital ratios remain strong. The substantial equity de-risking costs of R519 million included in the 2009 result, as anticipated, were a once-off event.

Stanlib and Liberty Africa asset management operations continued to attract excellent net cash inflows of R15,7 billion and R6,5 billion, respectively. Particular strength was evidenced in the money market funds and fixed interest franchise. External assets under management have reached R232 billion, with growth achieved by all asset managers (Stanlib, Liberty Properties and Liberty Africa).

External assets under management

	2010 Rbn	2009 Rbn
Asset management – assets under management	**36**	46
Segregated funds	**33**	43
Properties	**3**	3
Wealth management – funds under administration	**196**	154
Single manager unit trust	**87**	74
Institutional marketing	**41**	25
Linked and structured life products	**28**	23
Multi-manager	**9**	8
Rest of Africa	**31**	24
Total external assets under management	**232**	200

The capital adequacy cover of Liberty remains good at 2,7 times the statutory requirement (31 December 2009: 2,8 times). This capital adequacy cover is well ahead of the internal target of 1,7 times. All the subsidiary life licences are well capitalised.

Strategy

Liberty has made substantial progress in its three strategic focus areas:

Strengthen the insurance business

Improving policyholder retention has been the insurance business's main priority over the past 18 months. The various management interventions, following extensive analytics on policyholder behaviour, have had very pleasing results with retention experience well ahead of set targets. These interventions are now entrenched in "business as usual".

Management focus has turned to the current low value of new business and new business margins and various innovative initiatives are at an advanced stage of completion. Although insurance new business is lower than 2009, the focus has been on improved quality, however, acquisition costs remain a concern.

Excellence in balance sheet management

The formation of LibFin to specifically focus on the balance sheet, associated improvements in information delivery and the implementation of risk mandates and hedging policies have all been achieved. Liberty's strong capital position reflects the success of this strategic focus area and earnings are expected to be less volatile. There have been once-off profits arising from de-risking in 2010.

Growth strategies

Growth strategies have had mixed success. Liberty Properties made good progress in diversifying income through extending its property development management capabilities. Stanlib's recent fund performance indicated significant improvement and its prominence in fixed interest, money market and property franchises was maintained with excellent cash inflows.

The alternative direct distribution channel, Frank Financial Services, was successfully launched in November 2010 and is achieving its sales targets.

The CfC Insurance Holdings Limited acquisition in Kenya was further delayed into 2011, however, progress was made in extending the group's wealth service offerings into selected African countries.

Liberty Health has faced significant operational challenges and the achievement of the value proposition is likely to take longer than originally intended.

The result of the renegotiated bancassurance agreement with Liberty is a broadening of the applicable product and distribution opportunities. There is mutual commitment to maximise these opportunities and considerable value add to the group is anticipated in the medium term.

Outlook for 2011

Liberty's results are linked to the performance of the economies and investment markets in which it operates with South Africa being the most important. The significant progress made in our core operations in 2010 positions Liberty favourably for continued delivery of good operational performance and to take advantage of any improvements in these markets.

The focus will be on lowering unit costs and improving new business sales and margins in the insurance business. In Liberty's asset management businesses, we will continue to build the capacity to deliver superior investment returns.

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Corporate governance

Actions taken in 2010:

- Director education continued.
- Induction of the newly appointed chairmen of board and key risk committees.
- Group-wide roll out of the revised code of ethics and related staff training continued.
- The regulatory and legislative oversight management committee made significant progress in identifying the implications for the group of the evolving legislative and regulatory requirements.
- Maintained inclusion on the JSE Socially Responsible Investment (SRI) Index.
- Group practices were aligned to the King Code requirements.

Looking ahead to 2011:

- Complete the actions required to align the group's governance processes to the King Code.
- Continue to track and assess regulatory developments and formulate appropriate responses.
- In South Africa, implement the new corporate law regime, together with new or amended legislation relating to companies, competition, privacy of information and consumer protection, as well as banking law and regulations.
- Review internal, local and international governance structures to ensure new regulatory requirements are understood and met, and that international best practice is considered.

Introduction

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 group's governance framework enables the board to balance its role of providing risk oversight and strategic counsel, and ensuring adherence to regulatory requirements and risk tolerance. The board is committed to upholding the fundamental tenets of governance, which include discipline, independence, responsibility, fairness, social responsibility, transparency and accountability of directors to all stakeholders.

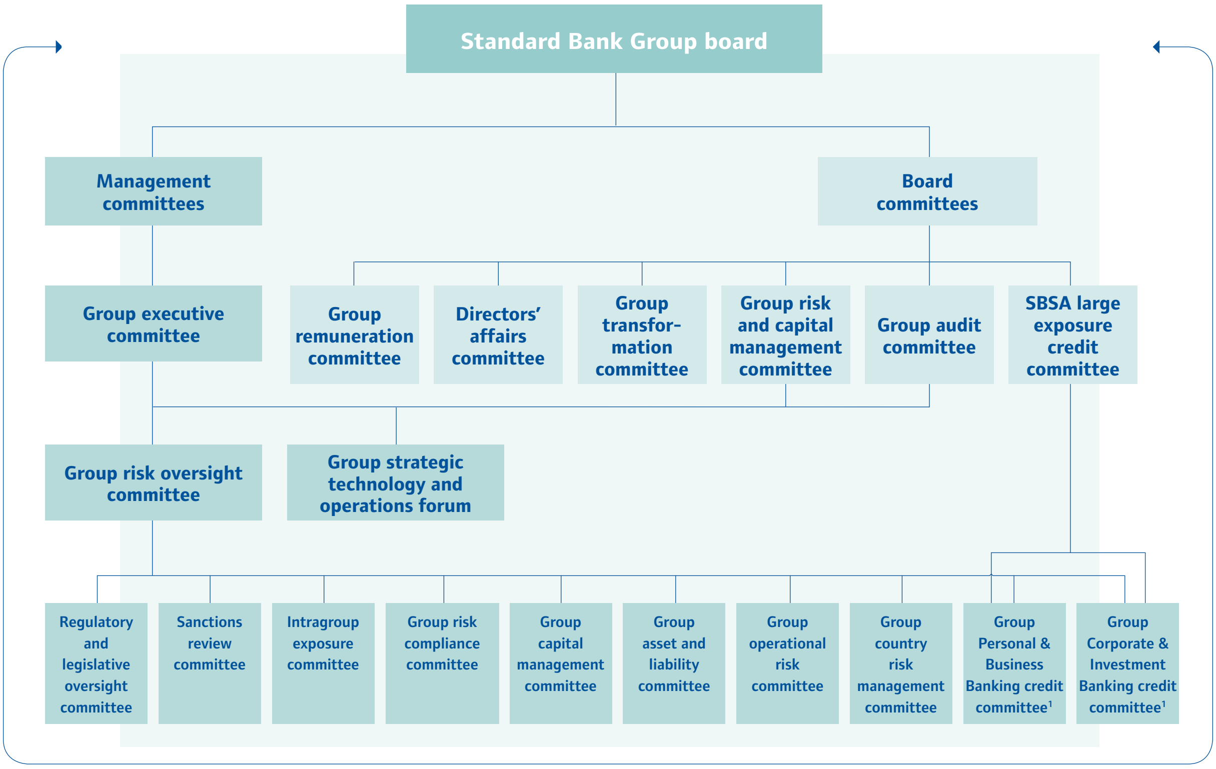
The board's approach to governance is to embrace relevant local and international best practice. The principles of the King Code inform the governance framework and practices of the group and its subsidiaries. These have been reviewed and updated to ensure compliance with the King Code where appropriate.

The group established a steering committee to implement the requirements of the King Code. The project comprised six workstreams and the committee provided detailed feedback to the board on the gaps identified and the mechanisms required to address them. The board approved the steering committee's implementation plan, which included modifications to existing corporate governance structures. In 2010, the focus was on establishing the framework for applying the King Code where group practices differed with the Code, and implementation began. The group has made strides in the application of the King Code principles. In limited circumstances where a decision has been taken that the principles and recommendations of King Code will not be applied, reasons are given.

The group is in the process of finalising a policy to ensure that a consistent governance framework and standards are applied to, and adopted by, its subsidiaries. In all jurisdictions, governance developments are monitored on an ongoing basis to ensure that local requirements are met.

The Standard Bank of South Africa Limited, which conducts the group's domestic banking operations, is a major subsidiary of the group as defined in the JSE Limited (JSE) Listings Requirements. Liberty Holdings is a significant subsidiary of the group, governed by specific regulatory and legislative requirements. Liberty Holdings' compliance with the relevant requirements is documented in its annual report available at www.liberty.co.za.

Governance framework



[1] *The board has delegated authority to these committees to act as nominated designated committees in respect of regulations.*

Management committees

Board committees

Codes, regulations and 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 of compliance risk management is delegated to the group audit committee, which reviews and approves the compliance mandate submitted by the group chief compliance officer, who reports on a quarterly basis on, among others, the status of compliance risk management in the group, significant areas of non-compliance, as well as feedback on interactions with regulators. The group compliance function as well as the compliance policy and governance standards are subject to review and audit by group internal audit. The regulation and legislation oversight committee is a dedicated management committee that assesses the impact of proposed legislation and regulation. Material regulatory issues are escalated to the group risk oversight committee.

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

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 the Standard Bank Group's 2010 sustainability report available at www.standardbank.com or the group's sustainability website at www.standardbank.com under sustainable development.

Board and directors

Board structure and composition

The board of directors is the group's highest decision-making body and is ultimately responsible for governance. Directors are elected by the group's shareholders. 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.

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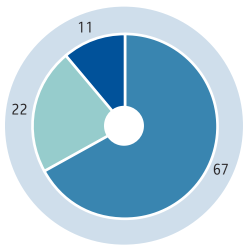
Corporate governance continued

Board structure and 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 non-executive directors have served on the board for more than nine years, namely Doug Band and Saki Macozoma. After a rigorous review, the board has 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 the group's strategic empowerment partners, Safika and Shanduka. Hongli Zhang and Yagan Liu, the non-executive directors representing ICBC, the group's largest shareholder, are similarly not independent.

Resignation, retirement and removal of directors

No directors were removed during the period under review. Derek Cooper and Martin Shaw retired after the annual general meeting on 27 May 2010.

Due to a change in executive responsibilities, ICBC president Kaisheng Yang resigned from the board as director and deputy chairman, and from all board committees on which he served with effect from 8 October 2010. Hongli Zhang was appointed to these positions on the same date. Mr Zhang has extensive financial and banking experience, and the cooperation between ICBC and the group continues to be progressed.

Rick Menell, a member of the board since 1997, resigned on 4 February 2011 due to a conflict of interest. Mr Menell played an important role as an independent non-executive director on the board and member of the remuneration, and group and SBSA risk and capital management committees.

Succession planning

Succession planning is a key focus and the directors' affairs committee considers the composition of the board and its committees on an ongoing basis. The retention of board members with considerable experience is sought to ensure that appropriate levels of management oversight are maintained.

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:

- domestic and international 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.

Directors' qualifications and brief curricula vitae are provided on pages 94 to 97.

The directors' affairs committee regularly considers board members individually and collectively to ensure the board remains strategically, demographically and operationally appropriate.

Access to information and resources

Executive management and the board interact regularly. This is encouraged and the group executive committee attends all board meetings. Non-executive directors meet without the executive directors in closed sessions at each board meeting.

Directors have unrestricted access to group 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 board regularly reviews the group's nominations and appointments policy, which is aligned with applicable legislation and regulations. These include, but are not limited to, the requirements of the Companies Act, Banks Act and JSE Listings Requirements.

The policy sets out the process for nominating and appointing directors and key executives. There is a formal process for appointing directors. Shareholders are provided with information on the directors' education, qualifications, experience and other key directorships. In terms of the policy, executive management requires permission for external board appointments. This reduces potential conflicts of interest and helps ensure that management devotes sufficient time and focus to group business.

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 Banks Act and the JSE Listings Requirements.

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.

Financial performance is monitored through quarterly management reports.

In line with banking regulations, the board agrees the group's corporate governance and risk management objectives for the year ahead. The directors' affairs committee and the relevant risk committees monitor performance against governance and risk objectives, respectively, and a report is submitted to the board. The assessment for the period under review found that the group had materially achieved its corporate governance and risk management objectives.

Board responsibilities

The key terms of reference in the board's mandate, which sets out the board's responsibilities, include the following:

- agree the group's objectives, strategies and plans for achieving those objectives;
- review annually the corporate governance and risk and capital management process and assess achievement against objectives;
- delegate to the chief executive or any director holding executive office or any senior executive any of the powers, authorities and discretions vested in the directors;
- delegate similarly such powers, authorities and discretions to any committee and subsidiary company boards as may exist or may be created from time to time;
- determine the terms of reference and procedures of all board committees, review the board's and the committees' mandates annually and review their reports and minutes;
- consider and evaluate reports submitted by members of the executive;
- ensure that the audit committee is effective and independent;
- review and monitor the performance of the chief executive and executive management;
- ensure consideration is given to succession planning for the board, chief executive and executive management;
- establish and review annually, and approve major changes to, relevant group policies;
- consider the remuneration of non-executive directors on the board and board committees, based on proposals made by the group remuneration committee, and make recommendations to shareholders for approval;
- approve capital funding for the group, and the terms and conditions of rights or other issues and any prospectuses in this regard;
- ensure that an adequate budget and planning process exists, measure performance against budgets and plans, and approve annual budgets for the group;
- approve significant acquisitions, mergers, takeovers, divestments of operating companies, equity investments and new strategic alliances entered into by the group;
- consider and approve capital expenditure;
- consider and approve any significant changes proposed in accounting policy or practice, and consider the recommendations of the group audit committee;
- consider and approve the annual financial statements and the annual integrated report, results and dividend announcements and notices to shareholders, and consider and agree the basis for considering the group to be a going concern as per the recommendation of the group audit committee;
- assume ultimate responsibility for financial and information technology governance, operational and internal systems of control, and ensure adequate reporting on these by respective committees;
- consider the effectiveness of internal controls;
- ensure that an effective and robust risk management process is in place which is linked to strategy, performance and sustainability;
- ensure that regulatory reporting to the board is comprehensive;
- ensure a balanced and understandable assessment of the group's position in reporting to stakeholders;
- monitor management and stakeholder relations and provide effective leadership based on an ethical foundation;
- consider and approve the group's political party funding policy and material political connections of directors if necessary;
- review non-financial matters that have not been specifically delegated to a committee;
- agree specifically, from time to time, matters that are reserved for its decision, retaining the right to delegate any of these matters to any committee in accordance with the articles of association;

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- ensure that the company applies applicable laws and considers non-binding rules and standards which is consistent with an effective compliance framework;
- ensure that a governance framework is consistently applied across the group including subsidiaries; and
- ensure that disputes are resolved effectively and efficiently as possible.

The board has reviewed and approved the annual integrated report, with assurances on the information having been provided by the group audit committee.

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 reviews the mandate of each committee at least annually.

The board delegates authority to the chief executive and executive directors to manage the business and affairs of the group. The group executive committee 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 group governance office monitors board-delegated authorities.

The group executive committee is set out on page 31. The group's corporate governance framework, which shows board and executive management reporting lines, is set out on page 83.

Board meetings

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

Board of directors – meeting attendance

Board of directors' meetings for 2010	Mar	May	Aug	Oct	Dec
TMF Phaswana (chairman)[1,2]	√	√	√	√	√
DE Cooper[1,3]	√	√	–	–	–
Kaisheng Yang[4,5]	√	√	√	–	–
Hongli Zhang (deputy chairman)[4,6]	–	–	–	√	√
SJ Macozoma (deputy chairman)[4]	√	√	√	√	√
DDB Band[1]	√	√	√	√	√
RMW Dunne[1]	√	√	√	√	√
TS Gcabashe[1]	√	√	√	√	√
SE Jonah KBE[1]	A	√	√	A	A
Sir Paul Judge[1]	√	√	√	√	√
KP Kalyan[1]	√	√	√	√	√
Yagan Liu[4]	√	√	√	√	√
JH Maree[7]	√	√	√	√	√
RP Menell[1,8]	√	√	√	√	√
KD Moroka[1]	√	√	√	√	√
AC Nissen[1]	√	√	√	√	√
MC Ramaphosa[4]	√	√	√	√	A
SP Ridley[7]	√	√	√	√	√
MJD Ruck[1]	√	√	√	√	√
MJ Shaw[1,9]	√	√	–	–	–
Lord Smith[1]	√	√	√	√	√
EM Woods[1]	√	√	√	√	√

[1] Independent non-executive director.
[2] Appointed chairman 27 May 2010.
[3] Retired as director and chairman 27 May 2010.
[4] Non-executive director.
[5] Resigned as director and deputy chairman 8 October 2010.
[6] Appointed as director and deputy chairman 8 October 2010.
[7] Executive director.
[8] Resigned as director 4 February 2011.
[9] Retired as director 27 May 2010.
√ = Attendance
A = Apology
– = Not applicable

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 identify any areas for director education.

The board assessed the performance of its committees in 2009. The chairman reported the findings at the board meeting in 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.

In 2010, the board engaged an external facilitator to perform an independent review of its performance. The process is under way 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 group chairman and chief executive is assessed annually, and their remuneration determined accordingly. The remuneration report can be found on page 98.

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. The directors' education programme continued to focus on business issues and additional time was scheduled outside of board meetings for sessions on pertinent issues for the board and its committees. The programme was supplemented by external courses and on-site visits where relevant.

On appointment, each new director receives a governance manual that includes all relevant governance information such as mandates, management structures, significant reports, important legislation and policies. 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. If an inexperienced director is appointed to the board, mentorship would be considered.

Board committees

Each board committee's mandate sets out the role, responsibilities, scope of authority, composition and procedures to be followed. All board committee mandates were reviewed in 2010 to take into account amendments to relevant legislation and the new requirements of the King Code.

Group audit committee

Member	Feb	Mar	Apr	May	Jun	Aug	Oct	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 27 May 2010.
[2] Retired as chairman and director 27 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

Although the new Companies Act and the King Code require shareholders to elect the members of the audit committee at each annual general meeting, the new Companies Act provides an exemption to banks and bank controlling companies. The audit committee is constituted in terms of the Banks Act. The Banks Act requires the board to appoint at least three independent non-executives to the committee and stipulates that the chairman of the board may not be a member of the committee.

In accordance with the Banks Act, the board has appointed the members of the committee, which is comprised solely of independent non-executive directors. Details of members including their professional qualifications are set out on pages 94 to 97 of this report.

The role of the group audit 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.

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The committee's terms of reference sets out various categories of responsibilities, including the following:

- review and approve the group audit plan with the joint auditors, with specific reference to the proposed audit scope, approach to group risk activities and the audit fee;
- assess annually the work done by the external auditors to ensure their independence and effectiveness;
- meet with external auditors to discuss audit findings and consider detailed internal audit reports with the internal auditors;
- oversee the appointment of external auditors, their terms of engagement and fees;
- evaluate annually the role, independence and effectiveness of the internal audit function in the overall context of the group's risk management system;
- consider the appointment or dismissal of the chief audit officer and head of compliance;
- review the accounting policies adopted by the group and all proposed changes in accounting policies and practices;
- consider the adequacy of disclosures to ensure shareholders and stakeholders remain appropriately informed about financial matters and the reasons for variations in ratios reported in published documentation;
- review the effectiveness of financial management including the management of financial risks, the quality of internal accounting control systems and reports produced by financial management;
- review and approve the internal audit mandate;
- review significant differences of opinion between management and the internal audit function and report such differences;
- ensure the group applies a combined assurance model to provide a coordinated approach to all assurance activities;
- review the group compliance plan, with specific reference to the procedures for identifying regulatory risks and controlling their impact on the group, and ensure that the group's policy complies with relevant regulatory and legal requirements;
- ensure compliance with all legal, regulatory and accounting standards;
- monitor ethical conduct;
- review reports and activities of the financial crime department to ensure the mitigation and control of all fraud and related risks, including but not limited to implementing appropriate "whistleblower" mechanisms and ensuring that financial crime is adequately managed in the group;
- ensure the use of technology and related techniques to improve audit coverage and audit efficiency and oversee IT risks as they relate to financial reporting;
- monitor the relationship between external auditors and the company;
- remain up to date with regulations and new developments in reporting;
- review and make recommendations on any potentially material conflicts of interest;
- consider the appropriateness of the financial statements and accounting practices of the group;
- consider the effectiveness of the group's internal financial controls;
- hold periodic sessions with internal audit in the absence of management; and
- recommend approval of the annual integrated report to the board and assure the integrity of the information in the report.

The committee is responsible for the internal control framework, which is the group's three lines of defence model overlaid by 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 is provided on this and the combined assurance model in the risk and capital management section which starts on page 120.

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 group financial director is ultimately responsible for implementing and maintaining internal financial controls.

Assurance of the effectiveness of internal financial controls is achieved through:

- management confirmation that the financial governance controls and internal financial controls supporting the assertions in the financial statements operated effectively during the year, which was the case for the year ended 31 December 2010 (this attestation will become a quarterly discipline in 2011); and
- coordinated audit work by the internal and external auditors as part of their annual risk-based audit plans.

The group has a formal policy on non-audit fees, which is regularly reviewed and approved by the committee. The purpose of this policy 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 chairman approves, on a case-by-case basis, all significant services outside the scope of the pre-approved audit plan, and any engagements beyond a threshold amount are subject to approval by the committee. The independence of the auditors and availability of alternative service providers are key factors in granting approval. The split between audit fees and fees for non-audit services is set out on page 276.

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. This takes place on an ongoing basis. The group internal audit mandate is not approved by the board as the board has delegated this to the committee.

The audit committee reviews financial information to be published by the group. In addition, the content of the annual integrated report was reviewed by the committee and the content recommended to the board. Going forward, consideration will be given to the distribution of a summarised integrated report as permitted in terms of the new Companies Act.

The group audit committee has complied with its mandate in the year under review, as well as its legal and regulatory responsibilities. For further discussion on these activities, reference should be made to the audit committee report on page 203.

Group risk and capital management committee

Member	Mar		May	Aug	Nov
MJD Ruck (chairman)[1]	√	√	√	√	√
MJ Shaw[2]	√	√	√	–	–
DDB Band	√	√	√	√	√
DE Cooper[3]	√	√	√	–	–
RMW Dunne	√	√	√	√	√
Yagan Liu[4]	√	√	√	√	√
SJ Macozoma	√	A	√	√	√
RP Menell[5]	√	√	√	√	√
TMF Phaswana	√	√	√	√	√
Kaisheng Yang[6]	√	√	√	√	–
Hongli Zhang[7]	–	–	–	–	√

[1] Appointed chairman 27 May 2010.
[2] Retired as director and chairman 27 May 2010.
[3] Retired as director 27 May 2010.
[4] Alternate to Hongli Zhang.
[5] Resigned as director 4 February 2011.
[6] Resigned as director 8 October 2010.
[7] Appointed as director 8 October 2010.
√ = Attendance
A = Apology
– = Not applicable

The board is ultimately responsible for risk and capital management. The main purpose of the group 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. Assurance on the effectiveness of the risk management processes is provided to the committee through management reporting.

The group risk and capital management committee complied with its mandate in the year under review. Four scheduled meetings were held and one additional ad hoc meeting was called.

The risk management report, which sets out the group's framework for risk and capital management, can be found on page 120.

Group credit committee

Member	Mar	May	Aug	Nov
TMF Phaswana (chairman)[1]	√	√	√	√
DE Cooper[2]	√	√	–	–
DDB Band	√	√	√	√
AG Gain[3]	√	√	√	√
RC Irvine[3]	√	√	√	√
Yagan Liu[4]	√	√	√	√
SJ Macozoma	√	√	√	√
JH Maree[3]	√	√	A	√
SP Ridley[3]	√	√	√	√
MJD Ruck	√	√	√	√
PJ Smith[3]	√	√	√	√
J van der Velden[3]	√	√	√	A
Kaisheng Yang[5]	√	√	√	–
Hongli Zhang[6]	–	–	–	√

[1] Appointed chairman 27 May 2010.
[2] Retired as director and chairman 27 May 2010.
[3] Executive members.
[4] Alternate to Hongli Zhang.
[5] Resigned as director 8 October 2010.
[6] Appointed as director 8 October 2010.
√ = Attendance
A = Apology
– = Not applicable

The group credit committee, whose role it was to ensure that effective frameworks for credit governance were in place across the group, complied with its mandate for the year under review.

Following discussions, the board agreed a proposal to combine the role for oversight of credit risk with the work undertaken by the group risk and capital management committee. This was to eliminate the duplication of work between the two committees. The group risk and capital management committee will now assume responsibility for all issues previously overseen by the group credit committee, including reporting to the group audit committee on group credit portfolios, adequacy of credit impairments and the status of non-performing loans.

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The large exposure credit committee approves credit facilities in accordance with regulatory requirements for SBSA. This committee will continue to operate in terms of guidance received from the Registrar of Banks in South Africa, including the composition which includes three non-executive directors of SBSA, and SBSA business and risk heads, namely the chief executive, financial director, chief risk officer and head of credit.

Directors' affairs committee

Member	Mar	May	Aug	Nov
TMF Phaswana (chairman)[1]	√	√	√	√
DE Cooper[2]	√	√	–	–
DDB Band	√	√	√	√
Yagan Liu[3]	√	√	√	√
SJ Macozoma	√	√	√	√
MC Ramaphosa	√	A	√	A
Kaisheng Yang[4]	√	√	√	–
Hongli Zhang[5]	–	–	–	√

[1] Appointed chairman 27 May 2010.
[2] Retired as director and chairman 27 May 2010.
[3] Alternate to Hongli Zhang.
[4] Resigned as director 8 October 2010.
[5] Appointed as director 8 October 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 of the group. 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 also assesses the effectiveness of the board and its committees against their respective mandates.

The committee reviews pertinent issues and the potential impact on the group and the communities in which the group operates, to ensure that the group remains a responsible corporate citizen.

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 transformation committee

Member	Feb	May	July	Nov
SJ Macozoma (chairman)	√	√	√	√
DE Cooper[1]	√	A	–	–
KP Kalyan	√	√	√	√
JH Maree[2]	√	√	√	√
AC Nissen	√	√	√	√
TMF Phaswana	√	√	√	√
SK Tshabalala[2]	√	√	√	√

[1] Retired as director 27 May 2010.
[2] Executive member.
√ = Attendance
A = Apology
– = Not applicable

This committee oversees the group's transformation initiatives and provides guidance on appropriate approaches. The committee monitors developments on an ongoing basis to ensure compliance with evolving legislation and related regulations. A key focus is monitoring of progress against transformation targets. In 2010 the committee was kept abreast of developments in relation to industry codes, and specifically the process of aligning the Department of Trade and Industry's Codes of Good Practice for Broad-based Black Economic Empowerment (dti codes) with the financial sector charter.

The transformation committee complied with its mandate in the year under review.

Group remuneration committee

Details on this committee and a report on its activities are set out in the remuneration report on pages 98 to 109.

Group secretary

The role of the group secretary is to ensure the board remains cognisant of its duties. 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. This includes information such as corporate announcements, investor communications and other developments which may affect the bank and its operations. All directors have access to the services of the group secretary.

Going concern

On the recommendation of the group 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.

Relationship with shareholders

Regular, pertinent communication with shareholders is part of the group's fundamental responsibility to create shareholder value and improve stakeholder relationships. In addition to the ongoing engagement facilitated by the investor relations department, the group chairman encourages shareholders to attend the annual general meeting where interaction is welcomed. The chairmen of the group's audit and remuneration committees are available at the meeting to respond to questions from shareholders. Voting at general meetings is conducted by ballot rather than a show of hands. The group proposes separate resolutions on each issue put forward to shareholders. The results of voting are released on SENS (the JSE's electronic news service).

In line with cost reduction initiatives, shareholders who still hold shares in certificated form were encouraged to receive annual and interim reports and dividend announcements in electronic format.

For more information on the group's relationship with shareholders, please refer to the sustainability website at www.standardbank.com under sustainable development and page 112 for the stakeholder engagement report.

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 at Standard Bank 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.

Detailed quarterly reports on stakeholder relationships and related issues are provided to the board. In addition, the group is supportive of resolving disputes in the most beneficial manner and is currently refining the alternate dispute process it applies to ensure greater consistency of approach across the group.

The strategic stakeholder management 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 available at www.standardbank.com under sustainable development.

Dealing in securities

In line with its commitment to conducting business professionally and ethically, the group has policies in place that restrict dealing in securities by directors and employees. These policies are updated regularly. A personal account trading policy and directors' dealing policy are in place to prohibit employees and directors from trading in securities during closed periods, which are in effect from 1 June until the publication of the interim results, and from 1 December until the publication of final results. Compliance with the policies is monitored on an ongoing basis.

Certain nominated employees are prohibited from trading in designated securities due to the price sensitive information they may obtain by virtue of their positions.

Sustainability

The group's 2010 sustainability report aims to present a balanced analysis of the group's sustainability performance in relation to issues that are relevant and material to the group and to its stakeholders. The report is guided by the Global Reporting Initiative's (GRI) G3 Sustainability Reporting Guidelines and the group has reported against the indicators in the GRI Financial Services Sector Supplement. The group has reported at a B+ level in terms of the GRI G3 guidelines.

The report provides:

- an overview of the group's sustainability performance in 2010;
- an overview of stakeholder interaction during the year;
- material issues affecting the group; and
- performance indicators as per the GRI G3 guidelines and relevant statistical information.

The select sustainability information contained in the annual integrated report was independently assured by external assurance providers and internally by group internal audit.

The King Code recommends that a company integrates financial and non-financial reporting. This means that the annual report to stakeholders must reflect how economic, social and environmental issues impact on the company's business

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strategy and, in turn, how these are considered when making business decisions. This evolution in reporting stems from the growing realisation that environmental and social issues have material costs and impacts and could directly impact a company's long-term viability. Building on the group's previous non-financial disclosure in its annual reports, this year the group has improved its reporting to include more information on the issues that are material to stakeholders and the group's long-term sustainability.

Printed copies of the sustainability report can be obtained from the group secretary. Alternatively, stakeholders are encouraged to visit our sustainability website at www.standardbank.com under sustainable development which provides more detail on the group's sustainability performance. This website is updated annually, and articles of interest are posted throughout the year.

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 Standard Bank's values in greater detail and provides value-based decision-making principles to guide its conduct. It is aligned with other Standard Bank 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. It will be updated to reflect any changes in the group's alternate dispute-resolution process.

The group chief executive and group ethics officer are the formal custodians of Standard Bank's code of ethics and ultimately responsible for its implementation. In 2010, Standard Bank 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 and the group ethics officers. Reported incidents include fraud, harassment, ethical dilemmas in procurement and abuse of authority. Ethics incident reporting to the group 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 Financial Sector Charter. Although widely endorsed, the charter was a voluntary framework in terms of section 12 of the Broad-based Black Economic Empowerment Act (BBBEE Act) and was not legislated.

The process envisaged to convert the voluntary status of the charter to that of a sector code in terms of the relevant legislation has been revived in 2010 under the leadership of the Minister of Finance and Minister of Trade and Industry. A draft 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.

Standard Bank Tutuwa schemes

Standard Bank is firmly committed to black economic empowerment (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 Standard Bank Group; and
- earnings must meet the management threshold set by the Financial Sector 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 creating wealth of R47,7 million. In November 2009, the lock-in period for the remaining 89 shares came to an end and employees were given a choice to either sell or retain their shares.

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 the 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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Board of directors

Fred Phaswana

BA (Unisa), BA (Hons) (Unisa), MA (Unisa), BCom (Hons) (RAU), BA (Philosophy, Politics and Economics) (Unisa)

Appointed: 2009

Aged 66, is the chairman of Standard Bank Group and The Standard Bank of South Africa. He is also chairman of the South African Institute of International Affairs and a non-executive director on the board of Naspers. He chairs the group/SBSA directors' affairs committees and is a member of the group/SBSA risk and capital management committees, group remuneration committee, group transformation committee and the SBSA large exposure credit committee.

Hongli Zhang

Masters Degree in Plant Genetics (Alberta), MBA (Santa Clara)

Appointed: 2010

Aged 46, is deputy chairman of Standard Bank Group. He is a senior executive vice-president of the Industrial and Commercial Bank of China. He serves on the directors' affairs committee and group risk and capital management committee.

Saki Macozoma

BA (Unisa), BA (Hons) (Boston)

Appointed: 1998

Aged 53, is deputy chairman of Standard Bank Group and non-executive director of The Standard Bank of South Africa. He is chairman of Liberty Group, Liberty Holdings, Stanlib, Tshipi e Ntle Manganese Mining, Iliso Consulting, VW South Africa, Safika Holdings and a director of various Safika subsidiaries including Tutuwa Strategic Holdings 2. He chairs the group transformation committee and is a member of the group/SBSA directors' affairs committee, group remuneration committee and group/SBSA risk and capital management committees.

Jacko Maree

BCom (Stellenbosch), MA (Oxford), PMD (Harvard)

Appointed: 1997

Aged 55, is group chief executive of Standard Bank Group and director of The Standard Bank of South Africa, Standard Bank Plc, Liberty Group, Liberty Holdings, Stanbic Africa, Stanbic IBTC Bank, SBIC Investments and chairman of Standard International Holdings. He is a member of the group transformation committee and SBSA large exposure credit committee.

Doug Band

BCom (Wits), CA (SA)

Appointed: 1997

Aged 66, is an independent non-executive director of Standard Bank Group and The Standard Bank of South Africa. He currently serves as a director on the boards of The Bidvest Group, Gymnogene Investments, MTN Group and various subsidiaries. He is a member of the group/SBSA directors' affairs committees, group remuneration committee, group/SBSA risk and capital management committees and the SBSA large exposure credit committee.

Richard Dunne

CTA (Wits), CA (SA)

Appointed: 2009

Aged 62, is an independent non-executive director of Standard Bank Group and The Standard Bank of South Africa. He currently serves on the boards of Anglo Platinum, AECI and Tiger Brands. He is chairman of the group/SBSA audit committees and is a member of the group/SBSA risk and capital management committees.

Thulani Gcabashe

BA (Botswana and Swaziland), Masters in Urban and Regional Planning (Ball State)

Appointed: 2003

Aged 53, is an independent non-executive director of Standard Bank Group and The Standard Bank of South Africa. He is currently chairman of Imperial Holdings, executive chairman of BuiltAfrica Holdings and a director of MTN-Zakhele. He is a member of the group/SBSA audit committees.

Sam Jonah KBE

ACSM, MSc, DIC, DSc (UK)

Appointed: 2006

Aged 61, is an independent non-executive director of Standard Bank Group and The Standard Bank of South Africa. He serves as chairman of Jonah Capital and Iron Mineral Beneficiation Services. He is a director of Jonah Mining, Bayport Management and Range Resources.

Sir Paul Judge

MA (Cambridge), MBA (Pennsylvania)

Appointed: 2003

Aged 61, is an independent non-executive director of Standard Bank Group and The Standard Bank of South Africa. He is chairman of Schroder Income Growth Fund and a director of Abraaj Capital, Isoworth Holdings, Oxbridge Capital, Eurasian Natural Resources Corporation, Panoramic Lease, Tempur-Pedic International and Westminster Corporate Finance.

Koosum Kalyan

BCom (Hons) (Durban-Westville)

Appointed: 2007

Aged 55, is an independent non-executive director of Standard Bank Group and The Standard Bank of South Africa. She is chairman of Edgo Merap and director of Kgontsi Holdings, MTN Group and a subsidiary, South African Bank Note and South African Mint Company. She is a member of the group transformation committee.

Fred Phaswana

Hongli Zhang

Saki Macozoma

Jacko Maree

Doug Band

Richard Dunne

Thulani Gcabashe

Sam Jonah KBE

Sir Paul Judge

Koosum Kalyan

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Board of directors continued

Yagan Liu

Chinese Certified Public Accountant, International Certified Internal Auditor, MA in Accounting (Beijing Technology Business University), Doctorate in Accounting (Research Institute for Fiscal Science, Ministry of Finance)

Appointed: 2008

Aged 37, is a non-executive director of Standard Bank Group. He is currently deputy general manager of Industrial and Commercial Bank of China, and non-executive director of Seng Heng Bank. He serves as an alternate director to Hongli Zhang on the group directors' affairs committee and group risk and capital management committee.

Kgomotso Moroka

BProc (University of the North), LLB (Wits)

Appointed: 2003

Aged 56, is an independent non-executive director of Standard Bank Group and The Standard Bank of South Africa. She is chairman and director of Gobodo Forensic & Investigative Accounting and director of Fidelity Security Group, Multichoice South African Holdings, Network Healthcare Holdings, New Seasons ICT, Schindler Lifts (SA), Sew Eurodrive and South African Breweries.

Chris Nissen

BA (Hons), MA Humanities (Cape Town), Diploma in Theology

Appointed: 2003

Aged 52, is an independent non-executive director of Standard Bank Group and The Standard Bank of South Africa. He is chairman of Boschendal and South Atlantic Fisheries (SAFCO). He is a director of JCI, Sea Harvest Corporation and Woolworths Holdings. He is a member of the group transformation committee.

Cyril Ramaphosa

BProc (Unisa)

Appointed: 2004

Aged 58, is a non-executive director of Standard Bank Group and The Standard Bank of South Africa. He is chairman of The Bidvest Group, MTN Group, chairman/director of various MTN subsidiaries, Mondi Shanduka Newsprint, Shanduka Group and he is co-chairman of Mondi. He is a director of Kangra Coal, Lonmin, SABMiller, Tutuwa Strategic Holdings 1 and Alexander Forbes Equity Holdings. He is a member of the group/SBSA directors' affairs committees.

Simon Ridley

BCom (Natal), CA (SA), AMP (Oxford)

Appointed: 2009

Aged 55, is an executive director of Standard Bank Group and The Standard Bank of South Africa. He is currently a director of Standard Bank Argentina, Standard International Holdings, Stanbic Africa Holdings, SBIC Investments and various other group subsidiaries. He is a member of the SBSA large exposure credit committee.

Myles Ruck

BBusSc (Cape Town), PMD (Harvard)

Appointed: 2002

Aged 55, is an independent non-executive director of Standard Bank Group and The Standard Bank of South Africa. He is chairman of Standard Bank Argentina. He is a director of Aveng, Mr Price Group, Shanduka Group and Thesele Group. He is chairman of the group/SBSA risk and capital management committees and the SBSA large exposure credit committee.

Lord Smith of Kelvin, Kt

CA, Fellow of the Institute of Bankers (Scotland), Honorary Degrees (Edinburgh, Glasgow, Paisley)

Appointed: 2003

Aged 66, is an independent non-executive director of Standard Bank Group and The Standard Bank of South Africa. He is chairman of Scottish and Southern Energy, The Weir Group and 2014 Commonwealth Games Organising Committee. He is a member of the group/SBSA audit committees.

Ted Woods

BCom (Wits), MBA (Cape Town), CA (SA), CFA

Appointed: 2007

Aged 64, is an independent non-executive director of Standard Bank Group and The Standard Bank of South Africa. He is chairman of the group remuneration committee and is a member of the group/SBSA audit committees.

Yagan Liu

Kgomotso Moroka

Chris Nissen

Cyril Ramaphosa

Simon Ridley

Myles Ruck

Lord Smith of Kelvin, Kt

Ted Woods

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Remuneration report

Dear Shareholder

My purpose in writing to you is briefly to outline how your company's remuneration committee, or remco, applied the group's remuneration philosophy in 2010. Remco's formal report to shareholders follows this letter, and sets out more fully the group's remuneration policies and practices.

Standard Bank Group is a diverse and complex business, spanning multiple geographies, products and regulatory regimes. The correct breadth and depth of skills are critical in delivering strong and sustainable returns for shareholders. Our greatest assets are people with high-level skills who work with energy and dedication, often in complex systems and environments, and who embrace our ethos of personal integrity.

Rewarding such people fairly and competitively, based on performance across several primary metrics, is a vital part of building and buttressing our businesses. Our remuneration policies promote this imperative.

In significant portions of the group we are developing long-term businesses that are at different stages of maturity and profitability. Our best people in these enterprises are often targeted by other financial institutions willing to pay attractive premiums to secure excellent talent quickly. The financial and opportunity cost of losing and replacing skilled, experienced people is substantial. Remco accounts for these realities in setting competitive pay.

From a different viewpoint, remuneration designs can carry the potential to encourage excessive risk-taking in banks. This fact became crystal clear in the global financial crisis. Standard Bank's remuneration philosophies have, in my judgement, kept our group away from the excesses and short-termism in remuneration that stimulated irresponsible risk-taking in sections of the global banking industry.

Remco ranks the relationship between risk and remuneration as a top priority. We do not permit remuneration structures that would encourage breaches of the group's stated risk tolerances. No bonus pools are formulaically linked to revenue generation. Variable remuneration pools are, rather, strongly influenced by group and divisional multi-year performance, taking account of capital utilised and risk not captured in accounting provisions.

At the individual level, remco demands a philosophy of strong differentiation in pay between excellent delivery and modest performance, and between high integrity behaviour and loose compliance. A disciplined system of quantitative and qualitative individual evaluations underpins decisions on individual remuneration.

In principle, remco wants senior executives to be significantly invested in the Standard Bank Group share price over time, thereby encouraging ownership behaviour. All incentive remuneration, above a minimum level, is therefore deferred in part, and that deferred portion is linked in value to the Standard Bank share price during the deferral period. The percentage of compensation deferred has been increasing, and it varies with the incentive amount and by geographic region. Some people in our group have 60% of their incentive remuneration deferred, vesting over three years.

By attaching vesting conditions both to deferred bonuses and long-term incentives, we create capability for forfeiture of unvested compensation.

In March 2011, a vesting condition applicable to executive committee members under our Equity Growth Scheme (EGS) was not met. As a consequence, 330 000 rights and options that would otherwise have vested at that time were forfeited. Failure to meet this performance condition can be attributed in part to extraordinary stresses in the financial markets since 2008. Nevertheless, the principle of senior executives paying a personal price for below-target real earnings growth, along with shareholders, is correct in remco's judgement.

The cost rationalisation programme in 2010 included the retrenchment of 1 260 of our permanent people. This brought hardship to those people and their families. In these circumstances, and in light of the decline in group earnings for the year, remco members engaged in tough debate on the levels of salary increases and incentives it should approve.

Neither the group chief executive nor the chief executive of SBSA received bonus awards for 2010. For the group chief executive, this is the second year in succession of no bonus, and he received no awards of EGS participation rights in respect of the 2010 financial year. Remco considers this to be appropriate in the circumstances.

Nevertheless, these two executives delivered disciplined and effective leadership in a difficult environment, and remco will remain mindful of the value they continue to build for stakeholders.

Looking forward, remco members understand that competitive and fair remuneration is a vital element in attracting and energising competent people across the group. Remco's final decisions on overall salary and incentive pool increases therefore reflect a balance between 2010 financial year realities and appropriate human resourcing for future growth.

In closing, I should like to reassure you that remco members each apply their independent judgements in shaping the remuneration architecture of your group. One critical objective is to continue strengthening the human potential within Standard Bank Group. Another is to ensure that sound business judgement and prudent risk-taking are not eroded by remuneration practices.

Ted Woods

Ted Woods

Chairman, remco

This report from remco is intended to provide stakeholders with an understanding of the group's remuneration philosophy and practices. Remco and the Standard Bank Group board have approved the contents of the report. This report does not include details of the Liberty remuneration philosophy and practices which can be found in the Liberty annual report.

Regulators continued to refine their frameworks and regulation of compensation during 2010. Remco and Standard Bank work to ensure that the group's remuneration philosophy and practices meet these developing requirements, maintain market competitiveness and are consistent with, and promote, effective risk management. The group continues to review the current remuneration structure against the Financial Stability Board's principles for sound compensation practices.

Standard Bank is committed to building the leading African financial services organisation. We aim to serve our customers through first class, on-the-ground operations in chosen countries in Africa and to connect other selected emerging markets to Africa and to each other. Consequently, we work to develop a depth and calibre of human resource that is capable of delivering sustainable growth within our agreed risk tolerance.

Remuneration policy

At the heart of our strategy lies the value we place on our people. Therefore, effective management and remuneration of our talent must be a core competency in our group.

As an integral part of growing and fortifying our group's human capital, remco regularly reviews the group's remuneration policies, structures and practices, giving particular attention to the following principles:

- Reward strategies and remuneration must enable the group, in a highly competitive environment, to attract, motivate and retain high-calibre people at all levels of the organisation.
- Remuneration designs must motivate strong and sustained performance in teams, but also promote risk management in line with the group's stated strategy and risk tolerance.
- The balance between fixed and variable pay is appropriately structured according to seniority and roles, with particular care being given to risk and control areas. The intention is to provide both total compensation, and its composition, at market-competitive levels, drawing on relevant information from various sources, including external advisers.
- Remco annually approves the group's primary bonus pools and oversees the principles applied in allocating these pools to divisions and individual employees. These pools are shaped by a combination of group and divisional profitability and multi-year financial metrics, taking account of capital utilised, risks assumed and an evaluation of the business area's future development and growth prospects.
- Individual performance is measured according to an appropriate range of absolute and relative criteria, including the person's quantitative delivery against specific metrics, qualitative individual behaviour and competitive performance. This measurement is integral to our remuneration practices, and underpins strong differentiation in individual pay.
- A portion of annual bonus incentive, typically above a certain threshold, is deferred into a share price-linked programme with multi-year vesting and "clawback" provisions.
- A significant portion of senior management remuneration is awarded in deferred instruments and long-term share option-type awards, the values of which are directly linked to the performance of the Standard Bank Group share price over time. This harmonises personal interests with those of shareholders. For key top management the vesting of option-type awards is subject to future performance conditions.
- No remuneration schemes are linked by formula to revenue generation. No multi-year guaranteed minimum bonus arrangements are permitted, neither are substantial severance arrangements made.
- Transparency on remuneration designs and processes is maintained with employees and increasingly with shareholders.
- Wherever available and relevant, market information is used to inform remuneration decisions.
- Stakeholders must be enabled to make a reasonable assessment of reward practices and associated governance processes.
- Members of remco have unrestricted access to information that informs their independent judgements on the possible effects that remuneration may have on compliance with risk, regulatory and behavioural controls across the group.

The policy forms the basis for remuneration processes within the group and all remuneration designs and practices are consistent with the policy.

Remco composition

Group remuneration committee meetings in 2010

Member	Feb		Aug	Nov
EM Woods (chairman)	✓	✓	✓	✓
DE Cooper[1]	✓	✓	–	–
DDB Band	✓	✓	✓	✓
SJ Macozoma	✓	✓	✓	✓
RP Menell[2]	✓	✓	✓	✓
TMF Phaswana	✓	✓	✓	✓

[1] *Retired 27 May 2010.*
[2] *Resigned 4 February 2011.*
✓ *= Attendance*
– *= Not applicable*

The majority of remco members are independent non-executive directors without any business or other relationships that could materially interfere with the exercise of their independent judgements. All remco members are also members of the group risk and capital management, group credit or group audit committees to ensure that remco is able to monitor key risk trends across the group.

Remco members were members of the following board committees for the year under review:

Ted Woods[1]: group/SBSA audit committees.

Doug Band[1]: group/SBSA risk and capital management committees, SBSA large exposure credit committee and group/SBSA directors' affairs committees.

Saki Macozoma[2]: group transformation committee (chairman), group/SBSA risk and capital management committees and the group/SBSA directors' affairs committees.

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Remuneration report continued

Rick Menell[1]: group/SBSA risk and capital management committees.
Fred Phaswana[1]: group/SBSA risk and capital management committees, SBSA large exposure credit committee and group/SBSA directors' affairs committees and transformation committee.

[1] Independent non-executive member
[2] Non-executive member.

The group chief executive and deputy chief executives attend meetings by invitation. Other members of executive management are invited to attend when appropriate to assist the committee in fulfilling its mandate.

Terms of reference

During the course of the year, the remco mandate was reviewed in light of global regulatory developments and to include the recommendations of the King Code. The terms of reference set out in remco's mandate include the following:

– review and recommend to the board for approval the overall remuneration philosophy, policies and practices of the group, with the policy being put to shareholders for approval;
– based on a review of performance, agree the individual remuneration packages of the chairman, group chief executive, SBSA chief executive and other key senior executives;
– review and recommend the fees payable to the chairman and non-executive directors that are subject to board and shareholder approval;
– review and approve any major changes to the design of employee remuneration throughout the Standard Bank Group;
– review subsidiary companies' remuneration structures and ensure that the approach and policy is in line with group policies and practice;
– consider the guaranteed remuneration, annual performance and pension incentives of the group's highest-paid executive managers;
– consider the average percentage increase of the guaranteed remuneration of executive management across the group, as well as long- and short-term incentives;
– agree incentive schemes and awards across the group; and
– review the performance measures and criteria used in calculating annual incentive payments for all employees.

No individual, irrespective of position, is present when his or her remuneration is discussed.

In determining the remuneration of non-executive directors, some of who are members of board committees, remco considers the extent and nature of their responsibilities, and reviews comparative remuneration offered by other major South African, African and international banks and top listed companies.

In determining the remuneration of executive directors and executive management, remco considers group performance against financial objectives and individual performance against specific, non-financial objectives, and it reviews market and competitive data.

Advisers

In 2010, remco and management sought guidance on, and benchmarking of, remuneration from a number of advisers, in relation both to international and South African remuneration and benefits. Information and guidance was received from Mercer, Hay Group, Remchannel (now part of PricewaterhouseCoopers), Employment Conditions Abroad, McLagan and Towers Watson. In terms of market comparisons and benchmarking, reviews are made against other major South African, African and international banks and top listed companies.

Remco uses the input from these firms to inform the appropriate remuneration philosophy and policies and investigate market practice in relation to share-based incentive plans and short-term remuneration. The board approves remco's proposals and, where necessary, submits proposals to shareholders for approval.

Certain specialist divisions in the group, for example risk, compliance, human resources, group finance, governance and assurance, provide supporting information and documentation relating to matters considered by remco.

Overview of subsidiaries and group operations

Remco oversees the remuneration practices in the group's subsidiaries. Where appropriate we have subsidiary remcos in local jurisdictions to take into consideration local or industry-specific requirements. Remco takes overall responsibility for remuneration policies and structures.

Liberty Holdings

Liberty Holdings has a remuneration committee which determines with the Liberty board the remuneration philosophy and policies. The remuneration of Liberty's chief executive and other key executives is noted by the Standard Bank Group remco to ensure reward and benefits across the group remain aligned. Details of the Liberty Holdings remuneration policy can be found in the Liberty annual report.

Standard Bank Plc

Standard Bank Plc has a remuneration committee and its mandate accords with the group remuneration philosophy. An independent non-executive director of Standard Bank Plc is chairman of the committee. It reviews the remuneration practices in the group's international operations based on regulatory requirements and best practice within specific jurisdictions. Certain matters considered by this committee are subject to remco approval.

The Standard Bank Plc remuneration committee met five times during 2010. Minutes of committee meetings are tabled at remco for consideration. Further changes have been made to the remuneration structure of Standard Bank Plc, mainly in the United Kingdom, to align with recently announced Financial Services Authority (FSA) additional requirements. These have included the requirement to deliver incentives in a prescribed mix of cash and share-based instruments and the implementation of holding periods after the vesting of deferred awards.

Standard Bank Argentina

Standard Bank Argentina has a remuneration committee that aligns with group practice and its remuneration philosophy is also informed by local requirements. The committee members are all directors who are not executives of Standard Bank Argentina. The committee met once during 2010. The minutes of its meetings are tabled at Standard Bank Plc remco for consideration.

Rest of Africa

The remuneration of board members in African countries outside of South Africa is approved in each country and reviewed by remco. The remuneration of executive management in these countries is reviewed and, in material instances, approved by remco. Countries with separate remuneration committees include Uganda, Nigeria and Zambia. The minutes of the Stanbic IBTC (Nigeria) remuneration committee are tabled at remco and a report on the other subsidiary remuneration meetings is tabled at remco for consideration. All country committees' compositions and decisions are guided by group philosophy and policy, as well as by the specific social, legal and economic context of the countries in which they operate.

Structure of remuneration

Fixed pay

Fixed pay is intended to attract and retain employees by ensuring competitive positioning in the relevant market place. Our philosophy is to move from salary and benefits to "cost to company" fixed pay where a cash sum is delivered from which both compulsory benefits (typically insurances and pension) and optional benefits are deducted. This approach is now applied to managers and above in South Africa and certain other African operations.

Fixed pay is normally reviewed annually, typically in March, and market data is used to benchmark competitive pay levels.

Benefits

Benefit programmes are intended to provide core benefits such as medical and other insurances and retirement benefits. Retirement benefits are normally provided on a defined contribution basis linked to fixed pay. Benefits will be provided in line with local market practice and regulatory requirements.

Variable pay

Annual incentive

Annual incentives are provided to ensure appropriate reward for performance. Incentive pools are derived by major business area. These pools are shaped by a combination of group and divisional profitability and multi-year financial metrics, taking account of capital utilised, risks assumed to achieve these profits and an evaluation of the business area's future development and growth prospects.

Individual awards are based on a combination of group, business unit and personal performance, both financial and non-financial and including effective risk management. In many countries, including South Africa, a portion of annual incentive, typically above a certain threshold, is deferred into a share price linked programme with multi-year vesting and clawback provisions. Deferral thresholds and rates are reviewed regularly to ensure market competitiveness and regulatory compliance.

Deferral schemes

Deferred bonus scheme (DBS)

From the 2008 financial year the bank implemented a DBS to compulsorily defer a portion of incentives over a minimum threshold for SBSA management and executives. This improves the alignment of shareholder and management interests by creating a link in remuneration to the share price, and enables clawback under certain conditions, supporting effective risk management.

All employees who are awarded an incentive over a certain threshold are subject to a mandatory deferral of a certain percentage of their bonus into the DBS for three years. The deferred payment is calculated with reference to the initial value of the award and the group's share prices at award date and payment date.

To enhance the retention component of the scheme, additional increments of the deferred bonus become payable at vesting and one year thereafter.

The maximum marginal DBS deferral rates have been increased this year to 40%.

Quanto stock unit plan

Our international business outside Africa operates a deferred share plan in the form of the Quanto stock unit plan. The scheme was developed in 2007 after a review of our international remuneration strategy. The purpose was to strengthen the retention effect of incentive remuneration and promote an equity ownership culture.

Quanto stock units are linked to the group's share price, but expressed in US dollars. Deferral is over three years and clawback provisions also apply. The deferral levels have been amended during 2010 to conform to the FSA requirements, with deferral rates up to 60%.

Clawback provision

A clawback provision on all deferred remuneration plans was introduced with effect from 2009 and has been amended in 2011. The revised clawback conditions are that unvested awards may be reduced or forfeited, in full or in part, at remco's discretion if there is reasonable evidence of:

- material error or breach of group policy by the participant or the bank; or
- the company suffers a material downturn in its financial performance for which the participant can be seen to have some responsibility; or
- a material failure of risk management; or
- any other circumstance at remco's discretion.

Value sharing

In South Africa, general staff are not eligible for an annual incentive but participate in a value sharing scheme, in terms of which, subject to key financial and other targets, employees receive a minimum percentage of their fixed pay, with a discretionary "top up" based on individual performance ratings.

Long-term incentives

EGS and group share incentive scheme (GSIS)

Participation rights under the EGS and share options under the GSIS are granted to qualifying employees including executive directors. Grants of rights or options are typically made annually as part of the group's reward review; however, grants are also made to new employees on appointment or as ad hoc awards for retention purposes. EGS and GSIS long-term incentives are awarded to key employees and are motivated by an individual's current performance and future potential. No awards are made to non-executive directors.

Specific grants are not subject to prior shareholder approval, as approval for the schemes has already been obtained. This

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Remuneration report continued

will change when the new Companies Act is effective and a resolution to provide for shareholder approval for grants to executive directors has been included in the notice of annual general meeting.

No participation rights or options are issued at a pricing discount, nor can they be repriced, except as provided for in terms of the scheme in relation to a reduction or reorganisation of the issued ordinary share capital.

GSIS share options are awarded to employees in the group's non-South African operations and EGS participation rights are awarded to employees in the group's South African operations.

The combined maximum award to an employee, in terms of the GSIS and EGS, is not more than 2,5% of the total number of shares reserved for both schemes.

The table below sets out the general vesting conditions of the various options or participation rights issued, subject to performance conditions for senior executives. The directors have the discretion to vary the vesting categories but not the expiry periods.

Vesting category	Year	Cumulative vesting %	Expiry
A	3, 4, 5	50, 75, 100	10 years
B	5, 6, 7	50, 75, 100	10 years
C	2, 3, 4	50, 75, 100	10 years

Performance conditions for key senior executives

Awards granted to key senior executives are subject to a vesting condition over and above the duration of service. The condition is that real growth in group normalised headline earnings per share, calculated on a compound annual growth basis, must be achieved during each of the vesting periods in question. Should these conditions not be met, a one-year extension to the vesting period will apply. This means that at the end of the year following the expiry period of the vesting period, real growth in group normalised headline earnings per share, calculated on a compound annual growth basis for the full period (i.e. including the extra year), will need to be achieved. Should the conditions still not be met after this extension, remco may exercise its discretion to allow a percentage of the award to vest for an individual if determined that the individual is minimally accountable for events or conditions that led to the vesting condition not being met. Such discretion is limited in aggregate to 50% of the award which is due to vest.

Terms of employment

Retention agreements

Retention agreements are only entered into in exceptional circumstances. Retention payments have to be repaid should the individual concerned leave within a stipulated period. None of the executive directors is subject to a retention agreement.

Severance payments

Severance payments are determined by local legislation and market practice and where applicable, agreement with recognised trade unions or other employee forums. It is not the practice of the Standard Bank Group to make substantial severance awards.

Restrictive covenants

Executive employment contracts include restrictive covenants on poaching of employees or customers. No other restraints are included in contracts at present.

Sign-on payments

In attracting key employees it may be necessary to compensate for the loss of unvested awards in their prior company. In such cases we would normally compensate such new employees in the appropriate SBG scheme subject to normal vesting terms. In certain situations a cash sign-on payment may be made on joining, subject to repayment if the employee leaves SBG within a certain period.

Other benefits

Retirement benefits

Retirement benefits are typically provided on the same basis for employees at all levels and on a defined contribution basis. This philosophy applies across the bank's global operations. Over time almost all of the group's defined benefit fund arrangements have been replaced by defined contribution arrangements, except where local legislation requires otherwise or members enjoy entrenched defined benefits.

Death benefit cover is provided in almost all countries, either through self-insurance from within the pension funds or through external underwriting.

Healthcare

Healthcare is provided in most countries across Standard Bank's global operations. The level of cover varies in accordance with local market competitive practice.

In South Africa employees recruited from 1 March 2000 do not receive post-retirement healthcare benefits. Employees recruited prior to 1 March 2000 have post-retirement funding through the provider fund.

In a limited number of countries, post-retirement medical aid subsidies may continue from the employer, usually for a limited period. Typically retiring employees may secure, at their own expense, continued cover through the current provider.

Directors' remuneration

Structure of remuneration for executive directors including the group chief executive and certain other senior employees

The bonus and pension incentive offered to the group chief executive and group financial director are subject to remco's assessment of performance against various predetermined criteria. The agreed criteria are weighted so that 70% applies to the financial performance of the group against key budgeted financial measures, together with delivery objectives for strategic partnerships, and 30% applies to qualitative aspects of leadership and performance.

The group chief executive and group financial director are subject to a six-month termination clause in their contracts. Consistent with other internationally mobile executives within the group, they both receive a portion of their remuneration internationally under a separate offshore contract. In terms of the articles of association, executive directors are not subject to rotational requirements.

Neither the group chief executive nor the chief executive of SBSA received bonus awards for 2010. For the chief executive this is the second year in succession without a bonus award, and he received no awards of equity growth scheme participation rights in respect of 2010. Remco considers this to be appropriate in the circumstances.

Nevertheless, these two executives delivered disciplined and effective leadership in a difficult environment, and remco will remain mindful of the value they continue to build for stakeholders.

After due consideration of the provisions of the King Code, the board resolved not to disclose the remuneration of the three highest paid employees who are not directors in the 2010 integrated report because such disclosure would reveal competitive information.

Non-executive directors' remuneration and terms of engagement

Terms of service

All non-executive directors are provided with a letter of appointment setting out the terms of their engagement.

In terms of the articles of association, non-executive directors are required to retire at 70. The board is able to extend the tenure of directors where they have not completed five years of service by the time they turn 70 to a period of five years of service.

Directors are appointed by shareholders at the AGM. Between AGMs interim appointments may be made by the board upon recommendation by the directors' affairs committee. These interim appointees are required to retire at the following AGM where they may then offer themselves for re-election by shareholders. In addition, directors comprising one third of the number on non-executive directors are required to retire at each AGM and may stand for re-election. If recommended by the directors' affairs committee and supported by the board, the board then proposes their re-election to shareholders.

There is no limitation on the number of times a non-executive director may stand for re-election. Proposals for re-election are based on individual performance and contribution, both of which are reviewed by the directors' affairs committee. The corporate governance statement considers the review of independence of those directors who have served on the board for more than nine years.

Fees

Non-executive directors receive fixed fees for service on boards and board committees. There are no contractual arrangements for compensation for loss of office. Non-executive directors do not receive short-term incentives, nor do they participate in any long-term incentive schemes. Remco reviews the fees paid to non-executive directors annually and makes recommendations to the board for consideration.

Proposed fees, to be effective from 1 January 2011, are based on a carefully considered assessment of the increased responsibility placed on non-executive directors due to:

– increased requirements for regulatory and legislative oversight;
– increased time required; and
– increased risk assumed.

This assessment also considered the possibility of paying non-executive directors a retainer and meeting attendance fee. The board agreed that the current fee structure of a single comprehensive annual fee was more appropriate for the group boards and committees and would better reflect member contribution.

Fees are paid quarterly in arrears, with any increased fee amount only being paid once approved by shareholders for the period agreed.

Category	2010	2011[1]
Chairman	R3 750 000	R4 000 000[2]
Director	R161 000	R171 500
International director	£34 650	£37 000
Group risk and capital management committee		
– chairman	R455 000	R484 500
– member	R182 000	R194 000
Group audit committee		
– chairman	R455 000	R484 500
– member	R182 000	R194 000
Directors' affairs committee		
– chairman	R114 500	R148 000
– member	R57 000	R74 000
Group transformation committee		
– chairman	R145 000	R154 500
– member	R72 000	R76 500
Group remuneration committee		
– chairman	R228 000	R243 000
– member	R98 000	R104 500
Ad hoc meeting attendance[3]	R15 250	R16 250
and hourly rate for attending to group business[4]	–	R3 000 (per hour)

[1] Fees for services from 1 January 2011.

[2] The chairman's fees include the board, subsidiary boards and all committee memberships. A company motor vehicle, against which fringe benefit tax is levied, is made available for use by the chairman.

[3] Fee per meeting for attendance by a non-executive director acting in an alternate capacity or attending ad hoc meetings where no other fee is specifically approved.

[4] Hourly rate for non-executive directors attending to group business and where no other fee is specifically approved. Any such payment will be approved by the chairman of the board and the chairman of the remuneration committee prior to payment being made to a director.

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Remuneration report continued

Directors' emoluments 2010

	Services as directors of Standard Bank Group R'000	Standard Bank Group committee fees R'000	Services as directors of group sub-sidiaries R'000	Cash portion of package R'000	Bonus and pension incen-tives/ perform-ance related payments[1] R'000	Other benefits R'000	Pension contribu-tions R'000	Otherwise in connect-ion with the affairs of SBG and its sub-sidiaries R'000	Total annual remune-ration R'000
Executive directors									
JH Maree				5 428		246	851		6 525[3]
SP Ridley				3 184	2 623[2]	178	432		6 417[3]
Total				8 612	2 623	424	1 283		12 942
Non-executive directors									
DDB Band	161	464	253						878
RMW Dunne	161	527	161						849
TS Gcabashe	161	182	161						504
SE Jonah KBE	161		161						322
Sir Paul Judge	392		392						784
KP Kalyan	161	72	161						394
Yagan Liu	392	203							595
SJ Macozoma	161	548	1 971						2 680
RP Menell[4]	161	280	161						602
KD Moroka	161		161						322
AC Nissen	161	72	161						394
TMF Phaswana[5]	2 293	190	65			102[6]			2 650
MC Ramaphosa	161	57	161						379
MJD Ruck	161	411	944						1 516
Lord Smith	392	182	392						966
EM Woods	161	410	222						793
Kaisheng Yang[7]	300	216							516
Hongli Zhang[8]	91	72							163
Total	5 792	3 886	5 527			102			15 307
Former non-executive directors									
DE Cooper (chairman)[9]	1 522		342			65[6]		7 515[10]	9 444
MJ Shaw[11]	21	486	21						528
Total	1 543	486	363			65		7 515	9 972
Total	7 335	4 372	5 890	8 612	2 623	591	1 283	7 515	38 221

[1] *In order to align incentive payments with the performance period to which they relate, the above bonus reflects the final amount accrued in respect of the financial year under review and payable within the following year.*

[2] *In terms of the deferred bonus scheme described on page 101, the amount finally payable is dependent on the performance of the group's share price. The expense relating to the deferred bonus is recognised over a three-year vesting period from the date of the award and the final amounts will be disclosed in the directors' emoluments table in the year actually paid. No deferred bonus was awarded to JH Maree in March 2011. A deferred bonus of R552 875 was awarded in March 2011 to SP Ridley. The expenses that have been recognised as income statement charges in 2010 were R1 252 204 in relation to a deferred bonus awarded to JH Maree in respect of 2009 and R629 532 in relation to deferred bonuses awarded to SP Ridley in respect of 2009 and 2010.*

[3] *Total annual remuneration above excludes share incentives, details of which are disclosed on pages 106 to 109 as well as on page 277. The expense recognised for the year relating to share incentives, calculated in terms of IFRS 2 Share-based Payments (IFRS 2) is R7 711 919 in respect of JH Maree for awards granted in 2006, 2008, 2009 and 2010 and R2 637 761 in respect of SP Ridley for awards granted from 2003 to 2010.*

[4] *Resigned on 4 February 2011.*

[5] *Appointed chairman of the group on 27 May 2010.*

[6] *Use of motor vehicle.*

[7] *Resigned on 8 October 2010.*

[8] *Appointed on 8 October 2010.*

[9] *Retired as director and chairman of the group with effect from 27 May 2010.*

[10] *Mr Cooper received a gratuity of R7 500 000 on retirement and R15 000 as a pro rated payment as a trustee of the Standard Bank Group Retirement Fund.*

[11] *Retired with effect from 27 May 2010.*

Directors' emoluments 2009

	Services as directors of Standard Bank Group R'000	Standard Bank Group committee fees R'000	Services as directors of group subsidiaries R'000	Cash portion of package R'000	Bonus and pension incentives/performance related payments[1] R'000	Other benefits R'000	Pension contributions R'000	Otherwise in connection with the affairs of SBG and its subsidiaries R'000	Total annual remuneration R'000
Executive directors									
JH Maree				4 943		251	759		5 953[2]
SP Ridley[3]				2 928	4 769[4]	383	424		8 504[2]
Total				7 871	4 769	634	1 183		14 457
Non-executive directors									
DE Cooper (chairman)	3 600		615			162[5]		30	4 407
DDB Band	140	330	236					1 480[6]	2 186
RMW Dunne[7]	11	24	11						46
TS Gcabashe	140	150	140						430
SE Jonah KBE	140		140						280
Sir Paul Judge	394		394						788
KP Kalyan	140	20	140						300
Yagan Liu	394	193							587
SJ Macozoma	140	450	1 839						2 429
RP Menell	140	231	140						511
KD Moroka	140		140						280
AC Nissen	140	60	140						340
TMF Phaswana[7]	11	41	11						63
MC Ramaphosa	140	15	140						295
MJD Ruck	140	205	1 182						1 527
MJ Shaw	140	650	140						930
Sir Robert Smith	394	150	394						938
EM Woods	140	325	140						605
Kaisheng Yang	394	249							643
Total	6 878	3 093	5 942			162		1 510	17 585
Former non-executive director									
E Bradley[8,9]	904	79	56						1 039
Total	7 782	3 172	5 998	7 871	4 769	796	1 183	1 510	33 081

[1] *In order to align incentive payments with the performance period to which they relate, the above bonus reflects the final amount accrued in respect of the financial year under review and payable within the following year.*

[2] *Total annual remuneration above excludes share incentives, details of which are disclosed on pages 106 to 109 as well as on page 277. The expense recognised for the year relating to share incentives, calculated in terms of IFRS 2, is R6 867 414 in respect of JH Maree for awards granted in 2006, 2008 and 2009 and R2 445 848 in respect of SP Ridley for awards granted from 2003 to 2009.*

[3] *Appointed to Standard Bank Group board on 30 June 2009. Remuneration disclosed is for the full 2009 financial year.*

[4] *In terms of the deferred bonus scheme described on page 101, the amount finally payable is dependent on the performance of the group's share price. The expense relating to the deferred bonus is recognised over a three-year vesting period from the date of the award and the final amounts will be disclosed in the directors' emoluments table in the year actually paid. No deferred bonus was awarded to JH Maree in March 2010. A deferred bonus of R817 500 was awarded in March 2010 to SP Ridley. The expenses relating to the deferred bonuses awarded in March 2009 that were recognised as income statement charges in 2009 were R855 592 for JH Maree and R292 860 for SP Ridley.*

[5] *Use of motor vehicle.*

[6] *This amount was payable to DDB Band by Gymnogene Investments, a company in which he is a 33% shareholder and which had a contractual relationship with the bank. The payment arises from a share of the profit on disposal of private equity investments in a portfolio sourced and arranged by Gymnogene Investments on behalf of the bank. Although the contractual relationship expired on 31 December 2004, payments of this nature are likely to recur if and when the three remaining investments in this portfolio are realised on a profitable basis to the bank.*

[7] *Appointed on 3 December 2009.*

[8] *Retired on 28 May 2009.*

[9] *Mrs Bradley sacrificed a portion of her directors' fees for a payment on retirement. Upon retirement she elected to receive a lump sum payment of R864 155.*

Remuneration report continued

Share incentives – 2010

Director's name	Balance of share incentives as at 1 January 2010	Number of share incentives allocated in 2010	Issue or offer date	Number of share incentives forfeited for the current performance year	Number of share incentives delivered during the year	Price on exercise (R)
JH Maree	**2 550 000**	**500 000**	**05/03/2010**	**125 000**	**975 000[1]**	**32,35**

[1] *The above share incentives were awarded to Mr Maree following his appointment as group chief executive. The share incentives were exercised in 2001 and were delivered in 2010 to Mr Maree's family trust as the beneficial owner after being held on a long-term basis and with the expiry date for delivery being in March 2011. The transaction was disclosed, as required, on SENS in March 2010.*

Share incentives – 2009

Director's name	Balance of share incentives as at 1 January 2009	Number of share incentives allocated in 2009	Issue or offer date	Number of share incentives forfeited for the current performance year	Number of share incentives delivered during the year	Price on exercise (R)
JH Maree	2 300 000	250 000	06/03/2009			

Balance of share incentives as at 31 December 2010	**Number of share incentives**	**Issue date**	**Issue or offer price (R)**	**Vesting category**	**Expiry date**
1 950 000	**25 000**	**23/05/2001**	**33,50**	**A**	**23/05/2011**
	300 000	**11/03/2004**	**40,65**	**C**	**11/03/2014**
	375 000	**10/03/2006**	**79,50**	**A**	**10/03/2016**
	125 000	**10/03/2006**	**79,50**	**B**	**10/03/2016**
	125 000	**06/03/2008**	**92,00**	**A**	**06/03/2018**
	250 000	**06/03/2008**	**92,00**	**B**	**06/03/2018**
	125 000	**06/03/2009**	**62,39**	**A**	**06/03/2019**
	125 000	**06/03/2009**	**62,39**	**B**	**06/03/2019**
	500 000	**05/03/2010**	**111,94**	**A**	**05/03/2020**

Balance of share incentives as at 31 December 2009	Number of share incentives	Issue date	Issue or offer price (R)	Vesting category	Expiry date
2 550 000	975 000	13/03/2001	31,90	A	13/03/2011
	25 000	23/05/2001	33,50	A	23/05/2011
	300 000	11/03/2004	40,65	C	11/03/2014
	375 000	10/03/2006	79,50	A	10/03/2016
	125 000	10/03/2006	79,50	B	10/03/2016
	250 000	06/03/2008	92,00	A	06/03/2018
	250 000	06/03/2008	92,00	B	06/03/2018
	125 000	06/03/2009	62,39	A	06/03/2019
	125 000	06/03/2009	62,39	B	06/03/2019

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Remuneration report continued

Share incentives – 2010

Director's name	Balance of share incentives as at 1 January 2010	Number of share incentives allocated in 2010	Issue or offer date	Number of share incentives forfeited for the current performance year	Number of share incentives delivered during the year	Price on exercise (R)
SP Ridley	567 500	100 000	05/03/2010	25 000	40 000	
					20 000	31,60
					20 000	27,90

Share incentives – 2009

Director's name	Balance of share incentives as at 1 January 2009	Number of share incentives allocated in 2009	Issue or offer date	Number of share incentives forfeited during the year	Number of share incentives delivered during the year	Price on exercise (R)
SP Ridley	497 500	120 000	06/03/2009		50 000	
					20 000	25,00
					30 000	31,60

Balance of share incentives as at 31 December 2010	**Number of share incentives**	**Issue date**	**Issue or offer price (R)**	**Vesting category**	**Expiry date**
602 500	**17 500**	**06/03/2003**	**27,90**	**B**	**06/03/2013**
	30 000	**11/03/2004**	**40,65**	**A**	**11/03/2014**
	30 000	**11/03/2004**	**40,65**	**B**	**11/03/2014**
	50 000	**10/03/2005**	**65,60**	**B**	**10/03/2015**
	150 000	**10/03/2006**	**79,50**	**B**	**10/03/2016**
	15 000	**07/03/2007**	**98,00**	**A**	**07/03/2017**
	15 000	**07/03/2007**	**98,00**	**B**	**07/03/2017**
	25 000	**06/03/2008**	**92,00**	**A**	**06/03/2018**
	50 000	**06/03/2008**	**92,00**	**B**	**06/03/2018**
	60 000	**06/03/2009**	**62,39**	**A**	**06/03/2019**
	60 000	**06/03/2009**	**62,39**	**B**	**06/03/2019**
	100 000	**05/03/2010**	**111,94**	**A**	**05/03/2020**

Balance of share incentives as at 31 December 2009	Number of share incentives	Issue date	Issue or offer price (R)	Vesting category	Expiry date
567 500	20 000	13/03/2002	27,80	B	13/03/2012
	12 500	06/03/2003	27,90	A	06/03/2013
	25 000	06/03/2003	27,90	B	06/03/2013
	30 000	11/03/2004	40,65	A	11/03/2014
	30 000	11/03/2004	40,65	B	11/03/2014
	50 000	10/03/2005	65,60	B	10/03/2015
	150 000	10/03/2006	79,50	B	10/03/2016
	15 000	07/03/2007	98,00	A	07/03/2017
	15 000	07/03/2007	98,00	B	07/03/2017
	50 000	06/03/2008	92,00	A	06/03/2018
	50 000	06/03/2008	92,00	B	06/03/2018
	60 000	06/03/2009	62,39	A	06/03/2019
	60 000	06/03/2009	62,39	B	06/03/2019

Managing sustainable development

To ensure the sustainability of the group we recognise that we also need to look beyond the business itself and toward 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 emerging markets. 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 emerging markets, 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 the group's governance structures, this responsibility is delegated to appropriate board and management committees. The group executive committee, which is responsible for implementing group strategy, reviews and provides guidance on all pertinent sustainability issues. The diagram below depicts how sustainability issues are reported.

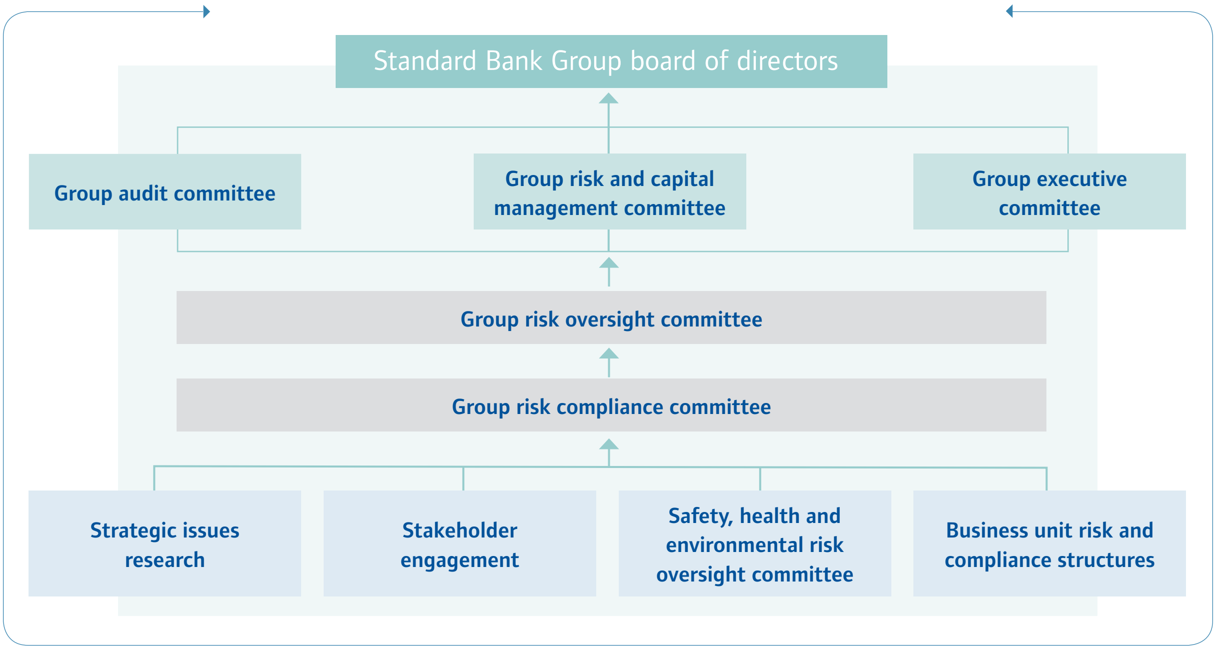
The safety, health and environmental risk oversight committee meets quarterly to discuss safety, health and environmental challenges that require concerted action or the development of standards and guidelines to address key risks. The committee reports into various board and management committees and 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 the group can respond to the challenges and opportunities identified, reinforcing our sustainability and that of the countries and communities where we work.

The group sustainability management unit reports into the director of group governance and assurance who is also the chief ethics officer and who reports directly to the group 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.

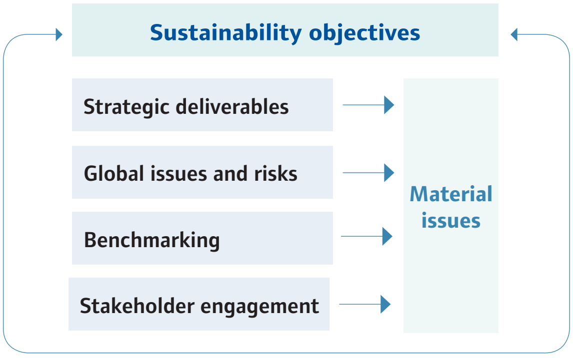
Further information on the committees responsible for various sustainability issues can be found online at www.standardbank.com under sustainable development.

Reporting of sustainability issues



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 the group'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 group executive committee. These appear in the table below.

As part of our group 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. The group's sustainability report has been independently assured since 2005. The 2010 group sustainability report was independently assured by KPMG Services (Pty) Limited and PricewaterhouseCoopers Inc. 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. Group internal audit's review of the report, in line with the combined assurance approach under the King Code, provides support for the assurance statement by KPMG Services (Pty) Limited and PricewaterhouseCoopers Inc.

Assurance report

The summarised sustainability information as set out in the sustainability reviews of this integrated annual report has been extracted from the 2010 group sustainability report. KPMG Services (Pty) Limited and PricewaterhouseCoopers Inc. have provided assurance over selected sustainability information as contained in the 2010 group sustainability report in which we express an unmodified opinion on the identified sustainability information.

Information contained in the sustainability review sections of this report (pages 110 to 119) has been extracted from the standalone group sustainability report and is consistent with information in that report, the group sustainability report.

For a better understanding of the group's sustainability performance, as well as the scope of our assurance process, the extracted sustainability information in this report should be read in conjunction with the full 2010 group sustainability report containing our assurance report.

KPMG Services

KPMG Services (Pty) Limited

Per Neil Morris
Director

Johannesburg
2 March 2011

PricewaterhouseCoopers Inc.

PricewaterhouseCoopers Inc.

Per Herman Zulch
Director

Johannesburg
2 March 2011

Stakeholder engagement report

Stakeholder engagement

The group 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 the group and its key stakeholders. Misalignments between stakeholder expectations and the group'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 the 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.

Liberty has developed strategies, policies and processes to support meaningful engagement with its key stakeholder groups. Stakeholder engagement takes place through established formal and informal communication channels and the Liberty board and management monitor and measure Liberty's reputation and the perceptions of key stakeholder groupings.

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

Liberty's communication with financial advisers is ongoing and during 2010 it surveyed its financial advisers and found that 80% of advisers believe that the overall service experience with Liberty is between fair and good.

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

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

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

Stakeholder	Issues raised	Our response
Shareholders	Concerns were raised regarding what action management would take to improve the ROE.	After a detailed analysis of our cost base we cut costs in a range of areas. As staff costs are our largest expense item, we halted recruitment in virtually all parts of the business and implemented a retrenchment process aimed at removing inefficiencies. Customer-facing staff and those in high-growth geographies were largely unaffected. Other cost-saving measures included downsizing or delaying IT projects, reducing consulting services and cutting back travel and conference costs. Certain sponsorship agreements will not be renewed in May 2011. Cost management will remain a key focus in 2011. We anticipate that the banking group's total operating expenses for 2011 will be at the same level as the 2010 cost base including restructuring costs. The group implemented a capital allocation framework to encourage business functions to optimise capital requirements by making trade offs between product lines. In 2011, the group will further optimise the allocation of capital in order to improve ROE.
Employees	Concerns were raised by employees relating to the retrenchment process undertaken in 2010 as detailed above.	The retrenchments in Johannesburg and London were conducted according to due process, in a manner that was fair and respectful of our employees' rights and dignity. We consulted with the South African bank union, Sasbo, and formed a collective consultation forum in London. 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 in South Africa, 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. The group 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.	SBSA 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 financing 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 South African government in addressing the current energy crisis facing the country.
Government, communities	Progress on the Financial Sector Charter.	The proposed Financial Sector 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.

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Employee report

We recognise that our leaders and employees are key differentiators in achieving the group'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 to deliver business results.

The group aims to establish strong, supportive people practices and processes that leverage and harness the contributions and diversity of our people. 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 approach supports the group in 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	**53 351**	51 411
Women employees (%)	**57**	57
Overall employee turnover rate (%)	**10,1**	10,0
Attendance in leadership and graduate development programmes		
Leadership development programme participants	**3 965**	3 740
Graduate development programme participants	**205**	262
Skills development		
Total training spend (Rm)	**612**	552
Training spend as a % of staff costs	**2,8**	2,8

Leadership development

The Global Leadership Centre (GLC) is an innovative, high quality and comprehensive learning facility established to drive the group's goal of instilling leadership as a core competency and a competitive advantage. We are establishing learning centres within our businesses and geographies such as our learning centre in Lagos which delivers customised learning and development for our employees in the West Africa region. The centre also runs leadership programmes developed by the Global Leadership Centre.

Since the GLC's inception in 2006, 14 075 employees have undergone leadership training. 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 the group.

In 2010, we continued to ensure that our leaders are equipped with the required skills and capabilities to manage teams of people within and across geographies and cultures. A total of 2 291 (2009: 2 891) managers attended a two-week leadership development programme at the GLC, of which 1 199 (2009: 2 402) were black employees.

Liberty's Leadership Charter offers guiding principles for leaders in the organisation. The focus is on Liberty's vision, its people and its products, as well as the importance of ensuring its customers are at the centre of its thinking. The charter defines behaviours to support leaders such as active listening, sincerity, consistency and transparency.

Talent management

To align our talent management processes with our business strategy, we are developing a more consistent global talent framework across the group.

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. Global talent pools are being created to improve our view of talent across the group 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.

Liberty has developed a talent management programme which segments employees into three categories: leadership talent, critical skills talent and young high potentials. Liberty's focus for 2011 will be to quantify future capability requirements and put in place plans to close gaps.

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 R612 million (2009: R552 million), 2,8% (2009: 2,8%) 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.

We are standardising the access to healthcare and treatment services throughout our African operations to ensure that all employees are provided with comparable benefits irrespective of location. Liberty Health Blue Medical Insurance (Liberty Blue) was rolled out in eleven countries in Africa, covering 85% of our employees in the rest of Africa. We will complete this roll out once existing medical scheme contracts expire in the remaining African countries. The scheme has been well received and we are gathering useful health and wellness data that will enable us to refine and develop appropriate wellness interventions.

Employee community involvement

A total of R5,4 million (2009: R2,3 million) was donated to various beneficiaries through the group's employee matching schemes. The employee community involvement programme in South Africa 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 transformation and 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 the group's diverse employee base, the group 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.

Employment equity in South Africa

SBSA 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.

Disability

During 2010, SBSA 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 global headcount reduction exercise in 2010. Mostly managers and executives within the various head office environments, particularly Johannesburg and London, 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.

In South Africa, 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. The 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. In London, we formed an appropriate collective consultation forum as required by law.

Including a restructuring process undertaken in Argentina, a total of 1 260 employees and 688 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 the group provided financial planning and advice. Although limited, some redeployment opportunities were made available, with 79 employees placed in alternative positions. Appropriate outplacement and search firms were also engaged to assist affected employees.

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Information technology and infrastructure report

Information technology

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 the banking activities continue to make significant investments in IT, spending a total of R7,2 billion in 2010 (2009: R6,1 billion), 19,5% (2009: 18,5%) 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 global IT execution programme.

IT and infrastructure

	2010	2009
IT spend (Rbn)	**7,2**	6,1
Branch and service centre network (number of branches)		
South Africa	**705**	664
Rest of Africa	**454**	348
Outside Africa	**98**	98
ATM network (number of ATMs)		
South Africa	**5 565**	4 810
Rest of Africa	**908**	770
Outside Africa	**343**	332

In 2010, following interviews with internal stakeholders, we developed a global 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.

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 group 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.

Liberty is developing a comprehensive governance framework aligned with Standard Bank and will submit a framework, charter and policy to its board during 2011. The project prioritisation committee was established in 2010 to review and prioritise projects across Liberty and to improve resource allocation.

Operations

Personal & Business Banking

During 2010, Personal & Business Banking in South Africa focused on delivering a positive customer experience and streamlining customers' interactions with the bank, 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. In South Africa, 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

The infrastructure stabilisation programme, implemented last year in Corporate & Investment Banking in London, strengthened our infrastructure resilience and resulted in a marked decline in lost time due to system outages in 2010. In addition, implementing further strategic platforms and expanding New Business Online 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.

Rest of Africa

We have just begun replacing our core banking systems in certain African countries with a standardised system customised to each country's needs. Namibia and Nigeria were selected as the first two countries for implementation in the first half of 2011. Finding a common system able to handle the requirements of both countries means faster future implementation across the continent and will give the bank a distinct competitive edge in bringing new products to market faster. We hope to complete the core banking replacement project over the next five to seven years.

The rollout of New Business Online continues in Africa, replacing our legacy cash management system and offering enhanced customer capabilities by replacing a large number of disparate applications with a single, global platform covering all countries, customers and partner banks.

Liberty

As a result of projects initiated and completed over the past two years, Liberty's service availability remained excellent at 99,8% in 2010 (2009: 99,7%). A further 13 projects were executed as part of the infrastructure renewal programme, which aims to upgrade and standardise IT infrastructure throughout Liberty, and 51 new projects are planned for 2011. Liberty is developing an online adviser tool which integrates business and compliance rules with sales processes across the Liberty and Stanlib product ranges. The system will improve compliance, record keeping, sales event tracking and intermediary management.

Operating infrastructure

Green Building Council

SBSA and Liberty Properties are members 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 throughout Africa are supported by generators and standby power stabilisers. Liberty has installed 57 diesel-powered back-up generators and 13 uninterruptible power supply systems at Liberty-owned shopping centres and critical office locations.

In 2010, our African operations initiated an operating cost-control audit, which includes the controlling and monitoring of generator costs. All branches in countries where electricity supply is erratic, are supplied with generators. We are investigating the use of solar power as an alternative energy source to power our branches and ATMs, particularly in rural areas. Two branches will pilot this project and, if successful, we will roll solar power out to an additional four branches and ten ATMs in 2011.

Telecommunications

Most of the African countries in which we operate have limited telecommunications infrastructure, which hampers data transfer and branch network coverage. To increase capacity and service levels, all main telecommunications links, except for those to Nigeria, which carry critical data between individual African countries and South Africa, were replaced by MTN Business lines in 2010. The telecommunications links to Nigeria are scheduled for implementation in 2011. MTN Business is a telecommunications service provider with a significant African footprint.

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.

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Environmental report

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)		
SBSA	**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 SBSA 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 the group, 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, SBSA 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 in South Africa 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

The group 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 and Liberty scored 74% and 76% respectively and both companies are included in the South African Carbon Disclosure Project Leadership Index. Both Standard Bank's and Liberty's carbon footprint have been calculated according to the International Greenhouse Gas Protocol's Corporate Accounting and Reporting Standard.

SBSA's carbon dioxide equivalent for 2010 was 177 289 metric tons (2009: 154 538 metric tons). The main reason 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 has also contributed to this increase. For 2010, our consumption figures covers about 82% of our South African operations (2009: 77%) and about 80% (2009: 74%) of our permanent South African bank employees. In relation to SBSA's total group 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 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.

Environmental efficiencies

Expanding our branch and ATM networks across Africa requires the transport of building material and other goods from numerous suppliers in South Africa to individual countries. In the past, a pool of 32 key South African-based suppliers used their own freight forwarders to transport materials and goods ordered by our country operations. To reduce the carbon emissions generated, instead of each supplier transporting products individually to a country, products are consolidated at a central point and transported as one consignment.

In 2008, a project was initiated by Liberty's retail business to shift away from paper-based correspondence to electronic communication with customers. The results of this initiative were evident in 2010. On average, email correspondence accounted for 38% of customer communications, compared to 7% in 2008 and Liberty achieved cost savings of 28% on the postage expenses account, almost R1 million. This equalled a saving of 9 292 boxes of A4 paper between 2008 and 2010.

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Risk and capital management

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 and capital management report:

– risk categories, page 129;
– capital management, page 132;
– credit risk, page 138;
– liquidity risk, page 168;
– market risk, page 176; and
– insurance risk, page 188.

The risk and capital information disclosed within these sections is in accordance with IFRS and Basel II pillar 3 requirements, as stated in Regulation 43 of the Regulations relating to Banks, governed by the South African Banks Act, 1990 (Banks Act).

All tables, diagrams, quantitative information and commentary in this risk and capital management report are unaudited unless stated otherwise. Restatement of financial information relating to 2009 is set out on page 200.

Overview

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

Risks are controlled at individual exposure and portfolio level, as well as in aggregate across all business 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

During the year the group reorganised, refocused and strengthened its governance, risk and assurance structures and capabilities. Existing functions of the chief risk officer (CRO) and the 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 coordinating activities 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-level risks are managed and controlled effectively as close as possible to where they arise.

The three group functions are discussed in more detail on page 121 to 122.

Capital and liquidity management

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

– strengthening oversight by the group;
– 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 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 all banking operations. It includes the management of capital, liquidity, prudential limits and ratings. This function will be extended to Liberty in 2011.

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 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 of the three group functions which form the GRCC are set out in the diagram below.

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

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Risk and capital management continued

Group risk management

Group risk management operates with 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 described on the previous page, while the business line dimension comprises three CROs, one for each of the three business lines.

The three business lines are:
– Personal & Business Banking;
– Corporate & Investment Banking; and
– Liberty.

Legal entity CROs are supported by risk management resources from within the matrix structure.

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, ensuring that legal risks are optimally negotiated, documented, and monitored, and that the necessary controls are implemented.

Compliance

Compliance personnel in the group are located within an independent group compliance function headed by the group 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 both home and host country legislative requirements and facilitates effective decision-making.

The group internal audit (GIA) 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 three 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, 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.

The year in brief

Board responsibility

- The board relies on quarterly reports to the committees within the governance structure (see page 127), and attestations by senior risk managers and internal auditors, to satisfy itself that the group's risk management processes are fit for purpose.

- The board relies further on the three lines of defence model to satisfy itself as to the effectiveness of risk assessments, responses and interventions. The business activities of the group and its subsidiaries have been managed within the board-endorsed risk appetite and tolerance.

GRCC and capital management highlights follow:

GRCC

- The establishment of the GRCC has focused and strengthened the second and third lines of defence.

Credit risk

- Within the banking operations' wholesale environment, demand for new credit was weak as corporates remained reluctant to leverage their balance sheets in light of the global slowdown, ongoing market volatility and the problems within the Eurozone.

- Lending margins also narrowed as the global banking sector sought to deploy its excess liquidity and competition for emerging markets' assets increased. Quality of the credit portfolio improved, with a reduction in credit losses as a result of the additional resources deployed in recoveries and rehabilitation, in addition to early remedial actions taken in prior years.

- In the retail environment conditions remained difficult in 2010, with consumers still constrained by a lack of disposable income.

- A relaxation of lending criteria has supported increased levels of new business. With demand remaining generally suppressed and consumers actively reducing overall debt, the book has not grown.

Market risk

- The banking operations' interest rate risk remained within approved limits.

- The trading book market risk operated within approved limits with a positively-skewed profit distribution reflective of the client flow business model.

Operational risk

- The group's advanced management approach (AMA) programme, comprising of activities across all banking operations, commenced and is embedding improvements in operational risk measurement and management.

- This involves implementing enhanced operational risk processes and systems to facilitate enhanced monitoring and proactive mitigation of potential events in line with AMA requirements.

- In 2011, the group intends to apply for permission from its banking regulator to use the AMA for measuring regulatory capital requirements as these apply to operational risk, an important but secondary objective of the AMA programme.

Integrated risk

- Risk appetite and stress testing activities were enhanced to provide improved assessment of potential risk scenarios and the associated impact. This, in turn, allowed for more informed risk mitigation decisions and activities.

Financial crime control

- The group established a group financial crime control capability to ensure a holistic view of financial crime, to support the group in minimising the overall impact of financial crime, to ensure the safety of our people and assets, and to retain the trust of our stakeholders.

Sustainability

- Changes in environmental legislation in South Africa continue to place increased pressure on the bank's lending and operational activities, exacerbated by increased expectations from funding organisations and other stakeholders around environmental and social risks.

Insurance risk

- The economic recession in South Africa has resulted in a sharp decline in disposable household income, which places pressure on the affordability of insurance products. This has resulted in an increase in policy discontinuance rates.

Capital and liquidity management

- Despite difficult operating conditions in 2010 which resulted in lower profits, the group has successfully maintained its strong capital position, meeting or exceeding all target ratios.

- At year end, the group's tier I capital adequacy ratio (CAR) was 12,9% (2009: 11,9%) and the core tier I CAR was 12,0% (2009: 11,0%), with its total CAR at 15,3% (2009: 15,1%).

- The group's liquidity was maintained within approved limits. Appropriate liquidity buffers were held, taking into account ongoing global risk aversion and market volatility.

- The banking operations have commenced the phased implementation of a more sophisticated asset and liability management (ALM) software solution to support its financial resource and balance sheet management. The largest banking subsidiary, SBSA, is scheduled to go live during 2011.

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Risk and capital management continued

Focus areas for 2011

Focus areas for the GRCC and capital and liquidity management are set out below:

General

– Participating in global and local initiatives which assess the potential impact of new global risk, capital, liquidity and risk-adjusted remuneration standards being proposed by international bodies to promote a more resilient banking sector.

– Enhancing the risk appetite and stress testing frameworks of the group to provide a forward-looking assessment of potential risk scenarios and the associated impact which, in turn, enables the mitigation of potential future risks.

– Refining the group's risk and capital management frameworks to align these with best practice and regulatory developments.

– Developing and adopting an enhanced integrated risk management framework to manage inter-relationships between risk types and to support business planning and decisions across the group.

Credit risk

– Applying robust and responsible criteria to ensure prudent lending practices in line with anticipated economic conditions.

– Standardising credit risk methodologies and processes across the group, with particular focus on African operations and Liberty, to enable integrated management of credit risk across the group.

– Implementing active credit portfolio management capabilities and related governance structures.

– Applying accurate credit value adjustment measures to increase sophistication in the pricing and management of counterparty credit risk as it relates to derivative transactions.

– Stress testing existing credit portfolios, cash flows and collateral values to assess the impact of potential adverse economic conditions.

– Continuing to focus on customer rehabilitation and collection processes.

– Further refining the credit risk framework and related governance to ensure levels of risk are in line with the agreed group credit risk appetite.

– Managing risk concentrations across counterparties, portfolios and geographic regions, with an increased focus on distribution strategy.

– Rolling out the credit risk internal ratings based (IRB) framework to additional portfolios and entities within the group.

Operational risk

– Implementing and embedding the AMA framework within the major business areas and introducing AMA quantification tools into the management of operational risk.

– Increasing focus on a centralised global approach to business continuity management and crisis management.

– Enhancing and embedding information risk policies in partnership with the information security officers in the business lines.

– Continuing the management of legislative requirements through engagement with the regulators through industry bodies to mitigate the bank's potential environmental and social risk.

– Extending the core operational risk system to include other specialist operational risk types.

Financial crime control

– Enhancing the group's global approach to financial crime through a holistic framework and consistent policies, standards and methodologies.

– Establishing an intelligence database and implementing a communication and awareness strategy to ensure a proactive response to financial crime.

Market risk

– Aligning the market risk policies and reporting infrastructure across banking operations and ensuring that the group successfully manages the impact of any changes to regulatory requirements related to the recognition of internal models for market risk capital by regulators.

– Integrating market risk reporting across all legal entities.

– Further enhancing market risk processes within Liberty.

Capital and liquidity management

– Implementing the TCM operating model to enhance shareholder value by providing a financial resource management function that is optimised, comprehensive and integrated across capital, liquidity and ratings.

– Optimising capital and liquidity allocation by encouraging business functions to make trade-offs between product lines, trading desks, industry sectors and legal entities that result in financial resources being allocated in a manner that enhances the overall group economic profit and return on equity.

– Embedding risk-adjusted performance measurement into the performance measurement and reporting processes of the group.

– Implementing a more sophisticated ALM software solution to enhance ALM reporting and financial resource management across the group's African banking entities.

Regulatory developments

The group monitors global and local regulatory developments in the financial services sector. Major developments are discussed below.

Impacting group operations

Basel Committee on Bank Supervision (BCBS)

- On 16 December 2010, BCBS published the final rules relating to global capital and liquidity standards for the banking sector. As South Africa is a member of the G20, the Banking Supervision Department of the South African Reserve Bank (SARB) is likely to implement the proposed reforms, with the possible inclusion of national discretionary adjustments.

- The BCBS proposals aim to strengthen global capital and liquidity regulations with the goal of promoting a more resilient banking sector.

- The objective of the reform package is to improve the banking sector's ability to absorb shocks arising from financial and economic stress, whatever the source, thus reducing the risk of spill over from the financial sector to the real economy.

- The BCBS has introduced a number of macro-prudential elements into the capital framework to help contain systemic risks arising from procyclicality and from the interconnectedness of financial institutions. These include proposals impacting capital as follows:
  - Raising the quality, consistency and transparency of the capital base.
  - Enhancing risk coverage.
  - Supplementing the risk-based capital requirement with a leverage ratio.
  - Reducing procyclicality and promoting countercyclical buffers.
  - Addressing systemic risk and interconnectedness.

- The liquidity proposals introduce two new ratios, the net stable funding ratio and the liquidity coverage ratio.

- The net stable funding ratio is intended to address the structural liquidity mismatch inherent in banking operations; implementation has been postponed to 2018.

- The liquidity coverage ratio is intended to address the ability of a banking entity to survive a stress scenario by ensuring an appropriate holding of surplus qualifying liquid assets; implementation has been postponed to 2015.

- The group continues to assess the impact of these proposals on the capital position of SBSA and the group to arrive at an appropriately calibrated total level of risk-weighted assets, qualifying capital and leverage ratio, and has factored the proposals into its strategic business plans.

- BCBS has also published a consultative document on risk and performance alignment of remuneration.

Implementation of IFRS 9

- The International Accounting Standards Board (IASB) is currently replacing IAS 39 *Financial Instruments: Recognition and Measurements* (IAS 39) with IFRS 9 *Financial Instrument (IFRS 9)*. The replacement of IAS 39 with IFRS 9 will be achieved through three distinct phases. The first of the phases, being the classification and measurement of financial assets and financial liabilities has been completed. Both phase 2, which encompasses the proposed expected loss impairment model that will replace IAS 39's incurred loss model, and phase 3, which encompasses proposed simplifications to IAS 39's hedge accounting requirements, have been released for public comment by the IASB. While phase 1 is available for early adoption, IFRS 9 as a standard will only require mandatory adoption by the group for its financial year commencing 1 January 2013.

Companies Act

The South African government has indicated the second amendment to the Companies Act will take effect during April 2011. As a result projects were initiated within each South African group company and coordinated by general counsel to adapt systems, operations, governance and documentation. These measures are ongoing. It is not foreseen that the coming into force of the new Companies Act will cause any material disruption within the group.

The King Code

- The recommendations of the King Code published in the first quarter were reviewed and implemented as appropriate.

Many South African regulatory developments during 2010 continued to focus on consumer protection and the fair treatment of customers. Major developments in this regard include:

Consumer Protection Act (CPA)

- Key regulatory developments during 2010 continued the trend of consumer protection and the fair treatment of customers and included the implementation of the Consumer Protection Act 2008. The CPA, effective from 1 April 2011, constitutes an overarching framework for consumer protection and all other laws which provide for consumer protection.

- Areas of the group that are required to comply with the CPA by 1 April 2011 are Stanlib (in its capacity as a collective investment schemes manager and as a pension fund administrator), Liberty Corporate (in its capacity as a pension fund administrator), Liberty Health and Liberty Properties. Financial Advisory and Intermediary Services Act (FAIS) regulated insurance activities are exempt. Long-

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Risk and capital management continued

term insurance activities will also be temporarily exempt, provided that long-term insurance legislation is aligned to the CPA by 31 October 2012.

FAIS

– This has seen the implementation of new fit and proper requirements for those providing financial advice and/or intermediary services. The subordinate legislation to FAIS is the General Code of Conduct for Financial Services Providers and Representatives which deals specifically with conflicts of interest.

– Implementation of the legislation has already commenced and was effective from October 2010, whilst the requirement relating to conflicts of interest must be implemented by April 2011.

The South African National Environmental Management Waste Act

– This supports the National Environmental Management Act which provides for cooperative environmental governance by establishing principles for decision-making on environmental matters.

– Under the Waste Act, Standard Bank could potentially face a risk in lending where land held as security is found to be contaminated. The bank continues to manage this potential risk by implementing risk mitigation control measures to ensure that its position is duly protected.

– During 2010, Standard Bank worked with the Banking Association of South Africa and Business Unity South Africa as part of its continuous engagement with relevant authorities. Furthermore the banking industry is drafting an industry code of conduct on managing environmental and social risk.

– Legal environmental registers have been developed for our operations in Botswana, Kenya, Mozambique, Namibia, Nigeria, South Africa, Tanzania, Uganda and Zambia. The registers are updated on an annual basis with inputs from the legal and compliance functions in these countries.

Impacting short- and long-term insurance

Solvency Assessment and Management (SAM)

– The South African Financial Services Board (FSB) is in the process of developing a new risk-based solvency regime for long-term and short-term insurers, known as the SAM regime.

– Due to be implemented by 2014, this initiative will align the South African insurance industry with international standards. As an overarching principle, the recommendations arising from the SAM project should meet the requirements of a third country equivalence assessment under Solvency II. Within the group, Liberty has aligned its SAM programme to its existing enterprise-wide value and risk management initiatives, as has Standard Insurance Limited (SIL), the group's short-term insurance underwriter.

IFRS 4 *Insurance contracts*

Phase 2

– During the year the IASB issued an exposure draft on insurance contracts which proposes a comprehensive measurement approach for all types of issued insurance and reinsurance contracts. The proposed approach is based on the principle that insurance contracts create a bundle of rights and obligations which generate a package of cash inflows (premiums) and outflows (benefits and claims) and that the measurement be applied by means of the following building blocks:
  - a current estimate of the future cash flows;
  - a discount rate that adjusts those cash flows for the time value of money;
  - an explicit risk adjustment; and
  - a residual margin.

– For most short-duration contracts, a modified version of the measurement approach would apply whereby the contract would be measured using an allocation of the premium received on a basis largely similar to existing practice. The building block approach would then be used to measure claims liabilities for insured events that have already occurred.

– The exposure draft will affect Liberty and SIL as the group's issuer of insurance contracts. The IASB is expected to release the final standard in the second quarter of 2011. The earliest estimate of an adoption date is for years commencing 1 January 2013.

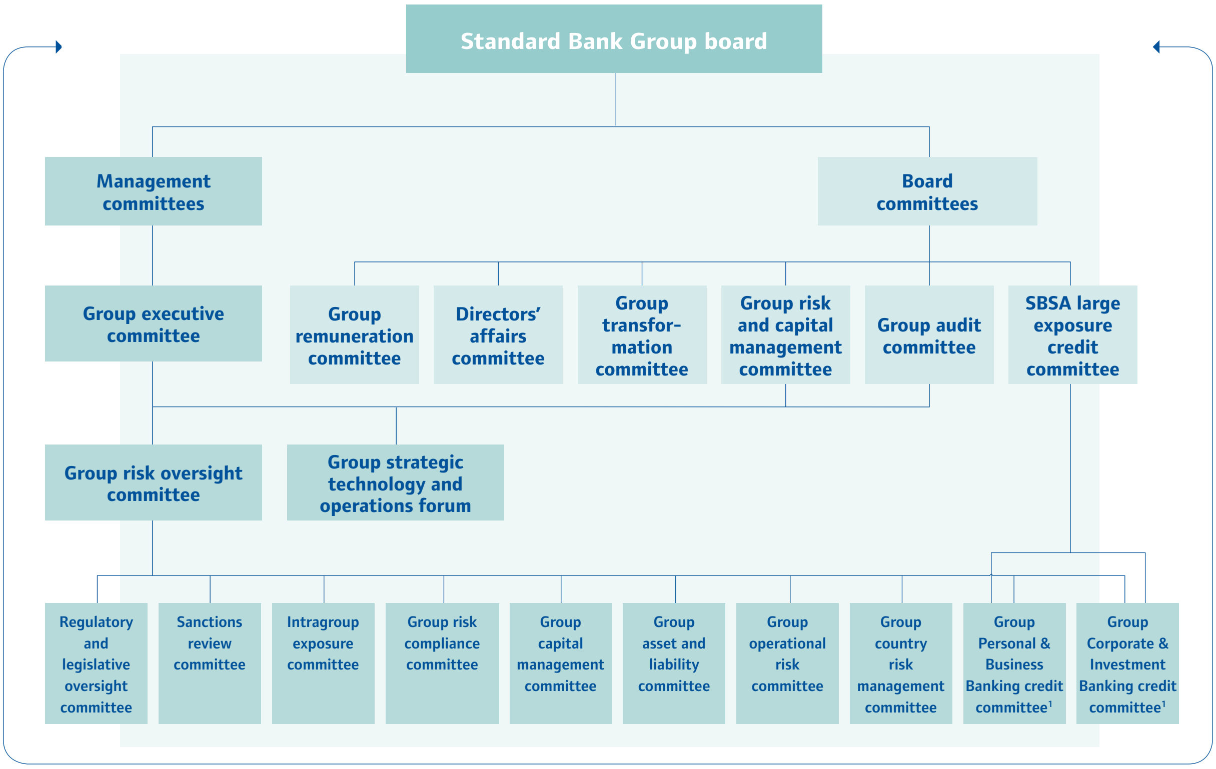
Social security and retirement reform

– The South African government's intention to establish a broad-based contributory social security arrangement will have an impact on the life insurance and retirement funding industry and, consequently, the group. A team comprising business representatives across the group have begun investigations into the impact of the reform proposals on the group, as well as opportunities that the impending changes create in the insurance and pensions businesses.

Governance

Governance structure

Various committees, which are integral to the group's risk and capital governance framework, allow executive management and the board to evaluate the risks faced by the group and the effectiveness of the group's management of these risks. The committees are set out in the diagram below.



[1] *The board has delegated authority to these committees to act as nominated designated committees in respect of regulations.*

Management committees

Board committees

Group audit committee (GAC)

The GAC is responsible for:

- reviewing the group's financial position and making recommendations to the board on all financial matters including assessing the integrity and effectiveness of accounting, financial, compliance and other control systems;
- ensuring effective communication between internal auditors, external auditors, the board, management and regulators;
- providing assurance to the board on the integrity of the information in the integrated report; and
- considering the implementation of a combined assurance model to ensure a coordinated approach to assurance activities.

Group risk and capital management committee (GRCMC)

GRCMC provides independent and objective oversight of risk and capital management across the group by:

- reviewing and providing oversight in respect of the adequacy and effectiveness of the group's risk management framework;
- approving risk and capital management governance standards and policies; and
- approving and monitoring the group's risk appetite for each risk type under normal and potential stress conditions.

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Risk and capital management continued

Executive management oversight for all risk types has been delegated by the group executive committee to the group risk oversight committee (GROC). This committee considers and, to the extent required, recommends for approval by the relevant board committees:
- levels of risk appetite and tolerance;
- group stress testing and scenario analysis;
- risk governance standards for each risk type;
- actions on the risk profile and/or risk tendency;
- risk strategy and key risk controls across the group;
- capital planning and capital funding activities;
- utilisation of risk appetite, as well as the usage and allocation of economic capital parameters for modelling, stress testing and scenario analysis; and
- internal capital adequacy assessment process (ICAAP).

The GRCMC, GAC and GROC meet at least quarterly, with additional meetings conducted when necessary. The group risk management subcommittees report directly to GROC and through GROC to GRCMC and GAC.

The group's governance processes rely on both individual responsibility and collective oversight, supported by comprehensive and independent reporting. This approach balances strong corporate oversight at group level that begins with proactive participation by the senior executives of the group in all significant risk matters, with independent second line of defence functions at the centre and embedded within the business units.

SBSA large exposure credit committee

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

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 a standard for 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 GRCMC. 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 risk 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 GRCMC and ensures that risk appetite is in line with the group strategy and the desired balance between risk and reward for the group. GROC recommends to both the GRCMC and the board the level of risk appetite 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 an 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 level.

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 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 GRCMC based on GROC's 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
– assessment, as required 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 underwriting the issue of these products in the primary market.
  • 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.
– Credit concentration risk is the risk of loss to the group as a result of excessive build-up of exposure to 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 bank 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 flows 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.

Insurance risk

Insurance risk is the risk that future claims and related expenses will exceed the allowance for expected claims and expenses, as determined through measuring policyholder liabilities and in reference to product pricing principles.

Long-term insurance risk arises due to uncertainty regarding the timing and amount of future cash flows from insurance contracts, whether due to variations in mortality, morbidity or withdrawal rate, or due to deviations from investment performance assumptions.

Short-term insurance risk arises due to uncertainty regarding the timing and amount of future cash flows from insurance contracts, whether due to variations in claims incidence and severity, or due to deviations from investment performance assumptions.

Operational risk

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events.

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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 and/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 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.

Reporting protocols
This risk and capital management report addresses the disclosure requirements of Basel II pillar 3, as set out in the Regulations relating to Banks, and IFRS. While the overarching goals of both protocols are to increase disclosure, the basis of consolidation differs. These differences are explained below.

Reporting protocol differences

	Reporting protocol	
	Basel II pillar 3	**IFRS**
Distinction of treatment based on nature of activities.	Treatment depends on the nature of the underlying activity of the entity. There are different treatments for entities which conduct banking, securities or financial activities, as defined, and those which do not.	All entities, regardless of the nature of their underlying activities, are treated in the same manner.
Subsidiaries conducting banking, securities or financial activities, as defined.	Consolidated – includes the full risk-weighted exposure amounts of the subsidiary in the group consolidated risk-weighted exposures.	Consolidated.
Other subsidiaries.	Deduction – the investment in the entity is deducted from the group consolidated capital and reserve funds and the related assets are removed from the consolidated balance sheet.	Consolidated.
Significant influence or joint control of entities conducting banking, securities or financial activities, as defined.	Proportionately consolidated – includes the pro rata portion (based on the group's share in the entity) of the risk-weighted exposure amounts of the entity in the group consolidated risk-weighted exposures.	Equity accounted.
Significant influence or joint control of entities conducting other activities.	Deduction – the investment in the entity is deducted from the group consolidated capital and reserve funds and the related assets are removed from the consolidated balance sheet.	Equity accounted.

Treatment of legal entities under the Basel II consolidation

Type of treatment	Banks[1]	Securities firms[2]	Financial entities[3]	Commercial entities[4]	Insurance entities[5]
2010					
Consolidated	**24**	**5**	**86**		
Proportionately consolidated			**7**		
Deduction	**1**	**1**	**10**	**111**	**5**
Total	**25**	**6**	**103**	**111**	**5**
2009[6]					
Consolidated	23	5	85		
Proportionately consolidated			4		
Deduction	1	1	12	109	5
Total	24	6	101	109	5

[1] *Banks – public companies registered as banks in terms of the Banks Act, 1990 or the relevant legislation if the entity is registered outside of the Republic of South Africa.*
[2] *Securities firms – entities that conduct securities as envisaged in the Securities Services Act, 2004 or the relevant legislation if the entity is registered outside of the Republic of South Africa.*
[3] *Financial entities – entities that conduct financial activities, for example, lending business, financial leasing, consumer credit, mortgage credit, money transmission, portfolio management or money broking.*
[4] *Commercial entities – entities primarily involved in the production of goods or non-financial services.*
[5] *Insurance entities – entities that conduct insurance business including any entity registered as an insurer in terms of the Short-term Insurance Act, 1998 or Long-term Insurance Act,1998 or the relevant legislation if the entity is registered outside the Republic of South Africa.*
[6] *Restated.*

Basel II approaches adopted

Credit risk

The group has approval from the SARB to adopt the advanced internal ratings based (AIRB) approach for its credit portfolios in SBSA. Certain portfolios in the group, for which the standardised and the foundation internal ratings based (FIRB) approaches were initially adopted, are in the process of being migrated to the AIRB approach where this is appropriate.

Equity risk

The group has approval from the SARB to adopt the market-based approach for certain equity portfolios in SBSA.

Operational risk

The group applies the standardised approach (TSA) for operational risk. The group is progressing well in developing and implementing an AMA operational risk framework. Elements of this framework are being introduced during 2011 to support an application to the SARB in the fourth quarter of 2011 for permission to use AMA for the measurement of regulatory capital requirements. After a year of running this framework in parallel with the existing TSA for operational risk, it is expected to be the sole framework used for regulatory capital purposes by the end of 2012 for qualifying entities.

Market risk

The group has approval from the SARB to adopt the internal model approach for most trading product groups and across most principal market risk types for SBSA and Standard Bank Plc.

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Risk and capital management continued

Capital management

Introduction

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;
- ensure that the group's foreign-regulated subsidiaries meet their respective minimum requirements;
- 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 CARs set by management and to withstand the impact of potential stress events;
- maintain and adopt the dividend policy and dividend declarations of the group and SBSA 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 GRCMC 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:

- 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, GROC and the board, through the GRCMC, 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.

Capital transferability

Subject to appropriate motivation and approval by exchange control authorities, no significant restrictions exist on the transfer of funds and regulatory capital within the banking group. The transfer of funds and regulatory capital within the group is conducted with due consideration given to the appropriateness of each action.

Regulatory capital

Banking operations

During the period under review and the comparative period in 2009, the group complied with all externally imposed capital requirements to which its banking activities and insurance operations are subject. The main requirements are those specified in the Banks Act and Regulations relating to Banks, which are broadly consistent with the Basel II guidelines issued by the Bank for International Settlements, and the requirements of the FSB.

In addition to the requirements of host country regulators, 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, the general allowance for credit impairments 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.

The group's tier I capital including unappropriated profit was R80,0 billion in 2010 (2009: R71,4 billion) and total capital including unappropriated profit was R94,8 billion in 2010 (2009: R90,7 billion). The change in the group's capital was primarily due to an increase in retained earnings by the group. The group maintained a well-capitalised position based upon core tier I, tier I and total capital ratios as set out on page 135.

Basel II regulatory capital

	2010 Rm	2009[1] Rm
Tier I		
Issued primary capital and unimpaired reserve funds	**97 695**	93 866
Ordinary share capital and premium	**17 522**	17 197
Ordinary shareholders' reserves	**69 551**	66 825
Non-controlling interest	**10 622**	9 844
Less: regulatory deductions	**(18 316)**	(16 202)
Goodwill and other intangible assets	**(8 965)**	(7 827)
Investment in regulated non-banking entities	**(129)**	(135)
Investment in banks	**(2 697)**	(2 369)
Less: regulatory deductions – 50% deducted from tier I and tier II respectively	**(6 525)**	(5 871)
Future expected loss exceeding eligible provisions on an incurred loss basis	**(1 553)**	(921)
Investment in insurance and financial entities not consolidated	**(4 822)**	(4 666)
Loans to SPEs (first loss credit enhancement)	**(150)**	(284)
Less: regulatory exclusions	**(12 482)**	(22 835)
Non-qualifying entities' ordinary shareholders' reserves[2]	**(3 705)**	(4 852)
Unappropriated profit[3]	**(7 604)**	(11 030)
Non-qualifying, non-controlling interest	**(5 146)**	(6 125)
Other reserves[4]	**3 973**	(828)
Preference share capital and premium	**5 495**	5 495
	72 392	60 324
Tier II		
Issued secondary capital and reserves	**21 383**	23 868
Preference share capital and premium	**8**	8
Subordinated debt	**20 295**	22 931
General allowance for credit impairments	**1 080**	929
Less: regulatory deductions – 50% deducted from tier I and tier II respectively	**(7 040)**	(5 871)
Future expected loss exceeding eligible provisions on an incurred loss basis	**(1 553)**	(921)
Investment in insurance and financial entities not consolidated	**(4 822)**	(4 666)
Loans to SPEs (first loss credit enhancement)	**(150)**	(284)
Investment in banks' tier II subordinated debt instruments	**(515)**	
	14 343	17 997
Tier III		
Subordinated debt	**466**	1 361
Total eligible capital (excluding unappropriated profits)	**87 201**	79 682
Total capital requirement	**58 906**	56 983
Total risk-weighted assets	**620 064**	599 822

Audited.

[1] *Restated.*

[2] *Mainly insurance and commercial entities.*

[3] *Unappropriated profits of R7,6 billion (2009: R11,0 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.*

[4] *Mainly the share-based payment reserve, cash flow hedging reserve, available-for-sale revaluation reserve and foreign currency translation reserve, where applicable.*

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Risk and capital management continued

Basel II risk-weighted assets and associated capital requirements

	2010[1]		2009[1]	
	Risk-weighted assets Rm	Capital requirement[2] Rm	Risk-weighted assets Rm	Capital requirement[2] Rm
Credit risk	448 807	42 636	432 431	41 081
Portfolios subject to the standardised approach	98 392	9 347	108 351	10 293
Corporate	50 683	4 815	57 182	5 432
Sovereign	18 718	1 778	18 403	1 748
Banks	4 044	384	5 460	519
Retail mortgages	6 461	614	13 895	1 320
Retail other[3]	18 318	1 740	12 979	1 233
Securitisation exposure	168	16	432	41
Portfolios subject to the FIRB approach	68 825	6 538	74 896	7 116
Corporate	56 277	5 346	64 251	6 104
Sovereign	1 277	121	828	79
Banks	11 271	1 071	9 817	933
Portfolios subject to the AIRB approach	251 721	23 913	228 865	21 742
Corporate	95 678	9 089	94 568	8 984
Sovereign	7 128	677	4 063	386
Banks	11 166	1 061	10 368	985
Retail mortgages	71 729	6 814	56 393	5 357
Qualifying retail revolving exposure	36 721	3 488	39 103	3 715
Retail other[3]	25 648	2 437	21 952	2 085
Securitisation exposure	3 651	347	2 418	230
Other assets	29 869	2 838	20 319	1 930
Equity risk in the banking book	15 584	1 481	15 707	1 493
Portfolios subject to the standardised approach	2 207	210	739	70
Listed	1 277	122	34	3
Unlisted	930	88	705	67
Portfolios subject to the market-based approach	4 635	440	6 307	600
Listed	682	65	3 300	314
Unlisted	3 953	375	3 007	286
Portfolios subject to the probability of default/loss given default approach	8 742	831	8 661	823
Market risk	52 385	4 977	48 059	4 565
Portfolios subject to the standardised approach	29 251	2 779	24 634	2 340
Interest rate risk	19 613	1 864	18 086	1 718
Equity position risk	4 350	413	1 882	179
Foreign exchange risk	2 329	221	2 330	221
Commodities risk	2 959	281	2 336	222
Portfolios subject to the internal models approach	23 134	2 198	23 425	2 225
Value-at-risk (VaR)-based	11 178	1 062	17 050	1 620
Commodities	6 056	575	8 054	765
Forex	1 056	100	1 332	127
Interest rates	7 698	732	15 699	1 492
Equities	2 256	214	815	77
Diversification	(5 888)	(559)	(8 850)	(841)
Non-VaR-based	11 956	1 136	6 375	605
Operational risk				
Portfolios subject to the standardised approach	103 288	9 812	103 625	9 844
Total risk-weighted assets/capital requirement	620 064	58 906	599 822	56 983

[1] *Instruments on the standardised approach relate to the Africa portfolio and in addition, new products recently traded for which the application to adopt the internal models approach has not yet been submitted, or for which an application has been submitted but approval has not been granted.*

[2] *Capital requirement at 9,5% excludes bank specific add-ons and capital floor.*

[3] *Retail other includes retail small and medium enterprises, vehicle and asset finance, and term lending exposures.*

Capital adequacy ratios (including unappropriated profits)

	Minimum regulatory requirement %	Target ratio %	**2010 %**	2009[1] %
Total capital adequacy ratio	9,75	11 – 12	**15,3**	15,1
Tier I capital adequacy ratio	7,0	9,0	**12,9**	11,9
Core tier I capital adequacy ratio	5,25		**12,0**	11,0

[1] *Restated.*

Capital adequacy ratios of banking and insurance subsidiaries

	2010		2009[1]		**Host regulatory require-ments**
	Tier I capital %	**Total capital %**	Tier I capital %	Total capital %	**%**
Standard Bank Group	**12,9**	**15,3**	11,9	15,1	**9,75**
The Standard Bank of South Africa	**11,5**	**14,9**	10,6	14,1	**9,75**
CfC Stanbic Bank (Kenya)	**10,7**	**16,7**	10,6	16,4	**12,0**
Stanbic Bank Botswana	**10,2**	**17,7**	10,8	18,6	**15,0**
Stanbic Bank Ghana	**15,8**	**19,4**	19,4	22,5	**10,0**
Stanbic Bank Tanzania	**13,5**	**14,8**	17,4	18,9	**12,0**
Stanbic Bank Uganda	**12,6**	**14,3**	13,1	16,3	**12,0**
Stanbic Bank Zambia	**8,3**	**11,4**	14,1	18,0	**10,0**
Stanbic Bank Zimbabwe	**16,3**	**17,6**	17,5	18,8	**10,0**
Stanbic IBTC Bank Nigeria	**27,8**	**28,5**	27,6	28,1	**10,0**
Standard Bank de Angola	**145,9**[2]	**145,9**[2]			**10,0**
Standard Bank Malawi	**22,2**	**27,4**	19,8	25,7	**10,0**
Standard Bank Mauritius	**12,1**	**17,9**	12,0	18,1	**10,0**
Standard Bank Mozambique	**9,2**	**10,8**	12,0	14,7	**8,0**
Standard Bank Namibia	**9,3**	**14,6**	11,2	14,1	**10,0**
Stanbic Bank RDC (DRC Congo)	**20,2**	**25,2**	10,1	16,2	**10,0**
Standard Bank Swaziland	**14,2**	**19,4**	12,0	17,9	**8,0**
Standard Lesotho Bank	**10,9**	**12,2**	9,1	10,6	**8,0**
Standard International Holdings, consolidated[3]	**9,0**	**13,7**	9,9	16,5	**10,48**[4]
Standard Bank Isle of Man	**8,7**	**12,8**	8,8	12,5	**10,0**
Standard Bank Jersey	**10,8**	**16,2**	10,0	13,0	**10,0**
Aggregate regulatory capital requirements for banking operations		**10,0**		10,1	**10,4**
Liberty Group (calculated in terms of the Long-term Insurance Act) – CAR – times covered		**2,7**		2,8	

[1] *Restated.*
[2] *The capital ratio reflects the capitalisation of the bank to support its establishment and in anticipation of set up costs that are to be incurred as well as expected growth in loans and advances.*
[3] *Incorporating:*
- *Banco Standard de Investimentos (Brazil)*
- *Standard Bank Argentina*
- *Standard Bank Asia (Hong Kong)*
- *Standard Bank Plc (United Kingdom)*
- *Standard Merchant Bank (Asia) (Singapore)*

[4] *Plus an additional USD100 million for FSA requirements.*

Insurance operations

Long-term insurance regulatory capital

Available statutory capital is the amount by which the value of the assets exceeds the value of the liabilities, where the assets and liabilities are measured on the statutory basis in accordance with the South African Long-Term Insurance Act and associated regulations and any further guidance notes issued by the Actuarial Society of South Africa.

The CAR is calculated as the greater of:
- Minimum capital adequacy requirement (MCAR): This is the minimum capital requirement for maintaining a South African long-term insurance licence. At 31 December 2010, the MCAR per life licence is the greater of R10 million, a quarter of annual operating expenses and an amount equal to 0,3% of gross contingent liabilities under unmatured policies. At 31 December 2009, the MCAR per life licence was R10 million.

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Risk and capital management continued

- Termination capital adequacy requirement (TCAR): This requirement examines a highly selective scenario in which all policies with surrender values greater than the policy liability terminate immediately (similar to a run-on-a-bank scenario).
- Ordinary capital adequacy requirement (OCAR): A risk-based measure based on a number of market and insurance risk stress tests which, together with compulsory margins, are intended to provide approximately a 95% confidence level over the long term that the insurer will be able to meet its obligations to policyholders. In the calculation of OCAR, allowance may be made for management actions. The current calculation of OCAR for Liberty and Capital Alliance Limited assumes that non-vested bonuses on with-profit policies will be removed if stabilisation reserves fall below 7,5% of the basic guaranteed liability. These assumed management actions have been approved by the relevant boards. Credit risk is allowed for in the OCAR calculation by applying a price shock to the market value of assets backing non-unit-linked products. The magnitude of the price shock is dependent on the asset's credit rating.

The statutory liability calculations allow for prudential margins on investment returns in their calculation. In addition, an allowance is made for equity, property, interest rate and currency risk in the OCAR calculation. Equity and interest rate risks are typically by far the biggest contributors to OCAR.

Additional discretionary margins and additions to CAR may be held if the statutory actuary feels that the prescribed requirements are not appropriate for the risks undertaken.

For non-South African life insurance subsidiaries of Liberty, the capital requirements are calculated as the maximum of the capital requirements required by the applicable local regulations and the capital calculated as per the South African CAR calculation excluding the MCAR per life licence. For non-South African life insurance subsidiaries held outside Liberty, the capital requirements are those required by the applicable local regulations.

Liberty capital adequacy ratio

		Liberty Group Limited[1]
2010		
Statutory capital adequacy requirement	Rm	**2 688**
Available statutory capital	Rm	**7 172**
Target CAR coverage ratio	(times)[1]	**1,7**
Actual CAR coverage ratio	(times)[1]	**2,7**
2009		
Statutory capital adequacy requirement	Rm	2 542
Available statutory capital	Rm	7 144
Target CAR coverage ratio	(times)[1]	1,7
Actual CAR coverage ratio	(times)[1]	2,8

Audited.
[1] *Based on TCAR.*

Short-term insurance regulatory capital
The group's licensed short-term insurance underwriting is undertaken by SIL. The capital management process ensures that sufficient capital levels are maintained for legal and regulatory compliance purposes. SIL is required at all times to maintain a statutory surplus asset ratio as defined in the Short-term Insurance Act, 1998 (STIA). The quarterly and annual returns submitted to the FSB in terms of the STIA indicated that the minimum capital requirements were met throughout the year.

In terms of the STIA, SIL is required to raise a contingency reserve of 10% of premiums written less approved reinsurance (as defined in the STIA). This reserve can only be utilised with prior permission of the Registrar of Insurance.

Group 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 the 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, correlation of risk, diversification impacts and stress tests to ensure that the group is adequately capitalised on an economic basis.

ICAAP was approved by the board, through the GRCMC, and formed 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 which was lowered from a confidence interval of 99,925% to a less conservative 99,887%.

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.

Banking operations

Economic capital by risk type at end of the year

	2010 Rm	2009[1] Rm
Credit risk	**30 887**	31 336
Equity risk	**3 695**	2 030
Market risk	**1 553**	1 747
Operational risk	**6 644**	6 965
Business risk	**1 680**	1 504
Interest rate risk in the banking book	**1 641**	1 917
Banking activities – economic capital	**46 100**	45 499
Available financial resources	**87 353**	81 503
Capital coverage ratio (times)	**1,89**	1,79

[1] *Restated.*

Credit risk represents the largest source of risk to which the banking entities in the group are 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.

The available financial resources of R87,4 billion covers the minimum economic capital requirement of R46,1 billion by a factor of 1,89 times.

Insurance operations

Long-term insurance

Long-term insurance entities are excluded from the calculation of economic capital from a group perspective.

Liberty is in the process of developing economic capital models to meet the future SAM requirements. These models will continue to change as the requirements of SAM are clarified.

Current indications are that Liberty has sufficient capital to meet its economic capital requirements in respect of risks inherent in long-term insurance operations.

In the calculation of economic capital requirements, allowance is made for the market risk arising from the major asset classes, including equity, property, interest rate, credit spreads and currency risk. The equity, property and currency risk allows for a fall in current prices. In allowing for interest rate risks, the extreme events consider the impact of parallel shifts as well as twists and inflections in the yield curve on both the assets and liabilities. Credit risk is quantified by increasing the current risk spreads on the credit-sensitive assets proportionally by a specified amount assumed to occur in a severe credit risk event.

The equity, property, interest rate and currency risks give rise to economic capital requirements. The group's economic capital requirements allow for diversification benefits between market risk and other risks such as insurance risk. The diversification benefits enable the group to take on market risk on risk-adjusted value enhancing terms. The market risks taken on by the group, however, are subject to the group's limits. If the group is not within risk appetite, the removal of market risk is generally considered prior to exploring reducing core strategic risks such as mortality risk.

Short-term insurance

Short-term insurance operations have a solid capital base which will be maintained under the proposed SAM regulatory requirements. Short-term insurance entities are excluded from the calculation of economic capital from a group perspective.

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Risk and capital management continued

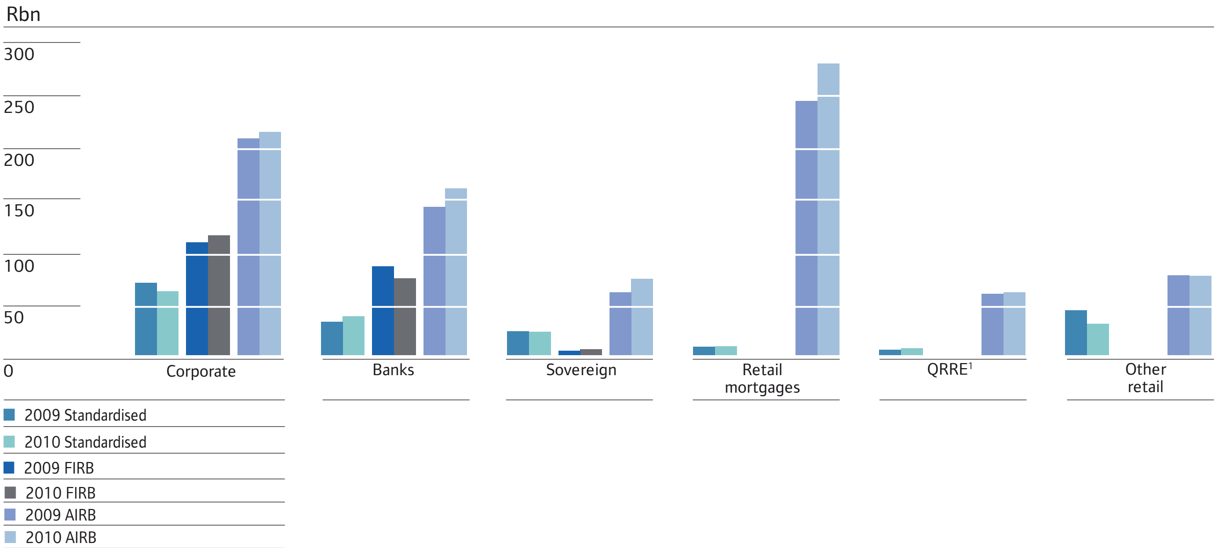
Credit risk

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 and with oversight, as with other risks, by the group risk committees and ultimately the board.

The principal executive management committee responsible for the oversight of credit risk is GROC. The group credit committees for both Personal & Business Banking and Corporate & Investment Banking report directly to GROC and indirectly through GROC to the GRCMC. These committees have responsibility for credit risk and credit concentration risk decision-making. They have been mandated by the board as the designated committees for approving key aspects of the credit rating systems for Personal & Business Banking and Corporate & Investment Banking as required by the Banks Act and the Regulations relating to Banks. The GRCMC is the principal board committee responsible for the oversight of credit risk, with GAC having oversight responsibility for reviewing credit impairment adequacy.

Basel II exposure by approach and asset class



[1] *QRRE – Qualifying revolving retail exposures*

The committees have clearly defined mandates and delegated authorities, which are regularly reviewed.

Credit committee responsibilities include governance oversight; risk appetite; model performance; development and validation; counterparty and portfolio risk limits and approvals; country, industry, market, product, obligor, customer segment and maturity concentration risk; risk mitigation; impairments; and stress testing.

Banking operations

Basel II

Approaches adopted

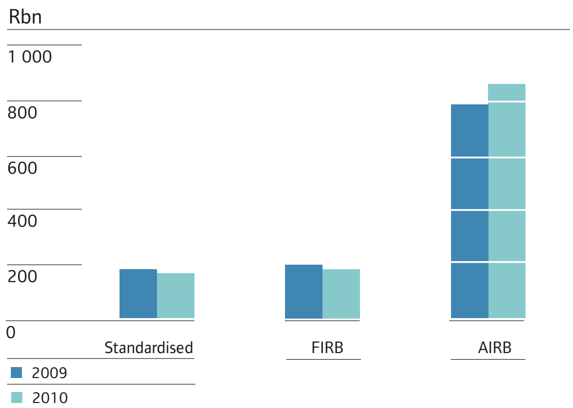
There are three approaches under Basel II for credit risk: the standardised approach, the FIRB approach, and the AIRB approach. The FIRB and AIRB approaches are collectively referred to as the IRB approach.

For credit portfolios managed under the standardised approach, credit exposures are allocated to supervisory categories based on observable characteristics of the exposures, and regulatory capital held based on ratios prescribed by the regulator.

For credit portfolios managed under the AIRB approach, the regulator permits the internal assessment by the group of probability of default (PD), EAD and loss given default (LGD) parameters for counterparties.

For credit portfolios managed under the FIRB approach, the regulator permits the internal assessment by the group of PD only. EAD and LGD parameters are prescribed by the regulators.

Basel II exposure by approach



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Risk and capital management continued

Standardised approach

Credit exposures

The group has adopted the standardised approach for some of its subsidiaries and portfolios. The calculation of regulatory capital is based on net counterparty exposures after recognising a limited set of qualifying collateral. A prescribed percentage, being the risk weighting which is based on the exposure characteristics and the external agency credit rating of the counterparty for corporate bank and sovereign exposures, is then applied to the net exposure.

External credit assessment institutions

Asset class	Moody's investor services	Standard & Poor's	Fitch
Corporate	✓		✓
Sovereign	✓	✓	✓
Banks	✓		✓
Small and medium enterprises	✓		✓

For counterparties for which there are no credit ratings available, exposures are classified as unrated for determining regulatory capital requirements.

Equity exposures

Under the standardised approach, unlisted and listed equity exposures are ascribed a 100% risk weighting. Where exposure relates to private equity and venture capital, a risk weighting of 150% is applied.

	2010 Rm	2009 Rm
Listed	12	34
Unlisted	649	700
Total	**661**	734

Basel II exposure subject to the standardised approach per risk weighting

	2010 Exposure Rm	2010 Mitigation Rm	2010 Exposure after mitigation Rm	2009[1] Exposure after mitigation Rm
Based on risk weights				
0% – 35%	5 720	22	5 698	25 328
50%	39 895	17	39 878	34 449
Rated	4 092		4 092	3 656
Unrated	35 803	17	35 786	30 793
75%	43 156	275	42 881	33 096
100% and above	76 953	4 254	72 699	83 969
Rated	7 656	36	7 620	9 167
Unrated	69 297	4 218	65 079	74 802
Total	**165 724**	**4 568**	**161 156**	176 842

[1] *Restated.*

IRB approach

Corporates, sovereigns and banks

Corporate, sovereign and bank borrowers include South African and international companies, sovereigns, local and provincial government entities, pure bank financial institutions, non-bank financial institutions and public sector entities. Corporate entities include large companies as well as small and medium enterprises that are managed on a relationship basis or have a combined exposure to the group of more than R7,5 million.

Under the AIRB approach, the EAD and LGD parameters are derived using approved methodologies and are based on a combination of internal and external historical default and recovery data. A downturn LGD factor is applied to the estimated LGD. The group has adopted the AIRB approach for most credit risk portfolios.

The group makes extensive use of internal risk estimates of PD, LGD and EAD with respect to:

- setting risk appetite;
- setting limits for concentration risk and counterparty limits;
- determining credit approval;
- pricing transactions;
- determining portfolio impairment provisions;
- calculating regulatory capital; and
- calculating economic capital.

A number of models are used across the group to determine PD, LGD and EAD parameters. Models are used to achieve objectivity, comparability and transparency in determining credit risk measures, with the recognition that they are just one input into the management decision-making process. All IRB models are managed under model development and validation policies that set out the requirements for model governance structures and processes, and the technical framework within which model performance and appropriateness is maintained.

All IRB model practices are in compliance with the Banks Act and Regulations and other applicable host bank laws, regulations or similar.

Technical teams within the business units are responsible for credit model development, implementation and maintenance. This offers a holistic credit architecture and ongoing analytical evaluation of the bank's credit risk profile, including systems performance and procedural effectiveness, thereby addressing key regulatory requirements as well as aspects of international best practice most suited to our emerging market portfolio.

The board has delegated authority in respect of the approval of all material aspects of the group's credit risk rating and estimation process to the group credit committees of Corporate & Investment Banking and Personal & Business Banking and has appointed these committees as the designated committees for the group in terms of the regulations.

The models are developed using internal historic default and recovery data. In low default portfolios, such as the sovereign and bank asset classes, internal data is supplemented with external benchmarks and studies. Models are assessed frequently to ensure ongoing appropriateness as business environments and strategic objectives change. Models are recalibrated annually using the most recent internal data.

PDs

PD parameters measure the likelihood that the borrower will default over a prescribed period. The group uses an internationally comparable 25 point master rating scale to quantify the credit risk for each borrower. The mapping of the master rating scale to the SARB risk buckets, external credit assessment institutions' alphanumerical rating scales and grading categories are shown in the table below.

Relationship between the group master rating scale and external ratings

Group master rating scale	SARB risk bucket	Moody's Investor Services	Standard & Poor's	Fitch	Grading	Credit quality
1 – 4	AAA to AA-	Aaa, Aa1, Aa2, Aa3	AAA, AA+, AA, AA-	AAA, AA+, AA, AA-	Investment grade	Normal monitoring
5 – 7	A+ to A-	A1, A2, A3	A+, A, A-	A+, A, A-		
8 – 12	BBB+ to BBB-	Baa1, Baa2, Baa3	BBB+, BBB, BBB-	BBB+, BBB, BBB-		
13 – 21	BB+ to B-	Ba1, Ba2, Ba3, B1, B2, B3	BB+, BB, BB-, B+, B, B-	BB+, BB, BB-, B+, B, B-	Sub-investment grade	
22 – 25	Below B-	Caa1, Caa2, Caa3, Ca	CCC+, CCC, CCC-	CCC+, CCC, CCC-		Close monitoring
Default	Default	C	D	D	Default	Default

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Ratings are mapped to PDs by means of calibration formulae that use historical default rates and other data from the applicable portfolio.

The group distinguishes between two measures of PD, namely through the cycle PD and point in time PD, and utilises both measures in decision-making and in managing credit risk exposures. Through the cycle PD measures reflect long-term average default expectations over the course of the economic cycle, and are used as inputs to regulatory and economic capital calculations. Point in time PDs reflect default expectations in the current economic environment and tend to be more volatile than through the cycle measures. Point in time PDs are used as inputs to pricing and to the definition of origination strategies.

LGDs

The LGDs per product are estimated using historic recovery data. When a customer defaults, some part of the amount outstanding on the loan is generally recovered. LGD measures the economic loss that will be incurred by the bank in the event of borrower default and is expressed as a percentage of exposure at default. LGD measures may also be related to customer type, seniority of loan, country of risk and level of collateralisation. A downturn LGD is used in the estimation of the capital charge and reflects the correlation between recovery rates and macroeconomic factors in a downturn period.

EADs

EAD is the exposure amount that the group estimates will be outstanding at the time of default. EAD captures the impact of potential draw-down against unutilised facilities and changes in counterparty risk positions due to changes in market prices. During the course of a loan, the customer may not have drawn the loan fully or may have already repaid some of the principal so that the exposure is typically less than the approved loan limit. However, by using historical data it is possible to estimate the average utilisation of limits of an account when default occurs, taking into consideration the fact that customers may make more use of their facilities as they approach default.

Independent validation

IRB credit models are validated at initial development and at least annually thereafter by an independent team within the central risk management function.

Validation techniques include both quantitative and qualitative analyses to test the appropriateness and effectiveness of the models.

Validation analyses use data sets which are different from those used for model development. The level and depth of the data used for validation purposes differs across various PD, LGD and EAD models, depending on the materiality of the portfolio, incidence of defaults at a given stage in the economic cycle and availability of external benchmarks.

Model validation results are regularly presented to the designated committees.

Specialised lending exposures

Specialised lending includes project, object and commodity finance as well as income-producing real estate finance. Creditworthiness is assessed on a transactional level, rather than the financial strength of the borrower, as the group relies on repayment from the cash flows generated by the underlying asset.

Under Basel II, two approaches are available for specialised lending exposures: the PD/LGD approach and the slotting approach. If PD and LGD parameters can be determined, the specialised lending exposures are treated under the PD/LGD approach. If the PD or LGD cannot be determined, the specialised lending exposure is treated under the slotting approach. With this approach the assets are evaluated against a set number of criteria and, based on this evaluation, an appropriate risk profile and risk-weighting are calculated.

Slotting approach

For certain specialised lending asset classes, the slotting approach has been adopted.

Specialised lending exposures under the slotting approach

	2010 Rm	2009 Rm
Based on risk weight		
70% – 95%	**703**	369
115% – 250%	**600**	877
Total	**1 303**	1 246

PD/LGD approach

Under the PD/LGD approach the models used to rate project, object and commodity finance transactions are scorecards combining quantitative and qualitative factors to generate a PD and LGD for each transaction. For income-producing real estate transactions, a scorecard is used for rating smaller vanilla investor transactions and a cash flow simulation model is used for larger or more complex investor transactions. Model outputs are calibrated and mapped to the 25 point master rating scale.

The transaction LGD per facility is calculated per loan tranche, net of collateral. Since a characteristic of specialised lending is that the financed asset (project, commodity or object) forms an essential component of the recovery calculation, a realisable value is first calculated for the underlying asset. Additional forms of loss mitigation are taken into account; these include collateral in the form of cash pledges, mortgages, bonds or equity, third or related party guarantees and insurance policies.

Equity exposures subject to the simple risk-weighted method

The PD/LGD approach is used to model the credit risk and capital requirement for equities excluding strategic investments in the banking portfolio. The group's standard approved risk grade models, described earlier, are used in this process together with the regulatory prescribed LGD of 90% and a maturity factor of five years. The PD/LGD approach is used for most of the group's South African equity investment portfolios. Where no suitable model exists for the equity investment, the fall-back capital calculation is the simple risk-weighted approach. Under this approach, listed and unlisted equity exposures are ascribed a 300% and 400% risk weighting respectively.

Simple risk-weighted method

	2010 Rm	2009 Rm
Listed	801	1 073
Unlisted	1 092	1 303
Total	**1 893**	2 376

Retail mortgages, qualifying retail revolving exposures (QRRE) and retail other

Retail mortgage exposures relate to mortgage loans to individuals and are a combination of both drawn and undrawn EADs.

QRRE relates to cheque accounts, credit cards and revolving personal loans. These products include both drawn and undrawn exposures.

Retail other covers other branch lending and vehicle finance for retail and retail small and medium enterprise portfolios. Branch lending includes both drawn and undrawn exposures, while vehicle and asset finance only has drawn exposures.

Internally-developed behavioural scorecards for retail accounts and loans are used to measure the anticipated performance for each account. Mapping the behaviour score to a PD is performed for each portfolio using a statistical calibration of portfolio-specific historical default experience. The behavioural scorecard PDs are used to determine the portfolio distribution on the master rating scale.

Separate LGD models are used for each product portfolio and are based on historic recovery data.

EAD is measured as a percentage of the credit facility limit, and is based on historical averages. EAD is estimated per portfolio and per portfolio-specific segment, using internal historic data on limit utilisation.

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Risk and capital management continued

Analysis of PDs, EADs and LGDs by risk grade under the IRB approach

		Corporate			Sovereign[1]			Banks		
	Average PD %	EAD Rm	LGD %	Exposure weighted average risk weight %	EAD Rm	LGD %	Exposure weighted average risk weight %	EAD Rm	LGD %	Exposure weighted average risk weight %
2010										
Non-default		**229 816**			**71 602**			**123 704**		
1 – 4	**0,03**	**4 937**	**37,95**	**5,72**	**3 303**	**29,19**	**1,17**	**26 435**	**36,97**	**9,11**
5 – 7	**0,07**	**10 153**	**38,79**	**18,67**	**48 071**	**20,98**	**10,03**	**77 983**	**35,70**	**13,10**
8 – 12	**0,33**	**78 530**	**34,27**	**38,77**	**18 302**	**23,17**	**22,64**	**14 897**	**39,91**	**36,24**
13 – 21	**2,22**	**131 497**	**35,53**	**76,77**	**1 835**	**20,01**	**41,13**	**4 388**	**42,36**	**101,26**
22 – 25	**28,22**	**4 699**	**19,97**	**71,73**	**91**	**45,12**	**218,05**	**1**	**36,14**	**196,93**
Default	**100,00**	**10 402**	**41,04**	**78,44**	**436**	**45,04**	**0,14**	**146**	**44,93**	**0,03**
Total		**240 218**	**35,24**		**72 038**	**22,07**		**123 850**	**36,73**	
2009[2]										
Non-default		235 682			59 981			120 244		
1 – 4	0,03	4 682	35,82	8,78	4 989	31,18	1,37	47 215	37,18	9,72
5 – 7	0,06	8 187	42,83	21,28				38 114	36,63	12,25
8 – 12	0,27	91 915	35,71	43,35	52 183	13,73	8,95	31 007	36,57	24,07
13 – 21	2,12	127 072	36,78	83,35	2 809	26,39	52,67	3 908	44,05	90,37
22 – 25	32,93	3 826	26,22	82,10						
Default	100,00	8 872	39,80	20,61	561	45,00	3,17	532	43,14	
Total		244 554	36,51		60 542	16,05		120 776	37,10	

[1] *In April 2010 Standard Bank expanded the granularity of its wholesale rating scale from 21 to 25 grades. This, along with the implementation of a new sovereign rating model, resulted in a shift in the distribution of the portfolio by risk grade.*

[2] *Restated.*

Retail mortgages			QRRE			Retail other			Equity	
EAD Rm	LGD %	Exposure weighted average risk weight %	EAD Rm	LGD %	Exposure weighted average risk weight %	EAD Rm	LGD %	Exposure weighted average risk weight %	Exposure Rm	PD %
238 892			**47 045**			**70 518**			**3 563**	
			8	**22,33**	**0,01**	**1 767**	**18,28**	**0,83**		
42	**12,91**	**0,00**	**1 124**	**53,84**	**1,57**	**3 011**	**22,32**	**1,41**		
46 790	**12,39**	**4,88**	**6 720**	**55,50**	**9,37**	**9 752**	**29,70**	**4,57**	**1 113**	**0,42**
169 995	**13,96**	**17,73**	**34 362**	**65,82**	**47,91**	**51 541**	**32,60**	**24,15**	**2 322**	**1,25**
22 065	**15,51**	**2,30**	**4 831**	**67,14**	**6,74**	**4 447**	**31,13**	**2,08**	**128**	**14,53**
23 483	**17,17**	**2,45**	**4 272**	**67,46**	**5,96**	**3 704**	**31,56**	**1,81**		
262 375	**14,10**		**51 317**	**64,46**		**74 222**	**31,32**		**3 563**	
204 987			46 180			72 065			3 409	
1 137	15,25	0,12	114	41,39	0,17	2 329	12,23	0,90		
1 366	15,17	0,15	1 308	45,41	1,99	2 756	17,91	1,06		
37 740	15,23	4,12	6 719	50,02	10,21	8 267	24,45	3,19	978	0,40
145 237	15,52	15,85	33 162	64,98	50,40	54 136	28,86	20,82	2 431	1,56
19 507	15,69	2,13	4 877	68,56	7,41	4 577	26,11	1,76		
22 500	15,66	2,46	4 542	67,44	6,90	4 107	31,65	1,58		
227 487	15,50		50 722	63,01		76 172	27,45		3 409	

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Risk and capital management continued

Credit portfolio analysis

Analysis by asset class

The credit portfolio is analysed in the tables that follow in terms of Basel II approach and asset class, industry and geography.

Asset class exposure by Basel II approach and class

	On-balance sheet			Off-balance sheet			Repurchase and resale agreements		
	Standardised Rm	FIRB Rm	AIRB Rm	Standardised Rm	FIRB Rm	AIRB Rm	Standardised Rm	FIRB Rm	AIRB Rm
2010									
Corporate	**42 657**	**52 410**	**117 917**	**13 924**	**13 402**	**63 370**	**2 000**	**28 378**	**10 875**
Sovereign	**21 511**	**3 657**	**60 872**	**878**	**355**	**5 918**			**4 508**
Banks	**36 587**	**12 912**	**62 353**	**279**	**2 870**	**5 396**	**20**	**31 919**	**11 581**
Retail exposure	**31 460**		**334 258**	**13 573**		**82 298**			
Retail mortgages	**8 461**		**245 687**			**34 430**			
QRRE	**2 190**		**32 411**	**4 146**		**28 004**			
Other retail	**20 809**		**56 160**	**9 427**		**19 864**			
Total	**132 215**	**68 979**	**575 400**	**28 654**	**16 627**	**156 982**	**2 020**	**60 297**	**26 964**
2009[3]									
Corporate	51 849	64 800	118 886	16 515	6 290	57 262		14 861	19 003
Sovereign	21 338	3 594	54 166	877	108	3 203	736		2 000
Banks	31 631	17 426	66 459	212	2 335	6 055	34	37 773	15 352
Retail exposure	45 104		300 622	10 389		78 685			
Retail mortgages	7 663		210 260			33 338			
QRRE	1 714		32 432	3 382		26 975			
Other retail	35 727		57 930	7 007		18 372			
Total	149 922	85 820	540 133	27 993	8 733	145 205	770	52 634	36 355

[1] *Amount before the application of any offset, mitigation or netting.*
[2] *Specific impairments include impairments relating to securitisations.*
[3] *Restated.*

The two most material asset classes, corporate and retail mortgages, have significant levels of collateralisation in place.

Credit exposures increased from R1 168 billion in 2009 to R1 224 billion in 2010, generally attributable to an improvement in market conditions leading to new facilities being granted.

The following factors also contributed to portfolio movements:

- During the period, a mortgage type sub-portfolio was migrated from the standardised approach, where it was included under other retail, to the AIRB approach, where it was included under retail mortgages, following internal model approval. This resulted in a decrease in standardised other retail exposure and an increase in AIRB retail mortgage exposure.
- On-balance sheet exposures under the FIRB approach decreased as a result of active management of balance sheet concentrations.
- The growth in off-balance sheet exposure under the foundation and advanced approaches is partly due to the repayment of loans, particularly by counterparties in the transport and mining sectors, resulting in a corresponding increase in unutilised facilities.
- Derivative exposures increased in line with increased trading activity towards the end of the year.
- Bank on-balance sheet exposures decreased due to increased placements of surplus liquidity with sovereign counterparties, rather than with bank counterparties.

Derivative instruments			Total by approach				EAD		Gross defaulted	Impairment of exposures	
Stan-dardised Rm	FIRB Rm	AIRB Rm	Stan-dardised Rm	FIRB Rm	AIRB Rm	Total Rm	FIRB Rm	AIRB Rm	exposures[1] Rm	Specific[2] Rm	Portfolio Rm
2 680	**20 570**	**22 488**	**61 261**	**114 760**	**214 650**	**390 671**	**74 556**	**166 714**	**11 137**	**3 031**	
7	**1 705**	**1 852**	**22 396**	**5 717**	**73 150**	**101 263**	**5 678**	**66 360**	**437**	**46**	
146	**25 829**	**80 882**	**37 032**	**73 530**	**160 212**	**270 774**	**31 364**	**92 485**	**149**	**36**	
2			**45 035**		**416 556**	**461 591**		**387 914**	**32 755**	**9 109**	
			8 461		**280 117**	**288 578**		**262 376**	**23 665**	**4 394**	
			6 336		**60 415**	**66 751**		**51 316**	**4 317**	**2 225**	
2			**30 238**		**76 024**	**106 262**		**74 222**	**4 773**	**2 490**	
2 835	**48 104**	**105 222**	**165 724**	**194 007**	**864 568**	**1 224 299**	**111 598**	**713 473**	**44 478**	**12 222**	**4 884**
1 233	22 426	13 012	69 597	108 377	208 163	386 137	85 164	160 635	10 970	2 924	
	618	886	22 951	4 320	60 255	87 526	4 310	56 232	560	82	
113	27 784	54 164	31 990	85 318	142 030	259 338	35 416	85 360	590	358	
			55 493		379 307	434 800		354 381	34 027	9 714	
			7 663		243 598	251 261		227 487	22 704	4 438	
			5 096		59 407	64 503		50 722	4 657	2 258	
			42 734		76 302	119 036		76 172	6 666	3 018	
1 346	50 828	68 062	180 031	198 015	789 755	1 167 801	124 890	656 608	46 147	13 078	5 588

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Risk and capital management continued

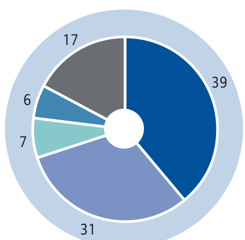
Analysis by industry

Basel II exposures by type of asset and industry

	On-balance sheet Rm	Off-balance sheet Rm	Repurchase and resale agreements Rm	Derivative instruments Rm	Total gross exposure Rm	Gross defaulted exposures[1] Rm	Specific Rm	Portfolio Rm
2010								
Agriculture	13 022	6 220	919	45	20 206	881	430	
Mining	23 944	20 492	352	2 952	47 740	759	123	
Manufacturing	35 444	20 218	1 140	6 909	63 711	1 237	481	
Electricity	9 032	2 887	474	1 377	13 770	241	29	
Construction	8 587	5 856		208	14 651	514	163	
Wholesale	34 522	16 653	9 819	9 261	70 255	747	270	
Transport	26 683	13 533		1 358	41 574	253	94	
Finance, real estate and other business services	240 979	32 776	76 529	132 450	482 734	9 669	2 970	
Private households	311 496	67 265		14	378 775	29 158	7 310	
Other	72 885	16 363	48	1 587	90 883	1 019	352	
Total	776 594	202 263	89 281	156 161	1 224 299	44 478	12 222	4 884
2009[2]								
Agriculture	10 321	6 102		122	16 545	1 040	397	
Mining	27 606	17 747	402	3 829	49 584	1 306	365	
Manufacturing	35 238	21 224	122	3 060	59 644	1 598	852	
Electricity	5 406	2 340		1 733	9 479	356	30	
Construction	5 561	4 784		188	10 533	221	107	
Wholesale	32 316	15 279	692	8 195	56 482	1 781	260	
Transport	35 681	8 841		1 622	46 144	298	99	
Finance, real estate and other business services	273 365	29 805	88 543	101 200	492 913	7 496	2 721	
Private households	297 528	65 845		2	363 375	30 518	7 836	
Other	52 853	9 964		285	63 102	1 533	411	
Total	775 875	181 931	89 759	120 236	1 167 801	46 147	13 078	5 588

[1] *Amount before the application of any offset, mitigation or netting.*
[2] *Restated.*

Basel II total gross exposure by type of industry
%



- Finance, real estate and other business services (2009: 42%)
- Private households (2009: 31%)
- Other (2009: 5%)
- Wholesale (2009: 5%)
- Agriculture, mining, manufacturing, electricity, construction and transport (2009: 17%)

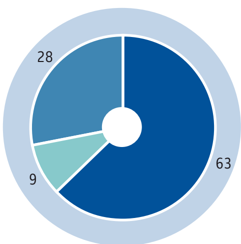
Analysis by geographic region

Basel II exposures by type of asset and geographic region

	On-balance sheet Rm	Off-balance sheet Rm	Repurchase and resale agreements Rm	Derivative instruments Rm	Total gross exposure Rm	Gross defaulted exposures[1] Rm	Specific Rm	Portfolio Rm
2010								
South Africa	**552 081**	**159 975**	**19 488**	**35 960**	**767 504**	**36 005**	**9 620**	
Other African countries	**90 208**	**14 727**	**348**	**3 801**	**109 084**	**2 137**	**653**	
Europe	**62 633**	**5 493**	**42 435**	**74 310**	**184 871**	**3 443**	**1 255**	
Asia	**29 965**	**7 176**	**18 098**	**5 461**	**60 700**	**1 842**	**283**	
North America	**10 564**	**229**	**2 897**	**32 174**	**45 864**	**63**	**50**	
South America	**29 719**	**14 595**	**5 760**	**4 239**	**54 313**	**988**	**361**	
Other	**1 424**	**68**	**255**	**216**	**1 963**			
Total	**776 594**	**202 263**	**89 281**	**156 161**	**1 224 299**	**44 478**	**12 222**	**4 884**
2009[2]								
South Africa	535 492	144 080	37 823	19 452	736 847	36 248	10 297	
Other African countries	86 967	12 946	939	2 381	103 233	2 834	1 000	
Europe	70 360	4 505	37 085	63 233	175 183	2 517	524	
Asia	31 086	6 119	2 553	5 762	45 520	2 642	536	
North America	20 907	1 297	1 449	25 926	49 579	412	47	
South America	28 919	12 908	9 910	3 141	54 878	1 369	595	
Other	2 144	76		341	2 561	125	79	
Total	775 875	181 931	89 759	120 236	1 167 801	46 147	13 078	5 588

[1] *Amount before the application of any offset, mitigation or netting.*
[2] *Restated.*

Basel II total gross exposure by geographic region
%



- South Africa (2009:63%)
- Rest of Africa (2009: 9%)
- Outside Africa (2009: 28%)

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Risk and capital management continued

Analysis by residual contractual maturity

Basel II exposures by residual contractual maturity

	Less than 1 year Rm	1 to 5 years Rm	Greater than 5 years Rm	Total gross exposure Rm
December 2010				
Corporate	**168 689**	**173 010**	**48 972**	**390 671**
Sovereign	**55 318**	**28 974**	**16 971**	**101 263**
Banks	**174 332**	**66 889**	**29 553**	**270 774**
Retail exposure	**41 451**	**140 814**	**279 326**	**461 591**
Retail mortgages	**9 685**	**6 733**	**272 160**	**288 578**
QRRE	**13 852**	**52 669**	**230**	**66 751**
Other retail	**17 914**	**81 412**	**6 936**	**106 262**
Total	**439 790**	**409 687**	**374 822**	**1 224 299**
December 2009[1]				
Corporate	156 261	186 020	43 856	386 137
Sovereign	58 308	24 028	5 190	87 526
Banks	180 887	54 659	23 792	259 338
Retail exposure	59 069	109 716	266 015	434 800
Retail mortgages	7 317	4 322	239 622	251 261
QRRE	13 875	50 381	247	64 503
Other retail	37 877	55 013	26 146	119 036
Total	454 525	374 423	338 853	1 167 801

[1] *Restated.*

Loss analysis

Regulatory expected loss versus actual losses

The table below shows the actual losses experienced in the bank's IRB exposure classes during 2010. Actual losses comprise of impairments, as determined by IFRS, and amounts written off during the year. Actual losses in 2010 have reduced largely due to the reversal of provisions raised within the corporate and bank asset classes during 2009, and to generally improved market conditions.

Analysis of actual losses

	Actual loss 2010 Rm	Actual loss 2009 Rm
IRB exposure class[1]		
Corporate	**491**	2 595
Sovereign	**3**	5
Banks	**(177)**	507
Retail exposures	**6 524**	8 525
Retail mortgages	**3 048**	3 595
QRRE	**1 421**	1 971
Other retail	**2 055**	2 959
Total	**6 841**	11 632

[1] *Excludes all the standardised approach portfolios.*

The table on the next page provides the comparison of actual versus estimated PDs, LGDs and EADs for each significant IRB asset class of the bank, and includes:

- PDs and LGDs estimated at the end of 2009, to determine the regulatory expected loss for 2010. PDs are calibrated to long run default experience to ensure stable regulatory models over an entire credit cycle. These models would tend to underestimate actual defaults at the top of the credit cycle and over estimate actual defaults at the bottom of the credit cycle. LGDs are calibrated to select downturn periods to reflect depressed recovery during economic downturns.
- PDs and LGDs derived from the actual losses for 2010.
- The ratio of the EADs used to derive the regulatory expected loss to the EADs derived from the actual losses for 2010. The analysis is conducted on all accounts that defaulted during the year under review. A ratio above 100% indicates an overestimation of EAD.

Expected values are based on regulatory capital models applied as at December 2009. For PDs, these are applied to the total performing book as at December 2009.

For the corporate, sovereign and bank asset classes the actual default rates in 2010 were lower than the estimated default rates. This illustrates the general level of conservatism the bank applies to its low default portfolios models.

Expected LGDs and EADs are determined by applying regulatory capital models to all facilities. Actual values are based on realised outcomes over the same period. It should be noted that due to the length of the workout period, there is uncertainty in the measure provided for actual LGDs as many facilities that default during the year are likely to not have been fully recovered by the end of the year.

No bank or sovereign defaults were experienced in the AIRB portfolio during the year under review, and hence actual LGDs and EADs are not applicable.

IRB exposure class[1]

	PD Estimated %	PD Actual %	LGD[2] Estimated %	LGD[2] Actual %	EAD Estimate to actual ratio %
2010					
Corporate	**2,3**	**1,7**	**34,0**	**36,4**	**111,9**
Sovereign	**1,4**	**0,8**	**12,6**		
Banks	**0,3**	**0,1**	**33,6**		
Retail exposures	**4,6**	**5,7**	**24,8**	**22,8**	**100,8**
Retail mortgages	**4,8**	**6,3**	**15,5**	**14,6**	**99,8**
QRRE	**5,4**	**5,4**	**62,7**	**51,0**	**102,6**
Other retail	**3,6**	**4,2**	**27,2**	**42,8**	**103,9**
Total	**3,0**	**3,3**	**27,9**	**21,1**	**101,3**

[1] *Excludes all the standardised approach portfolios.*
[2] *Excludes FIRB portfolios.*

Credit risk mitigation
Collateral, guarantees, credit derivatives and on- and off-balance sheet netting are widely used by the group to mitigate credit risk. The amount and type of credit risk mitigation depends on the circumstances in each case.

Credit risk mitigation policies and procedures ensure that credit risk mitigation techniques are acceptable, used consistently, valued appropriately and regularly, and meet the risk requirements of operational management for legal, practical and timely enforceability. Detailed processes and procedures are in place to guide each type of mitigation used.

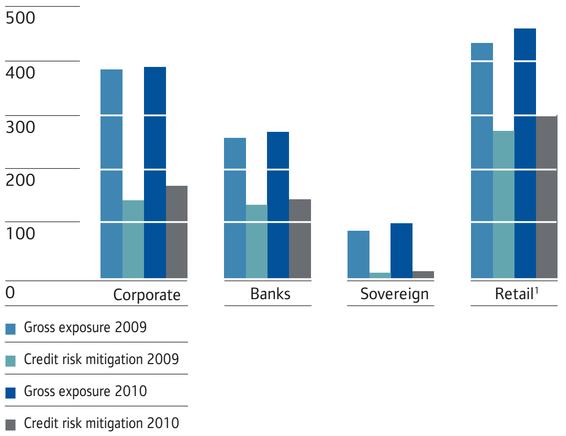
The main types of collateral taken are mortgage bonds over residential, commercial and industrial properties; cession of book debts; bonds over plant and equipment; and, for leases and instalment sales, the underlying moveable assets financed. Security values are reviewed on a regular basis and are revalued at the time of default if it is found that the existing value could have shifted materially from the time of the previous valuation. Reverse repurchase agreements are underpinned by the assets being financed, which are mostly liquid, tradable financial instruments.

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

For derivative transactions, the group typically requires the use of internationally recognised and enforceable Institute of Swap Dealers Association (ISDA) agreements with a credit support annexure, where necessary. Exposures are generally marked-to-market daily; netting is applied to the full extent contractually agreed by the parties, and cash or near cash collateral posted where contractually provided for.

Since the counterparty credit risk of derivatives can vary over time according to market factors, exposures to counterparty credit risk are calculated by adding increases in future potential exposure to the balance of present exposure.

Basel II exposure and mitigation by asset class
Rbn



[1] *Retail includes retail mortgages, QRRE and other retail.*

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Risk and capital management continued

To manage actual or potential portfolio risk concentrations in areas of higher credit risk and credit portfolio growth, the group implements hedging and other strategies from time to time.

This is done typically at individual counterparty, sub-portfolio and portfolio levels. Syndication, distribution and sale of assets, asset and portfolio limit management, credit derivatives and credit protection are used. Implementation and performance are measured regularly and reporting tools are in place to ensure effective monitoring.

Collateral

Wrong way risk exposures

Wrong way risk arises where there is a positive correlation between counterparty default and transaction exposure and a negative correlation between transaction exposure and the value of collateral at the point of counterparty default. Transactions where this may arise are, for example, reverse repurchase and collateralised forward sale transactions. This risk is addressed by taking into consideration the higher than normal correlation between the default event and exposure to a counterparty when calculating the potential exposure on these transactions.

Collateral required in the event of a credit rating downgrade

The group enters into derivative contracts with rated and unrated counterparties. To mitigate counterparty credit risk, the group stipulates credit protection terms such as limitations on the amount of unsecured credit exposure it will accept, collateralisation if mark-to-market credit exposure exceeds those amounts and collateralisation and/or termination of the contract if certain credit events occur, including but not limited to a downgrade of the counterparty's public credit rating.

The tables that follow show the credit risk mitigation under the IRB and standardised approaches respectively.

Basel II credit risk mitigation for portfolios under the IRB approach

	Eligible financial collateral Rm	Other eligible IRB collateral Rm	Guarantees and credit derivatives Rm	Effects of netting agree-ments Rm	Total credit risk mitigation Rm
2010					
Corporate	**62 960**	**35 902**	**41 733**	**23 339**	**163 934**
Sovereign	**6 844**	**922**	**4 270**	**223**	**12 259**
Banks	**51 720**		**6 862**	**87 149**	**145 731**
Retail exposures	**9**	**301 600**			**301 609**
Retail mortgages		**271 433**			**271 433**
QRRE		**263**			**263**
Other retail	**9**	**29 904**			**29 913**
Total	**121 533**	**338 424**	**52 865**	**110 711**	**623 533**
2009[1]					
Corporate	54 973	35 688	28 741	21 081	140 483
Sovereign	4 778	1 153	3 539	34	9 504
Banks	59 654		5 348	70 102	135 104
Retail exposures	3	271 682			271 685
Retail mortgages		236 653			236 653
QRRE		252			252
Other retail	3	34 777			34 780
Total	119 408	308 523	37 628	91 217	556 776

[1] *Restated.*

Basel II credit risk mitigation for portfolios under the standardised approach

	Effects of netting agreements Rm	Eligible financial collateral Rm	Guarantees and credit derivatives Rm	Total credit risk mitigation Rm
2010				
Corporate	**219**	**4 271**	**2 127**	**6 617**
Sovereign			**16**	**16**
Banks		**22**	**148**	**170**
Retail		**261**	**435**	**696**
Total	**219**	**4 554**	**2 726**	**7 499**
2009				
Corporate	54	1 780	1 472	3 306
Sovereign		44	2	46
Banks		30	11	41
Retail		229	218	447
Total	54	2 083	1 703	3 840

Counterparty credit risk
The analysis of securities financing transactions and over-the-counter (OTC) derivative contracts that follows is in respect of the group's exposure to counterparty credit risk. The risk amounts reflect the aggregate replacement costs that would be incurred by the group in the event of all counterparties defaulting on their obligations.

Counterparty credit risk is measured in mark-to-market terms and recognised in risk systems on a net basis where netting agreements are in place and are legally recognised, or on a gross basis otherwise. These credit exposures are strictly controlled as with any other type of credit risk. Additionally, the bank estimates how far contracts could move against clients over the contract life before entering into a trade.

Analysis of securities financing transactions
Securities financing transactions include repurchase agreements, resale agreements, securities lending and securities borrowing agreements for all relevant Basel II asset classes and collateral held.

The decrease in the EAD was primarily due to changes in the composition and level of the collateral received under securities financing transactions.

Basel II securities financing transactions

	2010 Rm	2009[1] Rm
Exposure		
With master netting agreement	**56 285**	41 295
Without master netting agreement	**32 998**	48 465
Total	**89 283**	89 760
Collateral		
Cash	**17 190**	24 211
Commodities	**11 776**	830
Debt securities	**54 641**	50 169
Equities	**9 085**	10 621
Total	**92 692**	85 831
Exposure at default	**9 606**	13 780

[1] *Restated.*

Analysis of OTC derivatives
Included in the total credit risk exposure is exposure to counterparty credit risk. The details of this counterparty credit risk are disclosed in the table on the next page. Derivative transactions traded on a recognised exchange or with a central counterparty, for example a clearing house, have been excluded as such exposures are not subject to capital requirements in respect of counterparty credit risk.

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Risk and capital management continued

Basel II OTC derivatives exposure

	2010 Rm	2009[1] Rm
Notional principal		
Interest rate products	5 570 830	6 053 618
Forex and gold	1 089 010	835 946
Equities	29 827	50 333
Precious metals	83 126	83 802
Other commodities	240 257	232 257
Credit derivatives	216 758	155 082
Protection bought	102 016	73 477
Protection sold	114 742	81 605
Total	7 229 808	7 411 038
Gross positive fair value	155 957	120 567
Interest rate products	90 842	59 019
Forex and gold	40 866	31 650
Equities	1 510	3 407
Precious metals	3 399	3 482
Other commodities	14 290	19 283
Credit derivatives	5 050	3 726
Protection bought	3 245	2 532
Protection sold	1 805	1 194
Netting benefits	(110 929)	(91 271)
Netted current credit exposure (net fair value)	45 028	29 296
Exposure at default	78 585	60 252
Collateral		
Cash	11 883	9 310
Debt securities		44
Total	11 883	9 354

[1] *Restated.*

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 on 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 or in the secondary role as an investor in securitisation.

The group complies with IFRS in recognising and accounting for securitisation transactions. SPEs are consolidated into the group when required by IFRS.

In accordance with 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. For securitisation issues outside Africa, Standard & Poor's has previously been appointed.

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.

Regulatory capital on securitised assets that are retained by the group is calculated under the ratings based approach under AIRB. The maximum amount of capital to be maintained by the group, having adopted the AIRB approach, shall be equal to the amount of capital that the group would have been required to maintain in respect of the underlying credit exposures had the exposures not been securitised.

All the notes issued under the retail mortgage securitisations under the Blue Granite programme (Blue Granite 1, 2, 3 and 4) are currently amortising. The Siyakha Fund (a securitisation of low income housing loans) commenced amortising in November 2010.

Analysis of securitisation activity for the year

	2010 Rm	2009 Rm
As investor		
– corporate exposures		44
– retail mortgages	1 129	679
– retail loans		844
Total activity for the year	1 129	1 567

Basel II securitised on-balance sheet exposures

	2010			2009
	Retail mortgages Rm	Retail loans Rm	Total Rm	Total Rm
IRB				
Personal & Business Banking	1 122		1 122	772
Unrated	186		186	
Investment grade	802		802	552
Sub-investment grade	134		134	220
Corporate & Investment Banking				
Investment grade	2 475	1 168	3 643	4 252
Total	3 597	1 168	4 765	5 024
Standardised				
Personal & Business Banking				
Investment grade				318[1]
Total				318

[1] *Relates to retail mortgages.*

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 1 was refinanced in November 2010 and the South Africa 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 R260,3 million.

Basel II securitised off-balance sheet exposures

	2010				2009
	Corporate Rm	Retail mortgages Rm	Retail loan Rm	Total Rm	Total Rm
Total off-balance sheet exposures[1]	1 213	5 960	176	7 349	7 349

[1] *Comprise investment-grade exposures, under the IRB approach, in Corporate & Investment Banking.*

Basel II securitisation capital deductions by approach

	Risk-weighted assets Rm	Primary capital and reserve funds Rm	Secondary capital and reserve funds Rm
2010			
IRB	3 651	150	150
Total	3 651	150	150
2009[1]			
IRB	2 418	284	284
Standardised	193	1	1
Total	2 611	285	285

[1] *Restated.*

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Risk and capital management continued

Basel II exposures and accounting principles

The risk management report addresses the disclosure requirements of Basel II pillar 3 and IFRS. These two reporting frameworks have many differences, which are important to understand in order to correctly interpret the disclosures in this report.

The group's consolidated financial statements are prepared in accordance with, and comply with, IFRS. This framework is different from Basel II but shares the overall objective of increasing transparency by allowing users of market information, including regulators, to be more informed in their decision-making.

Pillar 3 disclosures, which aim to enable the market to assess an institution's capital adequacy, are intended to complement the minimum capital requirements and supervisory review process of Basel II. While the accounting and regulatory disclosure requirements differ in scope and objectives, they are not considered to be conflicting or inconsistent. This is because the source of all risk and financial disclosures is from a centralised set of reconciled data.

A difference between IFRS and pillar 3 is that the analysis of credit risk exposures under IFRS is presented by class of financial instrument while Basel II pillar 3 requires classification by Basel II asset class. Classes are determined for IFRS purposes by taking into account the nature of the information to be disclosed, as well as the characteristics of the underlying financial instruments. Basel II asset classes, in the IRB approach, are based on their underlying homogeneous risk characteristics and support the risk mitigation factors applied in the Basel II calculations.

The Basel II exposure classes are therefore the basis for the preparation of regulatory reporting. The principles in IFRS, IAS 32 *Financial Instruments: Presentation* (IAS 32) and IAS 39 are applied for recognising, measuring and presenting financial assets and financial liabilities for accounting purposes in the annual financial statements.

Fair value instruments

IAS 39 permits any financial asset or financial liability, on meeting specific criteria, to be designated at fair value with all changes in fair value being recognised in profit or loss. For liabilities that are designated to be measured at fair value, any deterioration in the credit risk of the issuer will result in a decrease in its fair value and a resultant profit being recognised in the issuer's profit and loss.

IFRS requires the amount of change in fair value attributable to changes in own credit risk on such liabilities, both for the period and cumulatively to date, to be disclosed in the financial statements. From a Basel II pillar 3 perspective, recognising gains as a result of deterioration in creditworthiness would undermine the quality of capital measures and performance ratios. Those fair value gains and losses attributable to own credit risk are therefore excluded when calculating regulatory capital.

Available-for-sale instruments

IAS 39 permits certain financial assets, such as non-trading debt and equity instruments, to be classified as available-for-sale. All financial assets classified in this manner are required to be measured at fair value with all unrealised gains and losses, with the exception of impairment losses, dividends and interest income, recognised in other comprehensive income.

Banking supervisors agree that the resulting unrealised profits and losses cannot be included in regulatory capital as there is no inflow of capital and it is not permanently available. Basel II requires such amounts to be eliminated in determining the group's regulatory capital.

Impairments

In accordance with IAS 39, it is necessary to determine whether there is objective evidence that a financial asset or group of financial assets are impaired.

A financial asset or group of financial assets is impaired, and impairment losses are recognised, only if there is objective evidence of impairment, resulting from one or more events that have occurred after the initial recognition of the asset (a loss event) and that loss event has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably measured (incurred loss approach).

Impairments of financial assets are determined as the difference between the financial asset's carrying value and the present value of its estimated future cash flows, including any recoverable collateral, discounted at the original effective interest rate. To provide for latent losses in a portfolio of loans where the loans have not yet been individually identified as impaired, impairment for incurred but not reported losses is recognised based on historic loss patterns and estimated emergence periods.

While IFRS clearly states that it is based on an incurred loss approach, Basel II focuses on expected and unexpected losses. Basel II seeks to ensure that expected losses are addressed through the level of impairments held against the underlying exposure, while unexpected losses are addressed through holding regulatory capital in relation to the size and nature of the exposure held, known as capital adequacy. Basel II requires statistical modelling of expected losses whereas IFRS, although it allows for statistical models, requires a trigger event to have occurred before an impairment loss can be recognised.

The difference between default under Basel II and impairment under IFRS relates to timing. Basel II defines default as the obligor being 90 days past due on the obligation (expanded to 180 days for some products) whereas IFRS refers to a loss event such as actual breach of contract, which includes a missed capital or interest payment or changes in macroeconomic variables before the reporting date.

Banks compare the IRB measurement of expected losses with the total amount of impairments that they have recognised in terms of IFRS, including both portfolio and specific impairments. For any individual bank, this comparison produces a shortfall if the expected loss amount exceeds total impairments, or an excess if total impairments exceed the expected loss amount.

Shortfall amounts, if any, are deducted from capital in the ratio of 50% from tier I capital and 50% from tier II capital.

All preceding credit risk disclosure is prepared on a Basel II basis. The credit risk disclosure included hereafter is prepared in accordance with IFRS.

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

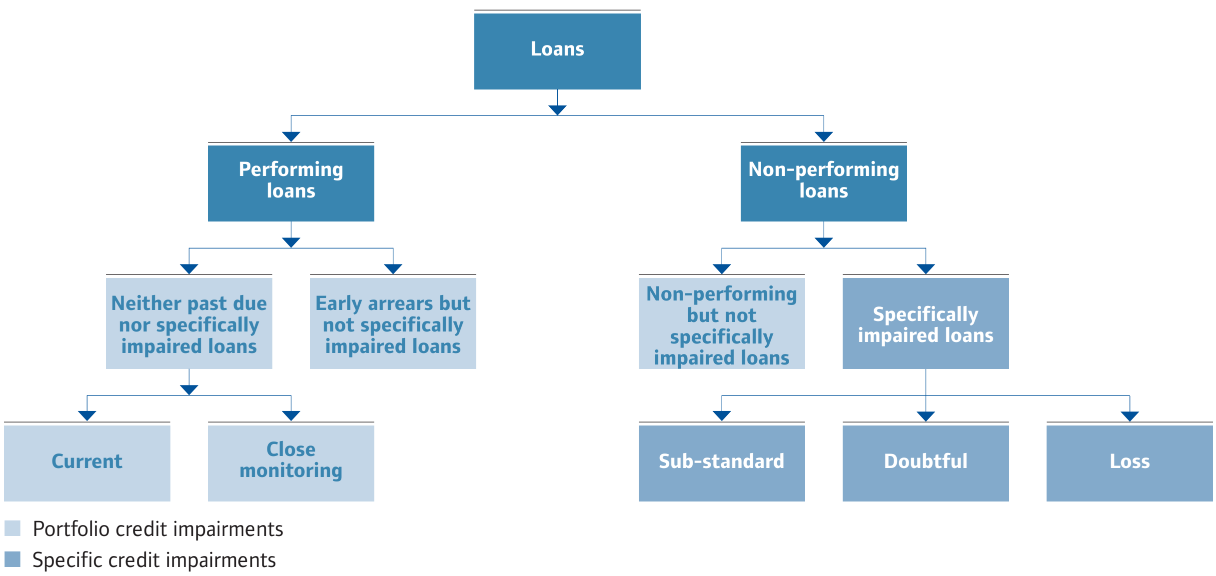
Non-performing loans are those loans for which:

– 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	418 824	341 717	20 803	23 077	
Mortgage loans	269 900	219 598	13 153	11 913	
Instalment sale and finance leases	49 709	42 649	1 319	3 092	
Card debtors	21 686	17 011	2 694	454	
Other loans and advances	77 529	62 459	3 637	7 618	
Corporate & Investment Banking	334 156	319 122	5 128	432	772
Corporate loans	299 379	285 419	5 103	432	546
Commercial property finance	34 777	33 703	25		226
Central and other	(22 849)	(22 849)			
Gross loans and advances	730 131	637 990	25 931	23 509	772
Less:					
Impairments for loans and advances	(17 106)				
Tutuwa loans and advances IFRS adjustment	(2 303)				
Net loans and advances	710 722				
Add the following other banking activities exposures:					
Cash and balances with central banks	28 675				
Derivatives	147 892				
Financial investments	95 441				
Trading assets	80 729				
Pledged assets	6 390				
Other financial assets	7 346				
Total on-balance sheet exposure	1 077 195				
Unrecognised financial instruments					
Letters of credit and bankers' acceptances	10 407				
Financial guarantees	29 327				
Irrevocable unutilised facilities	59 125				
Total exposure to credit risk	1 176 054				

Audited

[1] *Includes loans of R481 million that are past due but are not specifically impaired.*

Non-performing loans									
Specifically impaired loans									
Sub-standard Rm	Doubtful Rm	Loss Rm	Total Rm	Securities and expected recoveries on specifically impaired loans Rm	Net after securities and expected recoveries on specifically impaired loans Rm	Balance sheet impairments for non-performing specifically impaired loans Rm	Gross specific impairment coverage %	Total non-performing loans Rm	Non-performing loans %
11 664	17 658	3 905	33 227	23 562	9 665	9 665	29	33 227	7,9
10 638	13 777	821	25 236	20 837	4 399	4 399	17	25 236	9,4
229	863	1 557	2 649	1 115	1 534	1 534	58	2 649	5,3
192	301	1 034	1 527	357	1 170	1 170	77	1 527	7,0
605	2 717	493	3 815	1 253	2 562	2 562	67	3 815	4,9
4 124	4 289	289	8 702	6 145	2 557	2 557	29	9 474	2,8
3 844	3 769	266	7 879	5 485	2 394	2 394	30	8 425	2,8
280	520	23	823	660	163	163	20	1 049	3,0
15 788	21 947	4 194	41 929	29 707	12 222	12 222	29	42 701	5,8

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Risk and capital management continued

Maximum exposure to credit risk by credit quality

	Gross loans and advances Rm	Performing loans: Neither past due nor specifically impaired — Normal monitoring Rm	Close monitoring Rm	Not specifically impaired — Early arrears Rm	Non-performing[1] Rm
2009[2]					
Personal & Business Banking	409 036	332 189	16 258	25 548	
Mortgage loans	256 374	208 103	9 853	12 449	
Instalment sale and finance leases	53 304	43 917	1 199	4 760	
Card debtors	22 033	16 988	2 754	496	
Other loans and advances	77 325	63 181	2 452	7 843	
Corporate & Investment Banking	359 970	331 228	13 179	2 229	3 156
Corporate loans	325 367	299 133	12 471	1 899	2 716
Commercial property finance	34 603	32 095	708	330	440
Central and other	(26 833)	(26 834)			
Gross loans and advances	742 173	636 583	29 437	27 777	3 156
Less:					
Impairments for loans and advances	(18 666)				
Tutuwa loans and advances IFRS adjustment	(2 118)				
Net loans and advances	721 389				
Add the following other banking activities exposures:					
Cash and balances with central banks	24 983				
Derivatives	122 213				
Financial investments	79 849				
Trading assets	88 413				
Pledged assets	4 249				
Other financial assets	6 123				
Total on-balance sheet exposure	1 047 219				
Unrecognised financial instruments					
Letters of credit and bankers' acceptances	10 784				
Financial guarantees	29 078				
Irrevocable unutilised facilities	55 093				
Total exposure to credit risk	1 142 174				

Audited.

[1] Includes loans of R2 749 million that are past due but are not specifically impaired.

[2] Restated.

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 %		
16 029	14 578	4 434	35 041	24 723	10 318	10 318	29	35 041	8,6
14 639	10 389	941	25 969	21 270	4 699	4 699	18	25 969	10,1
430	1 144	1 854	3 428	1 629	1 799	1 799	52	3 428	6,4
273	437	1 085	1 795	457	1 338	1 338	75	1 795	8,1
687	2 608	554	3 849	1 367	2 482	2 482	64	3 849	5,0
5 124	4 365	689	10 178	7 419	2 759	2 759	27	13 334	3,7
5 099	3 360	689	9 148	6 751	2 397	2 397	26	11 864	3,6
25	1 005		1 030	668	362	362	35	1 470	4,2
	1		1		1	1	100	1	
21 153	18 944	5 123	45 220	32 142	13 078	13 078	29	48 376	6,5

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Risk and capital management continued

Ageing of group loans and advances past due but not impaired

	Less than 31 days Rm	31 – 60 days Rm	61 – 90 days Rm	91 – 180 days Rm	More than 180 days Rm	Total Rm
2010						
Personal & Business Banking	**17 460**	**3 609**	**2 008**			**23 077**
Mortgage loans	**8 197**	**2 325**	**1 391**			**11 913**
Instalment sale and finance leases	**2 290**	**564**	**238**			**3 092**
Card debtors	**82**	**240**	**132**			**454**
Other loans and advances	**6 891**	**480**	**247**			**7 618**
Corporate & Investment Banking	**265**	**15**	**152**	**246**	**235**	**913**
Corporate loans	**265**	**15**	**152**	**93**	**192**	**717**
Commercial property finance				**153**	**43**	**196**
Total	**17 725**	**3 624**	**2 160**	**246**	**235**	**23 990**
2009[1]						
Personal & Business Banking	18 151	4 660	2 737			25 548
Mortgage loans	7 794	2 859	1 796			12 449
Instalment sale and finance leases	3 339	978	443			4 760
Card debtors	36	303	157			496
Other loans and advances	6 982	520	341			7 843
Corporate & Investment Banking	1 726	306	197	140	2 609	4 978
Corporate loans	1 512	193	194	33	2 609	4 541
Commercial property finance	214	113	3	107		437
Total	19 877	4 966	2 934	140	2 609	30 526

Audited.
[1] 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 R9,1 billion in 2010 (2009: R10,6 billion). Renegotiated loans that have arisen from secured lending totalled 62% (2009: 47%) and predominantly related 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.

Insurance operations
Credit risk exposure for Liberty is relatively small when measured in terms of economic capital consumption, however the potential for default does exist and this risk is monitored and managed. With the establishment of the Liberty Financial Services division's (LibFin) credit origination business and the introduction of a centralised credit portfolio management capability, the portfolio has been diversified. It nevertheless remains heavily weighted to South African counterparties including government, state-owned enterprises and banks as at 31 December 2010.

Key activities that result in the origination of credit risk are as per the table on page 164 which shows the maximum exposure to credit risk by credit quality.

Reinsurance is used to manage insurance risk and consequently, in the liability valuation process, reinsurance assets are raised for expected recoveries on projected claims. This does not, however, discharge Liberty's liability as primary insurer. In addition, reinsurance debtors are raised for specific recoveries on claims recognised.

Creditworthiness is assessed when appointing reinsurers. Financial position strength, performance, track record, relative size or ranking within the industry and credit ratings of reinsurers are taken into account when determining the allocation of business to reinsurers. Credit exposure to reinsurers is also limited through the use of several reinsurers. A review of these reinsurers is done at least annually.

In addition, and to further mitigate credit exposures to reinsurers, assurance management performs the following annual checks on reinsurers:

– analysis of reports on reinsurers' claim paying abilities as assessed by reputable rating agencies;
– analysis of valuators' certificates;
– meetings with and audits of administration processes of reinsurers to whom Liberty has larger exposures; and
– reviews and renegotiates reinsurance agreements.

Ownership and accountability

In terms of the Liberty credit risk management framework, credit exposures are either managed in-house through business units, referred to as directly managed, for example LibFin Markets or outsourced, referred to as indirectly managed, to asset managers. Indirectly managed credit risk portfolios are managed in line with investment guidelines communicated in mandates to asset managers, which define the asset characteristics and guidelines for the particular credit portfolio. Where shareholder and policyholder funds are invested in credit instruments by asset managers who have been mandated by Liberty, responsibility for the credit assessment, decision-making process and ongoing management and reporting of the credit assets is delegated, in line with the agreed mandate, to the asset manager.

Rating scale

Liberty's internal long-term local currency rating scale is consistent with the rating scale adopted in the previous year. It will be aligned to the group 25 point master rating scale in 2011.

Investment grade

AAA: Highest credit quality

AAA ratings denote the lowest expectation of credit risk. These ratings are assigned only in the case of exceptionally strong capacity for timely payment of financial commitments. This capacity is highly unlikely to be adversely affected by foreseeable events.

AA: Very high credit quality

AA ratings denote a very low expectation of credit risk. They indicate very strong capacity for timely payment of financial commitments. This capacity is not significantly vulnerable to foreseeable events.

A: High credit quality

A ratings denote a low expectation of credit risk. The capacity for timely payment of financial commitments is considered strong. This capacity may, nevertheless, be more vulnerable to changes in circumstances or in economic conditions than is the case for higher ratings.

BBB: Good credit quality

BBB ratings indicate a low expectation of credit risk. They indicate adequate capacity for timely payment of financial commitments. Changes in circumstances or in economic conditions are more likely to impair this capacity than is the case for higher ratings.

Non-investment grade

BB: *Speculative*

BB ratings indicate that there is a possibility of credit risk developing, particularly as a result of adverse economic changes over time however, business or financial alternatives may be available to allow financial commitments to be met.

Not rated

N/R

Liberty, either through direct or indirect managed channels, is not restricted to investing purely in rated instruments or where counterparties are rated. This does not infer that the potential default risk is higher or lower than for rated assets. A detailed internal analysis of such investments is performed to assess the level of risk of the investment.

Credit exposure

The table on the following page provides information regarding the aggregated credit risk exposure of Liberty to debt instruments categorised by credit ratings, if available, as at 31 December 2010.

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Risk and capital management continued

Exposure to credit risk

	Sovereign Rm	AAA Rm
2010		
Debt instruments	**13 597**	**10 194**
Investment policies		
Local prepayments, insurance and other receivables[1]		
Foreign prepayments, insurance and other receivables[1]		
Reinsurance assets		
Derivatives and collateral deposits		**464**
Loans to joint ventures		
Cash and cash equivalents		**98**
Total assets bearing credit risk	**13 597**	**10 756**
Aggregated credit risk exposure by shareholder and policyholder		
Assets bearing credit risk exposure attributable to shareholders[2]		
Assets bearing credit risk exposure attributable to policyholders[2]		
Total assets bearing credit risk		
2009		
Debt instruments	12 812	9 454
Investment policies		
Local prepayments, insurance and other receivables[1]		22
Foreign prepayments, insurance and other receivables[1]		(1)
Reinsurance assets		
Derivatives and collateral deposits		49
Loans to joint ventures		
Cash and cash equivalents		201
Total assets bearing credit risk	12 812	9 725
Aggregated credit risk exposure by shareholder and policyholder		
Assets bearing credit risk exposure attributable to shareholders[2]		
Assets bearing credit risk exposure attributable to policyholders[2]		
Total assets bearing credit risk		

Audited unless otherwise denoted.

[1] The total carrying value excludes R27 million (2009: R23 million) dividend income relating to equities.

[2] Unaudited.

	AA Rm	A Rm	BBB and below Rm	Not rated Rm	Pooled funds Rm	Total carrying value Rm
	15 942	**6 049**	**603**	**2 581**	**13 883**	**62 849**
					14 268	**14 268**
	230	**58**		**2 366**		**2 654**
				203		**203**
	207	**626**		**14**		**847**
	346	**399**		**80**		**1 289**
				156		**156**
	4 091	**11**		**403**		**4 603**
	20 816	**7 143**	**603**	**5 803**	**28 151**	**86 869**
						45 402
						41 467
						86 869
	27 853	6 630	713	3 352	9 965	70 779
					10 821	10 821
	68	13		2 027		2 130
	38	28		437		502
	261	531		(4)		788
	406	2				457
				149		149
	6 458	2 326		1 652		10 637
	35 084	9 530	713	7 613	20 786	96 263
						48 980
						47 283
						96 263

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Risk and capital management continued

Scrip lending

Scrip lending is the process of providing listed equities or term deposits held by Liberty to external parties on a lending arrangement, for a negotiated fee, to be returned on a fixed date. The process is well recognised and strictly regulated by, amongst others, the FSB within the South African environment and is generally encouraged to support liquidity in the financial markets.

Scrip lending counterparties are restricted to appropriately accredited financial institutions. During 2010 the highest level of scrip lending activity at any one time amounted to R1 847 million (2009: R1 606 million) and at 31 December 2010 there was no script lent (2009: R1 559 million). These are disclosed as pledged assets in the statement of financial position. Scrip lending activities have resulted in R2 million (2009: R2 million) in scrip lending fees. Fees earned have been split between shareholders and policyholder benefits.

Scrip lending held for the benefit of registered retirement plans are subject to approval by the relevant trustees of these plans.

Impairments

The table below indicates the impairments raised against financial assets.

Financial assets impaired

	2010 Rm	2009 Rm
Mortgages and loans[1]		
Gross carrying value	854	814
Less: Accumulated impairment	(41)	(44)
Net carrying value	**813**	770

Audited.
All rand denominated.
[1] Mortgages and loans, consisting of policy loans, included in "unlisted term deposits" are impaired when the amount of the loan exceeds the policyholder's investment balance. The fair value of mortgages and loans is R813 million (2009: R702 million).

Consolidated mutual funds

Liberty invests in various registered mutual funds for the purpose of providing for obligations within policyholder contracts.

Several of the investments in mutual funds exceed 50% of the total value of the underlying net assets of that fund. These funds are consequently defined as subsidiaries in terms of Liberty's accounting policies, and are consolidated into the Liberty results.

Each fund has its own legal constitution and operates within a distinct mandate that is delegated to the appointed fund manager. Market and credit risks assumed within the assets held are controlled by various protection mechanisms within the mandate and in law. For example, the Collective Investment Schemes Control Act, No 45 of 2001, in South Africa prescribes maximum limits to concentration risk exposures.

Each fund's trustees or board appoints administrators who are responsible for ensuring that the fund's mandate and any internal and legislated control procedures are adhered to. In the event of breach they are obligated to immediately notify the fund trustees or board and management of the administrators for remedial action.

The mutual funds into which Liberty has invested, and are defined as subsidiaries, are managed by Stanlib Limited, a Liberty subsidiary, or Ermitage Funds Limited, an internationally based asset manager.

Country risk

Country risk is the risk of loss arising when political or economic conditions or events in a particular country reduce or negate the ability of counterparties in that country to meet their financial obligations to the group. Country risk events may include sovereign defaults, banking or currency crises, social instability and changes in governmental policies such as expropriation, nationalisation and the confiscation of assets.

Country risk also encompasses cross-border risk, which is the risk that actions taken by a government may restrict the transfer and convertibility of funds (of local currency into non-local currency), thereby impacting the ability to obtain payment from counterparties on their financial obligations to the group. Examples of restrictions on the transfer of funds are exchange controls and debt moratoria.

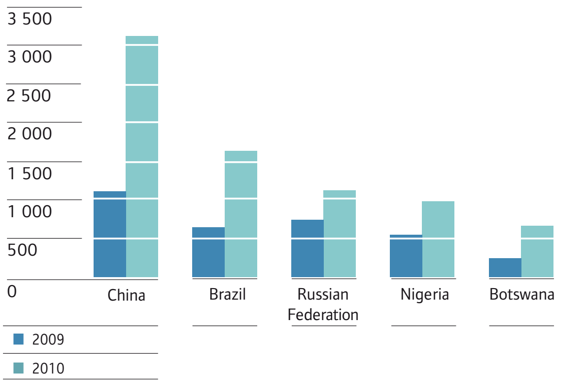
Cross-border obligations include cross-border claims on third parties as well as investments in and funding of local subsidiaries of the bank. Cross-border claims on third parties include cross-border loans and deposits, credit equivalents of over-the-counter derivatives and securities financing, and the market value of the inventory of debt securities.

The management of country risk is delegated by the GRCMC to the group country risk management committee. This committee is a subcommittee of GROC and recommends cross-border obligation 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. 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.

Top five medium and high risk country risk EAD

USDm



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, with sovereign inputs updated simultaneously with updates to the country model. Like the country risk model, the sovereign risk model provides an internal risk grade which is calibrated to a 1 to 25 rating scale. Sovereign risk reviews occur simultaneously 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. Where appropriate, 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. Total medium and high-risk country risk exposures and total low-risk country risk exposures as at 31 December 2010 were R114,2 billion and R105,5 billion respectively.

Where appropriate, country risk is mitigated through a number of methods including:

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

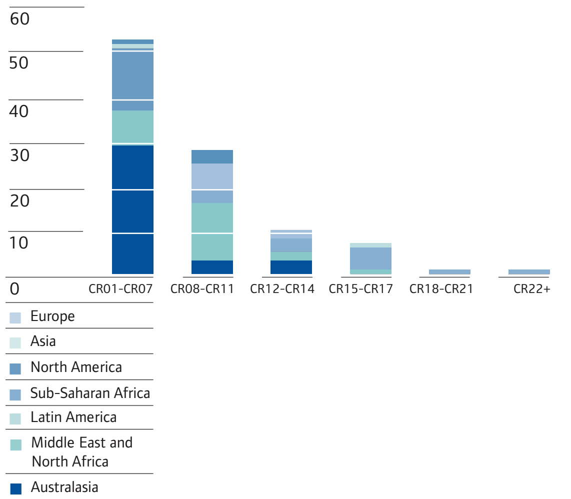
Other loan conditions and covenants are linked to country risk events. The risk distribution of country risk cross-border exposures are weighted towards European and North American low risk countries. Exposure to troubled Eurozone peripheral countries (Portugal, Italy, Ireland, Greece and Spain) is very limited and closely managed by the country risk function.

During 2010, the risk rating migration was slightly positive with most upgrades in country ratings being observed in sub-Saharan Africa and Asia, and the most severe negative rating action observed in Europe.

Concentration towards the top five medium and high-risk countries is shown in the graph alongside. These exposures are in line with the group's growth strategy focused on selected emerging markets.

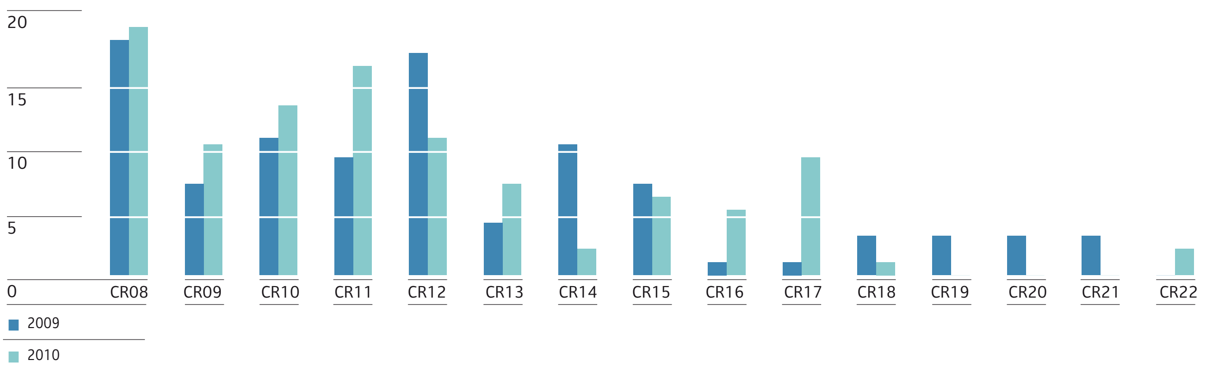
Medium and high risk country risk exposure by region

%



Medium and high country EAD concentration by country rating

%



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Risk and capital management continued

Liquidity risk

Banking operations

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.

Organisational structure and governance

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. Each banking entity in the group has an asset and liability management committee (ALCO) responsible for ensuring compliance with liquidity risk policies. Both the Africa ALCO and International Capital committee report into the group ALCO.

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 below:

Liquidity risk management

Tactical (shorter-term) liquidity risk management includes:

- manage intra-day liquidity positions;
- monitor interbank and repo shortage levels;
- monitor daily cash flow requirements;
- manage short-term cash flows;
- manage daily foreign currency liquidity; and
- set deposit rates in accordance with structural and contingent liquidity requirements as informed by ALCO.

Structural (longer-term) liquidity risk management includes:

- ensure a structurally sound balance sheet;
- identify structural liquidity mismatches;
- determine and apply behavioural profiling;
- manage long-term cash flows;
- preserve a diversified funding base;
- inform term funding requirements;
- assess foreign currency liquidity exposures;
- establish liquidity risk appetite;
- ensure appropriate transfer pricing of liquidity costs; and
- determine appropriate levels of standby liquidity facilities applicable to conduits.

Contingency liquidity risk management includes:

- monitor and manage liquidity early warning indicators;
- establish and maintain contingency funding plans;
- undertake regular liquidity stress testing and scenario analysis;
- if needed, convene liquidity crisis management committees;
- inform liquidity buffer levels in accordance with anticipated stress events; and
- advise on diversification of liquidity buffer portfolios.

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 ALCO. In periods of increased volatility, the frequency of meetings is increased as required to facilitate appropriate and timely management action.

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 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.

Group behaviourally adjusted cumulative liquidity mismatch

% of funding-related liabilities

Maturity analysis of financial liabilities by contractual maturity (audited)

The tables on the next page analyse 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 tables on the next page also include 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.

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Risk and capital management continued

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	142 158	25	557	455	1 472	144 667
Instruments settled on a net basis	102 400	3	11	18	872	103 304
Instruments settled on a gross basis	39 758	22	546	437	600	41 363
Trading liabilities	31 001					31 001
Deposits from customers and banks	396 335	89 056	121 750	78 733	114 685	800 559
Subordinated debt			606	3 072	21 940	25 618
Other		16 433				16 433
Total	569 494	105 514	122 913	82 260	138 097	1 018 278
Unrecognised financial instruments						
Letters of credit and bankers' acceptances	10 407					10 407
Financial guarantees	29 327					29 327
Irrevocable unutilised facilities	59 125					59 125
Total	98 859					98 859
2009[1]						
Financial liabilities						
Derivative financial instruments	114 415	26	673	75	170	115 359
Instruments settled on a net basis	83 467		26	3		83 496
Instruments settled on a gross basis	30 948	26	647	72	170	31 863
Trading liabilities	51 118					51 118
Deposits from customers and banks	377 831	81 918	131 112	80 210	124 891	795 962
Subordinated debt	74		639	690	31 454	32 857
Other		17 107				17 107
Total	543 438	99 051	132 424	80 975	156 515	1 012 403
Unrecognised financial instruments						
Letters of credit and bankers' acceptances	10 784					10 784
Financial guarantees	29 078					29 078
Irrevocable unutilised facilities	55 093					55 093
Total	94 955					94 955

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

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.

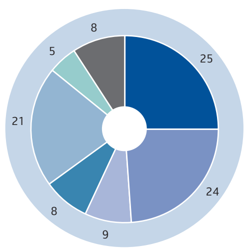
Concentration risk limits are used within the group to ensure that funding diversification is maintained across products, sectors, geographic regions and counterparties.

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.

Depositor concentrations – South Africa

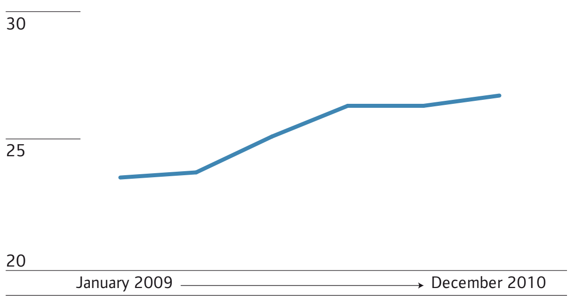
	2010 %	2009 %
Single depositor	**2,4**	1,8
Top ten depositors	**10,8**	8,5

Funding-related liabilities composition
%



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. The graph below illustrates the group's long-term funding ratio for the period 1 January 2009 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	**208**	203
Financial institutions	**200**	200
Government and parastatals	**72**	56
Interbank funding	**68**	63
Retail deposits	**172**	167
Senior and subordinated debt	**45**	47
Other liabilities to the public	**69**	68
Total group funding-related liabilities	**834**	804

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Risk and capital management continued

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 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	**52,3**	65,4
Short-term foreign currency placement	**48,9**	47,0
Total unencumbered marketable assets	**101,2**	112,4
Other readily accessible liquidity	**5,6**	6,2
Total unencumbered surplus liquidity	**106,8**	118,6

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 decreased to R106,8 billion in 2010 (2009: R118,6 billion). The level reflects the 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.

The table representing the major credit ratings for the group's significant banking subsidiaries is provided in the shareholder information section on page 353.

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.

The impact on the group's liquidity of a collateral call linked to downgrading is taken into account in model stress testing. A one notch rating downgrade will reduce thresholds above which collateral must be posted with counterparties to cover the group's negative mark-to-market on derivative contracts by R396 million.

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 ALCO-imposed limits and guidelines, as well as in dynamic liquidity risk stress testing.

Insurance operations

Introduction

Long-term insurance companies are registered financial institutions and are required to hold minimum capital in order to, amongst other things, reduce policyholder exposure to the entity's liquidity risk.

The principle risk relating to liquidity comprises the group's exposure to policyholder behaviour. Liquidity requirements are reviewed on a monthly basis by LibFin. These requirements are also monitored on an ongoing basis as part of Liberty's normal operating activities.

Liquidity profile of assets

Liberty's assets are liquid, as illustrated in the table below. However, given the quantum of investments held relative to the volumes of trading within the relevant exchanges and counterparty transactions, a substantial short-term liquidation may result in current values not being realised due to demand supply principles. It is considered highly unlikely, however, that a short-term realisation of that magnitude would occur.

No maturity profile can be reliably given for Liberty's investments in mutual funds, equities and non-term financial debt instruments given the volatility of equity markets and uncertain policyholder behaviour.

Financial asset liquidity

	2010		2009	
	%	**Rm**	%	Rm
Liquid[1]	**74**	**164 457**	73	158 115
Medium[2]	**15**	**33 178**	17	36 255
Illiquid[3]	**11**	**23 997**	10	21 721
Total	**100**	**221 632**	100	216 091

Audited.

[1] Liquid assets are those that are considered to be realisable within one month, for example, cash, listed equities and term deposits.

[2] Medium assets are those that are considered to be realisable within six months, for example, unlisted equities and certain unlisted term deposits.

[3] Illiquid assets are those that are considered to be realisable in excess of six months, for example, investment properties.

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Risk and capital management continued

Maturity profiles of financial instrument liabilities

The table below summarises the maturity profile of the financial instrument liabilities of Liberty based on the remaining undiscounted contractual obligations. Policyholder liabilities under investment contracts, investment contracts with discretionary participation features (DPFs) and insurance contracts are managed according to expected and not contractual cash flows.

Maturity profile of liabilities – contractual cash flows

	0 – 3 months[1] Rm	3 – 12 months Rm	1 – 5 years Rm	6 – 10 years Rm	Total Rm
2010					
Held for trading					
Collateral deposits	**483**				**483**
At amortised cost					
Callable capital bond	**54**	**124**	**2 126**		**2 304**
Non-controlling interests loan			**103**		**103**
Third-party financial liabilities arising on consolidation of mutual funds	**11 000**				**11 000**
Insurance and other payables	**6 034**	**6**	**30**		**6 070**
Total	**17 571**	**130**	**2 259**		**19 960**
2009					
At amortised cost					
Callable capital bond	54	125	2 303		2 482
Redeemable non-participating preference shares	7	4	82		93
Non-controlling interests loan			101		101
Third-party financial liabilities arising on consolidation of mutual funds	10 557				10 557
Insurance and other payables	5 577	5	20	2	5 604
Total	16 195	134	2 506	2	18 837

Audited.

[1] *0 – 3 months are either due within the timeframe or are payable on demand.*

Liquidity risks arising out of obligations to policyholders

The table on the following page indicates liquidity needs with respect to cash flows required to meet obligations arising under insurance contracts, investment contracts with DPFs and investment contracts. All the cash flows are shown gross of reinsurance on an undiscounted basis.

Expected cash flows – investment and insurance contracts

	Within 1 year Rm	1 – 5 years Rm	5 – 10 years Rm	10 – 20 years Rm	Over 20 years Rm	Effect of discount-ing cash flows Rm	Total Rm
2010							
Investment contracts	**11 312**	**15 204**	**10 754**	**22 166**	**54 088**	**(782)**	**112 742**
Investment with DPF	**506**	**26**	**270**	**930**	**3 532**	**4**	**5 268**
Insurance contracts	**24 502**	**79 484**	**34 694**	**87 778**	**131 590**	**(80 302)**	**277 746**
Total	**36 320**	**94 714**	**45 718**	**110 874**	**189 210**	**(81 080)**	**395 756**
2009[1]							
Investment contracts	11 830	12 024	8 180	18 144	54 348	(840)	103 686
Investment with DPF	767	12	200	839	3 560	6	5 384
Insurance contracts	20 534	64 410	30 952	83 160	136 300	(75 826)	259 530
Total	33 131	76 446	39 332	102 143	194 208	(76 660)	368 600

Audited.
[1] Restated.

The table below shows the cash surrender value for policyholders' liabilities.

The contractual worst case cash flows for investment contracts would be an immediate cash flow amounting to the surrender value of investment contracts at the financial position date.

Cash surrender values for policyholders' liabilities

	2010		2009[1]	
	Carrying value Rm	**Surrender value Rm**	Carrying value Rm	Surrender value Rm
Insurance contracts	**138 873**	**111 985**	129 765	103 952
Investment contracts with DPF	**2 634**	**2 431**	2 692	2 557
Investment contracts	**56 371**	**55 833**	51 843	51 423
Total policyholders' liabilities	**197 878**	**170 249**	184 300	157 932

Audited.
[1] Restated.

Liquidity requirements associated with issuance of subordinated debt

The FSB's approval of Liberty's issuance of subordinated debt, namely R2 billion callable capital bonds, includes a requirement to hold qualifying liquid assets equal to at least the amount of the outstanding debt issued. As at 31 December 2010 and 2009 this requirement has been met and attested to by the statutory actuary of Liberty.

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Risk and capital management continued

Market risk

Banking operations

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 GROC, which delegates this authority to group ALCO. Group ALCO sets the market risk standard which is approved by the GRCMC to ensure that the measurement, reporting, monitoring and management of market risk across the group follows a common governance framework. The Africa ALCO and international capital management committee report into the group ALCO which is chaired by the deputy group chief executive.

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 group 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 group ALCO, GROC and the GRCMC. 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 ALCO or the international capital committee.

Market risk measurement

The techniques used to measure and control market risk include:
- value-at-risk (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. Standard Bank Plc has general market risk regulatory model approval for its commodity trading, local markets (rates and foreign exchange) and credit trading businesses. Applications for its remaining businesses have been submitted. Specific risk regulatory approval has also been granted for an incremental default risk charge model for certain significant credit risk products of Standard Bank Plc. 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.

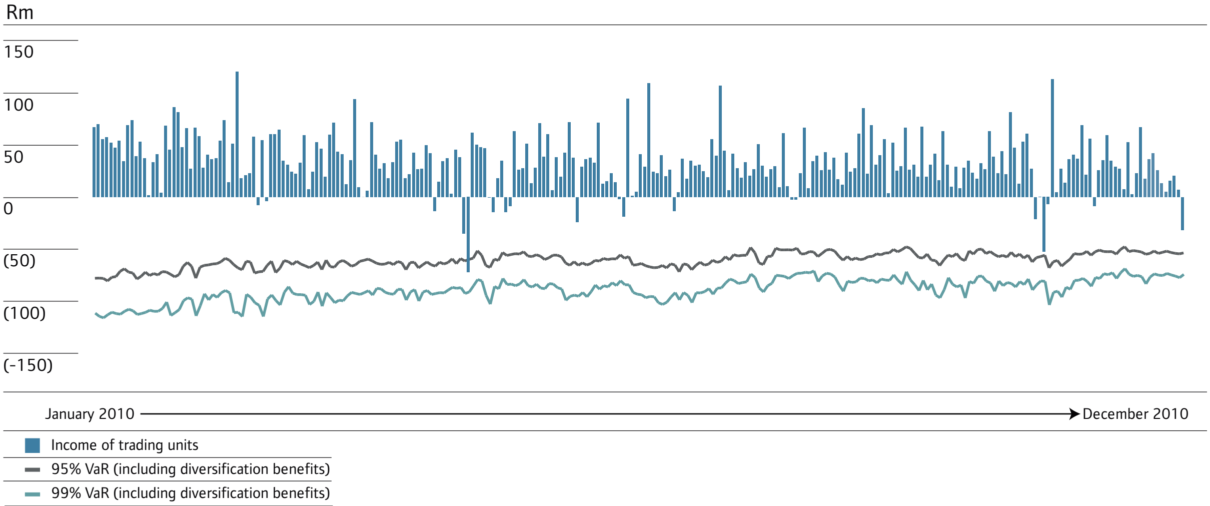
These limitations include:

- 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.

Stress tests

In recognition of the limitations of VaR, stress testing 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 senior 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.

Income of trading units and VaR



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Risk and capital management continued

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 furthermore 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 12-month period. For Standard Bank's approved models, green status occurred 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 their respective ALCOs.

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.

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 on the next page 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 228. 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 run 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 commodities trading area where a combination of increased trading activity and rising commodity prices have resulted in a higher average VaR than in the previous year.

As we enter 2011, the principle 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	**55,1**	**22,9**	**30,7**	**35,3**
Forex	**16,9**	**4,9**	**9,3**	**4,9**
Equities	**18,7**	**11,2**	**15,3**	**14,3**
Debt securities	**63,6**	**28,2**	**42,6**	**31,7**
Diversification benefits[2]			**(42,4)**	**(36,4)**
Aggregate	**87,9**	**38,3**	**55,5**	**49,8**
2009				
Commodities	38,5	13,2	24,9	30,5
Forex	17,4	4,2	8,0	6,8
Equities	18,3	3,7	9,1	9,6
Debt securities	82,8	46,4	60,3	55,0
Diversification benefits[2]			(31,9)	(18,8)
Aggregate	110,7	50,7	70,4	83,1

Audited.

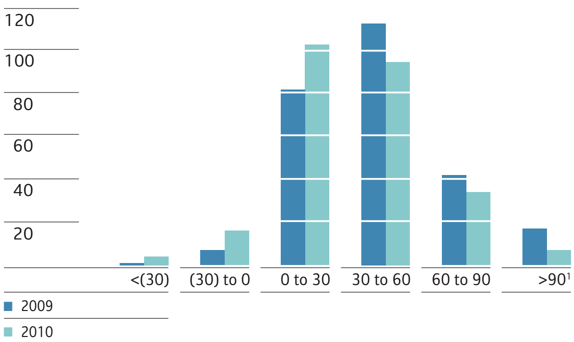
[1] The maximum and minimum VaR figures reported for each market variable do not necessarily occur on the same day. As a result, the aggregate VaR will not equal the sum of the individual market VaR values, and it is inappropriate to ascribe a diversification effect to VaR when these values may occur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

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

Analysis of trading revenue

The graph below 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 2009, the trading profit or loss was positive for 250 of 259 days, whereas in 2010, the trading profit or loss was positive for 239 out of 259 days.

Distribution of daily trading profit and loss
Trading days



[1] Daily trading revenue in Rm.

Interest rate risk in the banking book

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 and governance

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 the group's TCM team with oversight by ALCO. Each banking entity in the group manages this risk on a stand-alone basis and also calculates and maintains economic capital in support thereof.

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Risk and capital management continued

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 the relevant ALCOs. 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	**67 552**	**321**	**(2 892)**	**(65 981)**
Cumulative interest rate sensitivity gap	Rm	**67 552**	**68 873**	**65 981**	
Cumulative interest rate sensitivity gap as a percentage of total assets	%	**6,1**	**6,1**	**5,9**	
2009					
Interest rate sensitivity gap	Rm	60 934	5 151	9 225	(75 310)
Cumulative interest rate sensitivity gap	Rm	60 934	66 085	75 310	
Cumulative interest rate sensitivity gap as a percentage of total assets	%	5,7	6,1	7,0	

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. A significant component of the group's endowment risk resides within the SBSA balance sheet, and during the recent rate cutting cycle experienced in South Africa, 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 on the next page 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 twelve-month net interest income on 31 December 2010 by R1,0 billion (2009: R0,9 billion). Reassessments are undertaken on the performance of the investments. Accounting techniques and valuation methodologies are detailed in accounting policy 4 – Financial instruments on page 317.

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**	**35**	**(1)**		**91**	**1 693**
Sensitivity of equity	Rm	**184**	**(30)**			**(15)**	**139**
Decrease in basis points		**200**	**100**	**100**	**100**	**100**	
Sensitivity of annual net interest income	Rm	**(1 638)**	**(37)**	**1**		**(114)**	**(1 788)**
Sensitivity of equity	Rm	**(184)**	**30**			**15**	**(139)**
2009							
Increase in basis points		200	100	100	100	100	
Sensitivity of annual net interest income	Rm	1 463	62	(3)	2	61	1 585
Sensitivity of equity	Rm	159	(65)			21	115
Decrease in basis points		200	100	100	100	100	
Sensitivity of annual net interest income	Rm	(1 532)	(36)	3	(2)	(68)	(1 635)
Sensitivity of equity	Rm	(159)	65			(21)	(115)

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.

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	**3 979**	**4 421**	**4 863**
Impact on profit or loss	**(417)**		**417**
Impact on equity	**(25)**		**25**
2009[1]			
Equity securities listed and unlisted	4 260	4 733	5 206
Impact on profit or loss	(451)		451
Impact on equity	(22)		22

Audited.
[1] Restated.

Analysis of banking book equity exposures

As with trading book equity investments, listed and unlisted investments are approved by the appropriate equity governance committees in accordance with delegated authority limits. Market risk on investments is managed in accordance with the purpose and strategic benefits of such investments, rather than purely on mark-to-market considerations. Reviews and reassessments on the performance of the investments are undertaken periodically.

Basel II equity positions in the banking book

	2010 Rm	2009[1] Rm
Fair value		
Listed	**908**	1 062
Unlisted	**2 980**	2 738
Total[2]	**3 888**	3 800

[1] Restated.
[2] Banking book equity exposures are equity investments which comprise listed and unlisted private equity and strategic investments, and do not form part of the trading book.

Accounting techniques and valuation methodologies

Financial instruments include all financial assets and liabilities held for liquidity, investment, trading or hedging purposes.

Realised gains from the sale or liquidation of equity positions in the banking book were R100 million (2009: R248 million).

Unrealised gains recognised in other comprehensive income was R58 million (2009: R6 million loss), before taxation.

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Risk and capital management continued

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 group capital management committee delegates the management of this risk to the net asset value currency risk management committee. This committee manages the risk according to existing legislation, South African exchange control regulations and accounting parameters. It takes into account naturally offsetting risk positions and manages the group's residual risk by means of forward exchange contracts, currency swaps and option contracts. Hedging is undertaken in such a way that it does not interfere with or constrain normal operational activities. In particular, cognisance is taken of the need for capital held in offshore banking entities to fluctuate in accordance with risk-weighted assets, thereby preserving the capital adequacy in-country. The net asset value currency risk management committee meets regularly to reassess the hedging or diversification strategy in the event of changes in currency views.

Hedging of rand or foreign currency exposure is limited and permitted only for planned and specific future investment-related cash flows. During 2010, South African exchange control regulations were amended to permit the hedging of ZAR translation risk arising from consolidation of the group's foreign subsidiaries and operations.

The repositioning of the currency profile, which is coordinated at group level, is a controlled process based on underlying economic views of the relative strength of currencies. In terms of the foreign currency risk governance process outlined previously, the group does not ordinarily hold open exposures of any significance with respect to the banking book.

Gains or losses on derivatives that have been designated in terms of either net investment or cash flow hedging relationships are reported directly in equity, with all other gains and losses on derivatives being reported in profit or loss.

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 R196 million gain (2009: R179 million loss). Offsets to this sensitivity include changes in foreign currency rates as applied to the group's net assets in foreign operations.

Foreign currency risk sensitivity in ZAR equivalents

		US dollar	Euro	Sterling	Naira	Other	Total
2010							
Sensitivity	%	**5**	**5**	**5**	**5**	**5**	**5**
Total net long/(short) position	Rm	**304**	**3 865**	**2 517**	**(33)**	**(2 732)**	**3 921**
Impact on equity	Rm	**15**	**192**	**128**	**(2)**	**(137)**	**196**
Impact on profit or loss	Rm		**2**	**(2)**			
Total gains/(losses)	Rm	**15**	**194**	**126**	**(2)**	**(137)**	**196**
2009							
Sensitivity	%	5	5	5	5	5	5
Total net (short)/long position	Rm	(7 150)	4 401	1 703	(183)	(2 350)	(3 579)
Impact on equity	Rm	(395)	219	78	(9)	(117)	(224)
Impact on profit or loss	Rm	37	1	7			45
Total (losses)/gains	Rm	(358)	220	85	(9)	(117)	(179)

Audited.

Insurance operations

Liberty is exposed to market risk arising from the following main areas:

- The policyholder asset-liability mismatch risk. This risk arises where Liberty's property and financial assets do not move in the same direction and magnitude as the obligations arising under its insurance and investment contracts. This includes annuity mismatches, embedded derivative mismatches and the market risk arising from negative rand reserves (present value of future charges less the present value of future expenses and risk claims).
- Financial assets and liabilities utilised to support Liberty's capital base (also referred to as shareholder funds).
- Exposure to 10% of the returns on a defined portion of the assets backing unit-linked liabilities. This market risk is referred to as the 90/10 fee exposure.
- Exposure to management fee revenues not capitalised in the negative rand reserves.

Ownership and accountability

LibFin is responsible for managing Liberty's aggregate market risks including exposures arising from shareholder funds and from asset-liability mismatches in terms of its delegated authority and within set limits. Stanlib, Liberty Properties and other external asset managers remain responsible for managing the investment risks within their investment mandates.

An independent market risk team provides oversight of the effectiveness of market risk management processes and reports on the status of market risk management to the relevant governance committees.

Market risk management

Market risk management and reporting processes have continued to mature throughout the year. For management purposes, Liberty's market risk remains split into two main categories:

- Market risks to which Liberty wishes to maintain exposure on a long-term strategic basis. This includes market risks arising from assets backing shareholder funds, as well as market risks arising from the 90/10 fee exposure. In aggregate this is referred to as the shareholder investment portfolio and is managed by LibFin Investments.
- Market risks to which Liberty does not wish to maintain exposure on a long-term strategic basis as these are not expected to provide adequate return on economic capital over time. This includes the asset-liability mismatch risk arising from Liberty's interest rate exposure to annuity business, as well as the mismatch risk arising from embedded derivatives (including policyholder investment guarantees). It also includes market risk arising from negative rand reserves (present value of future charges less the present value of future expenses and risk claims). In aggregate this is referred to as the risk management portfolio and is managed by LibFin Markets.

Shareholder investment portfolio

Liberty recognises the importance of investing its capital base in a diversified portfolio of financial assets. In addition to this, Liberty has a strategic long-only exposure to a defined portion of the assets backing unit-linked policyholder liabilities (through the 90/10 fee exposure). The total market risk arising from these consolidated exposures is modelled and managed together as a single portfolio.

LibFin Investments determines the long-term asset mix of this investment portfolio by applying a strategic asset allocation methodology with a long-term investment horizon. The typical asset classes included in this portfolio are equity, fixed income, property and cash, both in local and foreign currency (hence the exposure to exchange rate movements as well as movements in the underlying asset class). Stanlib is mandated by LibFin Investments to manage the underlying assets in this portfolio.

Tactical asset allocation is performed by Stanlib within their mandate. This is similar to the way in which an asset manager would invest on behalf of a client with a long-term investment horizon.

On a through the cycle basis, this conservative, diversified portfolio was constructed to maximise after tax returns for a level of risk consistent with Liberty's risk appetite statement. In the short term, market movements will contribute to some earnings volatility. The diversified nature of the portfolio should, however, shield against significant earnings volatility.

Market risk exposure from management fee revenues, other than exposure to the 90/10 fee exposure, is not currently managed as part of the shareholder investment portfolio.

Risk management portfolio

Liberty has a number of market risk exposures arising from asset-liability mismatches to which it does not wish to be exposed on a long-term strategic basis. As a result, it has chosen to mitigate these risks through a dedicated ongoing hedging programme. The decision to hedge these risks is based on the following factors:

- Continuing to assume these market risks would result in Liberty operating outside its risk appetite.
- These market risks are capital intensive (particularly in an economic capital framework) and over time have the potential to reduce shareholders' returns on capital unless actively managed.
- Some of the market risks (for example those that arise from selling investment guarantees) are asymmetric in nature, and could compromise Liberty's solvency under severe market conditions. This is because current regulatory capital rules require available capital to be impaired for IFRS mark-to-market changes of such instruments.

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Risk and capital management continued

The exposures which are included in this hedging programme include the following:

- Embedded derivatives provided in contracted policies, for example, minimum investment return guarantees and guaranteed annuity options.
- The interest rate exposure from writing annuities and guaranteed capital bonds, however credit risk on the backing assets is not hedged and serves as a diversified source of revenue for Liberty.
- Negative rand reserves comprising future expected management fees and insurance profits which is a negative liability on the IFRS financial position report and is calculated as the present value of future charges less the present value of future expenses and risk claims.

The table below summarises Liberty's exposure to financial and property assets. This exposure has been split into the relevant market risk categories and then attributed to the effective "holders" of the risk.

Exposure to financial and property assets

Risk category	Total financial, property and insurance assets Rm	Policy-holders' market-related liabilities Rm	Other policy-holders' liabilities[1] Rm	Ordinary share-holders of Liberty[2] Rm	Non-controlling share-holders of Liberty Rm	Third party financial liabilities on mutual funds Rm
2010						
Equity price	**98 175**	**95 017**	**(5 790)**	**3 269**		**5 679**
Interest rate	**83 437**	**39 725**	**24 215**	**17 550**	**54**	**1 893**
Property price	**25 099**	**19 971**	**(1 498)**	**1 000**	**2 609**	**3 017**
Mixed portfolios[3]	**26 974**	**26 207**	**(816)**	**1 172**		**411**
Reinsurance assets	**847**		**847**			
Total	**234 532**	**180 920**	**16 958**	**22 991**	**2 663**	**11 000**
Percentage (%)	**100**	**77**	**7**	**10**	**1**	**5**
2009[4]						
Equity price	85 280	85 376	(6 491)	1 409		4 986
Interest rate	84 701	40 420	24 530	16 713	77	2 961
Property price	23 203	20 174	(1 192)	(408)	2 343	2 286
Mixed portfolios[3]	22 119	21 146	(451)	1 100		324
Reinsurance assets	788		788			
Total	216 091	167 116	17 184	18 814	2 420	10 557
Percentage (%)	100	77	8	9	1	5

Audited.

[1] *Negative exposure to the various risk categories can occur in "Other policyholders' liabilities" since the present value of future charges can exceed the present value of future benefits and expenses resulting in a negative liability. The group offsets these negative liabilities against policyholders' market-related liabilities. The policyholders' market risk exposure however remains unchanged. Hence, shareholders bear all the risks of shorting assets backing the policyholders' market-related liabilities by the amount of these negative liabilities.*

[2] *The Standard Bank Group has a 54% interest in Liberty and therefore shares in 54% of this exposure.*

[3] *Mixed portfolios are subject to a combination of equity price, interest rate and property price risks depending on each portfolio's construction. A substantial portion of the mixed portfolios will be subject to equity price and interest rate risk. The exact proportion is practically difficult to accurately calculate given the number of mutual funds and hedge funds contained in the group's portfolios.*

[4] *Restated.*

Interest rate risk

The tables below give additional detail on financial instrument assets and liabilities and their specific interest rate exposure. Data from non-subsidiary mutual funds is not available and is therefore excluded from these tables. Accounts receivable and accounts payable where settlement is expected within 90 days are not included in the analysis below, since the effect of interest rate risk on these balances is not considered significant given the short-term duration of these underlying cash flows.

Interest rate exposure

	2010 Rm	2009 Rm
Financial instruments liabilities		
Carrying value	**2 626**	2 211
Exposed to cash flow interest rate risk	**572**	157
Exposed to fair value interest rate risk	**2 054**	2 054
Financial instruments assets		
Carrying value	**64 682**	71 635
Exposed to cash flow interest rate risk	**17 789**	16 040
Exposed to fair value interest rate risk	**46 893**	55 595

Audited.

Foreign currency risk

Offshore assets are held in policyholder portfolios to match the corresponding liabilities. Liberty is exposed to currency risk through minimum investment return guarantees issued on contracts invested in offshore portfolios and related mismatches, 90/10 fee exposure and management fees. In addition, some of the shareholder capital base is invested in offshore assets.

Investment guarantees, with effect from 2005, are no longer offered on new business invested in offshore portfolios. The rand denominated value of management fees derived from these contracts is also subject to currency risk. Strengthening of the rand against the offshore currencies reduces the rand value of management fees on offshore portfolios and increases the liability with respect to rand denominated minimum investment return guarantees on this business.

The total exposure to financial instruments expressed in rand (converted at closing rates) at 31 December 2010 is R27 billion (2009: R29 billion). It is not practical to isolate accurately any detailed currency risk contained in investments in mutual funds and investment policies which are priced in rand and are not subsidiaries. This exposure to mutual funds and investment policies however is not material to Liberty.

The table below segregates the currency exposure by major currency at 31 December:

Currency exposure by major currency

	GBP		USD		Euro		Japanese Yen		AUD		Other	
Rm	**2010**	2009	**2010**	2009	**2010**	2009	**2010**	2009	**2010**	2009	**2010**	2009
Foreign currency risk	**1 697**	1 551	**15 222**	24 509	**2 801**	2 336	**1 665**	122	**541**	141	**5 567**	419
Foreign currency amounts[1]	**165**	131	**2 293**	3 325	**315**	220	**20 411**	1 530	**80**	22		

Audited.

[1] *Certain currency exposures are reduced by means of forward exchange contracts.*

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Risk and capital management continued

Property market risk

Liberty is exposed to tenant default. Unlet space within its investment property portfolio will affect property values and rental income. This risk is mainly attributable to the matching policyholders' liability and the shareholder exposure is mainly limited to management fees and profit margins. The managed diversity of the property portfolio and the existence of multi-tenanted buildings significantly reduce the exposure to this risk. At 31 December 2010 the proportion of unlet space in the property portfolio was 4,2% (2009: <2,5%).

Property market risk also arises with respect to shareholder exposures to investment guarantees and negative rand reserves, and this risk is managed as part of the dedicated hedging programme.

Liberty's exposure to property market risk at 31 December is as follows:

Exposure to property market risk

	2010 Rm	2009 Rm
Investment properties	**22 484**	20 029
Owner-occupied properties	**1 513**	1 345
Properties under development		347
Mutual funds with >80% property exposure	**1 102**	1 482
	25 099	23 203
Attributable to non-controlling interest	**(2 609)**	(2 343)
Net exposure	**22 490**	20 860
Concentration risk within properties		
Shopping malls	**18 343**	16 309
Office buildings	**2 650**	2 753
Hotels	**2 392**	2 091
South African listed property securities held via mutual fund investments	**1 102**	1 482
Other	**612**	568
	25 099	23 203

Audited.

Derivative instruments

Certain Liberty entities are parties to contracts for derivative financial instruments, mainly entered into as part of the dedicated hedging strategy. These instruments are used to mitigate equity, interest rate and currency risk and include vanilla futures, options, swaps, swaptions and forward exchange contracts.

Derivative financial instruments are either traded on a regulated exchange or negotiated OTC as a direct arrangement between two counterparties. Exchange instruments are margined in accordance with the exchange or clearing member's requirements and the clearing house is the counterparty to each trade. OTC instruments are only entered into with appropriately approved counterparties and in terms of signed ISDA agreements with each counterparty.

Sensitivity analysis

The table below provides a description of the sensitivities provided on market risk assumptions. The equity price and rand currency sensitivities are applied as an instantaneous event at the financial position date with no change to long-term market assumptions used in the measurement of policyholders' liabilities. Therefore the assets are instantaneously impacted by the sensitivity on the financial position date. The new asset levels are applied to the measurement of policyholders' liabilities where applicable, but no changes are made to the prospective assumptions used in the measurement of policyholder's liabilities. The interest rate yield curve and implied option volatility sensitivities are applied similarly but the assumptions used in the measurement of policyholders' liabilities that are dependent on interest rate yield curves and implied option volatilities are updated.

Market risk variables	Description of sensitivity
Interest rate yield curve	A parallel shift in the interest rate yield curve
Implied option volatilities	A change in the implied short-term equity, property and interest rate option volatility assumptions
Equity price	A change in the local and foreign equity prices
Rand currency	A change in the ZAR exchange rate to all applicable currencies

The table below summarises the impact of the change in the aforementioned risk variables on policyholders' liabilities and on shareholders' equity and attributable profit after taxation.

Sensitivity analysis to risk variables

	2010			2009		
	Changes in variable %	**Impact on policyholder liabilities Rm**	**Impact on equity and attributable profit after taxation Rm**	Changes in variable %	Impact on policyholder liabilities Rm	Impact on equity and attributable profit after taxation Rm
Market assumptions						
Interest rate yield curve	**12**	**(2 710)**	**(230)**	12	(2 962)	(485)
	(12)	**3 230**	**171**	(12)	3 540	406
Option price volatilities	**20**	**206**	**(133)**	20	243	(172)
	(20)	**(189)**	**123**	(20)	(171)	120
Equity prices	**15**	**12 889**	**954**	15	12 481	595
	(15)	**(12 751)**	**(1 010)**	(15)	(12 374)	(606)
Rand exchange rates	**12**[1]	**(1 954)**	**(367)**	12[1]	(1 431)	(180)
	(12)[2]	**1 975**	**371**	(12)[2]	1 442	231

Audited.
[1] *Strengthening of the rand.*
[2] *Weakening of the rand.*

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Risk and capital management continued

Insurance risk

Long-term insurance (audited)

Ownership and accountability

The management and staff, the first line of defence, in all business units are responsible for the day-to-day identification, management and monitoring of insurance risk. It is also management's responsibility to report any material insurance risks, risk events and issues identified to senior management through certain predefined escalation procedures.

The statutory actuaries and the Liberty heads of risk, the second line of defence, in the business units provide independent oversight of compliance with Liberty's risk management policies and procedures and the effectiveness of the company's insurance risk management processes.

Risk identification, assessment and measurement

Insurance risks arise due to the uncertainty of the timing and amount of future cash flows arising under insurance contracts. The timing is specifically influenced by future mortality, longevity, morbidity, withdrawal and expenses about which assumptions are made in the measurement of policyholder liabilities and in product pricing. Deviations from assumptions will result in actual cash flows being different from those expected. As such, each assumption represents a source of uncertainty.

Experience investigations are an analysis of the actual or observed roles, for example, mortality rates or withdrawal rates or levels such as expense per policy level over a period of time. Experience investigations are performed over a number of years to identify trends. The results of the analysis are used as an input into the assumption setting process for expected future experience used in the measurement of policyholder liabilities. Experience investigations are conducted on all insurance risks to ascertain the reasons for deviations from assumptions and their financial impacts.

Insurance risks are assessed and reviewed against the business line's risk appetite. Mitigating actions are developed for any insurance risks that fall outside management's assessment of risk appetite to reduce the level of risk.

Insurance risk management

The management of insurance risk is effectively the management of deviations of actual experience from the assumed best estimate of future experience, on which product pricing is based. On the published reporting basis, earnings are expected as a result of the release of margins that have been added to the best estimate assumptions. The risk is that these earnings are less than expected due to adverse actual experience.

The statutory actuaries provide oversight of the insurance risks undertaken by Liberty in that they are required to:

- report at least annually on the financial soundness of the life companies within Liberty;
- set the policy for assumptions used to provide best estimates plus compulsory and discretionary margins (as described in the accounting policies);
- oversee the setting of these assumptions; and
- report on the actuarial soundness of premium rates in use for new business and the profitability of the business, taking into consideration the reasonable benefit expectations of policyholders and the associated insurance and market risks.

In addition, all new products and premium rates are approved through the product approval process after sign-off by the relevant statutory actuary.

Reporting

Each business unit taking on insurance risk prepares monthly and quarterly reports that contain information on insurance risk. The reports are presented to the relevant business unit executive committees for review and discussion.

With respect to insurance risks, the reports contain the results of any experience investigations conducted, for example, on mortality, morbidity, withdrawals or expenses, along with other indicators of actual experiences. These reports also raise any issues identified and track the effectiveness of any mitigation plans put in place.

Monthly reports are submitted by the business unit head of risk, policy and oversight. On a quarterly basis, the chief executives of the business units assuming insurance risks report on the status of business unit insurance risk management to GROC. Major insurance risks are incorporated into a report of the CRO on the Liberty overall risk which is submitted to the GRC. Where it is deemed necessary, material insurance risk exposures are escalated to the board.

Policyholder behaviour risk

Policyholder behaviour risk is the risk of loss arising due to actual policyholders' behaviour being different than expected.

The primary policyholder behaviour risk is persistency risk, which arises due to policyholders discontinuing or reducing contributions or withdrawing benefits partially or in total prior to maturity of the contract. This behaviour results in a loss of future charges that are designed to recoup expenses and commission incurred early in the life of the contract and to provide a return on capital.

Prior to 2010, Liberty experienced deterioration in persistency for a number of years, in part due to the downturn in the economic cycle. In times of volatile investment markets with negative returns, customers are more likely to discontinue their contributions into market-related investment or retirement products, preferring the security of cash or money market returns. This is exacerbated when there is an increase in the interest rate cycle, and there is an increased propensity to repay debt, rather than invest for the long term.

The business has implemented an integrated and comprehensive programme to improve its management of persistency risk. Given the significant impact of deteriorating persistency on Liberty's financial performance, a special customer management unit addresses persistency risks. The customer management unit is a multidisciplinary team of experienced individuals from within Liberty, complemented by selected external recruits or contractors.

The customer management team focused on implementing a broad programme of initiatives such as:
- quality and profitability of new business written;
- product flexibility and migration options;
- protecting the in-force book of business; and
- actuarial risk management.

In the measurement of policyholder liabilities, the liabilities are adjusted by a margin as described in the accounting policies depending on whether a surrender benefit is payable or not. In addition, an allowance is made for withdrawals in the TCAR and OCAR. The TCAR examines a highly selective scenario in which all policies, with surrender values greater than the policy liability, terminate immediately (similar to a run-on-a-bank scenario). A proportion of the TCAR calculation is allowed for in the OCAR calculation.

In the calculation of economic capital requirements, allowance is made for the following risks with respect to policyholder behaviours for:
- the risk that the actual level of withdrawals is different from expected; and
- the risk of a withdrawal catastrophe to capture a run-on-a-bank type scenario that could for example occur due to loss of reputation or operational difficulties.

This economic capital requirement is significant. Although the withdrawal catastrophe event used in the calculation of economic capital requirements is an extreme scenario, it is still more reasonable than the event being tested in the TCAR calculation.

Mortality and morbidity risk

Mortality risk is the risk of loss arising due to actual death rates on life assurance business being higher than expected.

Morbidity risk is the risk of loss arising due to policyholder health-related claims being higher than expected. Liberty has the following processes and procedures in place to manage mortality and morbidity risk:
- Premium rates are differentiated by factors which historical experience has shown are significant determinants of mortality and morbidity claim experience:
  - For individual business, premiums are differentiated by product, age, gender, smoker status and proxies to socioeconomic class.
  - Group (corporate) scheme pricing is based on age, gender, industry class, average income and past scheme experience for large schemes amongst other factors.
- Terms are built into the policy contracts that permit risk premiums to be reviewed on expiry of a guarantee period:
  - For individual risk business, most in-force risk premiums and all new business risk premiums are reviewable (after ten to 15 years on Lifestyle Protector business; annually on Credit Life and Entry Level Market business).
  - For group (corporate) risk business, the risk premiums (charges) are reviewable annually. Delays in implementing increases in premiums, and market or regulatory restraints over the extent of the increases, may reduce their mitigating effects. Furthermore, charges can only be increased to the extent that they can be supported by gross premiums, although this is not relevant on contracts where gross premiums can be reviewed.
- Underwriting guidelines concerning authority limits and procedures to be followed are in place.
- All individual business applications for risk cover are underwritten. For smaller sums assured this process is largely automated. For individual and group business larger sums assured in excess of specified limits are reviewed by experienced underwriters and evaluated against established processes. For group risk business, these specified limits are scheme-specific based on the size of the scheme and distribution of sums assured. Since applications on group business below the specified limits are not medically underwritten, very few lives are tested for human immunodeficiency virus (HIV), however the annually reviewable terms on group business enable premiums to keep pace with emerging claim experience.
- Specific testing for HIV is carried out in all cases where the applications for risk cover exceed set limits.
- Part of the underwriting process involves assessing the health condition and family medical history of applicants and premiums. Terms and conditions are varied accordingly.
- The policy terms and conditions contain exclusions for non-standard and unpredictable risks that may result in severe financial loss, for example on life policies, a suicide exclusion applies to the sum assured for death within two years from the date of issue.
- Non-standard risks, such as hazardous pursuits and medical conditions, are assessed at underwriting stage.
- The expertise of reinsurers is used in the rating of non-standard risks.
- Financial underwriting is used where necessary to determine insurable interest.

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- The actual claims experience is monitored on a regular basis so that deteriorating experience can be timeously identified. Product pricing and the measurement of the liabilities is changed if the deteriorating experience is expected to continue and cannot be mitigated. Detailed mortality and morbidity investigations are conducted on a biannual basis, but the general progression of mortality claims is reviewed monthly.
- Allowance for acquired immunodeficiency syndrome (Aids) is made in product pricing and special Aids provisions are held within policyholder liabilities to provide for deterioration in experience as a result of assured lives becoming HIV infected after inception of the contract. Liberty's historical experience is that the actual deterioration in mortality and morbidity due to HIV and Aids is less than allowed for in the measurement of policyholder liabilities, calculated in accordance with South African actuarial guidance.
- For morbidity, experienced claims assessors determine the merits of the claim in relation to the policy terms and conditions. In the case of disability annuitants, claim management ensures the continued eligibility for monthly income and includes interventions that may result in the full or partial medical recovery of the claimant. The actual disability experience is highly dependent on the quality of the claim assessments.
- Reinsurance arrangements are put in place to reduce the mortality and morbidity exposure per individual and provide cover in catastrophic events.

For Liberty individual business, mortality and morbidity benefits in excess of R9,0 million (2009: R9,0 million) per individual are reinsured under a risk premium surplus reinsurance arrangement. Business written in the past was reinsured at lower retention levels, which are fixed for the life of the contract. For Liberty corporate business, mortality and morbidity benefits in excess of R3,5 million (2009: R3,5 million) per main member are reinsured on an annually renewable basis. Reinsurance with lower retention levels is in place for Capital Alliance and Liberty Active. The retention limits under surplus reinsurance arrangements are reviewed annually to keep pace with inflation. Liberty performs an annual review on the reinsurance cover in line with its stated risk appetite and reinsurance strategy. A proportion of both corporate and individual income disability business is reinsured on a proportionate quota share and surplus basis. Special risks are reinsured on a case-by-case basis.

The tables that follow summarise the profiles of the sums assured at risk per life in terms of mortality benefits before and after reinsurance for individual and group risk business:

Profile for amounts at risk for individual and group business

	Before reinsurance		After reinsurance	
	Rm	%	Rm	%
Retail sums assured at risk				
2010				
Bancassurance (all less than R1 499 999)	**62 747**	**9**	**62 747**	**10**
0 – 1 499 999	**251 443**	**36**	**235 695**	**40**
1 500 000 – 2 999 999	**142 338**	**21**	**128 944**	**21**
3 000 000 – 7 499 999	**155 241**	**23**	**139 913**	**23**
7 500 000 and above	**78 438**	**11**	**37 289**	**6**
Total	**690 207**	**100**	**604 588**	**100**
2009				
Bancassurance (all less than R1 499 999)	60 947	9	60 947	11
0 – 1 499 999	256 425	39	238 929	41
1 500 000 – 2 999 999	132 590	20	118 881	21
3 000 000 – 7 499 999	140 853	21	126 092	22
7 500 000 and above	68 430	11	30 649	5
Total	659 245	100	575 498	100

Audited.

Profile for amounts at risk for individual and group business

	Before reinsurance		After reinsurance	
	Rm	%	Rm	%
Corporate sums assured at risk				
2010				
0 – 1 499 999	**221 433**	**73**	**219 748**	**76**
1 500 000 – 2 999 999	**45 413**	**15**	**44 637**	**15**
3 000 000 – 7 499 999	**29 986**	**10**	**23 640**	**8**
7 500 000 and above	**7 912**	**2**	**2 574**	**1**
Total	**304 744**	**100**	**290 599**	**100**
2009				
0 – 1 499 999	233 824	76	233 740	79
1 500 000 – 2 999 999	40 315	13	40 315	13
3 000 000 – 7 499 999	25 344	8	20 744	7
7 500 000 and above	9 136	3	2 135	1
Total	308 619	100	296 934	100

Audited.

The table above shows that the sums assured are spread over many lives and that the exposure to individual lives has been reduced by means of surplus reinsurance arrangements. Given the large number of assured lives, the random fluctuation in mortality claims is expected to be small, as the larger the portfolio of uncorrelated insurance risks, the smaller the relative variability around the expected outcome becomes.

Catastrophe reinsurance consolidated across Liberty's life licences is in place to reduce the risk of many claims arising from the same event. The reinsurance covers events that result in claims of more than R50 million (2009: R50 million) up to a limit of R800 million (2009: R600 million) for single event disasters and R1 600 million (2009: R1 200 million) in aggregate over the treaty year. Various events are excluded from the catastrophe reinsurance (such as epidemics, radioactive contamination and war).

For corporate risk business, the exposure per industry class is monitored to maintain a diversified portfolio of risks and manage concentration exposure to a particular industry class. The following table splits the annual corporate risk business by industry class:

Annual corporate business by industry class

	2010 %	2009 %
Administrative/professional	**28**	26
Retail	**24**	23
Light manufacturing	**32**	31
Heavy manufacturing	**15**	19
Heavy industrial and other high risk	**1**	1
Total	**100**	100

Audited.

In the measurement of policyholders' liabilities, margins as described in the accounting policies are added to the best estimate mortality and morbidity rates. In addition, an allowance is made for the mortality and morbidity fluctuation risk in the OCAR calculation. No additional allowance is made for mortality or morbidity catastrophes in the CAR calculation.

In the calculation of economic capital requirements, allowance is made for the following risks with respect to mortality and morbidity:

- The risk that the actual level of mortality and morbidity experience is different from that expected.
- The risk that a mortality or morbidity catastrophe event occurs.
- The risk of loss arising from a random fluctuation in either mortality or morbidity rates is ignored. Given the large number of lives with mortality and morbidity cover, this risk has a far smaller impact than the specific risks allowed for.

The business views mortality and morbidity risks as risks that are core to the business. These risks will be retained if they cannot be mitigated or transferred on risk-adjusted value enhancing terms. Mortality and morbidity risk gives rise to large economic capital requirements in particular due to potential catastrophic events. Since it is difficult to obtain reinsurance for certain catastrophic events, such as epidemics (for example H1N1 influenza), on reasonable terms, the mortality and morbidity economic capital requirements are likely to remain large.

Longevity risk
Longevity risk is the risk of loss arising due to annuitants living longer than expected.

For life annuities, the loss arises as a result of Liberty's undertaking to make regular payments to policyholders for

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their remaining lives, and possibly to the policyholders' spouses for their remaining lives. The most significant risk on these liabilities is continued medical advances and improvement in social conditions that lead to longevity improvements being better than expected.

Liberty manages longevity risk by:
– annually monitoring the actual longevity experience and identifying trends over time; and
– making allowance for future mortality improvements in the pricing of new business and the measurement of policyholders' liabilities. This allowance will be based on the trends identified in experience investigations and external data.

Proof of existence certificate reports are required annually from annuitants to ensure that annuities are only paid to eligible policyholders.

Claims on disability income business also give rise to annuity payments which are contingent on the claimant's longevity and continued disablement. The claims management of the disability income business is covered under morbidity risk.

In the calculation of economic capital requirements, allowance is made for the following risks with respect to longevity:
– the risk that the actual base level of longevity experience is different from that expected; and
– the risk that the rate of longevity improvement is different from that expected.

Liberty views longevity risk as a strategic risk that is core to its business. This risk will be retained if it cannot be mitigated or transferred on risk-adjusted value enhancing terms. The economic capital requirement with respect to longevity risk is relatively small.

Expense risk

Expense risk is the risk of loss arising due to expenses incurred in the administration of policies being higher than expected.

Allowance is made for expected future expenses in the measurement of policyholders' liabilities. These expected expenses are dependent on estimates of the number of in-force and new business policies. As a result, the risk of expense loss arises due to expenses increasing by more than expected as well as the number of in-force and/or new business policies being less than expected.

Liberty manages the expense risk by:
– regularly monitoring actual expenses against the budgeted expenses;
– regularly monitoring new business;
– regularly monitoring withdrawal rates; and
– implementing cost control measures in the event of expenses exceeding budget.

In the measurement of policyholders' liabilities, a margin as described in the accounting policies is added to the best estimate expenses. In addition, an allowance for general administration expenses (excluding acquisition costs incurred on new policies) incurred in the previous reporting period is made in the OCAR calculation.

In the calculation of economic capital requirements, allowance is made for the following risks with respect to expenses:
– The risk that on in-force policies the actual level of expenses is different from expected.
– The risk that the rate at which Liberty's expenses increase is greater than the assumed rate of inflation (the risk that inflation is higher than expected is treated as a market risk).

Although expense risk does not give rise to large capital requirements, the management of expense risk is core to the business. The expenses that Liberty is expected to incur on policies are allowed for in product pricing. If the expenses expected to be incurred are considerably higher than those of insurers offering competing products, the ability of Liberty to sell business on a profitable basis will be restricted. This does not only have capital implications, but can also affect Liberty's ability to function as a going concern in the long term.

Sensitivity analysis

The table below provides a description of the sensitivities that are provided on insurance risk assumptions.

Insurance risk variables	Description of sensitivity
Assurance mortality	A level percentage change in the expected future mortality rates on assurance contracts
Annuitant longevity	A level percentage change in the expected future mortality rates on annuity contracts
Morbidity	A level percentage change in the expected future morbidity rates
Withdrawal	A level percentage change in the policyholder withdrawal rates
Expense per policy	A level percentage change in the expected maintenance expenses

Sensitivities on expected taxation have not been provided.

Insurance risk sensitivities are applied as a proportional percentage change to the assumptions made in the measurement of policyholders' liabilities.

Over a reporting period, assets are expected to earn a return consistent with the long-term assumptions used in the measurement of policyholders' liabilities. The instantaneous sensitivities applied at the financial position date show the impact of deviations from these long-term assumptions, for example, the increase in the equity price sensitivity shows the impact of assets earning the stress amount in excess of the long-term equity return assumption.

The market sensitivities are applied to all assets held by Liberty, not just assets backing the policyholders' liabilities. Each sensitivity is applied in isolation with all other assumptions left unchanged.

The table below summarises the impact of the change in the aforementioned risk variables on policyholders' liabilities and on shareholders' equity and attributable profit after taxation.

Sensitivity analysis by risk variable

	2010			2009		
	Change in variable %	**Impact on policyholders' liabilities Rm**	**Impact on equity and attributable profit after taxation Rm**	Change in variable %	Impact on policyholders' liabilities Rm	Impact on equity and attributable profit after taxation Rm
Insurance assumptions						
Mortality						
Assured lives	**2**	**175**	**(126)**	2	155	(112)
	(2)	**(176)**	**126**	(2)	(162)	116
Annuitant longevity	**4[1]**	**218**	**(157)**	4	246	(173)
	(4)[2]	**(208)**	**150**	(4)	(234)	165
Morbidity	**5**	**253**	**(182)**	5	272	(191)
	(5)	**(253)**	**182**	(5)	(278)	195
Withdrawals	**8**	**313**	**(226)**	8	255	(184)
	(8)	**(349)**	**252**	(8)	(292)	211
Expense per policy	**5**	**198**	**(141)**	5	187	(134)
	(5)	**(198)**	**141**	(5)	(193)	139

Audited.
[1] *Annuitant life expectancy increases i.e. annuitant mortality reduces.*
[2] *Annuitant life expectancy reduces i.e. annuitant mortality increases.*

Short-term insurance

SIL writes property insurance on a country-wide basis within South Africa. Property insurance indemnifies, subject to any limits or excesses, the policyholder against loss or damage to their own property and business interruption arising from this damage.

The principal risk is that the frequency and severity of claims is greater than expected. Insurance events are by their nature random, and the actual number and size of events during any one year may vary from those estimated using established statistical techniques.

The greatest likelihood of significant losses to the company arises from catastrophe events such as flood damage, storm or earthquake damage. Key concentrations of exposure to catastrophe events are:
– Gauteng: earthquakes.
– Western Cape: storms and fires.
– KwaZulu-Natal: storms.

Insurance risk is managed through underwriting limits, approval procedures for transactions that involve new products or that exceed limits, pricing guidelines, centralised management of reinsurance and monitoring of emerging issues.

The underwriting strategy seeks diversity to ensure a balanced portfolio and is based on a large portfolio of similar risks over a large geographical area. The underwriting strategy is set out in an annual business plan that stipulates the classes of business to be written, the territories in which business is to be written and the industry sectors to which the company is prepared to expose itself. This strategy is cascaded down to individual underwriters through detailed underwriting authorities that set out the limits that any one underwriter can write by line size, class of business, territory and industry in order to enforce appropriate risk selection within the portfolio.

The single largest risk any one underwriter can commit the company to for house-owners business is R60 million. For other categories of business the limit is based on the probable maximum loss to which a contract is exposed.

The business reinsures a portion of the risks it underwrites in order to control its exposure to losses and protect capital resources.

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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

The framework adopted by the group sets out a structured and consistent approach for the management of operational risk across the group. The comprehensive risk management approach involves identifying, assessing, managing, mitigating, monitoring and measuring the risks associated with operations, enabling a comprehensive view, analysis and reporting of the group's operational risk profile.

The group standard defines the minimum requirements for operational risk management and is supported by specific policies and procedures to ensure that operational risk is managed in an appropriate manner, and integrated across the group. Business units implement the group framework, policies and procedures but may customise these to better suit their unique and individual environments.

Both centralised and decentralised operational risk management functions are independent from business line management and work in partnership as the second line of defence. Their role is to monitor, manage and report on risks to ensure operational risk exposure remains within the risk appetite as mandated by senior management and the board. These independent functions are also responsible for developing and implementing the operational risk management framework and for promoting sound and relevant risk management practices across the group. Business line management, as the first line of defence, is ultimately responsible for owning and managing risks resulting from their business activities. The day-to-day management of operational risk is embedded within the business areas in order for the risks to be managed where they arise.

The primary oversight body for operational risk is the group operational risk committee (GORC) which reports to GROC, the GRCMC and ultimately the board. GORC is chaired by the group head of operational risk and includes representation from group functions and business units. GORC is also responsible for the approval of the group level operational risk policies and methodologies.

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 a TSA approach in accordance with SARB approval granted in 2008. In addition to TSA, the group has implemented certain advanced practices ensuring that it is in line with risk management leading practice. Core AMA 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 AMA 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, group 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 the GORC, GROC and GRCMC.

Insurance cover

The group's 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.

A comprehensive insurance programme which addresses the diversified requirements of Liberty is in place and is determined after extensive research, investigations and consulting with insurance risk and control experts. The group's financial covers for directors and officers, crime and professional indemnity are underwritten by external parties.

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.

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.

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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 group 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 eleven 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 being 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.
- The incorrect application of regulatory requirements takes place.
- The group may be liable for damages to third parties.
- 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 in South Africa 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. The governance structure for the reporting of sustainability issues can be found on page 110.

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. These targets can be found in the environmental report on page 118.

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.

The King Code advocates that the board should regularly receive and review a company's sustainability risks and that the integrated report should include the significant risks. Over the past two years, the process of identifying the group's material issues has involved engaging with internal and external stakeholder groups through a number of initiatives, as well as by considering its risk management processes and feedback from sustainability indices and investment analysts. In 2010, material issues were grouped into six broad categories, in consultation with the group executive committee. These categories are:
- sustainable long-term financial performance;
- governance, regulation and stakeholder engagement;
- sustainable and responsible financial services;
- socioeconomic development;
- a positive and consistent employee experience; and
- the environment.

These issues will form the core of the engagement on sustainability issues with the group executive and the board. During 2010 the group executive committee and the directors' affairs committee received updates on important environmental issues, such as climate change.

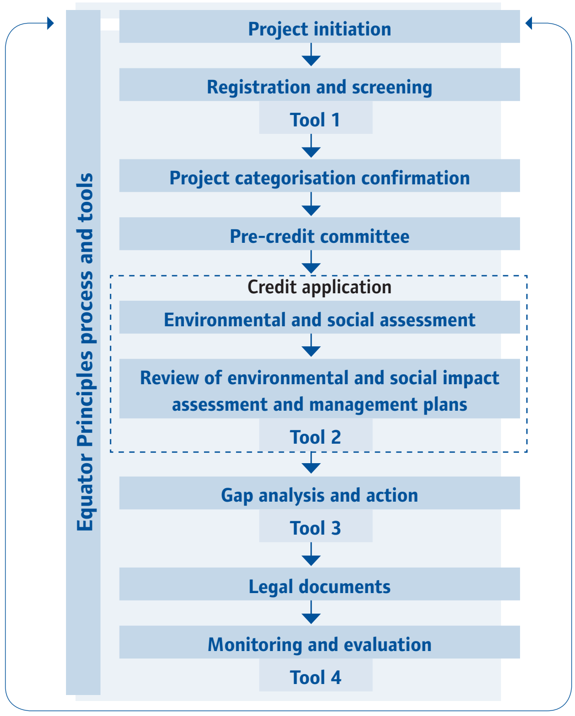
Equator Principles

As a signatory to the principles the group 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



Risk and capital management continued

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 the group is actively pursuing commercial funding products for the uptake of cleaner technology, alternative energy and carbon trading. The group signed a strategic partnership agreement in 2009 with the United Nations Environment Programme's African Carbon Asset Development (ACAD) 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 eleven projects on the African continent for targeted grants.

The group 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, the group 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 resources 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 group chief compliance officer who has unrestricted access to the chief executive of the group and to the chairman of the GAC. The group chief compliance officer reports independently to the GAC.

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 group 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 group 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 the SARB which supervises the group on a consolidated basis. The group 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 FSB which regulates the non-banking aspects of the financial services industry in South Africa and prescribes minimum fit and proper criteria for financial advisors 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.

International regulators include the UK Financial Services Authority, the Hong Kong Monetary Authority, and the Central Banks of Argentina, Kenya, Nigeria and Uganda.

The details of relevant South African and host country regulators, including key legislation impacting the group's business, are available in the group sustainability report which can be accessed on the group's website.

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 standard 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. A programme has also been put in place to enhance senior executives' awareness of their roles and responsibilities in relation to regulatory expectations and the requirements of the King Code.

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 group 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:

- comprehensive due diligence during the investment appraisal process;
- stakeholder engagement 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. This 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 group CRO, who if required, will escalate these matters to GROC and/or the group 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.

The insurance operations leadership charter emphasises the importance of the customer, as well as fairness, sincerity and transparency in all its dealings. As such, a "Treating Customers Fairly" approach is actively encouraged. Liberty makes use of independent dispute resolution and an established customer relations department to ensure that customers who perceive that they are not being fairly dealt with, are able to escalate their complaints or issues for resolution. Liberty monitors the complaints that are handled by these functions and ensures that management takes the necessary action to address problem areas in a prompt and efficient manner.

Independent assurance

The group internal audit (GIA) function, under the stewardship of the chief audit officer, reports to and operates under a mandate from GAC. In terms of this mandate the GIA function is to provide independent, objective assurance designed to add value and improve group operations. GIA 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 staff report administratively to management in their country of residence.

GIA 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 GAC and to subsidiary audit committees. These issues are tracked to ensure that agreed remedial actions are implemented. GIA 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 GIA complies with International Internal Audit Standards.

In accordance with the King Code, GIA forms an integral part of the combined assurance model that is applied within Standard Bank 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 to 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 299 for details concerning these restatements.

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

Capital management

Tier I and tier II capital were restated for the December 2009 period to correctly reflect the group's investment in financial entities and to exclude unappropriated profits in terms of the Regulations relating to Banks.

Legal entities under Basel II consolidation were restated for the December 2009 period to correctly reflect the entities included in the group's regulatory capital consolidation, in terms of the Regulations relating to Banks.

Economic capital was restated for the inclusion of the Troika investment.

Credit risk

During the year, the group reviewed and refined credit risk exposures disclosed for Basel II purposes and 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.

Specific impairments by asset class were restated following a refinement in the classification methodology.

Banking book equity exposures

Banking book equity exposures were restated to exclude an investment in a money market unit trust previously included in the balance.

Securitisations

The disclosure methodology for securitisations was revised, this resulted in two restatements.

Capital deductions were restated to include the first loss provision, as reflected in the regulatory returns.

On- and off-balance sheet exposures were restated to show the Blue Titanium liquidity facility, previously reported as on-balance sheet, as off-balance sheet, in order to reflect the nature of the underlying exposure.

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 affairs of the Standard Bank Group Limited (the company) and Standard Bank Group (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 group internal audit function, is provided in the corporate governance and the risk and capital management sections 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

Jacko Maree

Jacko Maree
Chief executive

Group secretary's certification

Compliance with 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 Standard Bank Group 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 group audit committee

This report is provided by the audit committee, in respect of the 2010 financial year of Standard Bank Group Limited, in compliance with section 270A of the Companies Act 61 of 1973, as amended (the Act) and in terms of the JSE Listings Requirements. The committee's operation is guided by a detailed mandate that is informed by the Act, the Banks Act 94 of 1990, and the King Code 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, its terms of reference and its procedures are described more fully in the corporate governance section on pages 87 to 89 of the annual integrated 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 group'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 as well as financial information disclosed to the public 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 banking subsidiaries in determining charges for and levels of portfolio impairments;
  - ensured that the annual financial statements fairly present the financial position of the company and of the group 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 and the group 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;
  - through the chairman, met separately over the course of the year with the chief audit officer, the group financial director, the group chief compliance officer, the chief risk officer, the chief credit officer, management and the external auditors. 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 group's systems of internal control, including internal financial controls and maintenance of effective internal control systems;
  - reviewed significant issues raised by the internal audit processes and the adequacy of corrective action 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.

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Report of the group audit committee continued

- 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 group;
  - monitored compliance with the Companies Act, Banks Act, the JSE Listings Requirements, all other applicable legislation and governance codes and reviewed reports from the internal and external auditors detailing the extent of compliance; and
  - 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 information technology:
  - considered and reviewed reports from management on risk management, including fraud risks and information technology risks as they pertain to financial reporting and the going concern assessment;
  - the chairman is a member of and attended the group 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 group financial director 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 integrated report and recommended it to the board for approval.

On behalf of the group audit committee

Richard Dunne
Chairman
2 March 2011

Independent auditors' report

To the members of Standard Bank Group Limited

Report on the annual financial statements

We have audited the group annual financial statements and the annual financial statements of Standard Bank Group Limited, which comprise the consolidated and separate statements of financial position at 31 December 2010, and the consolidated income statement and consolidated and separate statements of comprehensive income, changes in equity and 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, and the directors' report, as set out on pages 206 to 333 and specified sections of the risk and capital management report contained within pages 120 to 200.

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 auditor considers 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 Standard Bank Group Limited at 31 December 2010, and 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

KPMG Inc.
Registered Auditor

Per Heather Berrange
Chartered Accountant (SA)
Registered Auditor
Director
2 March 2011

85 Empire Road
Parktown
2193

PricewaterhouseCoopers Inc.

PricewaterhouseCoopers Inc.
Registered Auditor

Per John Bennett
Chartered Accountant (SA)
Registered Auditor
Director
2 March 2011

2 Eglin Road
Sunninghill
2157

Directors' report
for the year ended 31 December 2010

Principal activities
Standard Bank Group Limited is the holding company for the interests of the Standard Bank Group.

Group results
A general review of the business and operations of major subsidiaries is provided in the chief executive's report and business unit reviews commencing on pages 14 and 62, respectively.

A financial review of the results of the Standard Bank Group for the year is provided on pages 32 to 53.

Property and equipment
There was no change in the nature of the fixed assets of the group or in the policy regarding their use during the year.

Share capital
Ordinary shares
During the year 6 800 254 ordinary shares (2009: 6 060 886 ordinary shares) were issued in terms of equity compensation plans and 19 979 912 ordinary shares (2009: 27 188 622) were issued as scrip distributions.

Directors' interest in shares
At the date of this report, the directors held, directly and indirectly, interests in the company's ordinary issued share capital as reflected in the table below:

Ordinary shares

Director	Direct beneficial[1]		Indirect beneficial[1]	
	2010 Number	2009 Number	**2010 Number**	2009 Number
DDB Band	**12 742**	12 742		
RMW Dunne			**42 000**	20 000
TS Gcabashe[2]			**111 112**	111 112
KP Kalyan[2]			**125 000**	125 000
SJ Macozoma[3]			**4 933 901**	4 933 901
JH Maree	**50 000**	174 000	**650 000**	
RP Menell[4]				1 333
KD Moroka[2]	**505**	505	**111 112**	111 112
AC Nissen[2]			**111 112**	111 112
MC Ramaphosa[5]	**2 327**	2 276	**4 730 825**	4 261 747
SP Ridley	**85**	85		
MJD Ruck	**251 545**	251 545		
MJ Shaw[6]				852
EM Woods	**52 450**	51 309		
Total	**369 654**	492 462	**10 815 062**	9 676 169

[1] As per Listings Requirements of the JSE Limited.
[2] Qualifying black non-executive directors received an allocation of 125 000 shares in terms of the Tutuwa Management Trust – special conditions apply for qualifying black non-executive directors.
[3] SJ Macozoma has a 23% (2009: 23%) interest in Safika which acquired 24 132 911 shares in terms of the Black Ownership Initiative of which 2 681 166 were sold to ICBC.
[4] RP Menell resigned as a director of Standard Bank Group with effect from 4 February 2011.
[5] MC Ramaphosa has a 33,08% (2009: 29,8%) interest in Shanduka which acquired 16 088 608 shares in terms of the Black Ownership Initiative of which 1 787 444 were sold to ICBC.
[6] MJ Shaw retired as a director of Standard Bank Group with effect from 27 May 2010.

Second preference shares

Director	Direct beneficial[1]	
	2010 Number	2009 Number
DDB Band	**30 919**	30 919
SJ Macozoma	**1 140**	1 140
JH Maree	**10 331**	10 331
Total	**42 390**	42 390

[1] As per Listings Requirements of the JSE Limited.

No directors, other than those disclosed on the previous page, have direct or indirect beneficial preference shareholdings.

No director owns more than 1% of the total issued share capital of the company. The company has not been informed of any changes in these holdings at the date of this report.

Equity compensation plans

Information on options or rights granted to executive directors under the equity compensation plans is given in the remuneration report on pages 106 to 109. Details of options or rights granted to all employees under equity compensation plans are given in Annexure D starting on page 309.

Directors' emoluments

Directors' emoluments are disclosed on page 277. Information relating to the determination of directors' emoluments, share incentive allocations and related matters is contained in the remuneration report commencing on page 98.

Shareholder analysis

The analysis of ordinary shareholders is given on page 351.

Shareholders at the close of the financial year, holding beneficial interests in excess of 5% of the issued share capital, determined from the share register and investigations conducted on our behalf, were as follows:

	% held	
	2010	2009
Ordinary shares		
Industrial and Commercial Bank of China	**20,1**	20,1
Public Investment Corporation	**13,3**	12,2
6,5% preference shares		
Old Sillery (Proprietary) Limited	**9,1**	9,1
Boerstra, G	**8,1**	8,1
Van Tonder, JW	**5,4**	5,4

Second preference shares

No shareholder holds 5% or more of this class of share capital.

Distributions to ordinary shareholders

Interim

On 11 August 2010 an interim dividend of 141,0 cents per share (2009: 141,0 cents) was declared to shareholders recorded at the close of business on 10 September 2010, and paid on 13 September 2010.

Final

On 2 March 2011, the directors declared a final dividend of 245,0 cents per share (2010: 245,0 cents) to ordinary shareholders recorded at the close of business on 8 April 2011, to be paid on 11 April 2011.

Dividends to preference shareholders

6,5% first cumulative preference shares

Interim

On 11 August 2010, a dividend of 3,25 cents per share (2009: 3,25 cents) was declared to shareholders recorded at the close of business on 3 September 2010, and paid on 6 September 2010.

Final

On 2 March 2011, a dividend of 3,25 cents per share (2010: 3,25 cents) was declared to shareholders recorded at the close of business on 1 April 2011, and paid on 4 April 2011.

Second preference shares

Interim

On 11 August 2010, a dividend of 355,16 cents per share (2009: 456,62 cents) was declared to shareholders recorded at the close of business on 3 September 2010, and paid on 6 September 2010.

Final

On 2 March 2011, a dividend of 337,90 cents per share (2010: 374,76 cents) was declared to shareholders recorded at the close of business on 1 April 2011, and to be paid on 4 April 2011.

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Directors' report continued
for the year ended 31 December 2010

Directorate
The directorate is listed on page 349.

The following changes in directorate have taken place since the last annual report:

Standard Bank Group Limited		
Appointments		
TMF Phaswana	as chairman	27 May 2010
Hongli Zhang	as director and deputy chairman	8 October 2010
Retirement		
DE Cooper	as chairman and director	27 May 2010
MJ Shaw	as director	27 May 2010
Resignation		
Kaisheng Yang	as director and deputy chairman	8 October 2010
RP Menell	as director	4 February 2011
The Standard Bank of South Africa Limited		
Appointments		
TMF Phaswana	as chairman	27 May 2010
Retirement		
DE Cooper	as chairman and director	26 May 2010
MJ Shaw	as director	26 May 2010
Resignation		
RP Menell	as director	4 February 2011
Standard Bank Plc		
Appointments		
JK Knott	as chief executive	5 October 2010
Retirement		
DE Cooper	as director	13 May 2010
Resignation		
DJ Duffy	as chief executive	5 October 2010
Liberty Holdings Limited		
Appointments		
CG Troskie	as director	12 October 2010
Retirement		
A Romanis	as director	13 May 2010
Resignation		
HI Appelbaum	as director	12 May 2010
RG Tomlinson	as deputy chief executive	30 June 2010
WR Harte	as director	12 October 2010
Liberty Group Limited		
Appointments		
CG Troskie	as director	12 October 2010
Retirement		
A Romanis	as director	13 May 2010
Resignation		
HI Appelbaum	as director	12 May 2010
RG Tomlinson	as deputy chief executive	30 June 2010
WR Harte	as director	12 October 2010

Group secretary and registered office
The group secretary is Loren Wulfsohn. The address of the group secretary is that of the registered office, 9th Floor, Standard Bank Centre, 5 Simmonds Street, Johannesburg 2001.

Management by third parties
None of the businesses of the company or its subsidiaries had, during the financial year, been managed by a third party or a company in which a director had an interest. A company in which Doug Band, a director of the group, has a beneficial interest, provided consulting and certain management services to the capital investments division of Standard Bank for a five-year period until 31 December 2004. In terms of the agreement, in future years, he will receive a percentage of the proceeds from the sale of equity-related investments undertaken during the term of the above management services agreement. Further details can be found in the directors' emoluments disclosure on pages 104 and 105. No payments in respect of this agreement were received by Doug Band in 2010.

Subsidiaries, associates and joint ventures
The interests in subsidiary, associated and joint venture companies, where considered material in the light of the group's financial position and results, are set out in Annexure B on page 301 and Annexure C on page 306, respectively.

Special resolutions passed during 2010

Group companies passed the following special resolutions during the year for the purposes indicated:

Amendment to the memorandum and articles of the company

In its entirety
- CIMB Standard Islamic Infrastructure Fund (General Partner) Limited
- Stanbic Bank Botswana Limited
- Standard Bank Mauritius Limited
- Standard Bank Plc (UK)

Increase in the authorised share capital
- SBIC Investments S.A.
- Standard Bank Global Services Limited
- Standard Bank Group Limited

Authorise the acquisition of shares by the company
- Liberty Holdings Limited
- Standard Bank Argentina S.A.
- Standard Bank Asia Limited
- Standard Bank Group Limited
- Standard Ünlü Menkul Degerler A.S.

Other
- CfC Stanbic Holdings Limited amended its article dealing with the method of submission of accounts before the general meeting of the company.
- Stanbic Bank Uganda Limited amended its articles by substituting the wording of the articles dealing with the method of paying dividends to shareholders and the insertion of a new article dealing with the provisions of the Securities Central Depositories Act 1 of 1990.
- Standard International Holdings S.A. amended the object clause of the company's articles.

Contracts

Saki Macozoma, a director and deputy chairman of the company, 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% in Liberty Holdings and 1,4% in Standard Bank Group. The group has an effective interest of 20,33% in Safika.

Cyril Ramaphosa, a director of the company, 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 Standard Bank Group. The group 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 buyback 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.

Insurance

The group protects itself against loss by maintaining bankers' comprehensive crime and professional indemnity cover.

Events subsequent to balance sheet date

Standard Bank acquisition of full ownership of the Credit Suisse Standard Securities (Proprietary) Limited (CSSS) joint venture

Following the announcement in September 2010 of Standard Bank's intention to acquire full ownership of Credit Suisse Standard Securities (Proprietary) Limited, the transaction was completed on 10 January 2011. All regulatory approvals have been secured and as a result, the company has been renamed SBG Securities (Proprietary) Limited.

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Statement of financial position
at 31 December 2010

	Note	Group 2010 Rm	2009[1] Rm	2008[1] Rm
Assets				
Cash and balances with central banks	3	**28 675**	24 983	25 697
Derivative assets	4	**149 682**	122 194	214 433
Trading assets	5	**80 679**	88 413	87 440
Pledged assets	6	**6 390**	5 808	8 373
Financial investments	7	**283 295**	261 066	253 259
Loans and advances	8	**710 722**	721 389	787 934
Loans and advances to banks	8	**107 090**	111 068	124 219
Loans and advances to customers	8	**603 632**	610 321	663 715
Current tax assets	9	**473**	136	190
Deferred tax assets	9	**1 166**	1 345	1 127
Other assets	10	**17 882**	16 926	30 398
Interest in associates and joint ventures	11	**10 533**	9 529	6 990
Investment property	12	**21 521**	19 058	16 771
Goodwill and other intangible assets	13	**10 383**	9 409	10 180
Property and equipment	14	**14 907**	12 250	9 746
Total assets		**1 336 308**	1 292 506	1 452 538
Equity and liabilities				
Equity		**103 198**	99 369	99 501
Equity attributable to ordinary shareholders		**87 073**	84 022	81 953
Ordinary share capital	15	**159**	156	153
Ordinary share premium	15	**17 363**	17 041	16 844
Reserves		**69 551**	66 825	64 956
Preference share capital and premium	15	**5 503**	5 503	5 503
Non-controlling interest		**10 622**	9 844	12 045
Liabilities		**1 233 110**	1 193 137	1 353 037
Derivative liabilities	4	**145 004**	115 221	211 031
Trading liabilities	17	**30 375**	51 118	48 155
Deposit and current accounts	18	**789 500**	768 548	843 815
Deposits from banks	18	**91 729**	106 018	129 055
Deposits from customers	18	**697 771**	662 530	714 760
Current tax liabilities	19	**3 423**	3 634	2 673
Deferred tax liabilities	19	**2 892**	3 257	5 449
Other liabilities	20	**40 900**	40 403	47 578
Policyholders' liabilities	21	**197 878**	184 300	172 805
Subordinated debt	22	**23 138**	26 656	21 531
Total equity and liabilities		**1 336 308**	1 292 506	1 452 538

[1] *2009 and 2008 figures restated, refer to Annexure A – reclassifications and restatements.*

Income statement
for the year ended 31 December 2010

	Note	Group 2010 Rm	Group 2009[1] Rm
Income from banking activities		58 746	62 828
Net interest income		28 742	31 316
Interest income	27.1	62 576	82 291
Interest expense	27.2	33 834	50 975
Non-interest revenue		30 004	31 512
Net fee and commission revenue	27.3	18 641	18 108
Fee and commission revenue	27.3	21 914	20 840
Fee and commission expense	27.3	3 273	2 732
Trading revenue	27.4	8 509	10 916
Other revenue	27.5	2 854	2 488
Income from investment management and life insurance activities		51 149	43 458
Net insurance premiums	27.6	22 113	21 998
Investment income and gains	27.7	26 670	19 220
Management and service fee income		2 366	2 240
Total income		109 895	106 286
Credit impairment charges	27.8	7 524	12 097
Benefits due to policyholders		37 335	33 935
Net insurance benefits and claims	27.9	30 529	27 109
Fair value adjustment to policyholders' liabilities under investment contracts		6 257	5 991
Fair value adjustment on third-party fund interests		549	835
Income after credit impairment charges and policyholders' benefits		65 036	60 254
Operating expenses in banking activities		36 656	32 827
Staff costs	27.10	19 542	17 848
Restructuring costs	27.11	781	
Other operating expenses	27.13	16 333	14 979
Operating expenses in investment management and life insurance activities		9 388	9 052
Acquisition costs	27.12	2 906	3 114
Other operating expenses	27.13	6 482	5 938
Net income before goodwill		18 992	18 375
Goodwill impairment	27.14	144	42
Net income before associates and joint ventures		18 848	18 333
Share of profits from associates and joint ventures	11	633	33
Net income before indirect taxation		19 481	18 366
Indirect taxation	29.1	1 475	1 710
Profit before direct taxation		18 006	16 656
Direct taxation	29.2	4 999	4 660
Profit for the year		13 007	11 996
Attributable to non-controlling interests		1 846	411
Attributable to equity holders of the parent		11 161	11 585
Attributable to preference shareholders		387	531
Attributable to ordinary shareholders		10 774	11 054
Basic earnings per ordinary share (cents)	31	722,1	757,5
Diluted earnings per ordinary share (cents)	31	696,0	731,6

[1] *2009 figures restated, refer to Annexure A – reclassifications and restatements.*

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Statement of comprehensive income

for the year ended 31 December 2010

	Group		
	Ordinary shareholders' equity Rm	Non-controlling interests and preference shareholders Rm	Total equity Rm
2010			
Profit for the year	**10 774**	**2 233**	**13 007**
Other comprehensive income after tax for the year[1]	**(4 509)**	**(844)**	**(5 353)**
Exchange differences on translating foreign operations	**(3 561)**	**(845)**	**(4 406)**[2]
Net loss on hedges of net investments in foreign operations	**(768)**		**(768)**
Net change in fair value on cash flow hedges	**(357)**	**1**	**(356)**
Realised fair value adjustments on cash flow hedges transferred to profit or loss	**143**	**(1)**	**142**
Net change in fair value of available-for-sale financial assets	**105**	**62**	**167**
Realised fair value adjustments on available-for-sale financial assets transferred to profit or loss	**(34)**	**(17)**	**(51)**
Revaluation and other losses	**(37)**	**(44)**	**(81)**
Total comprehensive income for the year	**6 265**	**1 389**	**7 654**
Attributable to non-controlling interests		**1 002**	**1 002**
Attributable to equity holders of the parent	**6 265**	**387**	**6 652**
Attributable to preference shareholders		**387**	**387**
Attributable to ordinary shareholders	**6 265**		**6 265**
2009			
Profit for the year	11 054	942	11 996
Other comprehensive income after tax for the year[1]	(7 395)	(2 069)	(9 464)
Exchange differences on translating foreign operations	(7 403)	(2 164)	(9 567)[2]
Net loss on hedges of net investments in foreign operations	(106)		(106)
Net change in fair value on cash flow hedges	(94)		(94)
Realised fair value adjustments on cash flow hedges transferred to profit or loss	179		179
Net change in fair value of available-for-sale financial assets	249	24	273
Realised fair value adjustments on available-for-sale financial assets transferred to profit or loss	(242)	9	(233)
Revaluation and other gains	22	62	84
Total comprehensive income for the year	3 659	(1 127)	2 532
Attributable to non-controlling interests		(1 658)	(1 658)
Attributable to equity holders of the parent	3 659	531	4 190
Attributable to preference shareholders		531	531
Attributable to ordinary shareholders	3 659		3 659

[1] Income tax relating to each component of other comprehensive income is disclosed in note 29.
[2] Includes realised foreign currency translation losses on foreign operations of R21 million (2009: R18 million gain) transferred to profit or loss.

Statement of cash flows

for the year ended 31 December 2010

	Note	Group 2010 Rm	Group 2009[1] Rm
Net cash flows from operating activities		**27 164**	6 295
Cash flows used in operations		**(1 616)**	(27 794)
Net income before goodwill		**18 992**	18 375
Adjusted for:		**(28 547)**	(21 796)
Amortisation of intangible assets		**691**	617
Credit impairment charges on loans and advances		**7 524**	12 097
Defined benefit pension fund and post-employment benefits		**(320)**	(26)
Depreciation of property and equipment		**2 098**	1 746
Dividends included in trading revenue and investment income		**(1 811)**	(2 921)
Equity-settled share-based payments		**444**	344
Indirect taxation		**(1 475)**	(1 710)
Interest expense		**34 099**	51 318
Interest income		**(69 613)**	(89 405)
Fair value adjustment on third-party fund interests		**549**	835
Investment gains due to policyholders		**(15 083)**	(6 338)
Net fund flows after service fees on policyholder investment contracts		**(1 729)**	(1 681)
Non-cash flow movements to bonds		**523**	169
Other impairment losses		**222**	156
Policyholders' liability transfers		**15 248**	13 195
Loss on sale of businesses and divisions		**30**	7
Profit on sale of property and equipment		**(23)**	(38)
Provision for defined benefit pension funds and post-employment benefits		**(365)**	(156)
Provision for restructuring costs		**462**	
Other		**(18)**	(5)
Increase in income-earning assets	33.1	**(41 143)**	(16 964)
Increase/(decrease) in deposits and other liabilities	33.2	**49 082**	(7 409)
Dividends received		**3 482**	4 863
Interest paid		**(34 099)**	(51 318)
Interest received		**65 004**	86 762
Direct taxation paid	33.3	**(5 607)**	(6 218)
Net cash flows used in investing activities		**(13 912)**	(7 372)
Capital expenditure on – property		**(2 205)**	(2 089)
– equipment, furniture and vehicles		**(3 516)**	(3 151)
– intangible assets		**(2 502)**	(1 568)
Proceeds from sale of – property		**227**	55
– equipment, furniture and vehicles		**105**	130
Net investment in investment properties		**(1 083)**	(1 442)
Net (increase)/decrease in investments by insurance operations		**(4 917)**	2 662
Net cash outflow resulting from the disposal of subsidiaries	33.4		(247)
Increase in investment in existing subsidiaries		**(45)**	(10)
Decrease/(increase) in investment in associates and joint ventures	33.5	**24**	(1 712)
Net cash flows (used in)/from financing activities		**(7 810)**	2 887
Proceeds from issue of share capital to shareholders		**205**	200
Equity transactions with non-controlling interests		**(493)**	(136)
Net (decrease)/increase in subordinated debt		**(2 591)**	7 086
Net dividends paid	33.6	**(4 931)**	(4 263)
Effect of exchange rate changes on cash and cash equivalents		**(1 750)**	(2 524)
Net increase/(decrease) in cash and cash equivalents		**3 692**	(714)
Cash and cash equivalents at beginning of the year		**24 983**	25 697
Cash and cash equivalents at end of the year	33.7	**28 675**	24 983

[1] *2009 figures restated, refer to Annexure A – reclassifications and restatements.*

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Statement of changes in equity

for the year ended 31 December 2010

Group	Ordinary share capital and premium Rm	Empowerment reserve[1] Rm	Treasury shares[2] Rm	Foreign currency translation reserve[3] Rm	Foreign currency hedge of net investment reserve[4] Rm	Cash flow hedging reserve[5] Rm
Balance at 1 January 2009	16 997	(2 653)	(758)	5 288	880	802
Total comprehensive (loss)/income for the year				(7 403)	(106)	85
Profit for the year						
Other comprehensive (loss)/income after tax for the year				(7 403)	(106)	85
Increase in statutory credit risk reserve						
Transactions with owners, recorded directly in equity	200		617			
Equity-settled share-based payment transactions						
Transfer of vested equity rights						
Issue of share capital and share premium	200					
Deferred tax on share-based payment transactions						
Net decrease in treasury shares			617			
Net dividends paid						
Dividends paid to equity holders						
Dividends received from Tutuwa initiative and policyholders' deemed treasury shares						
Balance at 31 December 2009	17 197	(2 653)	(141)	(2 115)	774	887
Balance at 1 January 2010	**17 197**	**(2 653)**	**(141)**	**(2 115)**	**774**	**887**
Total comprehensive (loss)/income for the year				**(3 561)**	**(768)**	**(214)**
Profit for the year						
Other comprehensive (loss)/income after tax for the year				**(3 561)**	**(768)**	**(214)**
Increase in statutory credit risk reserve						
Transfer of owner occupied properties						
Transactions with owners, recorded directly in equity	**325**	**(318)**	**(358)**	**4**		
Equity-settled share-based payment transactions						
Transfer of vested equity rights						
Issue of share capital and share premium and capitalisation of reserves	**325**					
Deferred tax on share-based payment transactions						
Transactions with non-controlling shareholders				**4**		
Net increase in treasury shares			**(358)**			
Net dividends paid		**(318)**				
Dividends paid to equity holders		**(340)**				
Dividends received from Tutuwa initiative and policyholders' deemed treasury shares		**22**				
Balance at 31 December 2010	**17 522**	**(2 971)**	**(499)**	**(5 672)**	**6**	**673**

[1] *The empowerment reserve is explained in note 16 on page 254.*
[2] *The treasury shares reserve relates to Standard Bank Group shares held by entities within the group.*
[3] *Refer to Annexure E, accounting policy 2 – Foreign currency translations.*
[4] *Refer to the net investment hedges section in Annexure E, accounting policy 4 – Financial instruments.*
[5] *Refer to the cash flow hedges section in Annexure E, accounting policy 4 – Financial instruments.*
[6] *The statutory credit risk reserve relates to reserving requirements within African countries.*
[7] *Refer to the available-for-sale financial assets section in Annexure E, accounting policy 4 – Financial instruments.*
[8] *Refer to Annexure E, accounting policy 18 – Equity-linked transactions.*
All balances are stated net of applicable tax.

Statutory credit risk reserve[6] Rm	Available-for-sale revaluation reserve[7] Rm	Share-based payment reserve[8] Rm	Revaluation and other reserves Rm	Retained earnings Rm	Ordinary share-holders' equity Rm	Preference share capital and premium Rm	Non-controlling interest Rm	Total equity Rm
344	319	739	302	59 693	81 953	5 503	12 045	99 501
	7		(14)	11 090	3 659	531	(1 658)	2 532
				11 054	11 054	531	411	11 996
	7		(14)	36	(7 395)		(2 069)	(9 464)
202				(202)				
		175		(2 582)	(1 590)	(531)	(543)	(2 664)
		307			307		37	344
		(132)		132				
					200		(10)	190
				58	58			58
				74	691		316	1 007
				(2 846)	(2 846)	(531)	(886)	(4 263)
				(3 137)	(3 137)	(531)	(955)	(4 623)
				291	291		69	360
546	326	914	288	67 999	84 022	5 503	9 844	99 369
546	**326**	**914**	**288**	**67 999**	**84 022**	**5 503**	**9 844**	**99 369**
	71		**(36)**	**10 773**	**6 265**	**387**	**1 002**	**7 654**
				10 774	**10 774**	**387**	**1 846**	**13 007**
	71		**(36)**	**(1)**	**(4 509)**		**(844)**	**(5 353)**
177				**(177)**				
			21	**(21)**				
(6)	**(15)**	**(169)**		**(2 677)**	**(3 214)**	**(387)**	**(224)**	**(3 825)**
		412			**412**		**32**	**444**
		(581)		**581**				
				(120)	**205**		**30**	**235**
				2	**2**			**2**
(6)	**(15)**			**(20)**	**(37)**		**36**	**(1)**
				335	**(23)**		**449**	**426**
				(3 455)	**(3 773)**	**(387)**	**(771)**	**(4 931)**
				(3 520)	**(3 860)**	**(387)**	**(841)**	**(5 088)**
				65	**87**		**70**	**157**
717	**382**	**745**	**273**	**75 897**	**87 073**	**5 503**	**10 622**	**103 198**

Accounting policy 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 International Financial Reporting Standards (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, investment property, liabilities for cash-settled share-based payment arrangements, interests in mutual funds, policyholder investment contract liabilities and third-party financial liabilities arising on the consolidation of mutual funds that are measured at fair value;
- policyholder insurance contract liabilities and related reinsurance assets are measured in terms of the Financial Soundness Valuation (FSV) basis as set out in accounting policy 16 – *Policyholder insurance and investment contracts*; 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 (OCI) in terms of a cash flow hedge relationship are transferred from OCI and included in the initial measurement of the non-financial asset or liability (accounting policy 4);
- investment property is accounted for using the fair value model (accounting policy 5);
- jointly controlled entities are accounted for using the equity method (accounting policy 6);
- mutual fund investments held by investment-linked insurance funds, that do not meet the definition of a subsidiary, are designated on initial recognition as at fair value through profit or loss (accounting policy 6);
- property and equipment are accounted for using the cost model (accounting policy 8); 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 13).

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 Standard Bank Group 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 IFRSs 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 IFRSs (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.

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

Early adoption of new standards and interpretations

The group has early adopted the following new and amended IFRSs 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 27 *Consolidated and Separate Financial Statements* (2010 Improvements to IFRS); and
- IFRIC 13 *Customer Loyalty Programmes* (2010 Improvements to IFRS).

The group has also early adopted the amendments to IAS 12 *Income Taxes (Deferred Tax: Recovery of Underlying Assets)*. In terms of the amendment, if deferred tax liabilities or assets arise from investment property that is measured using the fair value model in IAS 40 *Investment Property*, there is a rebuttable presumption that the carrying amount of the investment property will be recovered through sale.

Comparative information has been restated to conform to the revised standard. This has resulted in the deferred tax liability in respect of these investment property surpluses being restated to the sale rate and has correspondingly increased policyholders' liabilities. The adoption of this amendment does not impact headline earnings or earnings per share.

Please refer to Annexure E for a detailed listing of the group's accounting policies, and Annexure A for reclassifications and restatements of the 2009 and 2008 statement of financial position.

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Notes to the annual financial statements

for the year ended 31 December 2010

1. Segment reporting

Operating segments

	Personal & Business Banking		Corporate & Investment Banking		Central and other	
	2010 Rm	2009[2] Rm	**2010 Rm**	2009[2] Rm	**2010 Rm**	2009[2] Rm
Income from banking activities	**34 975**	34 855	**22 663**	27 020	**1 212**	835
Net interest income	**19 118**	19 945	**8 866**	10 475	**943**	1 073
Interest income	**40 646**	45 770	**27 744**	43 932	**(5 629)**	(7 234)
Interest expense	**21 528**	25 825	**18 878**	33 457	**(6 572)**	(8 307)
Non-interest revenue	**15 857**	14 910	**13 797**	16 545	**269**	(238)
Net fee and commission revenue	**14 219**	13 584	**4 331**	4 660	**91**	(136)
Fee and commission revenue	**17 204**	15 958	**4 808**	5 018	**(98)**	(136)
Fee and commission expense	**2 985**	2 374	**477**	358	**(189)**	
Trading revenue	**162**	177	**8 165**	10 587	**101**	(143)
Other revenue	**1 476**	1 149	**1 301**	1 298	**77**	41
Income from investment management and life insurance activities						
Total income	**34 975**	34 855	**22 663**	27 020	**1 212**	835
Credit impairment charges	**6 860**	9 874	**523**	2 725	**141**	(502)
Benefits due to policyholders						
Income after credit impairment charges and policyholders' benefits	**28 115**	24 981	**22 140**	24 295	**1 071**	1 337
Operating expenses in banking activities	**21 175**	19 198	**14 720**	13 937	**761**	(308)
Staff costs	**10 235**	9 169	**8 337**	7 964	**970**	715
Restructuring costs					**781**	
Other operating expenses	**10 940**	10 029	**6 383**	5 973	**(990)**	(1 023)
Operating expenses in investment management and life insurance activities						
Net income before goodwill	**6 940**	5 783	**7 420**	10 358	**310**	1 645
Goodwill impairment		6	**30**	36		
Share of profit/(losses) from associates and joint ventures	**188**	(217)	**404**	183	**(8)**	
Net income before indirect taxation	**7 128**	5 560	**7 794**	10 505	**302**	1 645
Indirect taxation	**688**	557	**402**	431	**128**	481
Profit before direct taxation	**6 440**	5 003	**7 392**	10 074	**174**	1 164
Direct taxation	**1 780**	1 484	**1 534**	1 948	**(66)**	331
Profit for the year	**4 660**	3 519	**5 858**	8 126	**240**	833
Attributable to non-controlling interests	**(14)**	42	**631**	511		(1)
Attributable to preference shareholders					**376**	479
Attributable to ordinary shareholders	**4 674**	3 477	**5 227**	7 615	**(136)**	355
Headline earnings	**4 750**	3 874	**5 248**	7 467	**(108)**	305
ROE (%)	**17,9**	15,1	**12,7**	18,8		
Net interest margin (%)	**4,45**	4,67	**1,61**	1,81		
Credit loss ratio (%)	**1,65**	2,38	**0,16**	0,74		
Cost-to-income ratio (%)	**60,2**	55,4	**63,8**	51,2		
Total assets	**434 163**	419 779	**695 030**	654 711	**(17 308)**	3 147
Average assets – banking activities excluding trading derivatives	**429 571**	427 513	**550 562**	579 555	**(20 255)**	(24 669)
Average loans and advances (gross)	**416 333**	415 113	**331 333**	370 336	**(27 027)**	(29 122)
Average ordinary shareholders' equity	**26 573**	25 630	**41 446**	39 737	**15 629**	14 717
Total liabilities	**403 087**	394 684	**656 065**	610 661	**(40 134)**	(18 194)
Interest in associates and joint ventures	**1 059**	928	**3 248**	3 203	**81**	134
Depreciation and amortisation	**1 114**	948	**791**	593	**458**	418
Impairment loss on non-financial assets	**142**	478	**88**	74	**17**	11
Number of employees	**36 645**	34 882	**9 601**	9 312	**1 879**	1 743

[1] *IFRS adjustments relate to adjustments to the segmental results, presented on a normalised basis, to arrive at the IFRS results. These adjustments are described in detail on pages 51 to 53.*

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

Banking activities		Liberty		Normalised Standard Bank Group		Adjustments to IFRS[1]		IFRS Standard Bank Group	
2010 Rm	2009 Rm	2010 Rm	2009 Rm	2010 Rm	2009 Rm	2010 Rm	2009 Rm	2010 Rm	2009 Rm
58 850	62 710			58 850	62 710	(104)	118	58 746	62 828
28 927	31 493			28 927	31 493	(185)	(177)	28 742	31 316
62 761	82 468			62 761	82 468	(185)	(177)	62 576	82 291
33 834	50 975			33 834	50 975			33 834	50 975
29 923	31 217			29 923	31 217	81	295	30 004	31 512
18 641	18 108			18 641	18 108			18 641	18 108
21 914	20 840			21 914	20 840			21 914	20 840
3 273	2 732			3 273	2 732			3 273	2 732
8 428	10 621			8 428	10 621	81	295	8 509	10 916
2 854	2 488			2 854	2 488			2 854	2 488
		51 466	44 338	51 466	44 338	(317)	(880)	51 149	43 458
58 850	62 710	51 466	44 338	110 316	107 048	(421)	(762)	109 895	106 286
7 524	12 097			7 524	12 097			7 524	12 097
		37 335	33 935	37 335	33 935			37 335	33 935
51 326	50 613	14 131	10 403	65 457	61 016	(421)	(762)	65 036	60 254
36 656	32 827			36 656	32 827			36 656	32 827
19 542	17 848			19 542	17 848			19 542	17 848
781				781				781	
16 333	14 979			16 333	14 979			16 333	14 979
		9 388	9 052	9 388	9 052			9 388	9 052
14 670	17 786	4 743	1 351	19 413	19 137	(421)	(762)	18 992	18 375
30	42	114		144	42			144	42
584	(34)	49	67	633	33			633	33
15 224	17 710	4 678	1 418	19 902	19 128	(421)	(762)	19 481	18 366
1 218	1 469	257	241	1 475	1 710			1 475	1 710
14 006	16 241	4 421	1 177	18 427	17 418	(421)	(762)	18 006	16 656
3 248	3 763	1 717	857	4 965	4 620	34	40	4 999	4 660
10 758	12 478	2 704	320	13 462	12 798	(455)	(802)	13 007	11 996
617	552	1 381	248	1 998	800	(152)	(389)	1 846	411
376	479			376	479	11	52	387	531
9 765	11 447	1 323	72	11 088	11 519	(314)	(465)	10 774	11 054
9 890	11 646	1 393	72	11 283	11 718	(314)	(465)	10 969	11 253
11,8	14, 5	21,9	1,2	12,5	13,6			12,7	13,7
3,01	3,21			3,01	3,21			3,00	3,19
1,04	1,60			1,04	1,60			1,05	1,60
61,7	52,4			61,7	52,4			61,8	52,3
1 111 885	1 077 637	229 535	220 151	1 341 420	1 297 788	(5 112)	(5 282)	1 336 308	1 292 506
959 878	982 399			959 878	982 399	(1 568)	(1 404)	958 310	980 995
720 639	756 327			720 639	756 327	(1 783)	(1 941)	718 856	754 386
83 648	80 084	6 371	6 258	90 019	86 342	(3 795)	(4 054)	86 224	82 288
1 019 018	987 151	214 192	206 139	1 233 210	1 193 290	(100)	(153)	1 233 110	1 193 137
4 388	4 265	6 145	5 264	10 533	9 529			10 533	9 529
2 363	1 959	426	404	2 789	2 363			2 789	2 363
247	563	148	14	395	577			395	577
48 125	45 937	5 226	5 474	53 351	51 411			53 351	51 411

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1. Segment reporting continued

The group is organised on the basis of products and services and the segments have been identified on this basis. The principal business units in the group are as follows:

Business unit	
Personal & Business Banking	Banking and other financial services to individual customers and small- to medium-sized enterprises in South Africa, rest of Africa, Argentina and Channel Islands. Mortgage lending – Provides residential accommodation loans to mainly personal market customers. Instalment sale and finance leases – Provides instalment finance to personal market customers and finance of vehicles and equipment in the business market. Credit cards – Provides 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 and wealth – Provides short-term and long-term insurance products, financial planning and wealth services. Short-term and long-term insurance products comprise simple embedded products and complex insurance products. Simple embedded products include homeowners' insurance, funeral cover, household and vehicle insurance and loan protection plans sold in conjunction with banking products. Complex insurance products include life, disability and investment policies sold by qualified intermediaries.
Corporate & Investment Banking	Corporate and investment banking services to governments, parastatals, larger corporates, financial institutions and international counterparties, in southern Africa and other emerging markets. Global markets – Includes foreign exchange, commodities, interest rate, credit and equity trading. Transactional products and services – Includes transactional banking and investor services. Investment banking – Includes equity investments, advisory, project finance, structured finance, structured trade finance, corporate lending, primary markets, acquisition and BEE finance and property finance. Principal investment management – includes investment in private equity and real estate.
Central and other	Includes the impact of the Tutuwa initiative, group capital instruments and group surplus capital, together with certain group overheads not recoverable from business segments, including the Global Leadership Centre, activities and taxes not allocated to business segments, strategic acquisition costs and restructuring costs.
Liberty	Investment management and life insurance activities of companies in the Liberty Holdings group. Liberty includes long-term investments, long-term risk (life and disability), pension fund management, endowment and retirement annuities, corporate benefits, healthcare and health insurance. Stanlib includes investment-related advice and solutions.

1. Segment reporting continued

Geographic information

	South Africa Rm	Rest of Africa Rm	Outside Africa Rm	Central and other Rm	Standard Bank Group Rm	Adjust-ments to IFRS Rm	IFRS Standard Bank Group Rm
2010							
Total income[1]	**90 681**	**9 804**	**9 259**	**572**	**110 316**	**(421)**	**109 895**
Banking activities	**39 215**	**9 804**	**9 259**	**572**	**58 850**	**(104)**	**58 746**
Liberty	**51 466**				**51 466**	**(317)**	**51 149**
Total assets	**1 073 326**	**109 372**	**272 062**	**(113 340)**	**1 341 420**	**(5 112)**	**1 336 308**
Banking activities	**843 791**	**109 372**	**272 062**	**(113 340)**	**1 111 885**	**(2 209)**	**1 109 676**
Liberty	**229 535**				**229 535**	**(2 903)**	**226 632**
Non-current assets	**38 393**	**6 362**	**2 137**	**(81)**	**46 811**		**46 811**
Banking activities	**12 984**	**6 362**	**2 137**	**(81)**	**21 402**		**21 402**
Liberty	**25 409**				**25 409**		**25 409**
2009							
Total income[1]	84 545	9 604	12 571	328	107 048	(762)	106 286
Banking activities	40 207	9 604	12 571	328	62 710	118	62 828
Liberty	44 338				44 338	(880)	43 458
Total assets	1 014 955	102 020	274 377	(93 564)	1 297 788	(5 282)	1 292 506
Banking activities	794 804	102 020	274 377	(93 564)	1 077 637	(1 579)	1 076 058
Liberty	220 151				220 151	(3 703)	216 448
Non-current assets	32 810	5 810	2 069	28	40 717		40 717
Banking activities	9 649	5 810	2 069	28	17 556		17 556
Liberty	23 161				23 161		23 161

[1] *Total income is attributed based on where the operations are located.*

No countries outside South Africa are deemed to be individually material. There has been no reliance on any major customers and no one customer makes up a material portion of the revenue streams.

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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 include early arrears and other indicators of potential default, such as changes in macroeconomic conditions and legislation affecting credit recovery. 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	**5 – 12**	5 – 12	**113**	138
South Africa	**12**	12	**52**	77
Rest of Africa	**12**	12	**16**	3
Outside Africa	**5**	5	**45**	58
			485	446

[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 individually impaired loans are based on historical loss experience for assets with similar credit risk characteristics. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience. Recoveries of individual loans as a percentage of the outstanding balances are estimated as follows:

	Expected time to recovery[1]		Expected recoveries as a percentage of impaired loans		Impairment loss sensitivity[2]	
	2010 Months	2009 Months	**2010 %**	2009 %	**2010 Rm**	2009 Rm
Personal & Business Banking	**6 – 15**	5 – 15	**71**	71	**236**	247
Mortgage lending	**10**	10	**83**	82	**208**	213
Instalment sale and finance leases	**6**	5	**42**	48	**11**	16
Card debtors	**15**	15	**23**	25	**4**	4
Other lending	**14**	14	**33**	36	**13**	14
Corporate & Investment Banking	**12 – 36**	12 – 24	**71**	73	**61**	74
South Africa	**12**	12	**56**	49	**15**	7
Rest of Africa	**24**	24	**61**	56	**3**	7
Outside Africa	**36**	22	**78**	80	**43**	60
			71	71	**297**	321

[1] *The expected time to recovery has been adjusted in 2010 due to changes in market conditions.*
[2] *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 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 R2 071 million (2009: R1 059 million).

Additional disclosures on fair value measurements of financial instruments are set out in note 24.

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. The determination of what is significant or prolonged requires judgement. In making this judgement, the group evaluates, among other factors, the normal volatility in the share prices. In addition, impairment may be appropriate when there is evidence of a deterioration in the financial health of the investee, industry or sector, or operational and financing cash flows or significant changes in technology.

Had the declines of financial instruments with fair values below cost been considered significant or prolonged, the group would have suffered an additional loss attributable to ordinary shareholders of R34 million (2009: R24 million) in its financial statements, being the transfer of the negative revaluations within the available-for-sale reserve to profit or loss.

2.4 Securitisations and special purpose entities (SPEs)

The group sponsors the formation of SPEs primarily for the purpose of allowing clients to hold investments, for asset securitisation transactions, asset financing and for buying or selling credit protection. The group consolidates SPEs that it controls in terms of IFRS. 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 about 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 has consolidated SPEs with assets of R22 691 million (2009: R29 217 million). The consolidated SPEs made net profits of R51 million (2009: R95 million). The group has not consolidated SPEs with assets of R3 331 million (2009: R3 143 million) as these entities were not considered to be controlled by the group. These SPEs made a profit of Rnil (2009: Rnil).

2.5 Held-to-maturity investments

The group follows the guidance of IAS 39 on classifying certain 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 in specific defined circumstances, it will be required to classify the entire category as available-for-sale. The investments would therefore be measured at fair value and not amortised cost. If the entire class of held-to-maturity investments were tainted in this way and reclassified as available-for-sale, the carrying amount would increase by R112 million (2009: R46 million) to fair value, with a corresponding entry in other comprehensive income.

2.6 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 R5 763 million (2009: R3 967 million).

2.7 Income taxes

The group is subject to direct taxation in a number of jurisdictions. There may be 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 provisions, disclosed in note 29 and note 19 respectively, in the period in which such determination is made.

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2. Key management assumptions continued

2.8 Financial risk management

The group's risk management policies and procedures are disclosed in the risk management section of the annual integrated report starting on page 120. All IFRS 7 information included in the financial risk management section as set out on page 120 forms part of the audited annual financial statements as indicated in the risk report.

2.9 Valuation of investment property

The valuation of investment properties within the insurance operations has been carried out by Ian Mitchell Investment Property Consultants CC (Chartered Valuation Surveyor – Professional Valuer) and Asset Valuation Services CC (Professional Associate Valuer).

The valuation is prepared in accordance with the guidelines of the South African Institute of Valuers for valuation reports and in accordance with the appraisal and valuation manual of the Royal Institution of Chartered Surveyors, adapted for South African law and conditions. The valuation assumes that there will be no change in the social, economic or political circumstances between the date of valuation and the financial year end of the group.

The basis of value is "market value" which is defined as an opinion of the best price at which the sale of an interest in property, taking into account existing tenant lease terms, would have been completed unconditionally for a cash consideration on the date of valuation assuming:

- a willing seller;
- that the state of the market, level of values and other circumstances were, on any earlier assumed date of exchange of contracts, the same as at the date of valuation;
- that no account is taken of any additional bid by a prospective purchaser with a special interest; and
- that both parties to the transaction had acted knowledgeably, prudently and without compulsion.

The properties have been valued on a discounted cash flow basis. In the majority of cases, discounted cash flows have been used and summed together with the capitalised and discounted value of the projected income to give a present value as at 31 December 2010. In order to determine the reversionary rental income on lease expiry, renewal or review, a market gross rental income (basic rental plus operating cost rental) has been applied to give a market-related rental value for each property as at 31 December 2010. Market rental growth has been determined based on the individual property, property market trends and economic forecasts. Vacancies have been considered based on historic and current vacancy factors as well as the nature, location, size and popularity of each building.

Appropriate discount rates have been applied to cash flows for each property to reflect the relative investment risk associated with the particular building, tenant, covenant and the projected income flow. Extensive market research has been conducted to ascertain the most appropriate market-related discount rate to apply, with regard to the current long-term bond yield (R204 government bond risk-free rate) and the relative attractiveness that an investor may place on property as an asset class.

Primary discount rates range from 7,25% to 12,0% (2009: 7,50% to 12,5%) on a property-by-property basis. Exit capitalisation rates generally range from 7,25% to 12,0% (2009: 7,50% to 12,5%).

On the basis that turnover or profit rental income has a greater degree of uncertainty and risk than the contractual base rental, a risk premium of between 1% and 6% has been added to the discount rate and to the exit capitalisation rate, to reflect the greater investment risk associated with the variable rental element on a property-by-property basis.

A 1% absolute change to the capitalisation rate assumption would increase the total fair value by R3 300 million (2009: R3 200 million increase) if the assumption decreased, and decrease the total fair value by R2 500 million (2009: R2 500 million decrease) if the assumption increased.

2.10 Long-term insurance contracts

Policyholders' liabilities under insurance contracts are derived from actual claims submitted which are not settled at the reporting date, and estimates of the net present value of future claims and benefits under existing contracts, offset by probable future premiums to be received (net of expected service costs). The key assumptions applied have been detailed in the insurance risk component of the risk and capital management report.

The process of deriving the net estimate assumptions relating to future mortality, morbidity, withdrawals, investment returns, maintenance expenses, expense inflation and tax is described below.

Mortality

An appropriate base table of standard mortality is chosen depending on the type of contract and class of business. Industry standard tables are used for smaller classes of business. Company specific tables, based on graduated industry standard tables modified to reflect the company specific experience, are used for larger classes.

Investigations into mortality experience are performed every half year for the large classes of business and annually for all other classes of business. The period of investigation extends over at least the latest three full years.

2. Key management assumptions continued

2.10 Long-term insurance contracts continued

The results of the investigation are used to set the valuation assumptions, which are applied as an adjustment to the respective base table.

In setting the assumptions, provision is made for the expected increase in Aids-related claims. Allowance for Aids-related deaths is made in the base mortality rates at rates consistent with the requirements of the Actuarial Society of South Africa's PGN 105 *Recommended Aids extra mortality bases* (PGN 105). The rates are defined using the ASSA2003 models calibrated to reflect Liberty's assurance lives.

For contracts insuring survivorship, an allowance is made for future mortality improvements based on trends identified in the data and in the continuous mortality investigations performed by independent actuarial bodies.

Morbidity

The incidence of disability claims is derived from the risk premium rates determined from annual investigations. The incidence rates are reviewed on an annual basis, based on medical claims experience. The adjusted rates are intended to reflect future expected experience.

Withdrawal

The withdrawal assumptions are based on the most recent withdrawal investigations taking into account past as well as expected future trends. The withdrawal investigation is performed every half year for the large lines of business and annually for the smaller classes and incorporates two-years experience. The withdrawal rates are analysed by product type and policy duration. These withdrawal rates vary considerably by duration, policy term and product type. Typically the rates are higher for risk type products than for investment type products, and are higher at early durations.

Investment return

Future investment returns are set for the main asset classes as follows:

– gilt rate: effective 10-year yield curve rate at the balance sheet date, 8,3% (2009: 9,3%);
– equity rate: gilt rate plus 3,5 percentage points as an adjustment for risk, 11,8% (2009: 12,8%);
– property rate: gilt rate plus 1 percentage point as an adjustment for risk, 9,3% (2009: 10,3%); and
– cash: gilt rate less 1,5 percentage points, 6,8% (2009: 7,8%).

The overall investment return for a block of business is based on the investment return assumptions allowing for the current mix of assets supporting the liabilities.

The pre-taxation discount rate is set at the same rate. The rate averaged across the blocks of business, excluding annuity and guaranteed capital bond business, is 10,6% per annum in 2010 (2009: 11,4% per annum). Where appropriate the investment return assumption will be adjusted to make allowance for investment expenses, taxation and the relevant prescribed margins as required in terms of PGN 104 *Life Offices – valuation of long-term insurers* (PGN 104) issued by the Actuarial Society of South Africa.

For annuity and guaranteed capital bond business, discount rates are set at risk-free rates consistent with the duration and type of the liabilities, reduced by an allowance for investment expenses and the relevant prescribed margin.

Expenses

An expense analysis is performed on the actual expenses incurred in the calendar year preceding the reporting date. This analysis is used to calculate the acquisition costs incurred and to set the maintenance expense assumption which is based on the budget approved by the board.

The impact of the change in estimate cannot be accurately determined for future periods as it is dependent on actual expenses and the number of policies in the relevant period.

Expense inflation

The inflation rate is set at 60% of the risk-free rate (gilt rate) at the current valuation, subject to a minimum of the risk-free rate less 3%, resulting in a best estimate expense inflation assumption of 5,3% at 31 December 2010 (2009: 6,3%). The expense inflation assumption is set taking into consideration the expected future development of the number of inforce policies, as well as the expected future profile of group maintenance expenses.

Taxation

Future taxation and taxation relief are allowed for at the rates and on the bases applicable to section 29A of the Income Tax Act at the reporting date. Each company's current tax position is taken into account. Taxation rates consistent with that position, and the likely future changes in that position, are allowed for. In respect of capital gains taxation (CGT), taxation is allowed for at the full CGT rate. Deferred taxation liabilities include a provision for CGT on unrealised gains/(losses) at the valuation date, at the full undiscounted value.

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2. Key management assumptions continued

2.10 Long-term insurance contracts continued

Correlations

No correlations between assumptions are allowed for.

Contribution increases

In the valuation of the liabilities, voluntary premium increases that give rise to expected profits are not allowed for. However, compulsory increases and increases that give rise to expected losses are allowed for. This is consistent with the requirements of PGN 104.

Embedded investment derivative assumptions

The assumptions used to value embedded derivatives, in respect of policyholder contracts, are set in accordance with PGN 110 *Reserving for minimum investment return guarantees on a market-consistent basis* (PGN 110). Account is taken of the yield curve at the valuation date. Both implied market volatility and historical volatility are taken into account when setting volatility assumptions. Long-term volatility assumptions are set based on market information where available, otherwise a measure of estimation is required. The 30-year annualised implied at-the-money volatility assumption, estimated using the asset model output for the FTSE/JSE Top 40 index, is 28,05% (2009: 28,05%). Correlations between asset classes are set based on historical evidence. A total of 2 000 simulations are performed in calculating the liability.

A reserve for minimum investment return guarantees, calculated on a stochastic basis in accordance with PGN 110, is held.

Using the simulated investment returns, the prices and implied volatilities of the following instruments are:

Instrument	2010 Price %	2010 Volatility %	2009 Price %	2009 Volatility %
A 1-year at-the-money spot put on the FTSE/JSE Top 40 index	**7,60**	**23,13**	6,99	23,53
A 1-year put on the FTSE/JSE Top 40 index, with a strike price equal to 80% of spot	**1,46**	**23,41**	1,33	23,83
A 1-year forward on the FTSE/JSE Top 40 index	**8,95**	**23,13**	9,12	23,54
A 5-year at-the-money spot put on the FTSE/JSE Top 40 index	**10,70**	**26,26**	7,67	24,50
A 5-year put on the FTSE/JSE Top 40 index, with a strike price equal to $1{,}04^{5\#}$ of spot	**18,78**	**26,23**	14,33	24,47
A 5-year forward on the FTSE/JSE Top 40 index	**20,13**	**26,23**	18,77	24,46
A 5-year put with a strike price equal to $1{,}04^{5\#}$ of spot on an underlying index constructed as 60% FTSE/JSE Top 40 and 40% Asian Local Bond Index (ALBI), with rebalancing of the underlying index back to these weights taking place annually	**9,28**	**N/A**	5,94	N/A
A 20-year at-the-money spot put on the FTSE/JSE Top 40 index	**4,30**	**26,89**	4,31	27,39
A 20-year put on the FTSE/JSE Top 40 index, with a strike price equal to $1{,}04^{20\#}$ of spot	**18,80**	**27,54**	18,35	27,82
A 20-year forward on the FTSE/JSE Top 40 index	**26,61**	**27,74**	26,50	28,01
A 20-year put option based on an interest rate with a strike equal to the present 5-year forward rate as at maturity of the put option, which pays out if the 5-year interest rate at the time of maturity (in 20 years) is lower than the strike	**0,40**	**N/A**	0,33	N/A

\# *Exponent.*

The Top 40 index above is a capital returns index whereas the ALBI is a total return index. Spot refers to the value of the index at market close on 31 December. At-the-money means that the strike value of the option is equal to the spot.

2. Key management assumptions continued

2.10 Long-term insurance contracts continued

The zero coupon yield curve used in the projection is as follows (rates calculated on the nominal annualised compounded continuously method):

	Model output yield curve (%)	
Maturity	**2010**	2009
1 year	**5,48**	7,10
2 years	**5,88**	7,52
3 years	**6,35**	8,03
4 years	**6,81**	8,34
5 years	**7,17**	8,55
10 years	**7,93**	8,80
15 years	**7,89**	8,43
20 years	**7,77**	7,90
25 years	**7,54**	7,40
30 years	**7,25**	7,00
35 years	**7,15**	6,69
40 years	**7,05**	6,47
45 years	**6,99**	6,31
50 years	**6,91**	6,20

Changes in assumptions

Modelling and other changes were made to the valuation to realign valuation assumptions with future experience. These changes resulted in a net decrease in policyholders' liabilities of R62 million in 2010 compared to an increase of R506 million in 2009. These amounts exclude the impact on annuities and guaranteed endowments (increase in liabilities of R1 281 million in 2010, decrease in liabilities of R2 769 million in 2009) which is offset by a corresponding change in the value of the backing assets.

The primary items were:

- a change in the assumptions to allow for expected future withdrawals, resulting in a decrease in the liability of R125 million (2009: increase of R765 million);
- future mortality assumptions were adjusted to reflect expected future experience, amounting to an increase in the liability of R173 million (2009: increase of R2 million);
- a change in the economic valuation assumption to realign the economic assumptions with expected future experience, resulting in a decrease in the liability of R262 million (2009: increase of R466 million);
- a change in the economic valuation assumptions used to calculate the liabilities in respect of minimum investment return guarantees to align the valuation to a market consistent basis, resulting in a decrease in the liability of R41 million (2009: decrease of R1 285 million);
- the assumptions for annuitant longevity were strengthened, resulting in an increase in the liability of R89 million;
- in 2009 there was also a change in the assumptions and modelling for policies being made paid-up and a change in the method of setting the valuation discount rates for life annuities and guaranteed endowments to reference yield curves appropriate to the assets backing the liabilities. The former resulted in an increase in the liability of R271 million while the latter resulted in an increase of R197 million. No such changes were made in 2010; and
- the balance of modelling changes and corrections resulted in an increase in liabilities of R104 million (2009: increase of R90 million).

2.11 Other

The nature of the assumptions or other estimation uncertainty for pensions and other post-employment benefits and for group share incentive schemes are disclosed in note 36 and Annexure D, respectively.

	2010 Rm	2009 Rm
3. Cash and balances with central banks		
Coins and bank notes	**8 628**	7 604
Balances with central banks	**20 047**	17 379
	28 675	24 983

Cash and balances with central banks include R18 867 million (2009: R16 454 million) that is not available for use by the group. These balances comprise primarily reserving requirements held with central banks.

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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 market place 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 positions held and should be used only as a means of assessing the group's participation in derivative contracts.

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							
Derivatives held-for-trading							
Foreign exchange derivatives	537	(1 026)	200	(289)	33 142	(33 431)	1 269 261
Forwards	943	(429)	196	710	28 210	(27 500)	1 038 777
Futures	50	(5)		45	144	(99)	60 712
Options	(456)	(592)	4	(1 044)	4 788	(5 832)	169 772
Interest rate derivatives	4 346	2 112	553	7 011	88 573	(81 562)	9 391 971
Bond options	(450)	(157)		(607)	1 073	(1 680)	117 695
Caps and floors	(40)	(4)	29	(15)	274	(289)	158 413
Forwards	291	(15)		276	1 797	(1 521)	1 511 716
Future options	(2)	62		60	157	(97)	3 494 014
Swaps	4 495	2 154	337	6 986	84 928	(77 942)	4 083 680
Swaptions	52	72	187	311	344	(33)	26 453
Commodity derivatives	513	(1 165)	43	(609)	22 882	(23 491)	2 798 299
Forwards	2 697	68	6	2 771	9 120	(6 349)	165 735
Futures	(2 021)	(829)	(8)	(2 858)	11 462	(14 320)	2 516 073
Options	(163)	(404)	45	(522)	2 300	(2 822)	116 491
Credit derivatives	366	(451)	39	(46)	2 710	(2 756)	271 623
Credit default swaps	(5)	(21)	39	13	2 289	(2 276)	270 085
Total return swaps	371	(430)		(59)	421	(480)	1 538
Equity derivatives	(809)	128		(681)	1 705	(2 386)	107 124
Forwards	(105)	17		(88)	74	(162)	2 207
Futures	(142)			(142)	92	(234)	9 294
Index options	(196)	(190)		(386)	701	(1 087)	58 728
Options	(193)	226		33	564	(531)	15 129
Swaps	(220)	48		(172)	105	(277)	98
Other	47	27		74	169	(95)	21 668
Total derivative assets/(liabilities) held-for-trading	4 953	(402)	835	5 386	149 012	(143 626)	13 838 278

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							
Derivatives held-for-hedging							
Derivatives designated as fair value hedges							
Interest rate swaps	**601**	**(169)**	**(271)**	**161**	**497**	**(336)**	**30 429**
Derivatives designated as cash flow hedges	**(386)**	**(362)**	**(42)**	**(790)**	**166**	**(956)**	**10 401**
Currency swaps	**(351)**	**(425)**		**(776)**		**(776)**	**7 536**
Exchange traded currency options	**(19)**	**102**		**83**	**135**	**(52)**	**709**
Forwards	**(18)**	**(39)**		**(57)**	**29**	**(86)**	**525**
Interest rate swaps	**2**		**(42)**	**(40)**	**2**	**(42)**	**1 631**
Derivatives designated as hedges of net investments in foreign operations							
Forward exchange contracts	**(79)**			**(79)**	**7**	**(86)**	**1 106**
Total derivative assets/(liabilities) held-for-hedging	**136**	**(531)**	**(313)**	**(708)**	**670**	**(1 378)**	**41 936**
Total derivative assets/(liabilities)	**5 089**	**(933)**	**522**	**4 678**	**149 682**	**(145 004)**	**13 880 214**

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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
2009							
Derivatives held-for-trading							
Foreign exchange derivatives	2 969	692	123	3 784	26 208	(22 424)	546 989
Forwards	6 934	1 771	117	8 822	25 685	(16 863)	494 310
Futures	(12)	(1)		(13)	36	(49)	6 645
Options	(3 953)	(1 078)	6	(5 025)	487	(5 512)	46 034
Interest rate derivatives	1 534	(358)	(438)	738	63 074	(62 336)	6 422 528
Bond options	50	(684)	(1)	(635)	1 376	(2 011)	28 525
Caps and floors	(4)	12	38	46	229	(183)	72 243
Forwards	34	12		46	1 016	(970)	995 350
Future options	43	74		117	120	(3)	2 106 899
Swaps[1]	1 393	173	(592)	974	60 135	(59 161)	3 211 802
Swaptions	18	55	117	190	198	(8)	7 709
Commodity derivatives	3 107	(1 724)	713	2 096	24 658	(22 562)	2 401 217
Forwards[1]	1 729	(1 204)	711	1 236	9 654	(8 418)	248 188
Futures	874	(938)	2	(62)	11 308	(11 370)	2 023 541
Options	504	418		922	3 696	(2 774)	129 488
Credit derivatives	80	417	281	778	3 817	(3 039)	166 119
Credit default swaps	56	342	93	491	3 496	(3 005)	164 283
Total return swaps	24	75	188	287	321	(34)	1 836
Equity derivatives	(278)	(273)		(551)	3 397	(3 948)	308 889
Forwards	(64)	(37)		(101)	97	(198)	1 894
Futures	80	(8)		72	133	(61)	18 232
Index options	3	(93)		(90)	2 754	(2 844)	260 173
Options	(91)	(161)		(252)	315	(567)	23 189
Swaps	(231)	2		(229)	29	(258)	1 109
Other	25	24		49	69	(20)	4 292
Total derivative assets/(liabilities) held-for-trading	7 412	(1 246)	679	6 845	121 154	(114 309)	9 845 742

[1] *2009 figures restated, refer to Annexure A – 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
2009							
Derivatives held-for-hedging							
Derivatives designated as fair value hedges	1 405	111	(1 060)	456	627	(171)	104 657
Currency swaps	1	1		2	2		2 280
Interest rate swaps	1 404	110	(1 060)	454	625	(171)	102 377
Derivatives designated as cash flow hedges	(27)	249	42	264	413	(149)	5 657
Currency swaps	(28)	120	42	134	255	(121)	5 155
Exchange traded currency options		100		100	128	(28)	453
Forwards		29		29	29		
Interest rate swaps	1			1	1		49
Derivatives designated as hedges of net investments in foreign operations							
Forward exchange contracts	(592)			(592)		(592)	13 558
Total derivative assets/(liabilities) held-for-hedging	786	360	(1 018)	128	1 040	(912)	123 872
Total derivative assets/(liabilities)	8 198	(886)	(339)	6 973	122 194	(115 221)	9 969 614

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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							
Derivatives held-for-trading							
Foreign exchange derivatives	(2 491)	(663)	884	(2 270)	46 626	(48 896)	1 057 105
Forwards	588	828	888	2 304	44 534	(42 230)	774 045
Futures	52	(36)	(4)	12	13	(1)	3 371
Options	(3 131)	(1 455)		(4 586)	2 079	(6 665)	279 689
Interest rate derivatives	2 241	(1 792)	(1 440)	(991)	98 262	(99 253)	12 956 549
Bond options	(25)	(666)	28	(663)	2 769	(3 432)	126 807
Caps and floors	(20)	(3)	39	16	183	(167)	40 676
Forwards	(255)	(78)		(333)	2 814	(3 147)	1 339 396
Future options	621	(187)	36	470	1 663	(1 193)	8 166 919
Swaps[1]	1 870	(907)	(1 420)	(457)	90 476	(90 933)	3 262 179
Swaptions	50	49	(123)	(24)	357	(381)	20 572
Commodity derivatives	3 446	959	190	4 595	52 935	(48 340)	7 878 215
Forwards[1]	4 237	424	(11)	4 650	44 412	(39 762)	7 767 109
Futures	15			15	67	(52)	
Options	(806)	535	201	(70)	8 456	(8 526)	111 106
Credit derivatives	(414)	1 046	316	948	9 565	(8 617)	151 673
Credit default swaps	(136)	1 086	242	1 192	9 040	(7 848)	147 080
Total return swaps	(278)	(40)	74	(244)	525	(769)	4 593
Equity derivatives	(323)	(580)		(903)	3 497	(4 400)	883 521
Forwards	74	141		215	257	(42)	1 675
Futures	3	(3)			274	(274)	52 490
Index options	(298)	(135)		(433)	2 201	(2 634)	363 595
Options	(103)	(486)		(589)	706	(1 295)	464 517
Swaps	4	(39)		(35)	10	(45)	1 244
Other	(3)	(58)		(61)	49	(110)	
Total derivative assets/(liabilities) held-for-trading	2 459	(1 030)	(50)	1 379	210 885	(209 506)	22 927 063

[1] *2008 figures restated, refer to Annexure A – 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							
Derivatives held-for-hedging							
Derivatives designated as fair value hedges	996	577	(184)	1 389	1 389		95 658
Currency swaps	83			83	83		
Interest rate swaps	913	577	(184)	1 306	1 306		95 658
Derivatives designated as cash flow hedges	87	1 250	(53)	1 284	2 158	(874)	16 934
Currency swaps	527	1 092		1 619	1 619		10 193
Exchange traded currency options	(515)	4		(511)	5	(516)	4 887
Forwards	76	74		150	150		
Interest rate swaps	(1)	80	(53)	26	384	(358)	1 854
Derivatives designated as hedges of net investments in foreign operations							
Forward exchange contracts	(650)			(650)	1	(651)	10 694
Total derivative assets/(liabilities) held-for-hedging	433	1 827	(237)	2 023	3 548	(1 525)	123 286
Total derivative assets/(liabilities)	2 892	797	(287)	3 402	214 433	(211 031)	23 050 349

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 on 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 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 are the most common form of credit derivative, 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; and
- total return swaps 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 affected by way of an exchange of cash flows that mirror changes in the value of the underlying asset and any income derived therefrom.

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4. Derivative instruments continued

4.4 Use and measurement of derivative instruments continued

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 (OTC) 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 OTC 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, options, index options, swaps and other equity-related financial derivative instruments.

4.6 Derivatives held-for-hedging

The group enters into derivative transactions, which are designated and qualify as either fair value, cash flow, or net investment 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 and fair value portfolio hedges

The group's fair value hedges principally consist of currency swaps and interest rate swaps that are used to mitigate the risk of changes in market interest rates and currencies. The group uses interest rate swaps for the portfolio hedge of interest rate risk.

Gains or losses arising from fair value hedges

	2010 Rm	2009 Rm
Gains/(losses)		
on hedging instruments	**211**	349
on the hedged items attributable to the hedged risk	**(312)**	(284)

4. Derivative instruments continued

4.6 Derivatives held-for-hedging continued

4.6.2 Derivatives designated as cash flow hedges

The group uses currency swaps, exchange traded currency options, forwards 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 forecasted intragroup 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 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	More than 5 years Rm
2010				
Net cash (outflow)/inflow	**(3)**	**(7)**	**(88)**	**659**
2009				
Net cash inflow	1	3	195	659

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

	2010 Rm	2009 Rm
Net interest income	**(223)**	(42)
Trading revenue	**5**	(13)
Other operating expenses	**37**	(210)
	(181)	(265)

Ineffectiveness that arises from cash flow hedges is recognised immediately in profit or loss. A loss of R1 million (2009: R5 million) due to ineffectiveness was recognised in profit or loss in 2010.

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

4.6.3 Derivatives designated as hedges of net investments in foreign operations

The objective of the hedges of net investments is to limit the risk of a decline in the net asset value of the group's investments in foreign operations brought about by changes in exchange rates. To limit this risk, currency option contracts have been purchased or forward exchange contracts have been sold where considered appropriate.

No ineffectiveness was recognised in profit or loss for the year ended 31 December 2010 that arose from hedges of net investments in foreign operations (2009: nil).

4.7 Day one profit or loss

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:

	2010 Rm	2009 Rm
Unamortised profit at beginning of the year	**81**	96
Additional profit on new transactions	**17**	2
Recognised in profit or loss during the year	**(45)**	(17)
Unamortised profit at end of the year	**53**	81

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		2010 Rm	2009[1] Rm	2008[1] Rm
5.	**Trading assets**			
5.1	**Classification**			
	Listed	**55 102**	56 411	49 778
	Unlisted	**25 577**	32 002	37 662
		80 679	88 413	87 440
	Comprising:			
	Government, municipality, utility bonds and treasury bills	**18 102**	21 872	20 354
	Corporate bonds and floating rate notes	**15 458**	18 237	18 646
	Listed equities	**3 307**	2 311	3 648
	Unlisted equities	**281**	1 188	1 739
	Collateral	**5 546**	8 184	5 055
	Reverse repurchase agreements	**12 711**	15 879	17 321
	Commodities	**19 346**	18 969	12 100
	Other instruments	**5 928**	1 773	8 577
		80 679	88 413	87 440
	Maturity analysis			
	The maturities represent periods to contractual redemption of the trading assets recorded.			
	Redeemable on demand	**22 808**	25 937	16 322
	Maturing within 1 month	**10 291**	14 141	12 498
	Maturing after 1 month but within 6 months	**11 065**	12 437	12 977
	Maturing after 6 months but within 12 months	**4 661**	2 702	5 096
	Maturing after 12 months	**27 633**	29 849	35 708
	Undated assets	**4 221**	3 347	4 839
		80 679	88 413	87 440

[1] 2009 and 2008 figures restated, refer to Annexure A – 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.

5.2 Day one profits

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:

	2010 Rm	2009 Rm	2008 Rm
Unamortised profit at beginning of the year		18	3
Additional profit on new transactions			18
Recognised in profit or loss during the year		(16)	(5)
Exchange differences		(2)	2
Unamortised profit at end of the year			18

	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	**1 567**	3 196
Corporate bonds	**515**	1 737
Listed equities[1]		875
Commodities	**4 308**	
	6 390	5 808

[1] Listed equities which are being utilised in scrip lending transactions.

	2010 Rm	2009 Rm
Maturity analysis		
The maturities represent periods to contractual redemption of the pledged assets recorded.		
Redeemable on demand		
Maturing within 1 month	**2 468**	45
Maturing after 1 month but within 6 months	**2 335**	2 264
Maturing after 6 months but within 12 months	**282**	799
Maturing after 12 months	**1 305**	2 700
	6 390	5 808

6.2 Total assets pledged

The carrying amount of total financial assets that have been pledged as collateral for liabilities (including amounts reflected in 6.1 above) at 31 December 2010 was R27 796 million (2009: R19 840 million).

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.

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

6.3 Collateral accepted as security for assets

As part of the reverse repurchase and securities borrowing agreements, the group has received securities which are not recorded on the statement of financial position that it is allowed to sell or repledge. The fair value of the financial assets accepted as collateral that the group is permitted to sell or repledge in the absence of default is R65 328 million (2009: R84 836 million)[1].

The fair value of financial assets accepted as collateral that have been sold or repledged is R15 792 million (2009: R13 076 million). The group is obliged to return equivalent securities.

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

[1] Restated collateral accepted with regards to reverse repurchase agreements. Refer to Annexure A – reclassifications and restatements.

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6. Pledged assets and assets not derecognised continued

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 include interest rate, currency, prepayment and other price risks.

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

The table below 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
Nature of transaction				
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

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 or equity securities lent under securities lending agreements. Risks to which the group remains exposed include credit and interest rate risk.

The following table presents details of other financial assets which have been sold or otherwise transferred, but which have not been derecognised, and their associated liabilities:

	Carrying amount of assets 2010 Rm	Carrying amount of associated liabilities 2010 Rm	Carrying amount of assets 2009 Rm	Carrying amount of associated liabilities 2009 Rm
Nature of transaction				
Repurchase agreements and scrip lending transactions	940	829	2 941	2 693
Commodity leases	4 308			

		2010 Rm	2009 Rm
7.	**Financial investments**		
	Financial investments held in banking activities (note 7.1)	**95 441**	79 849
	Financial investments held by investment management and life insurance activities (note 7.2)	**187 854**	181 217
		283 295	261 066
7.1	**Financial investments held in banking activities**		
	Short-term negotiable securities	**56 840**	54 097
	Listed	**9 074**	7 430
	Unlisted[1]	**47 766**	46 667
	Other financial investments	**38 601**	25 752
	Listed	**26 757**	20 238
	Unlisted	**11 844**	5 514
		95 441	79 849
	Comprising[2]:		
	Government, municipality, utility bonds and treasury bills	**63 036**	59 630
	Corporate bonds	**18 410**	13 382
	Listed equities	**1 283**	1 752
	Unlisted equities	**3 110**	2 952
	Mutual funds and unit-linked investments	**7 772**	1 410
	Other instruments	**1 830**	723
		95 441	79 849
	Maturity analysis		
	The maturities represent periods to contractual redemption of the financial investments recorded.		
	Redeemable on demand	**116**	
	Maturing within 1 month	**18 699**	22 479
	Maturing after 1 month but within 6 months	**21 930**	29 047
	Maturing after 6 months but within 12 months	**14 843**	10 129
	Maturing after 12 months	**27 237**	12 105
	Undated investments	**12 616**	6 089
		95 441	79 849

[1] *Included in unlisted short-term negotiable securities are SARB debentures and negotiable certificates of deposit.*
[2] *Comparative figures reclassified to align with 2010 classification.*

Directors' valuation

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

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		2010 Rm	2009 Rm
7.	**Financial investments** continued		
7.2	**Financial investments held by investment management and life insurance activities**		
	Quoted in an active market – listed	**121 120**	110 907
	Equities	**80 053**	71 287
	Preference shares	**1 814**	1 951
	Commercial term deposits	**9 114**	15 807
	Mutual funds	**4 073**	79
	Government, municipal and utility stocks	**26 066**	21 783
	Quoted in an active market – unlisted	**43 521**	44 878
	Commercial term deposits	**10 852**	17 351
	Mutual funds	**32 646**	27 509
	Government, municipal and utility stocks	**23**	18
	Unquoted and unlisted	**17 797**	14 025
	Equities	**1 223**	719
	Preference shares	**2 230**	2 185
	Mutual funds	**76**	300
	Investment policies	**14 268**	10 821
	Loans and receivables	**5 416**	11 407
	Mortgages and loans	**813**	770
	Cash held with banks	**4 603**	10 637
		187 854	181 217
	Maturity analysis		
	Maturity profile of commercial term deposits, government, municipal and utility stocks and mortgages and loans:		
	Maturing within 1 year	**4 065**	8 297
	Maturing after 1 year but within 5 years	**14 613**	18 639
	Maturing after 5 years but within 10 years	**9 545**	9 541
	Maturing after 10 years but within 20 years	**10 471**	12 710
	Maturing after 20 years	**7 361**	5 772
	Open ended[1]	**813**	770
		46 868	55 729

[1] *Open ended represent mortgages and loans which are secured against policyholder contracts and the maturity profile is not determinable as the holder has the option to settle at any time prior to the contract maturity date.*

There is no maturity profile for listed and unlisted equities and other non-term instruments as management is unable to provide a reliable estimate given the volatility of equity markets and policyholder behaviour.

	2010 Rm	2009 Rm	2008 Rm
8. Loans and advances			
8.1 Loans and advances net of impairments			
Loans and advances to banks	**107 090**	111 068[1]	124 219[1]
Call loans	**14 911**	9 674	22 300
Loans granted under resale agreements	**20 638**	17 520	15 856
Balances with banks	**71 541**	83 874	86 063
Loans and advances to customers	**603 632**	610 321[1]	663 715[1]
Gross loans and advances to customers	**620 738**	628 987	677 733
Mortgage loans	**271 181**	257 336	252 050
Instalment sale and finance leases (note 8.2)	**52 917**	55 966	67 777
Card debtors	**21 696**	22 045	22 998
Overdrafts and other demand loans	**66 395**	61 719	66 865
Other term loans	**140 439**	156 727	186 053
Loans granted under resale agreements	**16 613**	16 601	19 173
Commercial property finance	**34 781**	33 617	34 125
Foreign currency loans	**10 697**	15 124	24 611
Other loans and advances	**6 019**	9 852	4 081
Credit impairments for loans and advances (note 8.3)	**(17 106)**	(18 666)	(14 018)
Specific credit impairments	**(12 222)**	(13 078)	(8 596)
Portfolio credit impairments	**(4 884)**	(5 588)	(5 422)
Net loans and advances	**710 722**	721 389	787 934
Comprising:			
Gross loans and advances	**727 828**	740 055	801 952
Less: Credit impairments	**(17 106)**	(18 666)	(14 018)
Net loans and advances	**710 722**	721 389	787 934

[1] 2009 and 2008 figures reclassified, refer to Annexure A – reclassifications and restatements.

The carrying value of loans and advances was increased by R795 million (2009: reduced by R227 million) for fair value adjustments arising from risks subject to fair value hedging relationships.

Maturity analysis

The maturity analysis is based on the remaining periods to contractual maturity from year end.

	2010 Rm	2009 Rm	2008 Rm
Redeemable on demand	**118 308**	99 389	91 327
Maturing within 1 month	**105 151**	113 525	126 985
Maturing after 1 month but within 6 months	**67 316**	68 168	99 179
Maturing after 6 months but within 12 months	**53 189**	66 424	61 357
Maturing after 12 months	**383 864**	392 549	423 104
Gross loans and advances	**727 828**	740 055	801 952

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	2010 Rm	2009 Rm	2008 Rm
8. Loans and advances continued			
8.1 Loans and advances net of impairments continued			
Segmental analysis – industry[1]			
Agriculture	**14 624**	10 435	18 087
Construction	**21 480**	18 225	7 798
Electricity	**3 789**	3 844	7 291
Finance, real estate and other business services	**219 712**	220 295	214 909
Individuals	**318 240**	316 979	316 296
Manufacturing	**27 811**	31 419	46 360
Mining	**24 598**	29 428	34 402
Other services	**43 546**	62 073	96 770
Transport	**17 383**	19 657	24 983
Wholesale	**36 645**	27 700	35 056
Gross loans and advances	**727 828**	740 055	801 952

[1] *Comparative figures reclassified to align with 2010 classification.*

The following table sets out the distribution of the group's loans and advances by geographic area where the loans are recorded:

	2010 %	2010 Rm	2009 %	2009 Rm	2008 %	2008 Rm
Segmental analysis – geographic area						
South Africa	**74**	**535 994**	74	551 793	69	556 279
Rest of Africa	**6**	**47 286**	6	43 379	7	54 559
Outside Africa	**20**	**144 548**	20	144 883	24	191 114
Gross loans and advances	**100**	**727 828**	100	740 055	100	801 952

	2010 Rm	2009 Rm	2008 Rm
8.2 Instalment sale and finance leases			
Gross investment in instalment sale and finance leases	**60 672**	65 830	83 506
Receivable within 1 year	**22 779**	24 225	30 069
Receivable after 1 year but within 5 years	**37 094**	41 246	53 103
Receivable after 5 years	**799**	359	334
Unearned finance charges deducted	**(7 755)**	(9 864)	(15 729)
Net investment in instalment sale and finance leases	**52 917**	55 966	67 777
Receivable within 1 year	**19 577**	19 882	23 845
Receivable after 1 year but within 5 years	**32 548**	35 742	43 612
Receivable after 5 years	**792**	342	320

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, 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							
Specific impairments							
Balance at beginning of the year	**4 699**	**1 799**	**1 338**	**2 404**	**2 529**	**309**	**13 078**
Transfers				**79**	**(132)**	**53**	
Net impairments raised and released	**3 120**	**1 318**	**1 303**	**1 839**	**1 227**	**110**	**8 917**
Impaired accounts written off	**(2 036)**	**(1 406)**	**(1 322)**	**(1 616)**	**(951)**	**(309)**	**(7 640)**
Discount element recognised in interest income	**(1 371)**	**(96)**	**(127)**	**(134)**	**(23)**		**(1 751)**
Exchange and other movements	**(13)**	**(81)**	**(22)**	**(10)**	**(256)**		**(382)**
Balance at end of the year	**4 399**	**1 534**	**1 170**	**2 562**	**2 394**	**163**	**12 222**
Portfolio impairments							
Balance at beginning of the year	**1 036**	**769**	**660**	**1 062**	**1 878**	**183**	**5 588**
Transfers				**1**	**(1)**		
Net impairments raised and released	**(40)**	**(142)**	**(73)**	**421**	**(777)**		**(611)**
Exchange and other movements	**(2)**	**(1)**	**(6)**	**(35)**	**124**	**(173)**	**(93)**
Balance at end of the year	**994**	**626**	**581**	**1 449**	**1 224**	**10**	**4 884**
Total	**5 393**	**2 160**	**1 751**	**4 011**	**3 618**	**173**	**17 106**
2009							
Specific impairments							
Balance at beginning of the year	3 204	1 535	732	1 565	1 523	37	8 596
Net impairments raised and released	3 801	1 890	1 741	2 441	2 142	276	12 291
Impaired accounts written off	(946)	(1 447)	(1 099)	(1 379)	(448)	(4)	(5 323)
Discount element recognised in interest income	(1 351)	(155)	(43)	(146)	(90)		(1 785)
Exchange and other movements	(9)	(24)	7	(77)	(598)		(701)
Balance at end of the year	4 699	1 799	1 338	2 404	2 529	309	13 078
Portfolio impairments							
Balance at beginning of the year	776	507	852	1 364	1 740	183	5 422
Net impairments raised and released	255	266	(180)	(320)	297		318
Impaired accounts written off				(4)			(4)
Exchange and other movements	5	(4)	(12)	22	(159)		(148)
Balance at end of the year	1 036	769	660	1 062	1 878	183	5 588
Total	5 735	2 568	1 998	3 466	4 407	492	18 666

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		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	**486**	278
	Construction	**468**	659
	Electricity	**26**	13
	Finance, real estate and other business services	**1 184**	1 569
	Individuals	**7 255**	7 428
	Manufacturing	**412**	768
	Mining	**164**	317
	Other services	**1 802**	1 300
	Transport	**124**	177
	Wholesale	**301**	569
		12 222	13 078

Segmental analysis of specific impairments – geographic area

The following table sets out the distribution of the group's impairments by geographic area where the loans are recorded.

	2010 %	2010 Rm	2009 %	2009 Rm
South Africa	**83**	**10 177**	79	10 297
Rest of Africa	**5**	**623**	8	1 000
Outside Africa	**12**	**1 422**	13	1 781
	100	**12 222**	100	13 078

		2010 Rm	2009 Rm
9.	**Current and deferred tax assets**		
	Current tax assets	**473**	136
	Deferred tax assets (note 19.1)	**1 166**	1 345
		1 639	1 481
10.	**Other assets**[1]		
	Trading settlement assets	**4 648**	2 858
	Items in the course of collection	**866**	1 411
	Operating leases – accrued income (note 12)	**1 107**	1 156
	Deferred acquisition costs	**364**	337
	Retirement funds and post-employment healthcare benefits (note 36)	**668**	348
	Insurance prepayments and reinsurance assets	**2 005**	2 058
	Prepayments	**1 615**	1 728
	Other debtors	**6 609**	7 030
		17 882	16 926

[1] *Comparative figures reclassified to align with 2010 classification.*

	2010 Rm	2009 Rm
11. Interest in associates and joint ventures		
Associates and joint ventures accounted for under the equity method	**4 719**	4 550
Associates held at fair value	**5 814**	4 979
	10 533	9 529
Directors' valuation		
The directors' valuation of the investments in associates and joint ventures is R10 614 million (R9 691 million).		
Equity accounted associates and joint ventures		
Carrying value at beginning of the year	**4 550**	2 264
Share of profits	**653**	384
Impairments of associates[1]	**(29)**	(379)
Reversal of impairment of associate	**19**	
Impairments of private equity associates included in non-interest revenue	**(43)**	
Deemed disposal of associate – carrying value	**(41)**	
Loss on deemed disposal of associate	**(10)**	
Deemed disposal of associate – fair value	**(31)**	
Acquisitions	**36**	2 526
Disposals	**(60)**	(27)
Share of direct reserve movements	**(256)**	(38)
Distribution of profit	**(110)**	(180)
Carrying value at end of the year	**4 719**	4 550
Comprising:		
Cost of investments	**4 044**	4 099
Share of reserves	**1 409**	1 122
Cumulative impairment	**(734)**	(671)
	4 719	4 550
Share of profits from associates and joint ventures		
Share of profits	**653**	384
Impairments of associates[1]	**(29)**	(379)
Reversal of impairment of associate	**19**	
Loss on deemed disposal of associate	**(10)**	
Deferred capital gains tax on impairment		28
	633	33

[1] *The recoverable amount utilised to calculate the impairment was based on a price-earnings valuation. The average price-earnings ratio of comparable entities was utilised with an adjustment made for the liquidity of the entity's shares.*

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 in the repayment of loans or advances.

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	2010 Rm	2009 Rm
11. Interest in associates and joint ventures continued		
Key financial information of associates and joint ventures accounted for under the equity method		
Statement of financial position		
Non-current assets	**13 061**	11 871
Current assets	**43 890**	40 074
Non-current liabilities	**(6 610)**	(6 369)
Current liabilities	**(36 825)**	(34 099)
Income statement		
Total income	**8 864**	8 226
Total expense	**(6 711)**	(6 795)
Total profit or loss	**1 732**	1 261
Equity accounted associates and joint ventures and the group's interests therein are listed in Annexure C on pages 306 to 308.		
Key financial information of associates held at fair value		
Total investments	**17 008**	14 200
Current assets	**539**	475
Current liabilities	**(378)**	(296)
Total revenue	**596**	564

Associates held at fair value consist of units or shares held in mutual funds held by Liberty. The units or shares are by their nature demand deposits and are held at fair value. The net income or loss is capitalised to unit values within each fund and is equivalent to fair value adjustments.

	2010 Rm	2009 Rm
12. Investment property		
Fair value at beginning of the year	**19 058**	16 771
Revaluations net of lease straight-lining	**1 293**	711
Revaluations	**1 285**	830
Net movement on straight-lining operating leases	**8**	(119)
Additions – capitalised subsequent expenditure	**1 093**	1 628
Disposals	**(10)**	(186)
Net transfers from property and equipment	**87**	134
Reclassifications from/(to) owner-occupied properties	**87**	(2)
Redesignation from equipment and owner-occupied properties under development		136
Fair value at end of the year	**21 521**	19 058
Investment property and related operating lease balances comprise the following:		
Investment properties at fair value	**21 521**	19 058
Operating leases – accrued income (note 10)	**1 107**	1 156
Operating leases – accrued expense (note 20.1)	**(144)**	(185)
	22 484	20 029

		2010 Rm	2009 Rm
12.	**Investment property** continued		
	At the end of the year investment properties comprised the following property types:		
	Office buildings	**1 137**	1 408
	Shopping malls	**18 343**	15 962
	Hotels	**2 392**	2 091
	Other	**612**	568
	Total investment property	**22 484**	20 029

The investment properties were independently valued as at 31 December 2010 by professional valuers registered with the South African Council for the Property Valuers Profession and members of the Institute of Valuers of South Africa. The method of valuation is more fully described in note 2.

At 31 December 2010 unlet space amounted to 4,2% (2009: <2,5%) of available lease area in the investment properties held by the group. The average net rental growth is 13,2% (2009: 11,2%).

The property rental income earned by the group from its investment property, all of which is leased out under operating leases, amounted to R1 711 million (2009: R1 662 million). Direct operating expenses arising on the investment property amounted to R400 million (2009: R303 million).

		2010 Rm	2009 Rm
13.	**Goodwill and other intangible assets**		
	Goodwill (note 13.1)	**3 256**	3 839
	Other intangible assets (note 13.2)	**7 127**	5 570
		10 383	9 409
13.1	**Goodwill**		
	Goodwill on subsidiaries		
	Cost at beginning of the year	**4 375**	5 633
	Acquisitions	**36**	
	Exchange movements	**(491)**	(1 258)
	Cost at end of the year	**3 920**	4 375
	Accumulated impairment at beginning of the year	**(536)**	(496)
	Goodwill impairment charge (note 27.14)	**(144)**	(42)
	Exchange movements	**16**	2
	Accumulated impairment at end of the year	**(664)**	(536)
	Carrying amount	**3 256**	3 839

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13. Goodwill and other intangible assets continued

13.1 Goodwill continued

	2010 Gross goodwill Rm	2010 Accumulated impairment Rm	2010 Net goodwill Rm	2009 Gross goodwill Rm	2009 Accumulated impairment Rm	2009 Net goodwill Rm
Goodwill comprises:						
Argentina ING Bank	10	(10)		12	(12)	
Standard Bank s.a.r.l (Mozambique)	75		75	94		94
Capital Alliance Holdings Limited	397	(397)		397	(397)	
Neil Harvey and Associates	114	(114)		114		114
Melville Douglas Investment Management (Proprietary) Limited	44	(22)	22	44	(22)	22
Stanbic Bank Botswana Limited	18		18	19		19
Standard Bank Limited (Malawi)	28		28	33		33
Stanbic Bank Uganda Limited	8		8	11		11
Standard Bank Asia Limited (Hong Kong)	44	(44)		49	(16)	33
Triskelion Trust Company Limited	46	(46)		53	(53)	
Stanbic IBTC Bank Plc (Nigeria)	2 309		2 309	2 621		2 621
Standard Ünlü Menkul Degerler A.S. (Turkey)	166	(31)	135	190	(36)	154
CfC Stanbic Holdings Limited (Kenya)	625		625	738		738
eCentric Switch	36		36			
	3 920	(664)	3 256	4 375	(536)	3 839

Impairment testing

For the purpose of impairment testing, goodwill is allocated to the smallest cash-generating unit. Cash-generating units are defined as the corporate entities listed above. Impairment testing in respect of goodwill is performed annually by comparing the recoverable amounts of cash-generating units to the carrying amounts. The recoverable amount is defined as the higher of the entity's fair value less costs to sell and its value in use and is determined on an entity-by-entity basis.

Goodwill relating to Stanbic IBTC Bank Plc (Nigeria) and CfC Stanbic Holdings Limited (Kenya) makes up the majority of the group's goodwill amount and was tested for impairment as described below.

Stanbic IBTC Bank Plc

Goodwill relating to the Stanbic IBTC Bank Plc investment was tested for impairment on 31 December 2010. The recoverable amount was based upon the fair value of the holding in Stanbic IBTC Bank Plc, which was determined using the market value of Stanbic IBTC's listed shares based on the 30-day volume-weighted average share price calculated to 31 December 2010, adjusted for a controlling stake. Based on the tests performed, no impairment was identified.

13. Goodwill and other intangible assets continued

13.1 Goodwill continued

Impairment testing continued

In 2009, goodwill relating to Stanbic IBTC Bank Plc was tested for impairment on 31 December 2009. The recoverable amount was determined to be the value in use. Key assumptions relating to this valuation include the discount rate and cash flows used to determine the value in use. A five-year forecast was used as a basis for future cash flows, extrapolated in perpetuity to reflect the long-term plans for the entity, using a nominal growth rate of 10,8%. The pre-tax discount rate used was based on an assessment of the risks applicable to the specific entity and country in which it operates. The cost of equity discount rate calculated for the forecast years was 23,6% per annum. The cost of equity assigned to the cash-generating unit and used to discount its future cash flows can have a significant effect on its valuation. The cost of equity percentage is derived from an equity pricing model deemed appropriate based on the entity under review. The risk-free rate used to determine the cost of equity has been calculated as the average yield to maturity of the Eurobonds issued by Indonesia and Philippines and using the inflation differential between Nigeria and the United States of America. These variables are established on the basis of management judgement and current market conditions. Management judgement is also applied in estimating the future cash flows of the cash-generating unit. These values are sensitive to the cash flows projected for the periods for which detailed forecasts are not available and to the assumptions regarding the long-term sustainability of the cash flows thereafter. Based on the testing performed, no impairment was identified.

CfC Stanbic Holdings Limited

Goodwill relating to CfC Stanbic Holdings Limited was tested for impairment on 31 December 2010. The recoverable amount was determined to be the value in use. Unless indicated otherwise, the value in use in 2010 was determined in a manner consistent with that used in 2009. Key assumptions relating to this valuation include the discount rate and cash flows used to determine the value in use. An eight-year forecast was used as a basis for future cash flows, extrapolated in perpetuity to reflect the long-term plans for the entity, using a nominal growth rate of 13,42% (2009: 12,89%). The pre-tax discount rate used was based on an assessment of the risks applicable to the specific entity and country in which it operates. The cost of equity discount rate calculated for the forecast years was 17,62% per annum (2009: 19,99%). The cost of equity assigned to the cash-generating unit and used to discount its future cash flows can have a significant effect on its valuation. The cost of equity percentage is derived from an equity pricing model deemed appropriate based on the entity under review. In 2009, the risk free rate used to determine the cost of equity was derived from the 10-year local Kenyan government bond. In 2010, the risk-free rate used to determine the cost of equity was derived from yields on a 10-year USD denominated bond of a proxy country with a similar risk grade to Kenya and that issue USD denominated debt. These yields were adjusted to the Kenyan shilling equivalent using long-term inflation differentials between Kenya and the United States. These variables are established on the basis of management judgement and current market conditions. Management judgement is also applied in estimating the future cash flows of the cash-generating units. These values are sensitive to the cash flows projected for the periods for which detailed forecasts are not available and to the assumptions regarding the long-term sustainability of the cash flows thereafter. Based on the testing performed, no impairment was identified.

The remaining aggregated carrying amount of the goodwill of R322 million (2009: R480 million) has been allocated to cash-generating units that are not considered to be individually significant. These entities were tested for impairment during the year, however no material impairment was deemed necessary.

13.2 Other intangible assets

13.2.1 Summary

	2010			2009		
	Cost Rm	**Accumulated amortisation and impairment Rm**	**Net book value Rm**	Cost Rm	Accumulated amortisation and impairment Rm	Net book value Rm
Computer software	**7 477**	**1 714**	**5 763**	5 184	1 217	3 967
Other intangible assets[1]	**1 040**	**318**	**722**	1 045	212	833
Present value of in-force life insurance	**1 672**	**1 030**	**642**	1 624	854	770
	10 189	**3 062**	**7 127**	7 853	2 283	5 570

[1] Included in other intangible assets is a property trust that has a right to an indefinite stream of management revenues created by the trust deed of the property trust with a carrying amount of R372 million (2009: R372 million). The stream of revenues is dependent on the life and activity of the trust and therefore no useful life can be determined. The intangible asset is tested annually for impairment and whenever there is an indication of impairment. At present there is no indication of impairment.

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13. Goodwill and other intangible assets continued

13.2 Other intangible assets continued

13.2.2 Movement

	2009 Net book value Rm	Additions[1] Rm	Disposals Rm	Impairments[2] Rm	Amortisation Rm	Exchange movements Rm	2010 Net book value[3] Rm
Computer software	3 967	**2 615**	**(117)**	**(159)**	**(433)**	**(110)**	**5 763**
Other intangible assets	833	**44**		**(20)**	**(82)**	**(53)**	**722**
Present value of in-force life insurance	770	**48**			**(176)**		**642**
	5 570	**2 707**	**(117)**	**(179)**	**(691)**	**(163)**	**7 127**

	2008 Net book value Rm	Additions[2] Rm	Disposals Rm	Impairments Rm	Amortisation Rm	Exchange movements Rm	2009 Net book value[3] Rm
Computer software	3 003	1 703	(104)	(96)	(346)	(193)	3 967
Other intangible assets	1 094		(31)		(109)	(121)	833
Present value of in-force life insurance	946			(14)	(162)		770
	5 043	1 703	(135)	(110)	(617)	(314)	5 570

[1] *During 2010, R76 million (2009: R47 million) of interest was capitalised.*
[2] *Includes amounts arising on restructuring costs of R17 million, refer to note 27.11.*
[3] *Includes work in progress of R4 041 million (2009: R1 829 million) for which amortisation has not yet commenced.*

There are no significant intangible assets pledged as security for liabilities.

14. Property and equipment

14.1 Summary

	2010 Cost Rm	2010 Accumulated depreciation and impairment Rm	2010 Net book value Rm	2009 Cost Rm	2009 Accumulated depreciation and impairment Rm	2009 Net book value Rm
Property						
Freehold	**5 688**	**489**	**5 199**	4 519	445	4 074
Leasehold	**2 124**	**427**	**1 697**	1 821	262	1 559
	7 812	**916**	**6 896**	6 340	707	5 633
Equipment						
Computer equipment	**8 814**	**5 443**	**3 371**	7 922	5 294	2 628
Motor vehicles	**810**	**413**	**397**	796	408	388
Office equipment	**1 212**	**547**	**665**	992	450	542
Furniture and fittings	**5 490**	**1 912**	**3 578**	4 728	1 669	3 059
	16 326	**8 315**	**8 011**	14 438	7 821	6 617
Total	**24 138**	**9 231**	**14 907**	20 778	8 528	12 250

14. Property and equipment continued

14.2 Movement

	2009 Net book value Rm	Additions[1] Rm	Disposals[2] Rm	Impair-ments Rm	Depre-ciation Rm	Transfers[3] Rm	Exchange move-ments Rm	2010 Net book value[4] Rm
Property								
Freehold	4 074	1 408	(326)		(63)	260	(154)	5 199
Leasehold	1 559	797			(210)	(347)	(102)	1 697
	5 633	2 205	(326)		(273)	(87)	(256)	6 896
Equipment								
Computer equipment	2 628	1 905	(18)		(1 084)		(60)	3 371
Motor vehicles	388	215	(50)		(140)		(16)	397
Office equipment	542	321	(8)		(144)		(46)	665
Furniture and fittings	3 059	1 075	(9)		(457)		(90)	3 578
	6 617	3 516	(85)		(1 825)		(212)	8 011
Total	12 250	5 721	(411)		(2 098)	(87)	(468)	14 907

	2008 Net book value Rm	Additions[1] Rm	Disposals[2] Rm	Impair-ments Rm	Depre-ciation Rm	Transfers[3] Rm	Exchange move-ments Rm	2009 Net book value[4] Rm
Property								
Freehold	3 590	839	(13)		(48)	(7)	(287)	4 074
Leasehold	710	1 250	(4)	(5)	(131)	(127)	(134)	1 559
	4 300	2 089	(17)	(5)	(179)	(134)	(421)	5 633
Equipment								
Computer equipment	2 332	1 340	(22)	(25)	(937)		(60)	2 628
Motor vehicles	437	178	(43)		(143)		(41)	388
Office equipment	521	230	(11)	(1)	(126)		(71)	542
Furniture and fittings	2 156	1 403	(27)	(15)	(361)		(97)	3 059
	5 446	3 151	(103)	(41)	(1 567)		(269)	6 617
Total	9 746	5 240	(120)	(46)	(1 746)	(134)	(690)	12 250

[1] *During 2010, R1 million (2009: R5 million) of interest was capitalised.*
[2] *Includes amounts arising on the disposal of subsidiaries of Rnil (2009: R23 million).*
[3] *Refer to note 12 – Investment property.*
[4] *Includes work in progress of R2 560 million (2009: R238 million) for which depreciation has not yet commenced.*

There is no significant property or equipment for which title is restricted or which is pledged as security for liabilities.

14.3 Valuation

The fair value of freehold property, based on valuations undertaken during 2010 and 2009 by valuers registered under the Valuers Act 1982, was estimated at R6 180 million (2009: R4 966 million). Registers of property are available for inspection by members, or their authorised agents, at the registered office of the company and its subsidiaries. Valuation was generally in terms of the investment method whereby net income is capitalised having regard to tenancy, location and the physical nature of the property.

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		2010 Rm	2009 Rm
15.	**Share capital**		
15.1	**Authorised**		
	2 000 000 000 (2009: 1 750 000 000) ordinary shares of 10 cents each	**200**	175
	8 000 000 (2009: 8 000 000) 6,5% first cumulative preference shares of R1 each	**8**	8
	1 000 000 000 (2009: 1 000 000 000) non-redeemable, non-cumulative, non-participating preference shares of 1 cent each	**10**	10
		218	193
15.2	**Issued**		
	Ordinary share capital		
	1 585 037 321 (2009: 1 558 257 155) ordinary shares of 10 cents each	**159**	156
	Ordinary share premium	**17 363**	17 041
	A premium of R324 million (2009: R200 million) was raised on the allotment and issue during the year of 6 800 254 ordinary shares (2009: 6 060 886).		
	During 2010 and 2009 the group declared a scrip distribution with a cash alternative. The scrip distribution was financed from share premium and 19 979 912 (2009 : 27 188 622) ordinary shares were issued. R2 million (2009: R3 million) was transferred to ordinary share capital.		
	Preference share capital and premium	**5 503**	5 503
	8 000 000 (2009: 8 000 000) 6,5% first cumulative preference shares of R1 each – first preference shares	**8**	8
	52 982 248 (2009: 52 982 248) non-redeemable, non-cumulative, non-participating preference shares of 1 cent each – second preference shares	**1**	1
	Preference share premium – non-redeemable, non-cumulative, non-participating preference shares – second preference shares	**5 494**	5 494
	The non-redeemable, non-cumulative, non-participating preference shares are entitled to an annual dividend, if declared, payable in two semi-annual instalments of not less than 70% of the prime interest rate multiplied by the subscription price of R100 per share.		
	All classes of preference shares in issue are non-redeemable.		
		23 025	22 700

The number of shares in terms of options and appreciation rights available to be granted under the terms of the group's equity compensation plans as at the end of the year was 119 645 276 (2009: 94 005 716).

The Group Share Incentive Scheme and Equity Growth Scheme reconciliations are disclosed in Annexure D on pages 309 to 314.

15. Share capital continued

15.2 Issued continued

	Number of ordinary shares	Number of first preference shares	Number of second preference shares
Reconciliation of shares issued			
Shares in issue at 1 January 2009	1 525 007 647	8 000 000	52 982 248
Shares issued during 2009 in terms of the group's equity compensation plans	6 060 886		
Shares issued in terms of the final scrip distribution declared in respect of 2008 and distributed on 6 April 2009	27 188 622		
Shares in issue at 31 December 2009	1 558 257 155	8 000 000	52 982 248
Net shares held in terms of the group's Tutuwa initiative	63 478 810		
Total number of shares held initially by Tutuwa SPEs (note 16)	99 190 197		
Less: Portion of shares financed directly by third parties (note 16)	(24 691 358)		
Less: Number of shares sold in terms of the ICBC transaction (note 16)	(11 020 029)		
Shares held by entities within the group	20 434 139		
Shares held by other shareholders	1 474 344 206	8 000 000	52 982 248
Shares issued during 2010 in terms of the group's equity compensation plans	**6 800 254**		
Shares issued in terms of the final scrip distribution declared in respect of 2009 and distributed on 26 April 2010	**19 979 912**		
Shares in issue at 31 December 2010	**1 585 037 321**	**8 000 000**	**52 982 248**
Net shares held in terms of the group's Tutuwa initiative	**63 478 810**		
Total number of shares held initially by Tutuwa SPEs (note 16)	**99 190 197**		
Less: Portion of shares financed directly by third parties (note 16)	**(24 691 358)**		
Less: Number of shares sold in terms of the ICBC transaction (note 16)	**(11 020 029)**		
Shares held by entities within the group	**16 465 351**		
Shares held by other shareholders	**1 505 093 160**	**8 000 000**	**52 982 248**

All issued shares are fully paid up.

Details of the shareholder spread and 10 major shareholders are given in the shareholder analysis on page 351.

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		2010 Rm	2009 Rm
15.	**Share capital** continued		
15.3	**Unissued shares**		
	259 136 963 (2009: 56 532 008) ordinary shares of 10 cents each, of which 77 912 858 (2009: 56 532 008) are under the general authority of the directors which authority expires at the annual general meeting to be held on 26 May 2011	**26**	6
	155 825 716 (2009: 135 210 837) ordinary shares of 10 cents each are reserved to meet the requirements of the group's share incentive schemes in terms of the authority vested in the directors by members' resolution dated 27 May 2010	**16**	14
	947 017 752 (2009: 947 017 752) non-redeemable, non-cumulative, non-participating preference shares of 1 cent each are under the general authority of the directors which authority expires at the annual general meeting to be held on 26 May 2011	**9**	9
		51	29
15.4	**Interest of directors in the capital of the company**		
	The directors' interests are listed on pages 106 to 109 and page 206.		
	Number of shares as at 31 December		
	Beneficial ordinary shares	**11 184 716**	10 168 631
	Beneficial non-redeemable, non-cumulative, non-participating preference shares	**42 390**	42 390
	Share incentives	**2 552 500**	3 117 500

16. Empowerment reserve

Standard Bank Group and Liberty entered into a series of transactions in 2004 whereby investments were made in cumulative redeemable preference shares issued by BEE entities (SPEs). The initial investments made by Standard Bank Group and Liberty totalled R4 017 million and R1 251 million respectively.

The proceeds received from the issue of the cumulative redeemable preference shares were used by the BEE entities to purchase Standard Bank Group and Liberty shares. The BEE entities initially purchased and owned 99 190 197 ordinary shares of Standard Bank Group.

The preference shares owned by the group do not meet the definition of a financial asset in terms of IFRS and therefore the preference shares are treated as a reduction of equity and are stated in the statement of changes in equity as a debit empowerment reserve. The empowerment reserve represents Standard Bank Group shares held by the SPEs that are deemed to be treasury shares in terms of accounting conventions. Refer to page 51 for a detailed explanation of the accounting treatment of the Black Economic Empowerment Ownership initiative.

On 20 December 2007, the group obtained financing external to the group for a portion of the financing provided to the SPEs. As a result, the negative empowerment reserve has been reduced by the value of the external financing obtained of R1 billion and a proportion of the Standard Bank Group shares held by the SPEs (24 691 358 shares) are no longer deemed to be treasury shares for accounting purposes.

On 3 March 2008, the BEE entities sold 11,1% or 11 020 029 of their ordinary shares in Standard Bank Group to ICBC, partly using the proceeds towards the repayment of their preference share liability, amounting to R986 million.

On 3 March 2010, the contractual terms of the preference share agreements with the BEE entities of Standard Bank Group were amended. These amendments permit dividends paid on Standard Bank Group ordinary shares and received by the BEE entities to flow through to the participants in those entities and not to be paid as a preference dividend to settle the preference share obligation, subject to specific conditions. To the extent that preference dividends are received from the BEE entities, these are credited directly to reserves and disclosed as a reduction in the ordinary dividends paid on Standard Bank Group shares. Preference dividends accrued but not received due to cash distributions being made to participants, has the effect of increasing the debit to the empowerment reserve. The legal accrual of the preference dividend does not result in an accounting entry but rather lengthens the repayment period.

At year end the accumulated unrecognised asset, including accrued dividends, was R2 303 million (2009: R2 118 million) for Standard Bank Group and R1 141 million (2009: R1 184 million) for Liberty.

16. Empowerment reserve continued

The investments in the cumulative redeemable preference shares of the BEE entities are set out below.

	2010 Number of preference shares	2009 Number of preference shares	Issue price per share (R)	2010 Rm	2009 Rm
Standard Bank Group					
Shanduka – Tutuwa Strategic Holdings 1 (Proprietary) Limited[1]	**491 682**	491 682	1 000	**492**	492
Safika – Tutuwa Strategic Holdings 2 (Proprietary) Limited[1]	**737 523**	737 523	1 000	**737**	737
Black Managers' Trust – Tutuwa Staff Holdings 1 – 3 (Proprietary) Limited[1]	**1 187 532**	1 187 532	1 000	**1 187**	1 187
The Community Trust – Tutuwa Community Holdings (Proprietary) Limited[1]	**614 603**	614 603	1 000	**615**	615
Total				**3 031**	3 031
Liberty				**1 119**	1 159
Shanduka	**180 000**	185 000	1 000	**180**	185
Safika	**273 000**	278 000	1 000	**273**	278
Black Managers' Trust	**444 000**	464 000	1 000	**444**	464
The Community Trust	**222 000**	232 000	1 000	**222**	232
Total investment				**4 150**	4 190
Financing by parties external to the group[2]				**(1 000)**	(1 000)
Standard Bank Group dividends distributed to participants[3]				**340**	
Attributable to non-controlling interests of Liberty				**(519)**	(537)
Standard Bank Group empowerment reserve				**2 971**	2 653

Reconciliation of investment in preference shares

	Standard Bank Group Rm	Liberty Rm	Total Rm
Original amount invested in 2004	4 017	1 251	5 268
Redemption – 2006[4]		(92)	(92)
Financing by external parties – 2007[2]	(1 000)		(1 000)
Redemption – 2008[5]	(986)		(986)
Standard Bank Group dividends distributed to participants during 2010[3]	340		340
Redemption – 2010[6]		(40)	(40)
Attributable to non-controlling interests of Liberty		(519)	(519)
Remaining amounts invested at 31 December 2010	**2 371**	**600**	**2 971**

[1] The above SPEs owned 88 170 168 (2009: 88 170 168) ordinary shares of the group at 31 December 2010, of which 24 691 358 (2009: 24 691 358) ordinary shares are funded by third-party financing.
[2] On 20 December 2007 the group obtained financing external to the group for a portion of the financing provided to the SPEs.
[3] During 2010, dividends were paid to the participants of the BEE entities.
[4] On 12 June 2006 Liberty paid a capital reduction of ordinary shares to the BEE entities. The total amount of R92 million received by the respective BEE entities was utilised to redeem a portion of the cumulative preference shares.
[5] On 3 March 2008, Tutuwa participants sold 11,1% or 11 020 029 of their ordinary shares in the group to ICBC, partly using the proceeds for the repayment of their preference share liability, amounting to R986 million.
[6] During 2010, R40 million of the cumulative preference shares were redeemed.

The cumulative redeemable preference shares owned by the group attract dividends at 8,5% per annum, whilst those of Liberty accrue dividends at 67% of the Standard Bank prime lending rate (2009: 67%). The dividend obligation of the preference shares compounds on each date when the issuing company receives a dividend from the group or Liberty respectively.

For the purposes of the earnings per share calculation, the weighted average number of company shares in issue is reduced by the number of shares held by the BEE entities bought with the proceeds received from the preference shares (note 31).

The BEE transaction resulted in the recognition of a share-based payment expense. Details of the share-based payment expense are provided in Annexure D.

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		2010 Rm	2009 Rm
17.	**Trading liabilities**		
	Listed	**18 894**	26 322
	Unlisted	**11 481**	24 796
		30 375	51 118
	Classification		
	Government, municipality and utility bonds	**5 590**	12 920
	Corporate bonds	**359**	1 548
	Listed equities	**6 958**	12 695
	Unlisted equities	**421**	273
	Collateral	**1 148**	1 428
	Repurchase agreements	**3 891**	13 541
	Credit linked notes	**7 957**	6 063
	Other instruments	**4 051**	2 650
		30 375	51 118
	Maturity analysis		
	The maturity analysis is based on the remaining periods to contractual maturity from year end.		
	Repayable on demand	**6 891**	16 272
	Maturing within 1 month	**3 064**	12 664
	Maturing after 1 month but within 6 months	**3 715**	3 901
	Maturing after 6 months but within 12 months	**2 094**	3 560
	Maturing after 12 months	**14 030**	12 931
	Undated liabilities	**581**	1 790
		30 375	51 118
18.	**Deposit and current accounts**		
	Deposits from banks	**91 729**	106 018
	Deposits from banks and central banks	**87 410**	102 789
	Deposits from banks under repurchase agreements	**4 319**	3 229
	Deposits from customers	**697 771**	662 530
	Current accounts	**93 165**	87 496
	Cash management deposits	**83 455**	72 970
	Call deposits	**151 001**	152 249
	Savings accounts	**26 203**	24 169
	Term deposits	**240 458**	195 418
	Negotiable certificates of deposit	**71 211**	102 045
	Repurchase agreements	**2 073**	653
	Securitisation issuances	**10 152**	13 960
	Other funding	**20 053**	13 570
	Total deposits and current accounts	**789 500**	768 548

18. Deposit and current accounts continued

The carrying value of deposits and current accounts was reduced by R804 million (2009: reduced by R245 million) for fair value adjustments arising from risks subject to fair value hedging relationships.

Maturity analysis

The maturity analysis is based on the remaining periods to contractual maturity from year end.

	2010 Rm	2009 Rm
Repayable on demand	**396 335**	377 831
Maturing within 1 month	**89 029**	81 286
Maturing after 1 month but within 6 months	**120 084**	127 172
Maturing after 6 months but within 12 months	**77 169**	74 769
Maturing after 12 months	**106 883**	107 490
	789 500	768 548

Segmental analysis – geographic area

The following table sets out the distribution of the group's deposit and current accounts by geographic area.

	2010 %	**2010 Rm**	2009[1] %	2009[1] Rm
South Africa	**76**	**599 500**	74	569 137
Rest of Africa	**10**	**80 448**	9	72 125
Outside Africa	**14**	**109 552**	17	127 286
	100	**789 500**	100	768 548

[1] *Reclassified.*

	2010 Rm	2009[1] Rm	2008[1] Rm
19. Current and deferred tax liabilities			
Current tax liabilities	**3 423**	3 634	2 673
Deferred tax liabilities	**2 892**	3 257	5 449
	6 315	6 891	8 122
19.1 Deferred tax analysis			
Accrued interest receivable	**69**	81	76
Assessed losses	**(199)**	(185)	(21)
Assets on lease	**561**	519	399
Capital gains tax	**1 131**	894	856
Credit impairment charges	**(1 007)**	(1 875)	(1 621)
Deferred acquisition costs	**102**	94	98
Deferred revenue liability	**(39)**	(35)	(32)
Property and equipment	**112**	117	106
Derivatives	**1 231**	3 061	4 863
Fair value adjustments on financial instruments	**306**	152	(211)
Intangible asset – present value in-force (PVIF)	**171**	216	265
Policyholder change in valuation basis	**1 238**	1 120	1 101
Post-employment benefits	**(123)**	(302)	(425)
Secondary tax on companies	**(329)**	(412)	(226)
Share-based payments	**(507)**	(361)	(93)
Special transfer to life fund	**(285)**	(479)	(270)
Other differences	**(706)**	(693)	(543)
Deferred tax closing balance	**1 726**	1 912	4 322
Deferred tax liabilities	**2 892**	3 257	5 449
Deferred tax assets (note 9)	**(1 166)**	(1 345)	(1 127)

[1] *2009 and 2008 figures restated, refer to Annexure A – reclassifications and restatements.*

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		2010 Rm	2009[1] Rm	2008[1] Rm
19.	**Current and deferred tax liabilities** continued			
19.2	**Deferred tax reconciliation**			
	Deferred tax at beginning of the year	**1 912**	4 322	5 483
	Change in company tax rate			(147)
	(Reversing)/originating temporary differences for the year:	**(186)**	(2 410)	(1 014)
	Accrued interest receivable	**(12)**	5	77
	Assessed losses	**(14)**	(164)	(21)
	Assets on lease	**42**	120	253
	Capital gains tax	**237**	38	(794)
	Credit impairment charges	**868**	(254)	(702)
	Deferred acquisition costs	**8**	(4)	8
	Deferred revenue liability	**(4)**	(3)	(6)
	Property and equipment	**(5)**	11	29
	Derivatives	**(1 830)**	(1 802)	1 278
	Fair value adjustments on financial instruments	**154**	363	(465)
	Intangible asset – PVIF	**(45)**	(49)	(46)
	Policyholder change in valuation basis	**118**	19	312
	Post-employment benefits	**179**	123	17
	Secondary tax on companies	**83**	(186)	(104)
	Share-based payments	**(146)**	(268)	29
	Special transfer to life fund	**194**	(209)	(185)
	Other differences	**(13)**	(150)	(694)
	Deferred tax at end of the year	**1 726**	1 912	4 322
	Temporary differences for the year comprise:			
	Recognised in other comprehensive income – fair value adjustments on financial instruments	**(96)**	175	(201)
	Recognised in equity – deferred tax on share-based payments	**(2)**	(58)	
	Recognised in profit or loss	**(168)**	(2 611)	(1 005)
	Acquisitions			115
	Translation movement	**80**	84	(70)
	Recognised in other comprehensive income	**(2)**	37	
	Other items	**82**	47	(70)
		(186)	(2 410)	(1 161)

[1] *2009 and 2008 figures restated, refer to Annexure A – reclassifications and restatements.*

There are unused tax losses amounting to R606 million (2009: R42 million) on which no deferred tax asset was raised. There are no other deductible temporary differences or unused tax credits for which no deferred tax asset was recognised.

It is probable that there will be future taxable profits against which the tax losses, in respect of which a deferred tax asset has been recognised, can be utilised.

		2010 Rm	2009 Rm
20.	**Other liabilities**		
20.1	**Summary[1]**		
	Trading settlement liabilities	**3 028**	3 618
	Items in the course of transmission	**444**	683
	Provision for post-employment benefits (note 20.2)	**1 188**	1 553
	Third-party liabilities arising on consolidation of mutual funds (note 20.3)	**11 000**	10 557
	Operating leases – accrued expense (note 12)	**144**	185
	Cash-settled share-based payment liability (Annexure D)	**732**	377
	Insurance payables	**3 759**	3 768
	Staff-related accruals	**3 097**	3 343
	Deferred revenue liability	**139**	126
	Accounts payable	**5 443**	6 624
	Provision for restructuring costs	**462**	
	Other liabilities	**11 464**	9 569
		40 900	40 403

[1] *Comparative figures reclassified to align with 2010 classification.*

		2010 Rm	2009 Rm
20.2	**Provision for post-employment benefits**		
	Balance at beginning of the year	**1 553**	1 532
	Net provision released	**(365)**	21
	Balance at end of the year	**1 188**	1 553

Details on post-employment benefits are provided in note 36.

		2010 Rm	2009 Rm
20.3	**Third-party liabilities arising on consolidation of mutual funds**		
	Balance at the beginning of the year	**10 557**	10 481
	Additional mutual funds classified as subsidiaries	**246**	1 076
	Change in effective ownership or repayments through withdrawal	**798**	(448)
	Mutual funds no longer classified as subsidiaries	**(1 150)**	(1 387)
	Fair value adjustment	**549**	835
	Balance at end of the year	**11 000**	10 557

Liberty has classified certain mutual funds as investments in subsidiaries. Consequently fund interests not held by the group are classified as third-party liabilities as they represent demand deposit liabilities measured at fair value. Maturity analysis is not possible as it is dependent on external unit holders' behaviour outside of Liberty's control.

		2010 Rm	2009[1] Rm	2008[1] Rm
21.	**Policyholders' liabilities**			
	Policyholders' liabilities under insurance contracts	**141 507**	132 457	125 272
	Insurance contracts (note 21.1)	**138 873**	129 765	122 624
	Investment contracts with DPF (note 21.1)	**2 634**	2 692	2 648
	Policyholders' liabilities under investment contracts (note 21.2)	**56 371**	51 843	47 533
		197 878	184 300	172 805

[1] *2009 and 2008 figures restated, refer to Annexure A – reclassifications and restatements.*

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21. Policyholders' liabilities continued

21.1 Policyholders' liabilities under insurance contracts and reinsurance assets

	2010 Insurance contracts Rm	2010 Investment contracts with DPF[2] Rm	2010 Reinsurance assets[3] Rm	2009[1] Insurance contracts Rm	2009[1] Investment contracts with DPF[2] Rm	2009[1] Reinsurance assets[3] Rm	2008[1] Insurance contracts Rm	2008[1] Investment contracts with DPF[2] Rm	2008[1] Reinsurance assets[3] Rm
Balance at beginning of the year	129 765	2 692	(788)	122 624	2 648	(827)	132 067	3 353	(820)
Additions through business acquisitions	3								
Inflows	40 087	446	(688)	33 582	497	(672)	20 926	(101)	(807)
Insurance premiums	22 628	184	(699)	22 445	185	(632)	22 820	166	(727)
Investment returns	17 415	262	11	11 089	312	(40)	(1 927)	(267)	(80)
Unwinding of discount rate	1 305		(41)	1 303		(37)	930		(33)
Investments	16 110	262	52	9 786	312	(3)	(2 857)	(267)	(47)
Equity accounted earnings from joint ventures	44			48			33		
Outflows	(29 394)	(484)	586	(26 720)	(446)	602	(29 295)	(606)	562
Claims and policyholders' benefits	(21 648)	(448)	558	(20 085)	(403)	603	(23 023)	(573)	535
Claims and policyholders' benefits under insurance contracts	(21 648)	(322)	558	(20 085)	(178)	603	(23 023)	(262)	535
Switches between investment contracts with DPF to investment contracts without DPF		(126)			(225)			(311)	
Acquisition costs associated with insurance contracts	(2 499)	(6)	1	(2 686)	(6)		(2 395)	(9)	
General marketing and administration expenses	(3 366)	(23)	1	(2 906)	(34)	1	(3 053)	(25)	
Preference dividend	(497)			(366)			(308)		
Finance costs	(21)			(54)			(29)		
Taxation	(1 363)	(7)	26	(623)	(3)	(2)	(487)	1	27
Net income from insurance operations	(1 585)	(20)	43	279	(7)	109	(1 074)	2	238
Changes in estimates	84		(20)	662		25	(410)		64
Planned margins and other variances	(2 460)	(27)	87	(807)	(10)	85	(1 093)	2	201
New business	(32)			136			(161)		
Shareholder taxation on transfer of net income	823	7	(24)	288	3	(1)	590		(27)
Foreign currency translation	(3)								
Balance at end of the year	138 873	2 634	(847)	129 765	2 692	(788)	122 624	2 648	(827)
Liquidity profile									
Current	12 251	253	(134)	10 267	384	(141)	7 995	284	(161)
Non-current	126 622	2 381	(713)	119 498	2 308	(647)	114 629	2 364	(666)
	138 873	2 634	(847)	129 765	2 692	(788)	122 624	2 648	(827)

[1] 2009 and 2008 figures restated, refer to Annexure A – reclassifications and restatements.
[2] The group cannot measure reliably the fair value of the investment contracts with DPF. The DPF is a contractual right that gives investors in these contracts the right to receive supplemental discretionary returns through participation in the surplus arising from the assets held in the investment DPF fund. These supplementary returns are subject to the discretion of the group.
[3] Reinsurance assets are included in insurance prepayments and reinsurance assets under other assets on page 244.

	2010 Rm	2009[1] Rm	2008[1] Rm
21. Policyholders' liabilities continued			
21.2 Policyholders' liabilities under investment contracts			
Balance at beginning of the year	**51 843**	47 533	51 428
Fund inflows from investment contracts (excluding switches)	**8 819**	8 077	9 087
Net fair value adjustment including the change in deferred taxation on investment property	**6 257**	5 991	(1 018)
Fund outflows from investment contracts (excluding switches)	**(9 793)**	(9 148)	(11 457)
Switches between investment with DPF to investment without DPF	**126**	225	311
Service fee income	**(881)**	(835)	(818)
Balance at end of the year	**56 371**	51 843	47 533
Liquidity profile			
Current	**5 656**	5 915	4 750
Non-current	**50 715**	45 928	42 783
	56 371	51 843	47 533
Net income/(loss) from investment contracts[2]	**136**	(45)	66
Service fee income	**881**	835	818
Expenses	**(745)**	(880)	(752)
Property expenses applied to investment returns	**345**	250	221
Shareholder taxation on transfer of net income	**(47)**	53	(20)
Acquisition costs	**(175)**	(196)	(241)
General marketing and administration expenses	**(861)**	(953)	(694)
Finance costs	**(7)**	(34)	(18)

[1] 2009 and 2008 figures restated, refer to Annexure A – reclassifications and restatements.
[2] Prior to deferred acquisition cost and deferred revenue liability adjustments.

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	Redeemable/ repayable date	Date issued	Rate %
22. Subordinated debt			
Subordinated bonds[2]			
The Standard Bank of South Africa			
SBK 5	17 November 2016	17 November 2004	9,50
USA private placement	31 July 2017	31 July 2007[5]	LIBOR[6] + 0,88 and 6,44
SBK 7	24 May 2020	24 May 2005	9,63[7]
SBK 8	10 April 2018	10 April 2006	8,20[7]
SBK 9	10 April 2023	10 April 2006	8,40[7]
SBK 10 (Tier III)	19 November 2012	19 November 2007	JIBAR[4] + 0,675
SBKI 11	9 April 2019	9 April 2009	CPI indexed[8]
SBK 12	24 November 2021	24 November 2009	10,82[7]
SBK 13	24 November 2021	24 November 2009	JIBAR[4] + 2,20
Standard Bank Swaziland	September 2015 – October 2020	September 2005 – October 2010	8,10 – 9,73
Standard Bank Namibia	20 November 2016	20 November 2006	9,74
Stanbic Bank Botswana	June 2016 – December 2018	June 2006 – December 2008	BWC[10] + 0,05 – 0,50
Standard Bank Mozambique	29 June 2017	29 June 2007	WA[11] + 0,50[12]
CfC Stanbic Bank Kenya	April 2011 – July 2016	October 2005 – December 2010	7Y T-Bond[13] and T-Bill[14] + 1,75
Stanbic Bank Uganda	10 August 2016	10 August 2009	14,50 and T-Bill[15] + 1,50[16]
Standard International Holdings			
Tier III	28 December 2012[17]	29 December 2007	EURO[18] + 4,00
	7 October 2015[17]	7 October 2005	LIBOR[6] +1,15
	27 July 2016	27 July 2006	8,012
	2 December 2019	2 December 2009	8,125
	3 December 2019[20]	3 December 2009[21]	8,00[22]
Tier III	3 December 2011[23]	3 December 2009[21]	5,00
Subordinated bonds issued to group companies			
Total bonds qualifying as regulatory banking capital			
Liberty			
Qualifying as regulatory insurance capital	12 September 2017	12 September 2005	8,93[7]
Total subordinated bonds			
Subordinated loans issued within the rest of Africa	September 2016 – June 2019	December 2006 – June 2009	LIBOR[6] + (0,75 to 4,00)
Total subordinated debt			

[1] The difference between the carrying and notional value represents accrued interest together with the unamortised fair value adjustments relating to bonds hedged for interest rate risk.

[2] Tier II, unless otherwise stated.

[3] The issuer may redeem on this date, or any subsequent interest payment date.

[4] JIBAR is the three-month floating Johannesburg interbank agreed rate.

[5] These bonds were issued in US dollars (USD 355 million) redeemable on 31 July 2017. The bonds are divided into two categories:
– Category A – USD230 million bearing interest at 6,44% compounding semi-annually, switching to LIBOR + 1,88% on 31 July 2012; and
– Category B – USD125 million at LIBOR + 0,88%, switching to LIBOR + 1,88% on 31 July 2012.

[6] LIBOR is the London interbank offer rate for three-month US dollar deposits.

[7] Fixed semi-annual coupon.

[8] 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.

[9] RY is the real yield, which is the return from an investment adjusted for the effects of inflation, compounded semi-annually.

[10] BWC is the rate for three-month Botswana certificates.

[11] WA is the rate on bonds which carry a floating rate equal to the weighted average of the last six treasury bills maturing at 60 or more days.

Callable date	Rate after call date %	Notional value 2010 LCm	Carrying value 2010[1] Rm	Notional value 2010 Rm	Carrying value 2009[1] Rm	Notional value 2009 Rm
			15 683	**15 398**	15 814	15 398
17 November 2011[3]	JIBAR[4] + 1,62	**ZAR2 000**	**2 035**	**2 000**	2 046	2 000
31 July 2012	LIBOR[6] + 1,88	**USD355**	**2 404**	**2 548**	2 663	2 548
24 May 2015[3]	JIBAR[4] + 1,97	**ZAR3 000**	**3 035**	**3 000**	3 036	3 000
10 April 2013[3]	JIBAR[4] + 1,50	**ZAR1 500**	**1 528**	**1 500**	1 528	1 500
10 April 2018[3]	JIBAR[4] + 1,68	**ZAR1 500**	**1 529**	**1 500**	1 529	1 500
		ZAR300	**302**	**300**	303	300
10 April 2014[3]	RY[9] of 7,25	**ZAR1 800**	**2 072**	**1 800**	1 930	1 800
24 November 2016	JIBAR[4] + 3,90	**ZAR1 600**	**1 619**	**1 600**	1 618	1 600
24 November 2016	JIBAR[4] + 4,20	**ZAR1 150**	**1 159**	**1 150**	1 161	1 150
September 2010 – October 2015	JIBAR[4] + 1,00	**E80**	**80**	**80**	81	80
19 November 2011	JIBAR[4] + 2,46	**NAD150**	**150**	**150**	151	150
May 2011 – December 2013	BWC[10] + (0,81 to 1,25)	**BWP200**	**208**	**208**	224	224
29 June 2012	WA[11] + 0,50[12]	**MT260**	**53**	**53**	67	67
		KES5 453	**450**	**450**	296	296
10 August 2014		**USHS30 000**	**86**	**86**	123	116
			4 656	**4 600**	7 439	7 557
29 December 2009[19]	EURO[18] + 4,00	**EUR100**			1 062	1 061
8 October 2010[3]	LIBOR[6] + 1,65	**USD240**			1 772	1 767
27 July 2016[3]	LIBOR[6] + 3,25	**USD142**	**973**	**940**	1 080	1 044
		USD500	**3 349**	**3 328**	3 525	3 685
		USD25	**167**	**166**		
		USD25	**167**	**166**		
			(681)	**(663)**		
			20 685	**20 362**	24 195	23 888
12 September 2012	JIBAR[4] +1,86	**ZAR2 000**	**2 054**	**2 000**	2 054	2 000
			22 739	**22 362**	26 249	25 888
September 2011 – March 2015	LIBOR[6] + (1,75 to 5,00)	**USD60**	**399**	**399**	407	404
			23 138	**22 761**	26 656	26 292

[12] The interest is payable quarterly.
[13] 7Y T-Bond refers to the yield on the seven-year Kenya Treasury Bond.
[14] T-Bill refers to the yield on the latest 91-day or 180-day Kenyan Treasury Bill.
[15] T-Bill refers to the yield on the latest 182-day Uganda Treasury Bill.
[16] Up to 50% of the notes may be issued at a floating rate. The fixed rate is 14,50% and the floating rate is the weighted average of the most recent published 182-day Uganda Government Treasury Bill plus a margin of 150 basis points.
[17] These bonds were redeemed during 2010.
[18] EURO is the interbank offer rate for three-month Euro deposits.
[19] These bonds carry an option to be redeemed in full on or after this date.
[20] The bonds may be redeemed at the option of the issuer on each interest payment date from 3 December 2014 to 2 December 2019 and at any time following a capital disqualification event.
[21] Regulatory approval was received in 2010 on which date these balances qualified as subordinated bonds.
[22] A rate of 8,00% is applicable during the initial interest period up to 3 December 2014, thereafter a rate of 8,50% applies. Interest is payable semi-annually in arrears.
[23] The bonds may be redeemed at the option of the issuer at any time following a capital disqualification event.

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23. Classification of assets and liabilities

Accounting classifications and fair values

The table below sets out the group's classification of assets and liabilities, and their fair values.

	Note	Held-for-trading[1] Rm	Designated at fair value Rm
2010			
Assets			
Cash and balances with central banks	3		
Derivative assets	4	**149 682**	
Trading assets	5	**80 679**	
Pledged assets	6	**4 989**	**259**
Financial investments	7	**4 227**	**251 904**
Loans and advances to banks	8	**451**	**3 785**
Loans and advances to customers	8	**12**	**4 753**
Interest in associates and joint ventures	11		**5 814**
Other financial assets			
Other non-financial assets			
		240 040	**266 515**
Liabilities			
Derivative liabilities	4	**145 004**	
Trading liabilities	17	**30 375**	
Deposits from banks	18	**3**	**5 999**
Deposits from customers	18		**57 740**
Policyholders' liabilities	21		**56 371**
Subordinated debt	22		
Other financial liabilities			**11 000**
Other non-financial liabilities			
		175 382	**131 110**
2009			
Assets			
Cash and balances with central banks	3		
Derivative assets[3]	4	122 194	
Trading assets[3]	5	88 413	
Pledged assets	6	2 408	2 058
Financial investments	7	7 235	228 030
Loans and advances to banks[3]	8	6	3 977
Loans and advances to customers[3]	8	276	5 933
Interest in associates and joint ventures	11		4 979
Other financial assets			
Other non-financial assets			
		220 532	244 977
Liabilities			
Derivative liabilities[3]	4	115 221	
Trading liabilities	17	51 118	
Deposits from banks	18	66	9 181
Deposits from customers	18	4 636	49 115
Policyholders' liabilities[3]	21		51 843
Subordinated debt	22		
Other financial liabilities			10 557
Other non-financial liabilities[3]			
		171 041	120 696

[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.*

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
	28 675				28 675	28 675
					149 682	149 682
					80 679	80 679
52		1 090			6 390	6 391
7 589	5 749	13 826			283 295	284 550
	102 854				107 090	106 596
	598 867				603 632	606 822
				4 719	10 533	10 614
	10 146				10 146	10 146
				56 186	56 186	
7 641	746 291	14 916		60 905	1 336 308	
					145 004	145 004
					30 375	30 375
			85 727		91 729	91 571
			640 031		697 771	698 590
				141 507	197 878	197 878
			23 138		23 138	23 178
			23 022		34 022	34 022
				13 193	13 193	
			771 918	154 700	1 233 110	
	24 983				24 983	24 983
					122 194	122 194
					88 413	88 413
53		1 289			5 808	5 808
2 404	11 968	11 429			261 066	261 044
	107 005	80			111 068	111 328
869	603 242	1			610 321	610 234
				4 550	9 529	9 691
	8 778				8 778	8 778
				50 346	50 346	
3 326	755 976	12 799		54 896	1 292 506	
					115 221	115 221
					51 118	51 118
			96 771		106 018	105 935
			608 779		662 530	662 558
				132 457	184 300	184 300
			26 656		26 656	26 700
			23 100		33 657	33 657
				13 637	13 637	
			755 306	146 094	1 193 137	

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.

[3] *Reclassified to reflect the presentation consequences of the reclassifications and restatements in Annexure A - reclassifications and restatements.*

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24. Financial instruments measured at fair value

The tables below analyses financial instruments carried at fair value at the end of the reporting period, by level of fair value hierarchy as required by IFRS 7. The different levels are based on the extent to which 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 values are based on quoted market prices (unadjusted) in active markets for an identical instrument.

Level 2 – fair values are calculated using valuation techniques based on observable inputs, either directly (i.e. as prices) or indirectly (i.e. 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 values are based on 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	10 080	137 088	2 514	149 682
Trading assets	20 273	56 193	4 213	80 679
Pledged assets	4 607	1 731		6 338
Financial investments	147 069	116 206	6 682	269 957
Loans and advances to banks	841	3 395		4 236
Loans and advances to customers	12	3 145	1 608	4 765
Associates held at fair value		5 814		5 814
	182 882	323 572	15 017	521 471
Comprising:				
Held-for-trading				240 040
Designated at fair value				266 515
Available-for-sale				14 916
				521 471
Liabilities				
Derivative liabilities	14 245	130 176	583	145 004
Trading liabilities	11 347	15 993	3 035	30 375
Deposits from banks	3 903	2 099		6 002
Deposits from customers		57 291	449	57 740
Policyholders' liabilities		56 336	35	56 371
Other financial liabilities		11 000		11 000
	29 495	272 895	4 102	306 492
Comprising:				
Held-for-trading				175 382
Designated at fair value				131 110
				306 492

24. Financial instruments measured at fair value continued

	Level 1 Rm	Level 2 Rm	Level 3 Rm	Total Rm
2009				
Assets				
Derivative assets[1]	9 545	111 800	849	122 194
Trading assets[1]	24 930	59 844	3 639	88 413
Pledged assets	2 809	2 946		5 755
Financial investments	127 631	113 599	5 464	246 694
Loans and advances to banks	466	3 597		4 063
Loans and advances to customers	51	3 109	3 050	6 210
Associates held at fair value		4 979		4 979
	165 432	299 874	13 002	478 308
Comprising:				
Held-for-trading[1]				220 532
Designated at fair value				244 977
Available-for-sale				12 799
				478 308
Liabilities				
Derivative liabilities[1]	9 400	105 441	380	115 221
Trading liabilities	18 591	29 409	3 118	51 118
Deposits from banks	3 542	5 705		9 247
Deposits from customers	2 678	51 073		53 751
Policyholders' liabilities		51 807	36	51 843
Other financial liabilities		10 557		10 557
	34 211	253 992	3 534	291 737
Comprising:				
Held-for-trading[1]				171 041
Designated at fair value				120 696
				291 737

[1] *Reclassified to reflect the presentation consequences of the reclassifications and restatements in Annexure A – reclassifications and restatements.*

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24. Financial instruments measured at fair value continued

Reconciliation of level 3 financial assets

The tables 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	399	5 374	4 627	3 324	13 724
Total gains/(losses)					
– in profit or loss	510	148	97	227	982
– interest income			(1)	(107)	(108)
– trading revenue	510	148	41	334	1 033
– other revenue			30		30
– investment gains			27		27
– in other comprehensive income			(3)		(3)
Purchases	10	572	1 319	410	2 311
Sales		(795)	(411)	(210)	(1 416)
Transfers into level 3		17			17
Transfers out of level 3		(647)[1]			(647)
Exchange movements	(70)	(1 030)	(165)	(701)	(1 966)
Balance at 1 January 2010	**849**	**3 639**	**5 464**	**3 050**	**13 002**
Total gains/(losses)					
– in profit or loss	**1 879**	**313**	**634**	**(212)**	**2 614**
– interest income				**(136)**	**(136)**
– trading revenue	**1 879**	**313**	**30**	**(76)**	**2 146**
– other revenue			**370**		**370**
– investment gains			**234**		**234**
Purchases	**71**	**2 841**	**1 401**	**298**	**4 611**
Sales	**(1)**	**(2 233)**	**(865)**		**(3 099)**
Settlements	**(84)**	**(2)**	**(38)**	**(1 062)**	**(1 186)**
Transfers into level 3	**1**	**659**[2]	**236**[3]		**896**
Transfers out of level 3		**(565)**[1]	**(8)**	**(338)**[4]	**(911)**
Exchange movements	**(201)**	**(439)**	**(142)**	**(128)**	**(910)**
Balance at 31 December 2010	**2 514**	**4 213**	**6 682**	**1 608**	**15 017**

[1] *The fair value of certain level 3 trading loans to entities in emerging markets became observable. The fair value of the loans was transferred into level 2.*
[2] *The fair value of certain trading loans to entities in emerging markets became unobservable. The fair value of the loans was transferred into level 3.*
[3] *During 2010, the valuation inputs of certain financial investments became unobservable. The fair value of the investments was transferred into level 3.*
[4] *During 2010, the valuation inputs of certain loans and advances to customers became observable and were transferred out of level 3.*

24. Financial instruments measured at fair value continued

Gains/(losses) for the period included in profit or loss for level 3 financial assets held at the end of the reporting period

	Derivative assets Rm	Trading assets Rm	Financial invest-ments Rm	Loans and advances to customers Rm	Total Rm
2010					
Interest income				**(136)**	**(136)**
Trading revenue	**1 886**	**258**	**30**	**(138)**	**2 036**
Other revenue			**352**		**352**
Investment gains			**234**		**234**
	1 886	**258**	**616**	**(274)**	**2 486**
2009					
Interest income			(1)	(107)	(108)
Trading revenue	510	148	41	332	1 031
Other revenue			42		42
Investment gains			27		27
	510	148	109	225	992

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	Trading liabilities Rm	Deposits from banks Rm	Deposits from customers Rm	Policy-holders' liabilities Rm	Total Rm
Balance at 1 January 2009	461	2 744	237		44	3 486
Total gains in profit or loss						
– trading revenue	(77)					(77)
Purchases		266				266
Sales		(125)	(217)			(342)
Issues		962				962
Settlements		(321)				(321)
Net change in policyholders' liabilities					(8)	(8)
Exchange movements	(4)	(408)	(20)			(432)
Balance at 1 January 2010	**380**	**3 118**			**36**	**3 534**
Total losses						
– in profit or loss						
– trading revenue	**176**	**367**				**543**
– in other comprehensive income	**16**					**16**
Purchases	**46**			**449**		**495**
Sales	**(22)**					**(22)**
Issues		**1 485**				**1 485**
Settlements	**(33)**	**(1 508)**				**(1 541)**
Transfers into level 3	**32**	**280**[1]				**312**
Transfers out of level 3	**(9)**	**(374)**[2]				**(383)**
Net change in policyholders' liabilities					**(1)**	**(1)**
Exchange movements	**(3)**	**(333)**				**(336)**
Balance at 31 December 2010	**583**	**3 035**		**449**	**35**	**4 102**

[1] *During 2010, the fair value of certain trading liabilities became unobservable. The fair value of the loans was transferred into level 3.*
[2] *During 2010, the fair value of certain level 3 trading liabilities became observable. The fair value of the loans was transferred into level 2.*

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24. Financial instruments measured at fair value continued

Losses/(gains) for the period included in profit or loss for level 3 financial liabilities held at the end of the reporting period

	Derivative liabilities Rm	Trading liabilities Rm	Total Rm
2010			
Trading revenue	191	350	541
Total	191	350	541
2009			
Trading revenue	(77)		(77)
Total	(77)		(77)

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.

	Valuation basis/ technique	Main assumptions	Effect on profit or loss Favourable Rm	Effect on profit or loss (Unfavourable) Rm	Effect on other comprehensive income Favourable Rm	Effect on other comprehensive income (Unfavourable) Rm
2010						
Derivative instruments	Discounted cash flow, Black-Scholes models	Discount, liquidity discount, risk-free, and volatility rates	117	(117)		
Trading assets	Discounted cash flow model	Discount and liquidity discount rates	111	(111)		
Financial investments	Discounted cash flow model, earnings multiple, sustainable earnings, combination techniques	Discount and liquidity discount rates, earnings multiple	274	(335)		
Loans and advances to customers	Discounted cash flow model	Discount rate	10	(9)		
Trading liabilities	Discounted cash flow model	Discount rate	83	(83)		
			595	(655)		

24. Financial instruments measured at fair value continued

	Valuation basis/ technique	Main assumptions	Effect on profit or loss Favourable Rm	Effect on profit or loss (Unfavourable) Rm	Effect on other comprehensive income Favourable Rm	Effect on other comprehensive income (Unfavourable) Rm
2009						
Derivative instruments	Discounted cash flow, Black-Scholes models	Discount, liquidity discount, risk-free, and volatility rates	64	(64)		
Trading assets	Discounted cash flow model	Discount and liquidity discount rates	52	(52)		
Financial investments	Discounted cash flow model, earnings multiple, sustainable earnings, combination techniques	Discount and liquidity discount rates, earnings multiple	356	(291)	1	(1)
Loans and advances to customers	Discounted cash flow model	Discount rate	35	(36)		
Trading liabilities	Discounted cash flow model	Discount rate	57	(57)		
			564	(500)	1	(1)

25. Financial assets and financial liabilities designated at fair value through profit or loss

25.1 Loans and advances

The group's maximum exposure to credit risk for loans and advances designated at fair value through profit or loss is R8 538 million (2009: R9 910 million).

Fair value changes attributable to changes in credit risk on loans and advances designated at fair value through profit or loss amounted to R77 million (2009: R295 million).

The change for the year 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 that give rise to market risk.

25.2 Financial liabilities

Fair value changes attributable to changes in credit risk on financial liabilities designated at fair value through profit or loss amounted to R54 million (2009: R8 million).

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

The amount the group would contractually be required to pay at maturity of the financial liabilities designated at fair value through profit or loss amounts to R58 654 million (2009: R58 900 million), R5 085 million lower (2009: R604 million higher) than the carrying amount. This does not include policyholders' liabilities with a carrying value of R56 371 million (2009: R51 843 million) and third-party liabilities arising on consolidation of mutual funds with a carrying value of R11 000 million (2009: R10 557 million).

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	2010 Rm	2009 Rm
26. Contingent liabilities and commitments		
26.1 Contingent liabilities		
Letters of credit and bankers' acceptances	**10 407**	10 784
Guarantees	**29 327**	29 078
	39 734	39 862

Loan commitments that are irrevocable over the life of the facility or revocable only in response to material adverse changes are included in the risk management section on page 170.

	2010 Rm	2009 Rm
26.2 Capital commitments		
Contracted capital expenditure[1]	**2 662**	1 689
Capital expenditure authorised but not yet contracted[2]	**8 415**	10 075
	11 077	11 764

[1] *Includes an amount of R452 million (2009: R1 272 million) relating to investment property.*
[2] *Includes an amount of R1 185 million (2009: R1 193 million) relating to investment property.*

The expenditure will be funded from the group's internal resources.

26.3 Operating lease commitments

The future minimum payments under non-cancellable operating leases are as follows:

	2010 Rm	2009 Rm
Properties		
Within 1 year	**1 108**	951
After 1 year but within 5 years	**2 655**	2 674
After 5 years	**1 192**	1 361
	4 955	4 986
Equipment		
Within 1 year	**252**	142
After 1 year but within 5 years	**74**	209
After 5 years		
	326	351

The operating lease commitments comprise a number of separate operating leases in relation to properties and equipment, none of which is individually significant to the group.

26.4 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.

		2010 Rm	2009 Rm
27.	**Supplementary income statement information**		
27.1	**Interest income**		
	Interest on loans and advances	**56 730**	78 960
	Interest on investments	**1 237**	687
	Unwinding of discount element of credit impairments for loans and advances (note 8.3)	**1 751**	1 785
	Fair value adjustments on dated financial instruments	**1 300**	(903)
	Dividends on dated securities	**1 558**	1 762
		62 576	82 291

All interest income reported above relates to financial assets not carried at fair value through profit or loss, except for R2 149 million (2009: R1 145 million) on financial assets that are at fair value through profit or loss.

		2010 Rm	2009 Rm
27.2	**Interest expense**		
	Current accounts	**372**	576
	Savings and deposit accounts	**10 598**	12 443
	Foreign finance creditors	**532**	583
	Subordinated debt	**2 084**	1 746
	Other interest-bearing liabilities	**20 248**	35 627
		33 834	50 975

All interest expense reported above relates to financial liabilities not carried at fair value through profit or loss, except for R3 058 million (2009: R3 235 million) on financial liabilities that are at fair value through profit or loss.

		2010 Rm	2009 Rm
27.3	**Net fee and commission revenue**[1]		
	Fee and commission revenue	**21 914**	20 840
	Account transaction fees	**8 383**	7 994
	Card-based commission	**3 817**	3 481
	Knowledge-based fees and commission	**2 929**	3 015
	Electronic banking	**1 748**	1 644
	Insurance – fees and commission	**1 422**	1 290
	Foreign currency service fees	**1 082**	1 042
	Documentation and administration fees	**999**	1 004
	Other	**1 534**	1 370
	Fee and commission expense	**(3 273)**	(2 732)
		18 641	18 108

[1] *Comparative figures reclassified to align with 2010 classification.*

All net fee and commission revenue reported above relates to financial assets or liabilities not carried at fair value through profit or loss.

		2010 Rm	2009 Rm
27.4	**Trading revenue**[1]		
	Foreign exchange	**3 754**	4 275
	Credit	**694**	1 341
	Interest rates	**1 624**	1 966
	Commodities	**1 421**	1 936
	Equities	**880**	1 196
	Other	**136**	202
		8 509	10 916

[1] *Comparative figures reclassified to align with 2010 classification.*

	2010 Rm	2009 Rm
Interest and dividend income included in trading revenue:		
Net interest income	**2 039**	895
Dividend income	**120**	358
	2 159	1 253

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		2010 Rm	2009 Rm
27.	**Supplementary income statement information** continued		
27.5	**Other revenue**[1]		
	Banking and other	**550**	318
	Property-related revenue	**334**	448
	Insurance – bancassurance profit	**1 368**	1 045
	Profit on realisation of undated available-for-sale financial assets[2]	**75**	309
	Net gains on undated financial instruments designated at fair value through profit or loss	**527**	368
		2 854	2 488

[1] *Comparative figures reclassified to align with 2010 classification.*
[2] *Rnil (2009: R51 million) of the profit on realisation of available-for-sale financial assets relates to the capital profit on realisation of Visa shares.*

		2010 Rm	2009 Rm
27.6	**Net insurance premiums**		
	Insurance premiums	**22 812**	22 630
	Reinsurance premiums	**(699)**	(632)
		22 113	21 998
27.7	**Investment income and gains**		
	Investment income	**11 587**	12 835
	Investment gains	**15 083**	6 385
		26 670	19 220
	Comprising:		
	Investment income	**11 587**	12 835
	Interest income[1]	**7 402**	7 949
	Dividends received	**1 691**	2 563
	Listed shares	**1 276**	1 580
	Unlisted instruments	**402**	969
	Manufactured dividends on scrip lending	**13**	14
	Rental income from investment property	**1 711**	1 662
	Hotel operations sales	**687**	620
	Adjustment to surplus recognised on defined benefit pension fund	**30**	21
	Scrip lending fees	**2**	2
	Sundry income	**64**	18
	Investment gains/(losses)	**15 083**	6 385
	Investment property	**1 293**	711
	Financial instruments held at fair value through profit or loss	**14 572**	8 045
	Financial instruments held for trading through profit or loss	**(879)**	(2 823)
	Cash and cash equivalents	**(28)**	(31)
	Foreign exchange differences on subsidiaries	**9**	7
	Foreign currency translation reserve recycled through profit or loss	**(21)**	
	Impairment of investment in joint venture	**(14)**	
	Consolidated mutual funds	**151**	476
		26 670	19 220

[1] *Interest of R7 292 million (2009: R7 874 million) relates to financial assets held at fair value through profit or loss. Included in interest income are proceeds on the sale of rights to dividends of R888 million (2009: R1 004 million).*

	2010 Rm	2009 Rm
27. Supplementary income statement information continued		
27.8 Credit impairment charges		
Net credit impairments raised and reversed for loans and advances	**8 306**	12 609
Recoveries on loans and advances previously written off	**(782)**	(512)
	7 524	12 097
Comprising:		
Net specific credit impairment charges	**8 135**	11 779
Specific credit impairment charges (note 8.3)	**8 917**	12 291
Recoveries on loans and advances previously written off	**(782)**	(512)
Portfolio credit impairment (reversal)/charges (note 8.3)	**(611)**	318
	7 524	12 097
27.9 Net insurance benefits and claims[1]		
Claims and policyholders' benefits under insurance contracts	**22 096**	20 488
Insurance claims recovered from reinsurers	**(558)**	(603)
	21 538	19 885
Change in policyholder liabilities under insurance contracts	**8 991**	7 224
Insurance contracts	**9 108**	7 141
Investment contracts with DPF	**(58)**	44
Reinsurance assets	**(59)**	39
	30 529	27 109

[1] *2009 figures restated, refer to Annexure A – reclassifications and restatements.*

	2010 Rm	2009 Rm
27.10 Staff costs – banking activities		
Salaries and allowances	**18 795**	17 316
Equity-linked transactions (Annexure D)	**747**	532
Group equity compensation plans	**689**	497
Group equity participation plans	**58**	35
	19 542	17 848
27.11 Restructuring costs – banking activities		
Restructuring costs	**733**	
Group equity compensation plans (Annexure D)	**31**	
Share options and appreciation rights	**26**	
Deferred bonus scheme	**5**	
Impairments – other intangible assets	**17**	
	781	
27.12 Acquisition costs – investment management and life insurance activities		
Insurance contracts	**2 504**	2 692
Investment contracts	**148**	203
Asset management	**254**	219
	2 906	3 114
Comprising:		
Incurred during the year	**2 933**	3 107
Deferred acquisition costs	**(210)**	(197)
Amortisation and impairment of deferred acquisition costs	**183**	204
	2 906	3 114

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		2010 Rm	2009 Rm
27.	**Supplementary income statement information** continued		
27.13	**Other operating expenses**		
	Banking activities	**16 333**	14 979
	Information technology	**3 431**	3 146
	Communication	**1 221**	1 183
	Premises	**2 762**	2 575
	Other	**8 919**	8 075
	Investment management and life insurance activities	**6 482**	5 938
	Staff costs	**2 330**	2 023
	Office costs	**1 493**	1 603
	Training and development costs	**351**	329
	Other	**2 308**	1 983
		22 815	20 917
	The following disclosable items are included in other operating expenses:		
	Amortisation – intangible assets (note 13.2)	**691**	617
	Auditors' remuneration	**232**	191
	Audit fees	**197**	155
	Current year	**170**	151
	Prior year	**27**	4
	Fees for other services	**35**	36
	Depreciation (note 14.2)	**2 098**	1 746
	Property		
	– Freehold	**63**	48
	– Leasehold	**210**	131
	Equipment		
	– Computer equipment	**1 084**	937
	– Motor vehicles	**140**	143
	– Office equipment	**144**	126
	– Furniture and fittings	**457**	361
	Impairments	**162**	156
	Property and equipment (note 14.2)		46
	Intangible assets (note 13.2)	**179**	110
	Computer software	**159**	96
	Other intangible assets	**20**	
	Present value of in-force life insurance		14
	Impairment included in restructuring costs	**(17)**	
	Losses on the disposal of businesses and divisions	**30**	7
	Operating lease charges	**1 844**	1 702
	Properties	**1 818**	1 668
	Equipment	**26**	34
	Professional fees	**2 037**	1 777
	Managerial	**201**	263
	Technical and other	**1 836**	1 514
	Profit on sale of property and equipment	**(23)**	(38)
	Retirement fund administration	**9**	160
	Restructuring costs – investment management and life insurance activities		53
	Infrastructure and office costs		1
	Systems and processes		52
27.14	**Goodwill impairment**		
	Goodwill impairment charge on subsidiaries (note 13.1)	**144**	42

	2010 Rm	2009 Rm
28. Emoluments of Standard Bank Group Limited directors		
Executive directors		
Emoluments of directors in respect of services rendered[1]:		
While directors of Standard Bank Group Limited		
– as directors of subsidiary companies	13	14
– otherwise in connection with the affairs of Standard Bank Group Limited or its subsidiaries	82	
• gain on sale of share incentives	30	
• difference between issue price and closing price on delivery of share incentives, with no cash benefit	52	
Non-executive directors		
Emoluments of directors in respect of services rendered:		
As directors of Standard Bank Group Limited	11	10
While directors of Standard Bank Group Limited		
– as directors of subsidiary companies	6	6
– otherwise in connection with the affairs of Standard Bank Group Limited or its subsidiaries	8	2
Pensions of directors and past directors		1
	120	33

[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.*

	2010 Rm	2009[1] Rm
29. Taxation		
Indirect taxation (note 29.1)	1 475	1 710
Direct taxation (note 29.2)	4 999	4 660
	6 474	6 370
29.1 Indirect taxation		
Value added tax	1 274	969
Duties	10	17
Financial services levy	17	14
Skills development levy	86	287
Other indirect taxes	88	423
	1 475	1 710

[1] *2009 figures restated, refer to Annexure A – reclassifications and restatements.*

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	2010 Rm	2009[1] Rm
29. Taxation continued		
29.2 Direct taxation		
Current year	**4 985**	4 945
South African normal tax	**4 691**	5 687
South African deferred tax	**(1 206)**	(2 507)
Secondary tax on companies	**201**	106
Secondary tax on companies – deferred tax	**83**	(186)
Foreign normal and withholding tax	**770**	1 429
Foreign deferred tax	**2**	196
Retirement fund tax		(1)
Capital gains tax current	**207**	183
Capital gains tax deferred	**237**	38
Prior years	**(117)**	(122)
South African normal tax	**(703)**	(66)
South African deferred tax	**616**	
Capital gains tax		(5)
Foreign normal and withholding tax	**(30)**	(53)
Foreign deferred tax		2
	4 868	4 823
Income tax recognised in other comprehensive income	**129**	(221)
Deferred tax	**98**	(212)
Current tax	**31**	(9)
Deferred tax recognised directly in equity	**2**	58
Direct taxation per the income statement	**4 999**	4 660

[1] *2009 figures restated, refer to Annexure A – reclassifications and restatements.*

Income tax recognised in other comprehensive income

The table below sets out the amount of income tax relating to each component within other comprehensive income:

	Before tax Rm	Tax benefit/ (expense) Rm	Net of tax Rm
2010			
Exchange differences on translating foreign operations	**(4 406)**		**(4 406)**
Net loss on hedges of net investments in foreign operations	**(768)**		**(768)**
Net change in fair value on cash flow hedges	**(492)**	**136**	**(356)**
Realised fair value adjustments on cash flow hedges transferred to profit or loss	**181**	**(39)**	**142**
Net change in fair value of available-for-sale financial assets	**192**	**(25)**	**167**
Realised fair value adjustments on available-for-sale financial assets transferred to profit or loss	**(75)**	**24**	**(51)**
Revaluation and other losses	**(114)**	**33**	**(81)**
	(5 482)	**129**	**(5 353)**

29. Taxation continued

29.2 Direct taxation continued

Income tax recognised in other comprehensive income continued

	Before tax Rm	Tax (expense)/ benefit Rm	Net of tax Rm
2009			
Exchange differences on translating foreign operations	(9 567)		(9 567)
Net loss on hedges of net investments in foreign operations	(106)		(106)
Net change in fair value on cash flow hedges	(30)	(64)	(94)
Realised fair value adjustments on cash flow hedges transferred to profit or loss	265	(86)	179
Net change in fair value of available-for-sale financial assets	411	(138)	273
Realised fair value adjustments on available-for-sale financial assets transferred to profit or loss	(309)	76	(233)
Revaluation and other gains	93	(9)	84
	(9 243)	(221)	(9 464)

Future tax relief

The group has estimated tax losses of R582 million (2009: R541 million) which are available for set-off against future taxable income. These amounts were utilised to reduce the deferred tax balance.

	2010 %	2009 %
Rate reconciliation including indirect and direct tax		
The total tax charge for the year as a percentage of net income before indirect tax	33	35
Value added tax	(7)	(5)
Duties, skills development levy and other indirect taxes	(1)	(4)
Secondary tax on companies	(1)	
Policyholder funds – normal tax	(2)	(2)
Capital gains tax	(2)	(1)
The corporate tax charge for the year as a percentage of profit before indirect tax	20	23
Tax relating to prior years	1	1
Net tax charge	21	24
The charge for the year has been reduced/(increased) as a consequence of:		
Dividends received	4	4
Other non-taxable income	5	3
Other permanent differences	(2)	(3)
Standard rate of South African tax	28	28
Direct taxation rate reconciliation		
The direct taxation charge for the year as a percentage of profit before direct taxation	28	28
Secondary tax on companies	(1)	
Foreign tax	(1)	
Policyholder funds – normal tax	(2)	(3)
Capital gains tax	(2)	(1)
Tax relating to prior years	1	1
Net tax charge	23	25
The charge for the year has been reduced/(increased) as a consequence of:		
Dividends received	4	4
Other non-taxable income	5	2
Other permanent differences	(4)	(3)
Standard rate of South African tax	28	28

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	2010 Gross Rm	2010 Direct tax Rm	2010 Non-controlling interests and preference shareholders Rm	2010 Profit attributable to ordinary shareholders Rm	2009 Gross[1] Rm	2009 Direct tax[1] Rm	2009 Non-controlling interests and preference shareholders Rm	2009 Profit attributable to ordinary shareholders Rm
30. Headline earnings								
Profit	**18 006**	**(4 999)**	**(2 233)**	**10 774**	16 656	(4 660)	(942)	11 054
Headline adjustable items added/(reversed)	**296**	**(28)**	**(73)**	**195**	205	16	(22)	199
Goodwill impairment – IFRS 3	**144**		**(68)**	**76**	42			42
Profit on sale of property and equipment – IAS 16	**(23)**	**4**	**2**	**(17)**	(38)	9		(29)
Impairment of property and equipment – IAS 16					46	(15)	(13)	18
Realised foreign currency translation reserve on foreign operations – IAS 21	**21**		**(10)**	**11**	(18)			(18)
Losses/(gains) on the disposal of businesses and divisions – IAS 27	**30**	**(6)**	**1**	**25**	7			7
Impairment of associates – IAS 28	**29**		**(7)**	**22**	379	(28)		351
Reversal of impairment of associates – IAS 28	**(19)**			**(19)**				
Loss on deemed disposal of associate – IFRS 3	**10**			**10**				
Impairment of intangible assets – IAS 38	**179**	**(50)**	**(8)**	**121**	96	(26)		70
Realised gains on available-for-sale assets – IAS 39	**(75)**	**24**	**17**	**(34)**	(309)	76	(9)	(242)
Standard Bank Group headline earnings	**18 302**	**(5 027)**	**(2 306)**	**10 969**	16 861	(4 644)	(964)	11 253

[1] *2009 figures restated, refer to Annexure A – reclassifications and restatements.*

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 the inclusion in headline earnings of any gains or losses recognised by life insurers on the remeasurement of investment properties. The circular also allows the inclusion in headline earnings of any sale of private equity joint ventures or associates held by a banking institution. These associates are to be ring-fenced, refer to Annexure C on page 308 for the required disclosure in terms of the circular.

	2010	2009
31. Earnings per ordinary share		
The calculations of basic earnings and headline earnings per ordinary share and diluted earnings and diluted headline earnings per ordinary share are as follows:		
Earnings based on weighted average shares in issue		
Headline earnings (Rm)	**10 969**	11 253
Earnings attributable to ordinary shareholders (Rm)	**10 774**	11 054
Weighted average number of ordinary shares in issue (number of shares)		
Weighted average number of ordinary shares in issue before adjustments	**1 576 091 961**	1 548 235 483
Adjusted for shares issued in terms of Tutuwa initiative[1]	**(63 478 810)**	(63 478 810)
Adjusted for deemed treasury shares held by entities within the group[2]	**(20 657 018)**	(25 419 927)
	1 491 956 133	1 459 336 746
Headline earnings per ordinary share (cents)	**735,2**	771,1
Basic earnings per ordinary share (cents)	**722,1**	757,5
Diluted earnings per ordinary share		
Weighted average number of ordinary shares in issue (number of shares)	**1 491 956 133**	1 459 336 746
Adjusted for the following potential dilution:		
Standard Bank Group Share Incentive Scheme	**5 322 975**	7 048 956
Standard Bank Equity Growth Scheme	**8 667 846**	5 879 911
Tutuwa[3]	**42 053 769**	38 772 048
Tutuwa consortium and Community Trust	**29 508 183**	27 186 033
Black Managers' Trust	**12 545 586**	11 586 015
Diluted weighted average number of ordinary shares in issue (number of shares)	**1 548 000 723**	1 511 037 661
Diluted headline earnings per ordinary share (cents)	**708,6**	744,7
Diluted earnings per ordinary share (cents)	**696,0**	731,6

[1] *The number of shares held by the Tutuwa participants are deducted as they are deemed not to be issued in terms of IFRS.*
[2] *The number of shares held by entities within the group are deemed to be treasury shares for IFRS purposes.*
[3] *Dilutive effect of shares issued in terms of Tutuwa initiative.*

Refer to page 51 for further details on the Tutuwa initiative and the group shares held by entities within the group.

2 204 700 (2009: 3 937 000) share options outstanding at the end of the year in terms of the Standard Bank Group Share Incentive Scheme were not included in the calculation of diluted earnings per ordinary shares because they were anti-dilutive.

10 252 851 (2009: 17 953 494) rights outstanding at the end of the year in terms of the Standard Bank Equity Growth Scheme, convertible into nil (2009: 1 411 594) ordinary shares that is equivalent to the full value of the rights at year end, were not included in the calculation of diluted earnings per ordinary share because they were anti-dilutive.

10 252 851 (2009: 347 400) rights outstanding at the end of the year in terms of the Standard Bank Equity Growth Scheme were not convertible into any ordinary shares at year end as the exercise prices of these rights exceeded the closing share price.

Dilutive impact of shares issued during the year

2 606 250 (2009: 2 453 900) share options were issued during the year in terms of the Standard Bank Group Share Incentive Scheme, of which 295 000 (2009: 2 369 500) were included in the calculation of diluted earnings per ordinary share because they were dilutive.

11 724 941 (2009: 12 655 000) rights were issued during the year in terms of the Standard Bank Equity Growth Scheme, of which 798 340 (2009: 11 748 700) rights were convertible into 27 066 (2009: 4 482 722) ordinary shares which were included in the calculation of diluted earnings per ordinary share because they were dilutive.

Refer to Annexure D on page 309 for further details on the group's share incentive schemes.

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	2010 Rm	2009 Rm
32. Distributions		
Ordinary shares		
Distribution No. 81 of 245,0 cents per share (2009: 193,0 cents per share), paid on 26 April 2010 to shareholders registered on 23 April 2010	**3 834**	2 946
Less: Scrip taken up by shareholders	**(2 201)**	(2 004)
Cash distribution elected by shareholders	**1 633**	942
Dividend No. 82 of 141,0 cents per share (2009: 141,0 cents per share), paid on 13 September 2010 to shareholders registered on 10 September 2010	**2 227**	2 195
	3 860	3 137

A final dividend No. 83 of 245,0 cents per share, payable on 11 April 2011, was declared to shareholders registered on 8 April 2011, bringing the total dividends declared in respect of 2010 to 386,0 cents per share (2009: 386,0 cents).

	2010 Rm	2009 Rm
Preference shares		
6,5% first cumulative preference shares:		
Dividend No. 81 of 3,25 cents per share (2009: 3,25 cents) paid on 19 April 2010 to shareholders registered on 16 April 2010	**–**	–
Dividend No. 82 of 3,25 cents per share (2009: 3,25 cents) paid on 6 September 2010 to shareholders registered on 3 September 2010	**–**	–
Non-redeemable, non-cumulative, non-participating preference shares		
Dividend No. 11 of 374,76 cents per share (2009: 545,04 cents) paid on 19 April 2010 to shareholders registered on 16 April 2010	**199**	289
Dividend No. 12 of 355,16 cents per share (2009: 456,62 cents) paid on 6 September 2010 to shareholders registered on 3 September 2010	**188**	242
	387	531

6,5% first cumulative preference shares dividend No. 83 of 3,25 cents per share (2009: 3,25 cents), payable on 4 April 2011, was declared to shareholders registered on 1 April 2011.

Non-redeemable, non-cumulative, non-participating preference shares dividend No. 13 of 337,90 cents per share (2009: 374,76 cents), payable on 4 April 2011, was declared to shareholders registered on 1 April 2011.

33. Statement of cash flows notes

	2010 Rm	2009 Rm
33.1 Decrease/(increase) in income-earning assets[1]		
Net derivative assets	**2 127**	(2 870)
Trading assets	**(746)**	(15 679)
Pledged assets	**(2 906)**	1 605
Financial investments	**(18 700)**	(3 824)
Loans and advances	**(24 022)**	(2 110)
Other assets	**3 104**	5 914
	(41 143)	(16 964)

[1] *2009 figures restated. Refer to Annexure A – reclassifications and restatements.*

	2010 Rm	2009 Rm
33.2 Increase/(decrease) in deposits and other liabilities		
Deposit and current accounts	**63 251**	(12 514)
Trading liabilities	**(16 757)**	7 813
Other liabilities and provisions	**2 588**	(2 708)
	49 082	(7 409)

		2010 Rm	2009 Rm
33.	**Statement of cash flows notes** continued		
33.3	**Direct taxation paid**[1]		
	Taxation payable and deferred taxation at beginning of the year	**(5 410)**	(6 805)
	Net addition through business acquisition	**(3)**	
	Direct taxation	**(4 870)**	(4 823)
	Recognised directly in equity and other comprehensive income (note 29.2)	**129**	(163)
	Recognised in profit or loss (note 29.2)	**(4 999)**	(4 660)
	Taxation payable and deferred taxation at end of the year	**4 676**	5 410
		(5 607)	(6 218)

[1] *2009 figures restated. Refer to Annexure A – reclassifications and restatements.*

		2010 Rm	2009 Rm
33.4	**Cash outflow resulting from the disposal of subsidiaries**		
	Net cash outflow resulting from the disposal of subsidiaries		(247)
	Comprising:		
	Cash and balances with central banks		(247)
	Derivative assets		(258)
	Trading assets		(104)
	Loans and advances		(1 586)
	Other assets		(52)
	Property and equipment		(23)
	Derivative liabilities		331
	Deposit and current accounts		1 037
	Other liabilities and provisions		101
	Net assets disposed		(801)
	Loss on disposal		(13)
	Fair value of net assets disposed		(814)
	Acquisition of associate (note 33.5)		814
	Cash and cash equivalents disposed		(247)
	Net cash outflow resulting from disposal of subsidiaries		(247)
33.5	**Decrease/(increase) in investment in associates and joint ventures**		
	Net disposals/(acquisition) of associates and joint ventures	**24**	(2 526)
	Fair value of subsidiary disposed in the acquisition of associate (note 33.4)		814
	Decrease/(increase) in investment in associates and joint ventures	**24**	(1 712)
33.6	**Net dividends paid**		
	Dividends to ordinary shareholders	**(3 860)**	(3 137)
	Dividends to preference shareholders	**(387)**	(531)
	Dividends received in terms of the Tutuwa initiative and on deemed treasury shares	**157**	360
	Dividends to non-controlling shareholders in subsidiaries	**(841)**	(955)
		(4 931)	(4 263)
33.7	**Cash and cash equivalents**		
	Cash and balances with central banks	**28 675**	24 983

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34. Change in accounting policy and reclassification of financial assets

The effects of the change in accounting policy are described below. Refer to the accounting policies elections section for a description of the nature of the change in accounting policy.

34.1 Amendments to IAS 12 *Deferred Tax: Recovery of Underlying Assets*

In December 2010, the IASB issued Amendments to IAS 12 *Deferred Tax: Recovery of Underlying Assets*, effective for annual periods beginning on or after 1 January 2012, with earlier application permitted.

In terms of the amendment, if deferred tax liabilities or assets arise from investment properties that are measured using the fair value model in IAS 40 *Investment Properties*, there is a rebuttable presumption that the carrying amount of the investment property will be recovered through sale.

Prior to the IAS 12 amendment, the group was required to provide for deferred taxation at the use rate in respect of revaluation surpluses on investment properties held as long-term strategic investments. Providing tax at the use rate resulted in a certain amount of double accounting of the economic reality as the fair value of the investment properties effectively already discounted the income tax or use rate consequences in respect of future rental income. In order to comply with IAS 12, the group therefore calculated the difference in the deferred tax liability arising from the use versus sale rate and applied the difference to reduce the policyholders' liabilities. This had the effect of not impacting total profit or loss.

The group has elected to early adopt the IAS 12 amendment, which requires retrospective application. This has resulted in the deferred tax liability in respect of these investment property surpluses being restated to the sale rate and has correspondingly reversed the previous reduction to policyholder liabilities.

The affected comparative figures for 2009 and, in the case of the statement of financial position and related notes for 2008, have been restated and presented in the annual financial statements for the year ended 31 December 2010. Refer to Annexure A – *reclassifications and restatements*.

34.2 IAS 39 and IFRS 7 *Reclassification of Financial Assets*

Amount reclassified from held-for-trading to loans and receivables at amortised cost

Following the amendments to IAS 39 and IFRS 7 *Reclassification of Financial Assets*, the group 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. The group did not reclassify any such assets during the current year.

	2010 Rm	2009 Rm
Carrying value of reclassified financial assets at end of the year	**3 870**	5 333
Fair value of reclassified financial assets at end of the year	**3 671**	4 984
A fair value loss of R38 million (2009: R25 million) after tax together with other post-tax losses of R46 million (2009: R5 million) and foreign currency translation gains of R14 million (2009: R30 million) would have been recognised in 2010 had all reclassifications not been effected.		
The table below sets out the amounts actually recognised in profit or loss:		
Period before reclassification		
Trading income		(29)
Period after reclassification		
Net interest income	**262**	400
Credit impairments	**(85)**	(16)

35. Related party transactions

35.1 Parent

Standard Bank Group Limited is the ultimate holding company of the Standard Bank Group of companies.

35.2 Subsidiaries

Details of effective interest, investments in and loans to subsidiaries are disclosed in Annexure B.

35.3 Associates and joint ventures

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

The Standard Bank of South Africa Limited, a subsidiary of Standard Bank Group Limited, has purchased R3 273 million of home loans from South African Home Loans (Proprietary) Limited during the year (2009: R3 748 million). South African Home Loans (Proprietary) Limited also originates loans on behalf of The Standard Bank of South Africa Limited and Blue Banner Securitisation Vehicle RCI (Proprietary) Limited, an SPE of the group. Origination, management and performance fees incurred by the group amounted to R61 million (2009: R69 million) for the year.

35.4 Key management personnel

Key management personnel has been defined as: The members of the Standard Bank Group Limited board of directors and Standard Bank Group Limited group executive committee that was effective for 2010. Non-executive directors are included in the definition of key management personnel as required by IAS 24 *Related Party Disclosure*. 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 Standard Bank Group. 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 compensation		
Salaries and other short-term benefits	**178**	232
Post-employment benefits	**9**	9
Other long-term benefits	**2**	51
Termination benefits	**6**	
IFRS 2 value of share options and rights expensed	**48**	53
	243	345
Loans and advances		
Loans outstanding at the beginning of the year	**19**	26
Loans granted during the year	**66**	392
Loan repayments during the year	**(35)**	(399)
Loans outstanding at the 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. All other loans are unsecured.		
Deposit and current accounts		
Deposits outstanding at beginning of the year	**264**	102
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
35.	**Related party transactions** continued		
35.4	**Key management personnel** continued		
	Insurance and investment		
	Details of key management personnel's investment transactions and balances with Standard Bank Group.		
	Insurance		
	Premiums received relating to life, disability and other insurance	**1**	1
	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 the end of the year	**1 062**	935
	Net investment return	**159**	159
	Third-party funds under management		
	Fund value balance 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 commissions	**14**	
	Shares and share options held		
	Aggregate details of Standard Bank Group Limited shares and share options held by key management personnel.		
	Shares beneficially owned (number)	**12 426 103**	10 982 526
	Share options held (number)	**10 340 300**	10 769 150
	Transactions with a shareholder		
	The following transactions took place between SBSA and ICBC, a 20% shareholder of Standard Bank Group:		
	Revenue		
	Interest revenue	**6**	5
	Total revenue earned	**6**	5
	Deposits		
	Deposits outstanding at beginning of the year	**1 150**	622
	Net deposits (repaid)/received during the year	**(197)**	528
	Deposits outstanding at the end of the year	**953**	1 150

Other contracts

Saki Macozoma, a director and deputy chairman of the company, 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% in Standard Bank Group. The group has an effective interest of 20,33% in Safika.

Cyril Ramaphosa, a director of the company, 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 Standard Bank Group. The group 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 buyback 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.

		2010 Rm	2009 Rm
35.	**Related party transactions** continued		
35.5	**Post-employment benefit plans**		
	Details of balances with Standard Bank Group and transactions between Standard Bank Group and the group's post-employment benefit plans are listed below:		
	Fee income	**52**	47
	Deposits held with the group	**638**	456
	Interest paid	**193**	219
	Value of assets under management	**10 525**	11 097
	Investments held in bonds and money market	**886**	472
	Number of Standard Bank Group Limited shares held ('000)	**1 908**	5 332
36.	**Pensions and other post-employment benefits**		
	Amount recognised as assets in the statement of financial position (note 10)		
	Standard Bank operations		
	Retirement funds (note 36.1)	**214**	
	Post-employment healthcare benefits – provider fund (note 36.2)	**252**	178
	Liberty		
	Retirement funds (note 36.4)	**202**	170
		668	348
	Amounts recognised as liabilities in the statement of financial position (note 20.2)		
	Standard Bank operations		
	Retirement funds (note 36.1)		372
	Post-employment healthcare benefits – other funds (note 36.2)	**788**	827
	Liberty		
	Post-employment healthcare benefits (note 36.3)	**400**	354
		1 188	1 553

The total amount recognised as an expense for the defined contribution plans operated by the group amounted to R1 047 million (2009: R1 002 million).

36.1 Standard Bank retirement funds

Membership of the principal fund, the Standard Bank Group Retirement Fund (SBGRF), 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 was 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.

The majority of employees in South Africa who are not members of the SBGRF are members of two other funds designed for their occupational groups. Employees in territories beyond South African jurisdiction are members of either defined contribution or defined benefit plans governed by legislation in their respective countries.

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	2010 Rm	2009 Rm
36. Pensions and other post-employment benefits continued		
36.1 Standard Bank retirement funds continued		
The amounts recognised in the statement of financial position in respect of the retirement funds are determined as follows:		
Present value of funded obligations	**20 644**	19 751
Fair value of plan assets	**(22 312)**	(21 390)
Surplus	**(1 668)**	(1 639)
Unrecognised actuarial gains	**1 454**	2 011
Included in other (assets)/liabilities in the statement of financial position	**(214)**	372
Unrecognised actuarial gains or losses are deferred and recognised in profit or loss over a period not exceeding the estimated service lives of the employees, except in the case of retired employees in which case it is recognised immediately.		
Movement in the present value of funded obligations		
Balance at beginning of the year	**19 751**	19 641
Current service cost and interest cost	**2 277**	2 414
Employee contributions	**432**	405
Actuarial gains	**(219)**	(1 478)
Exchange differences	**(50)**	(37)
Benefits paid	**(1 547)**	(1 194)
Balance at end of the year	**20 644**	19 751
Movement in the fair value of plan assets		
Balance at beginning of the year	**21 390**	19 642
Expected return on plan assets	**2 216**	2 067
Contributions received	**872**	820
Actuarial (losses)/gains	**(581)**	93
Exchange differences	**(40)**	(39)
Benefits paid	**(1 545)**	(1 193)
Balance at end of the year	**22 312**	21 390
Plan assets consist of the following:		
Cash	**2 916**	2 817
Equities	**8 756**	12 081
Government bonds	**5 182**	2 772
Property and other	**5 458**	3 720
	22 312	21 390

Plan assets include R15 million (2009: R11 million) of property occupied by the group.

The group expects to pay R519 million in contributions to the Standard Bank retirement funds in 2011 (2010: R547 million).

	2010 Rm	2009 Rm
36. Pensions and other post-employment benefits continued		
36.1 Standard Bank retirement funds continued		
The amounts recognised in profit or loss are determined as follows:		
Current service cost	**430**	558
Interest cost	**1 847**	1 856
Expected return on plan assets	**(2 216)**	(2 067)
Net actuarial gains recognised in the year	**(130)**	(28)
Curtailment cost		(69)
Included in staff costs	**(69)**	250
Actual return on plan assets	**2 186**	2 107

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 were made to reflect the effect of expenses.

Historical information

	2010 Rm	2009 Rm	2008 Rm	2007 Rm	2006 Rm
Present value of funded obligation	**20 644**	19 751	19 641	22 875	20 449
Fair value of plan assets	**(22 312)**	(21 390)	(19 642)	(22 858)	(20 409)
(Surplus)/unfunded obligation	**(1 668)**	(1 639)	(1)	17	40
Experience adjustments arising on plan liabilities	**(227)**	1 605	4 966	(1 582)	(2 279)
Experience adjustments arising on plan assets	**(586)**	(7)	(4 985)	1 041	2 210

36.2 Standard Bank post-employment healthcare benefits

The group 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 valuation was performed on 1 April 2010 and reflected an excess in the fund.

Other

The largest portion of this liability represents a South African post-employment healthcare benefit scheme that covers all employees who went on retirement before 1 March 2000. The liability is unfunded and is valued every year using the projected unit credit method. The latest full actuarial valuation was performed on 31 December 2010. The next actuarial valuation is to be performed on 31 December 2011.

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	2010 Rm	2009 Rm
36. Pensions and other post-employment benefits continued		
36.2 Standard Bank post-employment healthcare benefits continued		
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 obligations	720	750
Present value of funded defined benefit obligations	837	706
Total present value of defined benefit obligations	1 557	1 456
Fair value of plan assets	(1 450)	(1 247)
Unfunded obligation	107	209
Unrecognised actuarial gains	429	440
Included in the statement of financial position	536	649
Comprising:		
Provider fund	(252)	(178)
Other funds	788	827
	536	649
Movement in the present value of defined benefit obligations		
Balance at beginning of the year	1 456	1 433
Current service cost and interest cost	179	170
Exchange differences	(36)	(116)
Actuarial losses	129	94
Benefits paid	(171)	(125)
Balance at end of the year	1 557	1 456
Movement in the fair value of plan assets		
Balance at beginning of the year	1 247	1 157
Expected return on plan assets	132	108
Contributions received	16	
Exchange differences	(1)	(45)
Actuarial gains	172	92
Benefits paid	(116)	(65)
Balance at end of the year	1 450	1 247
Plan assets consist of the following:		
Cash	254	44
Equities	858	873
Government bonds	179	179
Property and other	159	151
	1 450	1 247

Plan assets include Rnil (2009: R19 million) of investments in equity of the group.

The group expects to pay R51 million in contributions to post-employment healthcare benefit plans in 2011 (2010: R52 million).

	2010 Rm	2009 Rm
The amounts recognised in profit or loss are determined as follows:		
Current service cost	38	39
Interest cost	141	131
Expected return on plan assets	(132)	(108)
Net actuarial (gains)/losses recognised in the year	(80)	2
Included in staff costs	(33)	64
Actual return on plan assets	200	196

36. Pensions and other post-employment benefits continued

36.2 Standard Bank 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:

	2010 1% increase Rm	2010 1% decrease Rm	2009 1% increase Rm	2009 1% decrease Rm
Effect on the aggregate of the current service cost and interest cost	**8**	**(6)**	9	(7)
Effect on the defined benefit obligation	**74**	**(63)**	75	(63)

Historical information

	2010 Rm	2009 Rm	2008 Rm	2007 Rm	2006 Rm
Present value of obligations	**1 557**	1 456	1 433	1 411	1 605
Fair value of plan assets	**(1 450)**	(1 247)	(1 157)	(1 374)	(1 196)
Unfunded obligation	**107**	209	276	37	409
Experience adjustments arising on plan liabilities	**(166)**	(111)	84	280	(81)
Experience adjustments arising on plan assets	**91**	91	(276)	134	122

36.3 Liberty post-employment healthcare benefits

Liberty operates an unfunded post-employment medical aid benefit for employees who joined before 1 July 1998. For past service of employees, Liberty recognises and provides for the actuarially determined present value of post-employment medical aid employer contributions on an accrual basis using the projected unit credit method.

	2010 Rm	2009 Rm	2008 Rm	2007 Rm	2006 Rm
Movement in the liability recognised in the statement of financial position					
Present value of unfunded defined benefit obligations at beginning of the year	**354**	344	293	261	196
Additions through business acquisition				11	
Recognised in profit or loss	**46**	10	51	21	65
Present value of unfunded defined benefit obligations at end of the year	**400**	354	344	293	261

	2010 Rm	2009 Rm
The amounts recognised in profit or loss are determined as follows:		
Current service cost	**6**	6
Interest cost	**34**	29
Benefits paid	**(8)**	(7)
Actuarial losses/(gains)	**14**	(18)
Included in staff costs	**46**	10

A one percentage point change in medical inflation rates would have the following effect on the post-employment medical aid liability recognised:

	2010 1% increase Rm	2010 1% decrease Rm	2009 1% increase Rm	2009 1% decrease Rm
Increase/(decrease) in the liability	**71**	**(56)**	31	(28)

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36. Pensions and other post-employment benefits continued

36.4 Liberty retirement funds[1]

The Liberty defined benefit pension scheme closed to new employees from 1 March 2001 and with effect from this date, the majority of employees accepted an offer to convert their retirement plans from defined benefit to defined contribution plans. Employees joining after 1 March 2001 automatically become members of the defined contribution schemes. The ACA and Rentmeester defined benefit pension funds are all fully funded. All funds are governed by the Pension Funds Act, 1956.

The amounts recognised in the statement of financial position in respect of the retirement benefit obligations are determined as follows:

	2010 Rm	2009 Rm	2008 Rm	2007 Rm	2006 Rm
Present value of funded obligations	**1 241**	1 200	1 122	1 379	624
Fair value of plan assets	**(1 352)**	(1 296)	(1 213)	(1 838)	(1 662)
Surplus	**(111)**	(96)	(91)	(459)	(1 038)
Excess not recognised	**111**	96	91	459	1 050
Included in other liabilities in the statement of financial position					12
Defined benefit pension fund employer surplus included in other assets in the statement of financial position[2]	**202**	170	144	162	

	2010 Rm	2009 Rm
Movement in the defined benefit funded obligations		
Balance at beginning of the year	**1 200**	1 122
Valuation adjustment[3]		(12)
Adjustment[4]	**2**	
Current service cost and interest cost	**79**	64
Actuarial losses	**59**	94
Benefits paid	**(99)**	(68)
Balance at end of the year	**1 241**	1 200

[1] *This includes the Liberty Group defined benefit pension fund, ACA defined benefit fund and Rentmeester defined benefit fund.*

[2] *The apportionment of the surplus within the Liberty Group defined benefit pension fund between the employer and the members was approved on 31 August 2007 by the Registrar of Pension Funds in terms of the Pension Funds Second Amendment Act 39 of 2001. The employer surplus has been measured as the approved amount allocated at 1 January 2003 (date of apportionment) adjusted for additional trustee-approved allocations and subsequent related investment net gains or losses. The amount will be recovered through future reductions in employer contributions to the plan.*

[3] *This adjustment represents the change in the defined benefit funded obligation between the submission of the previous accounting valuation and the subsequent statutory valuation.*

[4] *The R2 million relating to the ACA defined benefit fund in 2010 brings the opening balance of the funded obligation in line with the 2008 valuation performed by the fund's valuator.*

	2010 Rm	2009 Rm
Movement in the fair value of plan assets		
Balance at beginning of the year	**1 296**	1 213
Valuation adjustment[1]		(13)
Expected return on plan assets	**118**	89
Employer contributions	**9**	8
Actuarial gains	**28**	67
Benefits paid	**(99)**	(68)
Balance at end of the year	**1 352**	1 296

[1] *This adjustment represents the change in the defined benefit funded obligation between the submission of the previous accounting valuation and the subsequent statutory valuation.*

	2010 Rm	2009 Rm

36. Pensions and other post-employment benefits continued

36.4 Liberty retirement funds continued

	2010 Rm	2009 Rm
Plan assets consist of the following:		
Cash	**667**	608
Equities	**461**	467
Government bonds	**77**	81
Property and other	**147**	140
	1 352	1 296

The group's best estimate of contributions expected to be paid to the Liberty Pension Fund during 2011 is Rnil (2010: Rnil) as it is anticipated that the contributions will be decreased to utilise the employer portion of the surplus apportionment approval.

	2010 Rm	2009 Rm
The amounts recognised in profit or loss are determined as follows:		
Current service cost	**13**	12
Interest cost	**67**	53
Expected return on plan assets	**(118)**	(89)
Actuarial losses	**31**	26
Included in staff costs	**(7)**	2

The principal actuarial assumptions used for accounting purposes were:

	Standard Bank			Liberty	
	Retirement fund %	Provider fund %	Other funds %	Defined benefit pension fund %	Post-employment medical aid %
2010					
Discount rate	**8,26**	**9,00**	**8,26**	**9,10**	**8,01**
Return on investments	**8,26**	**9,25**	**8,26**	**9,10**	**8,01**
Salary/benefit inflation	**5,62**	**8,00**		**6,43**	
CPI inflation	**4,62**	**6,00**	**4,62**		
Medical inflation			**6,92**		**6,10**
Remaining service life of employees (years)	**13,42**	**14,00**			
2009					
Discount rate	9,50	9,50	9,50	9,00	9,00
Return on investments	10,50	9,75	9,50	9,00	9,00
Salary/benefit inflation	7,00	8,00		6,00	
CPI inflation	6,00	6,00	6,00		
Medical inflation			8,00		7,00
Remaining service life of employees (years)	15,00	15,00			

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Statement of financial position as at 31 December 2010

	Note	Company 2010 Rm	Company 2009 Rm
Assets			
Financial investments			16
Deferred tax asset	37	**52**	110
Other assets		**301**	107
Interest in subsidiaries	38	**55 362**	53 967
Interest in associates	39	**144**	176
Total assets		**55 859**	54 376
Equity and liabilities			
Equity		**55 857**	54 372
Share capital and premium	15	**23 025**	22 700
Reserves		**32 832**	31 672
Liabilities		**2**	4
Current tax liabilities		**1**	
Other liabilities		**1**	4
Total equity and liabilities		**55 859**	54 376

Statement of comprehensive income for the year ended 31 December 2010

	Note	2010 Rm	2009 Rm
Dividends from subsidiaries		**5 168**	5 938
Interest income		**307**	371
Other income	40	**(15)**	(176)
Total income		**5 460**	6 133
Operating expenses		**5**	16
Profit before direct taxation		**5 455**	6 117
Direct taxation	41	**158**	26
Profit for the year		**5 297**	6 091
Other comprehensive income			
Fair value adjustments on cash flow hedges			(2)
Total comprehensive income		**5 297**	6 089

Statement of cash flows for the year ended 31 December 2010

	Note	Company 2010 Rm	Company 2009 Rm
Operating activities			
Profit before direct taxation		**5 455**	6 117
Adjusted for:			
Dividends received		**(5 168)**	(5 938)
Interest income		**(307)**	(371)
Mark-to-market adjustments on financial investments and derivatives		**(3)**	(12)
Other non-cash adjustments			6
Net cash flows used in operating activities		**(23)**	(198)
Interest received		**317**	371
Dividends received		**5 168**	5 938
Taxation paid	42.1	**(90)**	(102)
Net cash (used in)/from operating funds	42.2	**(197)**	238
Net cash used in investing activities		**(1 253)**	(2 991)
Decrease/(increase) in interest in associates		**32**	(34)
Increase in investment in subsidiaries	42.3	**(1 285)**	(2 957)
Net cash flows used in financing activities		**(3 922)**	(3 256)
Proceeds from issue of share capital		**325**	200
Net dividends paid	42.4	**(4 247)**	(3 456)
Net increase in cash and cash equivalents		**–**	–
Cash and cash equivalents at beginning of the year		**–**	–
Cash and cash equivalents at end of the year		**–**	–

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

Company	Note	Share capital and premium Rm	Share-based payment reserve Rm	Revaluation reserve Rm	Cash flow hedging reserve Rm	Empowerment reserve Rm	Retained earnings Rm	Total Rm
Balance at 1 January 2009		22 500	452	3 100	971	(2 031)	26 473	51 465
Issue of share capital and share premium	15.2	200						200
Equity-settled share-based payment transactions			74					74
Transfer of vested equity options			(127)				127	
Total comprehensive income					(2)		6 091	6 089
Dividends paid	32						(3 668)	(3 668)
Dividends received from Tutuwa initiative							212	212
Balance at 31 December 2009		22 700	399	3 100	969	(2 031)	29 235	54 372
Balance at 1 January 2010		**22 700**	**399**	**3 100**	**969**	**(2 031)**	**29 235**	**54 372**
Issue of share capital and share premium	15.2	**325**						**325**
Equity-settled share-based payment transactions			**110**					**110**
Transfer of vested equity options			**(428)**				**428**	
Total comprehensive income							**5 297**	**5 297**
Dividends paid	32					**(340)**	**(3 907)**	**(4 247)**
Balance at 31 December 2010		**23 025**	**81**	**3 100**	**969**	**(2 371)**	**31 053**	**55 857**

		Company	
		2010	2009
		Rm	Rm
37.	**Deferred tax asset**		
	Deferred tax asset	**52**	110
	Secondary tax on companies credits	**52**	105
	Mark-to-market adjustment on assets		5
		52	110
37.1	**Deferred tax analysis**		
	Deferred tax asset at the beginning of the year	**110**	14
	(Reversing)/originating temporary difference for the year		
	Secondary tax on companies	**(53)**	97
	Fair value adjustment	**(5)**	(1)
	Deferred tax asset at end of the year	**52**	110
38.	**Interest in subsidiaries**		
	Shares at cost	**50 280**	49 106
	Net indebtedness to the company	**4 348**	4 237
	Indebtedness to the company	**5 143**	4 991
	Indebtedness by the company	**(795)**	(754)
	Investment through equity-settled share incentives	**734**	624
		55 362	53 967
	Subsidiaries, and investments and loans therein, are listed in Annexure B on page 301.		
39.	**Interest in associates**		
	Carrying value at beginning of the year	**176**	142
	(Disposal of)/investment in associate	**(32)**	34
	Carrying value at end of the year	**144**	176
	Directors' valuation		
	The directors' valuation of the investment in associates is R144 million (2009: R176 million)		
	The associates include an investment in South African Home Loans (Proprietary) Limited, refer to Annexure C on page 306.		
40.	**Other income**		
	Realised losses on derivatives	**(18)**	(188)
	Mark-to-market adjustments on financial investments and derivatives	**3**	12
		(15)	(176)

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		Company	
		2010 Rm	2009 Rm
41.	**Direct taxation**		
	Current year		
	South African normal tax	**101**	65
	Deferred tax charge	**5**	1
	Capital gains tax	**(1)**	
	Foreign and withholding taxes		31
	Secondary tax on companies – deferred tax	**53**	(97)
	Prior years		
	South African normal tax		26
	Direct taxation	**158**	26
	South African tax rate reconciliation (%)		
	Effective tax rate	**3**	
	Withholding tax		(1)
	Secondary tax on companies	**(1)**	2
	Net tax charge	**2**	1
	The charge for the year has been reduced as a consequence of:		
	Dividends received	**26**	27
	Standard rate of South African tax	**28**	28
42.	**Cash flow statement notes**		
42.1	**Taxation paid**		
	Current and deferred taxation receivable at beginning of the year	**110**	47
	Income statement charge	**(158)**	(26)
	Increase/(reduction) due to interest charge allocated to interest expense	**9**	(13)
	Current and deferred taxation receivable at end of the year	**(51)**	(110)
		(90)	(102)
42.2	**Net cash (used in)/from operating funds**		
	(Increase)/decrease in other assets	**(194)**	238
	Decrease in other liabilities	**(3)**	
		(197)	238
42.3	**Increase in investment in subsidiaries**		
	Cost of investment in subsidiaries net of disposal	**(1 174)**	(1 731)
	Movement in net indebtedness	**(111)**	(1 232)
	Other non-cash adjustments		6
		(1 285)	(2 957)
42.4	**Net dividends paid**		
	Dividends paid to ordinary shareholders	**(3 860)**	(3 137)
	Dividends paid to preference shareholders	**(387)**	(531)
	Dividends received in terms of Tutuwa initiative		212
		(4 247)	(3 456)

43. Liquidity, credit and market risk information

Other assets and liabilities consist mainly of non-financial assets and liabilities which are not subject to liquidity, credit and market risk for IFRS 7 purposes. Financial investments in 2009 consisted of R16 million investments held at fair value. These investments are subject to market risk, however any reasonable possible changes in the underlying equity price on which these investments are valued, are not significant for the company.

44. Related party transactions

During the current and prior year, the company has entered into transactions with its subsidiaries and received dividend and interest income. A list of subsidiaries is detailed within Annexure B on pages 301 to 305.

Annexure A – reclassifications and restatements

Group statement of financial position reclassifications and restatements

	December 2009					
	As previously reported Rm	Derivative contracts[1] Rm	Repurchase agreements[2] Rm	Loans and advances[3] Rm	Change in accounting policy[4] Rm	Restated Rm
Assets						
Cash and balances with central banks	24 983					24 983
Derivative assets	168 257	(45 961)	(102)			122 194
Trading assets	89 644		(1 231)			88 413
Pledged assets	5 808					5 808
Financial investments	261 066					261 066
Loans and advances	721 389					721 389
Loans and advances to banks	122 923			(11 855)		111 068
Loans and advances to customers	598 466			11 855		610 321
Current tax assets	136					136
Deferred tax assets	1 345					1 345
Other assets	16 926					16 926
Interest in associates and joint ventures	9 529					9 529
Investment property	19 058					19 058
Goodwill and other intangible assets	9 409					9 409
Property and equipment	12 250					12 250
Total assets	1 339 800	(45 961)	(1 333)			1 292 506
Equity and liabilities						
Equity	99 369					99 369
Equity attributable to ordinary shareholders	84 022					84 022
Preference share capital and premium	5 503					5 503
Non-controlling interest	9 844					9 844
Liabilities	1 240 431	(45 961)	(1 333)			1 193 137
Derivative liabilities	162 515	(45 961)	(1 333)			115 221
Trading liabilities	51 118					51 118
Deposit and current accounts	768 548					768 548
Deposits from banks	106 018					106 018
Deposits from customers	662 530					662 530
Current tax liabilities	3 634					3 634
Deferred tax liabilities	4 013				(756)	3 257
Other liabilities	40 403					40 403
Policyholders' liabilities	183 544				756	184 300
Subordinated debt	26 656					26 656
Total equity and liabilities	1 339 800	(45 961)	(1 333)			1 292 506

[1] *A review of the group's derivative positions was undertaken during the course of 2010 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 (e.g. maize) and hard (e.g. 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, and 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.*

[3] *For the classification of loans and advances to banks, banks are defined as entities that are regulated deposit taking institutions. In previous reporting periods, overnight placements with certain banking groups, which are not regulated deposit taking institutions, were included under loans to banks. These placements have now been reclassified as loans to customers.*

[4] *Deferred tax relating to investment properties was previously provided based on the use rate but is now provided at the sale rate due to the amendment to IAS 12. This has also resulted in a R22 million decrease in net insurance benefits and claims, a R42 million increase in fair value adjustments to policyholders' liabilities under investment contracts and a R20 million decrease in direct taxation in the income statement in 2009. Refer to note 34.*

These reclassifications and restatements had no net impact on profit for the year.

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Annexure A – reclassifications and restatements continued

Group statement of financial position reclassifications and restatements continued

	December 2008					
	As previously reported Rm	Derivative contracts[1] Rm	Repurchase agreements[1] Rm	Loans and advances[1] Rm	Change in accounting policy[1] Rm	Restated Rm
Assets						
Cash and balances with central banks	25 697					25 697
Derivative assets	267 761	(51 075)	(2 253)			214 433
Trading assets	85 227		2 213			87 440
Pledged assets	8 373					8 373
Financial investments	253 259					253 259
Loans and advances	787 934					787 934
Loans and advances to banks	129 890			(5 671)		124 219
Loans and advances to customers	658 044			5 671		663 715
Current tax assets	190					190
Deferred tax assets	1 127					1 127
Other assets	30 398					30 398
Interest in associates and joint ventures	6 990					6 990
Investment property	16 771					16 771
Goodwill and other intangible assets	10 180					10 180
Property and equipment	9 746					9 746
Total assets	1 503 653	(51 075)	(40)			1 452 538
Equity and liabilities						
Equity	99 501					99 501
Equity attributable to ordinary shareholders	81 953					81 953
Preference share capital and premium	5 503					5 503
Non-controlling interest	12 045					12 045
Liabilities	1 404 152	(51 075)	(40)			1 353 037
Derivative liabilities	262 146	(51 075)	(40)			211 031
Trading liabilities	48 155					48 155
Deposit and current accounts	843 815					843 815
Deposits from banks	129 055					129 055
Deposits from customers	714 760					714 760
Current tax liabilities	2 673					2 673
Deferred tax liabilities	6 185				(736)	5 449
Other liabilities	47 578					47 578
Policyholders' liabilities	172 069				736	172 805
Subordinated debt	21 531					21 531
Total equity and liabilities	1 503 653	(51 075)	(40)			1 452 538

[1] *Refer to page 299 for explanations of reclassifications and restatements.*

Annexure B – subsidiaries

Standard Bank Group[1]

The Standard Bank of South Africa[1]

- Diners Club (SA)[1]
- Blue Bond Investments[1]
- Standard Bank Insurance Brokers[1]

- Melville Douglas Investment Management[1]
- Standard Insurance[1]
- Standard Executors and Trustees[1]
- Stanvest[1]

- Standard Lesotho Bank (80%)
- Standard Bank Namibia
- Standard Bank Swaziland (65%)
- Standard Bank de Angola

Stanbic Africa Holdings, UK

- CfC Stanbic Holdings, Kenya (60%)
- Stanbic Bank Botswana
- Stanbic Bank Ghana (98,5%)
- Stanbic Bank Tanzania
- Stanbic Bank Uganda (80%)
- Stanbic Bank Zambia
- Stanbic Bank Zimbabwe
- Stanbic IBTC Bank, Nigeria (50,8%)
- Standard Bank Limited, Malawi (60,2%)
- Standard Bank Mauritius
- Standard Bank s.a.r.l. Mozambique (96%)
- Standard Bank RDC, DRC

Standard International Holdings, Luxembourg

- Standard Bank Plc, UK
- Standard Bank Asia, Hong Kong
- Standard Merchant Bank (Asia), Singapore
- Standard London (Asia) Sendirian Berhad, Malaysia (70%)
- Standard Americas, USA
- Standard New York, USA
- Standard New York Securities, USA
- Banco Standard de Investimentos, Brazil
- Standard Resources, China
- Standard Ünlü Menkul Degerler, Turkey (66,9%)
- Standard Bank Argentina (75%)

Liberty Holdings[1] (53,65%)

Liberty Group[1]

- Liberty Active[1]
- Liberty Group Properties[1]

Stanlib[1]

- Stanlib Collective Investments[1]
- Stanlib Multi-Manager[1]
- Stanlib Wealth Management[1]
- Stanlib Asset Management[1]

- Capital Alliance Holdings[1]
- Neil Harvey and Associates[1] (50,1%)

Standard Bank Group International, Isle of Man

- Stanbic International Insurance, Isle of Man
- Standard Finance, Isle of Man
- SBIC Finance, Isle of Man
- SML, Isle of Man

Standard Bank Offshore Group, Jersey

- Standard Bank Jersey
- Standard Bank Fund Administration Jersey
- Standard Bank Fund Managers Jersey
- Standard Bank Offshore Trust Company Jersey
- Standard Bank Isle of Man
- Standard Bank Trust Company, Mauritius
- Melville Douglas International, British Virgin Islands

[1] *Incorporated in South Africa.*

This diagram depicts principal subsidiaries only.
The holding in subsidiaries is 100% unless otherwise indicated.

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Annexure B – subsidiaries continued

	Nature of operation	Nominal share capital issued 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
Standard Bank Group will ensure that, except in the case of political risk, its subsidiaries denoted by # are able to meet their contractual liabilities.								
Banking subsidiaries								
Banco Standard de Investimentos S.A. (Brazil)[1#]	Investment bank	1 400	**100**	100				
CfC Stanbic Bank Limited (Kenya)[1#]	Commercial bank	168	**60**	60				
Stanbic Bank Botswana Limited (Botswana)[1#]	Commercial bank	67	**100**	100				
Stanbic Bank Ghana Limited (Ghana)[1#]	Commercial bank	407	**98**	98				
Stanbic Bank RDC s.a.r.l. (D R Congo)[1#]	Commercial bank	85	**100**	100				
Stanbic Bank Tanzania Limited (Tanzania)[1#]	Commercial bank	29	**100**	100				
Stanbic Bank Uganda Limited (Uganda)[1#]	Commercial bank	23	**80**	80				
Stanbic Bank Zambia Limited (Zambia)[1#]	Commercial bank	21	**100**	100				
Stanbic Bank Zimbabwe Limited (Zimbabwe)[1]	Commercial bank	**	**100**	100				
Stanbic IBTC Bank Plc (Nigeria)[1#]	Commercial bank	516	**51**	51				
Standard Bank Argentina S.A. (Argentina)[1]	Investment bank	1 915	**75**	75				
Standard Bank Asia Limited (Hong Kong)[1#]	Investment bank	642	**100**	100				
Standard Bank de Angola S.A. (Angola)[#]	Commercial bank	174	**100**		**174**			
Standard Bank Isle of Man Limited (Isle of Man)[1#]	Merchant bank	25	**100**	100				
Standard Bank Jersey Limited (Jersey)[1#]	Merchant bank	206	**100**	100				
Standard Bank Limited (Malawi)[1#]	Commercial bank	22	**60**	60				
Standard Bank Mauritius Limited (Mauritius)[1#]	Commercial bank	220	**100**	100				
Standard Bank Namibia Limited (Namibia)[#]	Commercial bank	2	**100**	100	**444**	444		
Standard Bank Plc (United Kingdom)[2#]	Investment bank	3 926	**100**	100	**929**	929		
Standard Bank s.a.r.l. (Mozambique)[1#]	Commercial bank	56	**96**	96				
Standard Bank Swaziland Limited (Swaziland)[#]	Commercial bank	15	**65**	65	**33**	33		

	Nature of operation	Nominal share capital issued 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
Banking subsidiaries continued								
Standard Lesotho Bank Limited (Lesotho)[#]	Commercial bank	21	**80**	80	**13**	13		
Standard Merchant Bank (Asia) Limited (Singapore)[1#]	Investment bank	75	**100**	100				
The Standard Bank of South Africa Limited[#]	Commercial bank	60	**100**	100	**25 097**	24 097	**4 379[3]**	4 056[3]
Non-banking subsidiaries								
Accelerator Fund 1 (Pty) Limited[4]	Securitisation vehicle							
Accelerator Fund 2 (Pty) Limited[4]	Securitisation vehicle							
Alisier Investments (Pty) Limited[1]	Investment holding company	**	**100**	100				
Blue Banner Securitisation Vehicle RC1 (Pty) Limited[4]	Mortgage financing							
Blue Bond Investments Limited[1]	Participation mortgage bond finance	**	**100**	100				
Blue Granite Investments No. 1 (Pty) Limited[4]	Securitisation vehicle							
Blue Granite Investments No. 2 (Pty) Limited[4]	Securitisation vehicle							
Blue Granite Investments No. 3 (Pty) Limited[4]	Securitisation vehicle							
Blue Granite Investments No. 4 (Pty) Limited[4]	Securitisation vehicle							
Blue Titanium Conduit Limited[4]	Asset-backed commercial paper conduit							
Diners Club (SA) (Pty) Limited[1#]	Travel and entertainment card	**	**100**	100				
Erf 224 Edenburg (Pty) Limited	Property owning and investing company	**	**100**	100				
Gleneagles Retail Centre (Pty) Limited	Property owning and investing company	**	**100**	100				
Grand Central Shopping Centre (Pty) Limited	Property owning company	**		100				
Liberty Group Limited[1]	Insurance company	28	**54**	54				
Liberty Holdings Limited[5]	Insurance holding company	26	**54**	54	**7 668**	7 668		
Melville Douglas International Limited (British Virgin Islands)[1#]	Portfolio management	**	**100**	100				
Melville Douglas Investment Management (Pty) Limited[#]	Portfolio management	**	**100**	100	**53**	53		
SBG Securities (Pty) Limited[6#]	Stockbrokers							
SBIC Finance Limited (Isle of Man)[1]	Project finance	**	**100**	100				

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Annexure B – subsidiaries continued

	Nature of operation	Nominal share capital issued 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
Non-banking subsidiaries continued								
SBIC Investments S.A. (Luxembourg)[1#]	Investment holding company	542	**100**	100				
SBN Holdings Limited (Namibia)	Bank holding company	**	**100**	100				
SML Limited (Isle of Man)[1]	Investment holding company	**	**100**	100				
SMT Limited (Isle of Man)[1]	Investment holding company	**	**100**	100				
Stanbic Africa Holdings Limited (United Kingdom)[2]	Investment holding company	362	**100**	100	**2 161**	2 161		
Stanbic International Insurance Limited (Isle of Man)[1]	Insurance company	1	**100**	100				
Standard Americas, Inc (United States of America)[1#]	Trading company	**	**100**	100				
Standard Bank Fleet Management (Pty) Limited	Fleet management	**	**100**	100				
Standard Bank Fund Administration Jersey Limited (Jersey)[1]	Portfolio management	1	**100**	100				
Standard Bank Fund Managers Jersey Limited (Jersey)[1#]	Fund administration	**	**100**	100				
Standard Bank Group International Limited (Isle of Man)	Investment holding company	**	**100**	100	**13 435**	13 435		
Standard Bank Insurance Brokers (Pty) Limited[1]	Insurance broking	**	**100**	100				
Standard Bank London Holdings Plc (United Kingdom)[1]	Investment holding company	1 869	**100**	100				
Standard Bank Manx Holdings Limited (Isle of Man)[1]	Investment holding company	1	**100**	100				
Standard Bank Offshore Group Limited (Jersey)[2]	Investment holding company	17	**100**	100	**49**	49		
Standard Bank Offshore Trust Company Jersey Limited (Jersey)[1#]	Trust company	3	**100**	100				
Standard Bank Trust Company (Isle of Man) Limited (Isle of Man)[1#]	Trust company	1	**100**	100				
Standard Bank Trust Company (Mauritius) Limited (Mauritius)[1#]	Trust company	**	**100**	100				
Standard Capital Japan Company Limited (Japan)[1]	Loan origination and money lending			100				
Standard Executors and Trustees Limited[#]	Trust company	**	**100**	100				
Standard Finance (Isle of Man) Limited (Isle of Man)[1#]	Finance company	**	**100**	100				
Standard Financial Markets (Pty) Limited[#]	Stockbrokers	**	**100**	100				

	Nature of operation	Nominal share capital issued 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
Non-banking subsidiaries continued								
Standard Insurance Limited	Short- term insurance	15	**100**	100	**30**	30		
Standard International Holdings S.A. (Luxembourg)[2#]	Investment holding company	157	**100**	100	**99**	99		
Standard London (Asia) Sendirian Berhad (Malaysia)[1]	Introducing broker	1	**70**	70				
Standard New York, Inc (United States of America)[1#]	Investment holding company	**	**100**	100				
Standard New York Securities, Inc (United States of America)[1#]	Securities broker/ dealer	82	**100**	100				
Standard Resources (China) Limited (China)[1]	Trading company	116	**100**	100				
Standard Securities (Asia) Limited (Hong Kong)[1]	Securities company	117	**100**	100				
Standard Ünlü Menkul Degerler A.S. (Turkey)[1]	Securities broker/ dealer	**	**67**	67				
Stanlib Limited[1]	Wealth and asset management	**	**54**	54				
Stanvest (Pty) Limited	Investment holding company	**	**100**	100				
Triskelion Trust Company Limited (Isle of Man)[1]	Trust company	**	**100**	100				
Miscellaneous	Finance companies				**95**	95	**(31)**	181
					50 280	49 106	**4 348**	4 237

The nominal share capital issued of foreign subsidiaries has been stated in the above table at their rand equivalents at the rates of exchange ruling on the dates of provision of capital. Detailed information is not given in respect of subsidiaries which are not material to the financial position of the group. The country of incorporation is South Africa unless otherwise indicated.

[1] *Held indirectly, no book value in Standard Bank Group Limited.*
[2] *Effective holding comprises direct and indirect holdings.*
[3] *Represents cash held in current and call accounts.*
[4] *Special purpose entity, no shareholding.*
[5] *Listed on the exchange operated by the JSE Limited.*
[6] *The group has purchased the remaining 50% shareholding in its associate, Credit Suisse Standard Securities (Proprietary) Limited in January 2011. The name of the entity has subsequently been changed to SBG Securities (Proprietary) Limited.*
** *Issued share capital less than R1 million.*

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Annexure C – associates and joint ventures

	Edu-Loan (Proprietary) Limited		Safika Holdings (Proprietary) Limited		South African Home Loans (Proprietary) Limited	
Ownership structure	Associate		Associate		Associate	
Nature of business	Student loans		Investment holding company		Finance	
Year end	December		February		February	
Date to which equity accounted	31 December 2010		31 December 2010		31 December 2010	
	2010	2009	**2010**	2009	**2010**	2009
Effective holding (%)	**29**	29	**20**	20	**44**	44
	Rm	Rm	**Rm**	Rm	**Rm**	Rm
Carrying value	**41**	35	**411**	374	**352**	277
Balance sheet[1]						
Non-current assets	**14**	11	**3 703**	4 291	**170**	130
Current assets	**338**	315	**602**	286	**1 123**	977
Non-current liabilities	**(36)**	(55)	**(1 083)**	(2 297)	**(122)**	(125)
Current liabilities	**(190)**	(164)	**(421)**	(385)	**(211)**	(191)
Loans to/(from) entity[2]	**154**	51			**(461)**	(378)
Attributable income before impairment	**8**	11	**51**	91	**56**	37

	Troika Dialog Group Limited[3]		RCS Investment Holdings (Proprietary) Limited		Dairy Belle (Proprietary) Limited	
Ownership structure	Associate		Associate		Associate	
Nature of business	Investment banking		Finance		Dairy products	
Year end	September		March		September	
Date to which equity accounted	30 September 2010		31 December 2010		31 December 2010	
	2010	2009	**2010**	2009	**2010**	2009
Effective holding (%)	**36**	36	**45**	45	**50**	50
	Rm	Rm	**Rm**	Rm	**Rm**	Rm
Carrying value	**2 467**	2 369	**623**	570	**30**	38
Balance sheet[1]						
Non-current assets	**2 803**	4 818	**96**	89	**492**	414
Current assets	**35 002**	30 228	**2 732**	2 750	**587**	434
Non-current liabilities	**(420)**	(258)	**(1 634)**	(1 633)	**(580)**	(435)
Current liabilities	**(31 661)**	(28 795)	**(283)**	(312)	**(350)**	(277)
Loans to entity[2]	**332**	184	**92**	630	**224**	346
Attributable income before impairment	**370**		**82**	74	**(9)**	(12)

[1] *Represents the summarised financial information of the associates and joint ventures.*

[2] *These loans are provided on an arm's-length basis.*

[3] *The group's strategic investment in Troika Dialog Group Limited was completed in September 2009 and the investment was recognised as an interest in an associate company. Due to Troika's September year end, the group recognises earnings from this associate a quarter in arrears, therefore no earnings were recognised for the fourth quarter of 2009, while R370 million of earnings were recognised for the year ended 31 December 2010. Included in the R370 million of earnings recognised was R113 million relating to the Standard Bank Group share of operating profit and R257 million relating to the post acquisition recovery of underlying asset values. Refer to commentary on page 77 relating to the group's investment in Troika Dialog.*

	Credit Suisse Standard Securities (Proprietary) Limited[1]		Integrated Processing Solutions (Proprietary) Limited		The Cullinan Hotel (Proprietary) Limited	
Ownership structure	Joint venture		Joint venture		Joint venture	
Nature of business	Stockbroker		Financial Services		Leisure	
Year end	February		December		March	
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	**50**	50
	Rm	Rm	**Rm**	Rm	**Rm**	Rm
Carrying value	**129**	135	**41**	34	**387**	353
Balance sheet[2]						
Non-current assets	**35**	29	**29**	20	**741**	694
Current assets	**567**	726	**86**	81	**90**	68
Non-current liabilities						
Current liabilities	**(391)**	(532)	**(39)**	(32)	**(58)**	(56)
Loans to entity[3]					**64**	64
Attributable income before impairment	**(6)**	25	**6**	10	**44**	48

	Other associates		Other joint ventures		Total associates and joint ventures	
Ownership structure	Associates		Joint ventures			
Nature of business	Various		Various			
Year end	Various		Various			
Date to which equity accounted	31 December 2010		31 December 2010			
	2010	2009	**2010**	2009	**2010**	2009
Effective holding (%)	**Various**	Various	**Various**	Various	**Various**	Various
	Rm	Rm	**Rm**	Rm	**Rm**	Rm
Carrying value	**191**	291	**47**	74	**4 719**	4 550
Balance sheet[2]						
Non-current assets	**4 962**	1 339	**16**	36	**13 061**	11 871
Current assets	**2 702**	4 067	**61**	142	**43 890**	40 074
Non-current liabilities	**(2 729)**	(1 566)	**(6)**		**(6 610)**	(6 369)
Current liabilities	**(3 179)**	(3 282)	**(42)**	(73)	**(36 825)**	(34 099)
Loans (from)/to entity[3]	**(144)**	394	**44**	31	**305**	1 322
Attributable income before impairment	**36**	93	**15**	7	**653**	384

[1] *The group purchased the remaining 50% shareholding held by Credit Suisse in Credit Suisse Standard Securities (Proprietary) Limited in January 2011. The name of the entity has been subsequently changed to SBG Securities (Proprietary) Limited. Refer to Annexure B and below.*
[2] *Represents the summarised financial information of the associates and joint ventures.*
[3] *These loans are provided on an arm's-length basis.*

Acquisition of SBG Securities

	Fair value Rm	Net asset value Rm
2011		
Net assets	**215**	**215**
Less: Fair value of deemed disposal of associate	**(108)**	
Cash outflow on acquisition	**107**	

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Annexure C – associates and joint ventures continued

Private equity/venture capital associates and joint ventures[1]

	2010 Rm	2009 Rm
Cost	**382**	409
Carrying value	**641**	658
Statement of financial position[2]		
Non-current assets	**5 204**	5 600
Current assets	**1 633**	1 623
Non-current liabilities	**(2 385)**	(3 754)
Current liabilities	**(1 104)**	(1 082)
Loans (from)/to entity[3]	**(37)**	432
Income statement		
Attributable income before impairment	**43**	128
Impairments included in non-interest revenue	**(43)**	
Fair value	**651**	818

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 ring-fenced 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.

[1] *Included in total associates and joint ventures on pages 306 and 307.*
[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 – group share incentive schemes

Share-based payments

The group's share incentive schemes enable key management personnel and senior employees to benefit from the performance of Standard Bank Group Limited and Liberty Holdings Limited shares.

	2010 Rm	2009 Rm
Expenses recognised in staff costs		
Banking activities	**747**	532
Share options and appreciation rights	**296**	243
Standard International Holdings S.A. (SIH) long-term incentive scheme	**(48)**	26
Quanto stock scheme	**394**	214
Deferred bonus scheme (DBS)	**47**	14
Black ownership initiative (group equity participation plans)	**58**	35
Stanlib		
Black ownership initiative (group equity participation plans)		1
Liberty	**60**	68
Share options	**50**	52
Black ownership initiative (group equity participation plans)	**10**	16
	807	601
Expenses recognised in restructuring costs – banking activities		
Share options and appreciation rights	**26**	
Deferred bonus scheme	**5**	
	31	
Liabilities recognised in other liabilities		
SIH long-term incentive scheme	**50**	141
Quanto stock scheme	**605**	215
Deferred bonus scheme	**77**	21
	732	377

Further details on the group's share incentive schemes are provided below:

Share options and appreciation rights

Standard Bank Group 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 Standard Bank Group share price at the date the option is granted. The Equity Growth Scheme was implemented in 2005 and allocates appreciation rights to employees. The eventual value of the right is settled by receipt of value of shares equivalent to the full value of the rights.

The two schemes have three different sub-types of vesting categories as illustrated by the table below:

Vesting category	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

Refer to the remuneration report on pages 106 to 109 for a detailed schedule of movements in share options issued to the executive directors during the year. A reconciliation of the movement of all share options and appreciation rights is detailed below:

Group Share Incentive Scheme	Option price range (rand) 2010	Number 2010	Number 2009
Reconciliation			
Options outstanding at beginning of the year		**19 123 282**	22 862 850
Granted	**102,00 – 114,60**	**2 606 250**	2 453 900
Exercised	**25,00 – 98,00**	**(5 762 232)**	(5 878 968)
Lapsed	**27,81 – 111,94**	**(862 950)**	(314 500)
Options outstanding at end of the year		**15 104 350**	19 123 282

Share options were exercised regularly throughout the period. The weighted average share price for the year was R107,49 (2009: R86,14).

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Annexure D – group share incentive schemes continued

Share options and appreciation rights 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 exercise price (rand)	Option expiry period
724 400	**30,90 – 33,50**	**31,45**	**Year to 31 December 2011**
779 100	**27,80 – 35,70**	**28,12**	**Year to 31 December 2012**
1 579 500	**27,70 – 32,19**	**27,93**	**Year to 31 December 2013**
2 625 250	**39,90 – 50,91**	**40,90**	**Year to 31 December 2014**
419 500	**64,27 – 65,60**	**65,47**	**Year to 31 December 2015**
1 006 300	**76,40 – 85,80**	**79,53**	**Year to 31 December 2016**
960 400	**97,95 – 107,91**	**98,45**	**Year to 31 December 2017**
2 314 100	**89,00 – 92,00**	**91,81**	**Year to 31 December 2018**
2 205 800	**62,39 – 98,20**	**62,98**	**Year to 31 December 2019**
2 490 000	**102,00 – 114,60**	**111,00**	**Year to 31 December 2020**
15 104 350			

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 exercise price (rand)	Option expiry period
552 800	25,00 – 28,15	25,64	Year to 31 December 2010
2 675 732	30,90 – 35,90	31,90	Year to 31 December 2011
1 251 700	27,80 – 35,70	28,10	Year to 31 December 2012
2 542 700	27,70 – 32,19	27,93	Year to 31 December 2013
3 921 150	39,90 – 62,00	40,90	Year to 31 December 2014
616 000	59,90 – 65,60	65,24	Year to 31 December 2015
1 236 600	76,40 – 85,80	79,53	Year to 31 December 2016
1 196 100	97,95 – 107,91	98,36	Year to 31 December 2017
2 736 000	76,30 – 92,00	91,72	Year to 31 December 2018
2 394 500	62,39 – 98,20	62,93	Year to 31 December 2019
19 123 282			

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	**1 516 000**	1 518 700	**1 090 250**	935 200
Weighted average fair value at grant date (R)	**39,68**	22,07	**41,42**	23,01
The principle inputs are as follows:				
Weighted average share price (R)	**111,17**	62,91	**110,86**	63,06
Weighted average exercise price (R)	**111,17**	62,91	**110,86**	63,06
Expected life (years)	**5,9**	6,1	**6,9**	7,0
Expected volatility (%)	**35,7-38,1**	35,5-38,8	**35,7-38,1**	35,5-38,8
Risk-free interest rate (%)	**7,1-8,7**	8,0-8,8	**7,2-8,8**	8,3-8,8
Dividend yield (%)	**3,7**	3,8	**3,7**	3,8

The options granted during the year which are expected to vest, have an estimated fair value of R79 million (2009: R41 million).

Share options and appreciation rights continued

Equity Growth Scheme	Price range (rand) 2010	Number 2010	2009
Reconciliation			
Rights outstanding at beginning of the year		**41 257 077**	31 294 711
Granted	**102,00 – 116,80**	**11 724 941**	12 655 000
Exercised[1]	**101,30 – 118,00**	**(2 524 982)**	(639 106)
Lapsed	**60,35 – 117,30**	**(3 293 123)**	(2 053 528)
Rights outstanding at end of the year[2]		**47 163 913**	41 257 077

[1] *During the year 529 137 (2009: 122 328) Standard Bank Group shares were issued to settle the appreciated rights value.*
[2] *At the end of the year the group would need to issue 9 400 489 (2009: 9 113 514) Standard Bank Group shares to settle the outstanding appreciated rights value.*

The group is required to pay employees tax arising from benefits due in terms of the scheme in accordance with the Fourth Schedule of the Income Tax Act in South Africa. Where employees have elected not to fund the tax from their own resources the tax due is treated as a partial realisation of the gross benefits due under the scheme. 487 285 (2009: 8 290) Standard Bank Group 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	Price range (rand)	Weighted average exercise price (rand)	Expiry period
3 621 599	**60,35 – 69,50**	**65,41**	**Year to 31 December 2015**
5 753 956	**76,40 – 87,00**	**79,65**	**Year to 31 December 2016**
4 951 517	**94,50 – 117,30**	**98,41**	**Year to 31 December 2017**
10 729 850	**69,99 – 100,08**	**91,80**	**Year to 31 December 2018**
11 085 800	**62,39 – 99,00**	**64,21**	**Year to 31 December 2019**
11 021 191	**102,00 – 116,80**	**111,36**	**Year to 31 December 2020**
47 163 913			

The following rights granted to employees, including executive directors, had not been exercised at 31 December 2009:

Number of rights	Price range (rand)	Weighted average exercise price (rand)	Expiry period
4 860 325	60,35 – 70,00	65,42	Year to 31 December 2015
6 616 302	74,00 – 87,00	79,62	Year to 31 December 2016
5 705 800	94,50 – 117,30	98,45	Year to 31 December 2017
11 782 550	69,99 – 100,08	91,78	Year to 31 December 2018
12 292 100	62,39 – 100,00	64,43	Year to 31 December 2019
41 257 077			

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	**6 986 053**	8 236 500	**4 738 888**	4 418 500
Weighted average fair value at grant date (R)	**39,85**	22,50	**41,73**	23,81
The principle inputs are as follows:				
Weighted average share price (R)	**111,39**	64,02	**111,26**	65,06
Weighted average exercise price (R)	**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**	7,7-9,1
Dividend yield (%)	**3,7**	3,8	**3,7**	3,8

The appreciation rights granted during the year which are estimated to vest, have a fair value of R356 million (2009: R218 million).

Liberty has similar share-based payment transactions and has recognised a total expense of R50 million (2009: R52 million) relating to the share-based payments, comprising of R49 million (2009: R51 million) for share options and R1 million (2009: R1 million) relating to the Standard Bank Group employee scheme.

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Annexure D – group share incentive schemes continued

SIH long-term incentive scheme

SIH has a long-term incentive scheme whereby certain employees, including certain executive directors of the group, are granted notional 'shadow' share options. The scheme provides for eligible employees to be rewarded in cash, the value of which is derived from current and future performance of SIH. Throughout the life of the scheme, the liability is valued based on a defined formula. The notional share options which have a 10-year life are generally first exercisable in a one-month period, the month after the month in which the group's financial statements are approved, 50% after three years, up to 75% after four years and 100% after five years. Exercise thereafter may take place in the month after the month in which the final or interim accounts of the group are approved up until the expiry of the shadow share options.

Up until March 2004 the scheme options were underpinned by share options issued by Standard Bank Group. From March 2005 shadow share options have been issued without funding from Standard Bank Group options.

Commencing in 2005, certain shadow share options have been allocated with a zero strike price, all of which can be exercised after four years. All other terms of these shadow share options are the same as those described above. The change in liability under the scheme is accounted for in profit or loss over the vesting period of the shadow share options and includes assumptions about future performance and leavers.

The provision in respect of liabilities under the scheme amounts to USD7,5 million at 31 December 2010 (2009: USD19,1 million), and the amount released for the year was USD6,6 million (2009: USD3,1 million charged).

	Number	
SIH shadow share scheme	**2010**	2009
Reconciliation		
Options outstanding at beginning of the year	**22 874 466**	28 865 848
Lapsed	**(3 285 870)**	(2 334 831)
Exercised[1]	**(4 739 919)**	(3 656 551)
Options outstanding at end of the year	**14 848 677**	22 874 466

[1] *During the year 21 600 (2009: 51 300) Standard Bank Group shares were issued to settle the underpinning SIH Shadow Scheme liability.*

The following options granted to employees had not been exercised at 31 December 2010:

Number of ordinary shares	**Option price range (USD)**	**Weighted average exercise price (USD)**	**Option expiry period**
1 735 816	**2,38**	**2,38**	**Year to 31 December 2011**
1 064 069	**1,59**	**1,59**	**Year to 31 December 2012**
2 096 550	**2,83**	**2,83**	**Year to 31 December 2013**
2 440 452	**0 – 2,20**	**1,94**	**Year to 31 December 2014**
1 841 164	**1,79 – 1,89**	**1,79**	**Year to 31 December 2015**
5 580 126	**0 – 1,99**	**1,99**	**Year to 31 December 2016**
90 500	**2,48**	**2,48**	**Year to 31 December 2017**
14 848 677			

The following options granted to employees had not been exercised at 31 December 2009:

Number of ordinary shares	Option price range (USD)	Weighted average exercise price (USD)	Option expiry period
1 509 161	2,79	2,79	Year to 31 December 2010
1 941 448	2,38	2,38	Year to 31 December 2011
1 336 903	1,59	1,59	Year to 31 December 2012
2 306 652	2,83	2,83	Year to 31 December 2013
3 528 438	0 – 2,20	1,29	Year to 31 December 2014
2 726 164	1,79 – 1,89	1,79	Year to 31 December 2015
9 385 200	0 – 1,99	1,76	Year to 31 December 2016
140 500	2,48	2,48	Year to 31 December 2017
22 874 466			

Quanto stock scheme

In early 2008, Corporate & Investment Banking Outside Africa launched a new long-term incentive scheme in the form of a Quanto Stock Unit Plan. The scheme compulsorily defers a portfolio of the incentive over a minimum threshold for key management and executives. The scheme was developed after a review of its compensation strategy to strengthen the retention effect of incentive remuneration and to promote an equity culture through shares, or an equivalent, which is linked to the performance of the overall Standard Bank Group.

In terms of the scheme, qualifying employees are awarded Quanto stock units denominated in USD for nil consideration. Quanto stock units are linked to the Standard Bank Group share price, but expressed in US dollars. The awards vest over two or three years dependent on the employee being in service for the period and the employee may call for payment, termed "exercise", at any point up until the 10-year maturity of the units (except for US taxpayers where it is an automatic settlement date). The scheme includes a discretionary option for an incremental amount to be paid if the employee is in service for four years and has not exercised the units. The cost of the award is accrued over the vesting period, normally commencing in the following year to which the awards relate.

The provision in respect of the liabilities under the scheme amounts to USD91,1 million as at 31 December 2010 (2009: USD29,2 million), and the charge for the year was USD53,8 million (2009: USD25,4 million). The change in the liability due to the change in the group share price, is hedged through the use of equity options designated as a cash flow hedge.

	Units ('000)	
Quanto stock scheme	**2010**	2009
Reconciliation		
Units outstanding at beginning of the year	**885**	412
Granted	**455**	551
Lapsed	**(105)**	(78)
Units outstanding at end of the year	**1 235**	885

Quanto stock units granted not yet exercised at 31 December 2010:

Number of units ('000)	Unit expiry period
309	**Year to 31 December 2018**
489	**Year to 31 December 2019**
437	**Year to 31 December 2020**
1 235	

Quanto stock units granted not yet exercised at 31 December 2009:

Number of units ('000)	Unit expiry period
362	Year to 31 December 2018
523	Year to 31 December 2019
885	

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Annexure D – group share incentive schemes continued

Deferred bonus scheme (DBS)

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 compulsorily defer a portion of incentive bonuses over a minimum threshold for key SBSA 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 SBSA 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 DBS. 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 Standard Bank Group 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 DBS 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.

	Units	
	2010	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 (R)	**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

Black ownership initiative

The group entered into a BEE transaction during 2004 whereby Standard Bank Group and Liberty made investments in cumulative redeemable shares issued by BEE entities of R4 017 million and R1 251 million respectively (refer to note 16). The proceeds received from the issue of the cumulative redeemable preference shares were used by the BEE entities to purchase Standard Bank Group and Liberty shares. The BEE entities initially purchased 99 190 197 ordinary shares of the group. The instruments relating to Shanduka, Safika and the Community Trust vested immediately. In terms of IFRS 1, the group elected not to apply the provisions of IFRS 2 to equity-settled awards granted after 7 November 2002, but which had vested prior to January 2005. The instruments relating to the Standard Bank Black Managers' Trusts, which are 38 857 919 Standard Bank Group shares, are accounted for over the vesting period ending 31 December 2010, which resulted in the recognition of a share-based payment transaction. The 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 Standard Bank Group share at 4 October 2004, the grant date.

The instruments relating to the Standard Bank Black Managers' Trusts are accounted for over the vesting period ending 31 December 2010, resulting in a total expense in 2010 of R58 million (2009: R35 million) for banking operations and Rnil (2009: R1 million) for Stanlib. Liberty has applied similar principles and has accounted for an expense of R10 million (2009: R16 million).

Changes to the terms of the preference share agreements referred to in note 16 have resulted in an additional IFRS 2 expense of R39 million for the year ended 31 December 2010, included in the expense above.

Annexure E – 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 within banking and investment management and life insurance activities 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.

Special purpose entities

Special purpose entities 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. A special purpose entity, including a securitisation vehicle, is consolidated when the substance of the relationship between the group and the special purpose entity indicates that the group controls the entity.

Mutual funds

Mutual funds that are controlled by the group, including those in which the group has more than a 50% economic interest (resulting in control), are consolidated.

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

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Annexure E – detailed accounting policies continued

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 7 – *Intangible assets*.

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 annual 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 Standard Bank Group Limited 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; and
– 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 and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies at year end exchange rates, are recognised in profit or loss (except when recognised in OCI as 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 and 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 and 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 and 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.

Cash flows arising from operating funds are stated after excluding the impact of foreign currency translation differences on asset and liability classes.

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.

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Annexure E – detailed accounting policies continued

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. This category also includes financial assets used to match investment contracts or insurance contract liabilities;
- 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 and 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* (IAS 28), are accounted for in the designated at fair value through profit or loss category. Mutual funds held by investment-linked insurance funds in which the group holds between 20% and 50% economic interest (resulting in significant influence) are deemed to be interests in associates and are also designated at fair value through profit or loss, based on the scope exemption in IAS 28 relating to investment-linked insurance funds.

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 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, i.e. 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

Annexure E – detailed accounting policies continued

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 financial loans with similar credit risk characteristics and collectively assesses for impairment. Loans that are individually assessed for impairment and for which an impairment loss is 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 fair value policy above.

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 and 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.

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 and losses recognised in OCI are immediately transferred to profit or loss and classified as trading revenue.

Net investment hedges

Where considered appropriate, the group hedges net investments in foreign operations using derivative instruments. These hedges are accounted for in the consolidated annual financial statements. For such hedges, the designated component of the hedging instrument that relates to the effective portion of the hedge, is recognised directly in the foreign currency hedge of net investment reserve. Any ineffective portion is immediately recognised in profit or loss as trading revenue. On the partial disposal of a foreign operation, a proportionate share of the gains and losses recognised in OCI is transferred to profit or loss. On disposal of a foreign operation, all remaining gains and losses recognised in OCI are transferred to profit or loss.

Derivatives that do not qualify for hedge accounting

All gains and 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

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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. Dividends on preference shares classified as equity instruments are recognised within equity as a dividend payment.

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, i.e. 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 (including commodities)

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. Investment property

Property held to earn rental income and/or for capital appreciation that is not owner-occupied is classified as investment property. Investment property includes property under construction or development for future use as investment property.

Investment property is measured initially at cost, including transaction costs. Subsequent to initial recognition, investment property is measured at fair value with fair value changes recognised in profit or loss as investment gains or losses.

The fair value of investment property is based on valuation information at the reporting date. If the valuation information cannot be reliably determined, the group uses alternative valuation methods such as discounted cash flow projections or recent prices in active markets.

Fair value adjustments on investment property recognised in profit or loss are adjusted for any double-counting arising from the recognition of lease income on the straight-line basis compared to the accrual basis normally assumed in the fair value determination.

When the use of a property changes such that it is reclassified as property and equipment, its fair value at the date of reclassification becomes its cost for subsequent accounting.

6. 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. Investments in mutual funds over whose financial and operating policies the group is able to exercise significant influence (including those in which the group has between a 20% and 50% economic interest) are also classified as associates.

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.

Where a mutual fund investment is acquired and held for the purposes of investment-linked insurance activities within investment management and life insurance activities, it is not accounted for under the equity method but is designated on initial recognition at fair value through profit or loss and is accounted for on the basis set out in accounting policy 4 – *Financial instruments*. 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.

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

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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.

7. 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 6 – *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.

Present value of acquired in-force policyholder contracts and investment contracts with discretionary participation features

Where a portfolio of policyholder contracts is acquired either directly from another insurer or through the acquisition of a subsidiary, the present value of acquired in-force (PVIF) business on the portfolio, being the net present value of estimated future cash flows of the existing contracts, is recognised as an intangible asset and amortised on a basis consistent with the settlement of the relevant liability in respect of the purchased contracts. The estimated life is re-evaluated annually. The PVIF is carried in the statement of financial position at cost less accumulated amortisation and accumulated impairment losses.

8. 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 and 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.

9. Capitalisation of borrowing costs

Borrowing costs that relate to qualifying assets, i.e. 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.

10. 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 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.

11. 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 in banking activities, 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

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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. Operating lease income from properties held as investment properties, net of any incentives given to lessees, is recognised on the straight-line basis over the lease term. 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.

12. 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.

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.

13. Employee benefits

Post-employment benefits

Defined contribution plans

The group operates a number of defined contribution plans, 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 number of defined benefit plans, 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 liabilities recognised in the statement of financial position in respect of defined benefit pension plans are 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 a number of funded and unfunded post-employment medical aid schemes, 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.

14. 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 (excluding mutual funds) where the group controls the timing of the reversal of temporary differences and it is probable that these differences will not reverse in the foreseeable future.

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.

Secondary tax on companies (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 (VAT), skills development levies and other duties for banking activities, are recognised in profit or loss and disclosed separately in the income statement.

15. 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.

Non-current assets held as investments for the benefit of policyholders as part of the group's investment management and life insurance activities are not classified as held-for-sale as ongoing investment management implies regular purchases and sales in the ordinary course of business.

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 10 – *Impairment of non-financial assets*). Thereafter, the assets 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 and losses on remeasurement are recognised in profit or loss.

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16. Policyholder insurance and investment contracts

Professional Guidance Notes (PGNs) issued by the Actuarial Society of South Africa

In terms of IFRS 4 *Insurance Contracts* (IFRS 4), insurance liabilities are measured under existing local practice at the date of adoption of IFRS 4. The group had, prior to the adoption of IFRS 4, adopted the PGNs to determine the liability in respect of insurance contracts issued in South Africa. The group has continued to value insurance liabilities in accordance with these PGNs.

The PGNs are available on the Actuarial Society of South Africa website (www.actuarialsociety.org.za). Where applicable, the PGNs are referred to in the accounting policies and notes to the annual financial statements.

Insurance and investment contract classification

The group issues contracts that transfer insurance risk or financial risk or, in some cases, both.

An insurance contract is a contract under which the group (insurer) accepts significant insurance risk from the policyholder by agreeing to compensate the policyholder if a specified uncertain future event (the insured event) adversely affects the policyholder or, in the case of life annuities, the lifespan of the policyholder is greater than that assumed. Such contracts may also transfer financial risk. The group defines significant insurance risk as the possibility of having to pay benefits on the occurrence of an insured event that are significantly more than the benefits payable if the insured event did not occur.

Investment contracts are those contracts that transfer financial risk with no significant insurance risk. Financial risk is the risk of a possible future change in one or more of a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates, credit rating or credit index or other variable.

Discretionary participation features (DPF)

A number of insurance and investment contracts contain a discretionary participation feature. This feature entitles the policyholder to receive, as a supplement to guaranteed benefits, additional benefits or bonuses at the discretion of the group.

The terms and conditions or practice relating to these contracts are in accordance with the group's published Principles and Practices of Financial Management, as approved by the Financial Services Board. The terms reversionary bonus and smoothed bonus refer to the specific forms of DPF contracts underwritten by the group.

All components in respect of DPFs are included in the policyholder liabilities.

Insurance contracts and investment contracts with DPF

Measurement

These contracts are valued in terms of the FSV basis as described in PGN 104 *Life offices – valuation of long-term insurers,* using a discounted cash flow methodology. The liability is reflected as policyholders' liabilities in the statement of financial position.

The discounted cash flow methodology allows for premiums and benefits payable in terms of the contract, future administration expenses and commission, investment return and tax and any expected losses in respect of options. The liability is based on assumptions of the best estimate of future experience, plus compulsory margins as required in terms of PGN 104, plus additional discretionary margins.

Derivatives embedded in the group's insurance contracts are not separated and measured at fair value if the embedded derivative itself meets the definition of an insurance contract.

The liabilities in respect of the investment guarantees underlying maturity and death benefits, and guaranteed annuity options are measured in accordance with PGN 110 *Reserving for minimum investment return guarantees on a market-consistent basis.*

Discretionary margins are held to ensure that the profit and risk margins in the premiums are not capitalised before it is probable that future economic benefits will flow to the entity. These profits emerge over the lifetime of the contract in line with the risk borne by the group.

Liabilities for individual market-related policies, where benefits are in part dependent on the performance of underlying investment portfolios, are taken as the aggregate value of the policies' investment in the investment portfolio at the valuation date (the unit reserve element), reduced by the excess of the present value of the expected future risk and expense charges over the present value of the expected future risk benefits and expenses on a policy-by-policy cash flow basis (the rand reserve element).

Reversionary bonus classes of policies, and policies with fixed and guaranteed benefits are valued by discounting the expected future cash flows at market-related rates of interest reduced by an allowance for investment expenses and the relevant compulsory margins (the guaranteed element). Future bonuses have been allowed for at the latest declared rates where appropriate (the non-guaranteed element).

The rand reserve element of market-related policies and the guaranteed element in respect of other policies are collectively known as the rand reserve.

In respect of corporate life and lump sum disability business, no discounting of future cash flows is performed. However, a provision will be held if the expected guaranteed premiums under the current basis and investment returns in the short term are not sufficient to meet expected future claims and expenses. For corporate investment contracts with DPF, in addition to the value of the policies' investment in the investment portfolios held, an additional provision will be held if the expected fee recoveries in the short term are not sufficient to meet expected expenses.

Within the group all investment contracts invested in smoothed bonus portfolios are classified as investment contracts with DPF. In respect of insurance and investment contracts with DPF where bonuses are smoothed, bonus stabilisation provisions are held arising from the difference between the after taxation investment performance of the assets net of the relevant management fees and the value of the bonuses declared (non-guaranteed element). In accordance with PGN 104, where the bonus stabilisation provision is negative, this provision is restricted to an amount that can reasonably be expected to be recovered through under-distribution of bonuses during the ensuing three years. All bonus stabilisation provisions are included in policyholders' liabilities.

The liability estimates are reviewed bi-annually. The effect of any change in estimates is recognised in profit or loss.

Incurred but not reported claims

Provision is made in policyholders' liabilities for the estimated cost at the end of the year of claims incurred but not reported at that date.

Liability adequacy test

At each reporting date the adequacy of the insurance liabilities is assessed. If that assessment shows that the carrying amount of insurance liabilities net of any related intangible PVIF business assets is inadequate in the light of the estimated future cash flows, then the deficiency is recognised in profit or loss.

Investment contracts without DPF

The group issues investment contracts without fixed benefits (unit linked and structured products) and investment contracts with fixed and guaranteed benefits (term certain annuity). These investment contracts are accounted for as financial liabilities and are designated at fair value through profit or loss. Refer to accounting policy 4 – *Financial instruments*.

Investment contracts with a DPF switching option

On certain investment contracts, policyholders have an option to switch some or all of their investment from a DPF fund to a non-DPF fund (and vice versa). The value of the liability held with respect to these contracts is taken at the aggregate value of the policyholders' investment in the investment portfolio at the valuation date.

Receivables and payables related to insurance contracts and investment contracts

Receivables and payables are recognised when due. These include amounts due to and from agents, brokers and policyholders. Outstanding claims and benefit payments are stated gross of reinsurance.

Reinsurance contracts held

The group cedes some insurance risk in the normal course of business. Reinsurance contracts are contracts entered into by the group with reinsurers under which the group is compensated for the entire, or a portion of, losses arising on one or more of the insurance contracts issued by the group.

The expected benefits to which the group is entitled under its reinsurance contracts held are recognised as reinsurance assets and included in 'Other assets' in the statement of financial position. Reinsurance assets are assessed for impairment at each reporting date. Any impairment loss is recognised in profit or loss.

17. Equity

Reacquired equity instruments

Where subsidiaries purchase the holding entity's equity instruments, the consideration paid is deducted from equity attributable to ordinary shareholders as treasury shares on consolidation. Fair value changes recognised by subsidiaries on these instruments are reversed on consolidation and dividends received are eliminated against dividends paid. Where such shares are subsequently sold or reissued outside the group, any consideration received is included in equity attributable to ordinary shareholders.

Black economic empowerment ownership initiative (Tutuwa)

The group concluded its Tutuwa initiative in October 2004 when it sold an effective 10% interest in its South African banking operations to a broad-based grouping of black entities. The group subscribed for 8,5% redeemable, cumulative preference shares issued by SPEs controlled by the group. The initial repurchase of group shares by the SPEs was treated as a reduction in the group's equity. Subsequent to the repurchase of the group shares, the SPEs containing these shares were sold to the black participants. The capital and dividends on the preference shares are repayable from future ordinary dividends received on group shares or from the disposal of the group's shares. As a result of the group's right to receive its own dividends back in the form of preference dividends and capital on the preference shares, the subsequent sale of the SPEs and consequent delivery of the group shares to the black participants (although legally effected) is not accounted for as a sale. The preference share investment in the SPEs is also not accounted for as an asset. The preference share asset is effectively eliminated against equity as a negative empowerment reserve.

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As a consequence of the above, the IFRS accounting treatment followed until full redemption, or third party financing, is as follows:

- the 8,5% redeemable, cumulative preference shares issued by the SPEs and subscribed for by the group are not recognised as financial assets, but eliminated against equity as a negative empowerment reserve;
- the preference dividends received from the SPEs are eliminated against the ordinary dividends paid on the group shares held by the SPEs;
- for purposes of the calculation of earnings per share, the weighted average number of shares in issue is reduced by the number of shares held by those SPEs that have been sold to the black participants. The shares will be restored on full redemption of the preference shares, or to the extent that the preference share capital is financed by a third party; and
- perpetual preference shares issued by the group for the purposes of financing the repurchased group shares are classified as equity. Dividends paid are accounted for on declaration.

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.

Distributions on ordinary shares

Distributions are recognised in equity in the period in which they are declared. Distributions declared after the reporting date are disclosed in the distributions note.

18. 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 (refer to accounting policy 17 – *Equity*) 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.

19. Revenue and expenditure

Banking activities

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 9 – *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.

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 and 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 and 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 and losses on equity instruments designated at fair value through profit or loss, dividends relating to those financial instruments and underwriting profit from the group's short-term insurance operations and related insurance activities.

Gains and 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.

Investment management and life insurance activities

Revenue comprises premium income, investment income and management and service fee income.

Insurance contracts and investment contracts with DPF

Premium income

Premiums and annuity considerations on insurance contracts, other than in respect of universally costed policies (policies where insurance risk charges are dependent on the excess of the sum assured over the value of units underlying the contract) and recurring premium pure risk policies (collectively the Lifestyle series) and corporate schemes, are recognised when due in terms of the contract. Premiums receivable in respect of corporate schemes are recognised when there is a reasonable assurance of collection in terms of the policy contract. Premiums in respect of the Lifestyle series of policies are recognised when premiums are received, as failure to pay a premium will result in a reduction of attributable fund value, if available, or else in the lapse of the policy. Premium income on insurance contracts is recognised gross of reinsurance. Premiums are shown before deduction of commission.

Reinsurance premiums

Reinsurance premiums are recognised when due for payment, in accordance with the terms of each reinsurance contract.

Claims

Claims on insurance contracts, which include death, disability, maturity, surrender and annuity payments, are recognised in profit or loss when the group is notified of a claim, based on the estimated liability for compensation owed to policyholders.

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Annexure E – detailed accounting policies continued

Reinsurance recoveries are accounted for in the same period as the related claims.

Acquisition costs

Acquisition costs for insurance contracts represent commission and other costs that relate to the securing of new contracts and the renewing of existing contracts. These costs are expensed as incurred.

Investment contracts without DPF

Amounts received and claims incurred on investment contracts

Amounts received under investment contracts, such as premiums, are recorded as deposits to investment contract liabilities, whereas claims incurred are recorded as deductions from investment contract liabilities.

Service fees on investment management contracts and deferred revenue liability (DRL) on investment management contracts

Service fee income on investment management contracts is recognised on an accrual basis as and when the services are rendered.

A DRL is recognised in respect of upfront fees, which are directly attributable to a contract, that are charged for investment management services. The DRL is then released to revenue when the services are provided, over the expected duration of the contract on a straight-line basis.

Regular charges billed in advance are recognised on a straight-line basis over the billing period, which is the period over which the service is rendered. Outstanding fees are accrued as a receivable in terms of the investment management contract.

Deferred acquisition costs (DAC) in respect of investment contracts

Commissions paid and other incremental acquisition costs are incurred when new investment contracts are obtained or existing investment contracts are renewed. These costs are expensed as incurred, unless specifically attributable to an investment contract with an investment management service element. Such costs are deferred and amortised on a straight-line basis over the expected life of the contract (10 to 16 years for linked annuities and five years for other investment contracts), taking into account all decrements, as they represent the right to receive future management fees.

A DAC asset is recognised for all applicable policies with the amortisation being calculated on a portfolio basis.

Investment income

Investment income for investment management and life insurance activities comprises mainly rental income from properties, interest, hotel operations sales, scrip lending fees and dividends. Dividends are recognised when the right to receive payment is established and interest income is recognised using the effective interest method.

Hotel operation's sales comprise the fair value of the sale of accommodation, food and beverage, other guest facilities and rentals received. Revenue is shown net of value added tax, returns, rebates and discounts.

Management fees on assets under management

Fee income includes management fees on assets under management and administration fees. Management fees on assets under management are recognised over the period for which the services are rendered, in accordance with the substance of the relevant agreements.

Administration fees received for the administration of medical schemes are recognised when the services are rendered.

20. 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.

21. 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.

22. Comparative figures

Where necessary, comparative figures within notes have been restated to conform to changes in presentation in the current year.

23. 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

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Annexure F – segmental statement of financial position

	Personal & Business Banking		Corporate & Investment Banking		Central and other	
	2010 Rm	2009 Rm	2010 Rm	2009 Rm	2010 Rm	2009 Rm
Assets						
Cash and balances with central banks	9 853	7 353	18 949	17 623	(127)	7
Financial investments, trading and pledged assets	3 106	1 743	179 564	168 355	(204)	1 874
Loans and advances	405 932	395 472	330 365	355 151	(23 272)	(27 116)
Loans and advances to banks	21 504	26 030	106 324	110 297	(20 738)	(25 259)
Loans and advances to customers	384 428	369 442	224 041	244 854	(2 534)	(1 857)
Investment property						
Derivative and other assets	4 412	3 954	156 190	105 189	1 327	26 211
Interest in associates and joint ventures	1 059	928	3 248	3 203	81	134
Goodwill and other intangible assets	4 342	4 632	4 378	3 097	245	98
Property and equipment	5 459	5 697	2 336	2 093	4 642	1 939
Total assets	434 163	419 779	695 030	654 711	(17 308)	3 147
Equity and liabilities						
Equity	31 076	25 095	38 965	44 050	22 826	21 341
Equity attributable to ordinary shareholders	29 616	23 941	36 743	41 555	17 511	15 725
Preference share capital and premium					5 503	5 503
Non-controlling interest	1 460	1 154	2 222	2 495	(188)	113
Liabilities	403 087	394 684	656 065	610 661	(40 134)	(18 194)
Deposit and current accounts	395 754	389 124	418 183	399 498	(17 302)	(20 074)
Deposits from banks	475	260	92 854	107 809	(1 600)	(2 051)
Deposits from customers	395 279	388 864	325 329	291 689	(15 702)	(18 023)
Derivative, trading and other liabilities	(1 305)	(1 910)	224 012	192 766	(22 089)	3 145
Policyholders' liabilities						
Subordinated debt	8 638	7 470	13 870	18 397	(743)	(1 265)
Total equity and liabilities	434 163	419 779	695 030	654 711	(17 308)	3 147
Average assets – banking activities excluding trading derivatives	429 571	427 513	550 562	579 555	(20 255)	(24 669)
Average loans and advances (gross)	416 333	415 113	331 333	370 336	(27 027)	(29 122)
Average ordinary shareholders' equity	26 573	25 630	41 446	39 737	15 629	14 717

	Banking activities		Liberty		Normalised Standard Bank Group		IFRS adjustments		IFRS Standard Bank Group	
	2010 Rm	2009 Rm	**2010 Rm**	2009 Rm	**2010 Rm**	2009 Rm	**2010 Rm**	2009 Rm	**2010 Rm**	2009 Rm
	28 675	24 983			**28 675**	24 983			**28 675**	24 983
	182 466	171 972	**190 707**	186 479	**373 173**	358 451	**(2 809)**	(3 164)	**370 364**	355 287
	713 025	723 507			**713 025**	723 507	**(2 303)**	(2 118)	**710 722**	721 389
	107 090	111 068			**107 090**	111 068			**107 090**	111 068
	605 935	612 439			**605 935**	612 439	**(2 303)**	(2 118)	**603 632**	610 321
			21 521	19 058	**21 521**	19 058			**21 521**	19 058
	161 929	135 354	**7 274**	5 247	**169 203**	140 601			**169 203**	140 601
	4 388	4 265	**6 145**	5 264	**10 533**	9 529			**10 533**	9 529
	8 965	7 827	**1 418**	1 582	**10 383**	9 409			**10 383**	9 409
	12 437	9 729	**2 470**	2 521	**14 907**	12 250			**14 907**	12 250
	1 111 885	1 077 637	**229 535**	220 151	**1 341 420**	1 297 788	**(5 112)**	(5 282)	**1 336 308**	1 292 506
	92 867	90 486	**15 343**	14 012	**108 210**	104 498	**(5 012)**	(5 129)	**103 198**	99 369
	83 870	81 221	**6 885**	6 233	**90 755**	87 454	**(3 682)**	(3 432)	**87 073**	84 022
	5 503	5 503			**5 503**	5 503			**5 503**	5 503
	3 494	3 762	**8 458**	7 779	**11 952**	11 541	**(1 330)**	(1 697)	**10 622**	9 844
	1 019 018	987 151	**214 192**	206 139	**1 233 210**	1 193 290	**(100)**	(153)	**1 233 110**	1 193 137
	796 635	768 548	**(7 135)**		**789 500**	768 548			**789 500**	768 548
	91 729	106 018			**91 729**	106 018			**91 729**	106 018
	704 906	662 530	**(7 135)**		**697 771**	662 530			**697 771**	662 530
	200 618	194 001	**22 076**	19 785	**222 694**	213 786	**(100)**	(153)	**222 594**	213 633
			197 878	184 300	**197 878**	184 300			**197 878**	184 300
	21 765	24 602	**1 373**	2 054	**23 138**	26 656			**23 138**	26 656
	1 111 885	1 077 637	**229 535**	220 151	**1 341 420**	1 297 788	**(5 112)**	(5 282)	**1 336 308**	1 292 506
	959 878	982 399			**959 878**	982 399	**(1 568)**	(1 404)	**958 310**	980 995
	720 639	756 327			**720 639**	756 327	**(1 783)**	(1 941)	**718 856**	754 386
	83 648	80 084	**6 371**	6 258	**90 019**	86 342	**(3 795)**	(4 054)	**86 224**	82 288

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Annexure G – banking activities average statement of financial position (normalised)

	2010			
	Trading book Rm	Non-interest earning Rm	Interest earning Rm	Total average balance Rm
Assets				
Cash and balances with central banks[2]	1 218	10 278	10 755	22 251
Trading assets	83 512	14 125		97 637
Financial investments	1 985		83 974	85 959
Net loans and advances	40 603		659 758	700 361
Loans and advances to banks	12 960		67 449	80 409
Loans and advances to customers	27 643		612 587	640 230
Mortgage loans			264 435	264 435
Instalment sale and finance leases			57 051	57 051
Card debtors			21 438	21 438
Overdrafts and other demand loans	957		71 873	72 830
Other term loans	26 686		144 310	170 996
Commercial property finance			33 458	33 458
Foreign currency loans			20 022	20 022
Gross loans and advances	40 603		680 036	720 639
Credit impairment for loans and advances			(20 278)	(20 278)
Interest in associates and joint ventures	190	6 375		6 565
Other assets	8 079	7 437		15 516
Investment portfolios		7 229		7 229
Goodwill and other intangible assets		12 390		12 390
Property and equipment	2 543	9 427		11 970
Total average assets and interest excluding trading derivative assets	138 130	67 261	754 487	959 878
Trading derivative assets	145 475			145 475
Total average assets and interest	283 605	67 261	754 487	1 105 353
Equity and liabilities				
Equity	2 861	90 962		93 823
Liabilities	127 565	45 118	687 992	860 675
Trading liabilities	39 487	14 725		54 212
Deposit and current accounts	80 272		665 764	746 036
Deposits from banks	80 272		6 055	86 327
Deposits from customers			659 709	659 709
Current accounts			97 654	97 654
Cash management deposits			70 494	70 494
Call deposits			99 775	99 775
Savings accounts			20 857	20 857
Term deposits			238 364	238 364
Negotiable certificates of deposit			92 112	92 112
Securitised issuances			10 863	10 863
Other funding			29 590	29 590
Other liabilities	6 045	30 393		36 438
Subordinated bonds	1 761		22 228	23 989
Total average equity, liabilities and interest excluding trading derivative liabilities	130 426	136 080	687 992	954 498
Trading derivative liabilities	150 855			150 855
Total average equity, liabilities and interest	281 281	136 080	687 992	1 105 353
Margin on total average assets excluding trading derivatives	138 130	67 261	754 487	959 878
Margin on total average loans and advances	40 603		659 758	700 361
Margin on average interest-earning assets			754 487	754 487

[1] Interest received and paid on trading derivative financial instruments has been netted with interest received on derivative asset instruments used for hedging purposes. The interest split between assets and liabilities will therefore not equate to interest income and interest expense as per the income statement.

[2] Included within interest-earning cash and balances with central banks is the SARB interest-free deposit. This is utilised to meet liquidity requirements and is reflected in the margin as part of interest earning assets to reflect the cost of liquidity.

		2009					
Interest[1] Rm	**Average rate %**	Trading book Rm	Non-interest earning Rm	Interest earning Rm	Total average balance Rm	Interest[1] Rm	Average rate %
		1 997	9 467	9 266	20 730		
		75 429	16 943		92 372		
5 605	**6,52**	1 937		72 824	74 761	6 494	8,69
59 263	**8,46**	50 785		689 400	740 185	72 951	9,86
3 561	**4,43**	14 916		80 931	95 847	5 527	5,77
55 702	**8,70**	35 869		624 611	660 480	67 424	10,21
24 354	**9,21**			254 410	254 410	28 342	11,14
6 535	**11,45**			64 221	64 221	8 362	13,02
3 277	**15,29**			22 256	22 256	3 987	17,91
6 468	**8,88**	756		81 386	82 142	7 794	9,49
11 167	**6,53**	35 113		146 683	181 796	13 714	7,54
3 153	**9,42**			33 676	33 676	4 066	12,07
748	**3,74**			21 979	21 979	1 159	5,27
59 263	**8,22**	50 785		705 542	756 327	72 951	9,65
				(16 142)	(16 142)		
		172	4 152		4 324		
		9 346	13 955		23 301		
		54	6 950		7 004		
			8 152		8 152		
		3 825	7 745		11 570		
64 868	**6,76**	143 545	67 364	771 490	982 399	79 445	8,09
		140 485			140 485		
64 868	**5,87**	284 030	67 364	771 490	1 122 884	79 445	7,08
		2 359	92 831		95 190		
35 941	**4,18**	141 259	40 514	710 027	891 800	47 952	5,38
		43 977	8 112		52 089		
33 813	**4,53**	91 606		691 041	782 647	46 390	5,93
2 089	**2,42**	91 606		13 013	104 619	1 952	1,87
31 724	**4,81**			678 028	678 028	44 438	6,55
1 278	**1,31**			89 412	89 412	1 939	2,17
3 532	**5,01**			63 135	63 135	4 293	6,80
6 177	**6,19**			91 796	91 796	9 012	9,82
221	**1,06**			18 971	18 971	337	1,78
11 386	**4,78**			253 589	253 589	14 681	5,79
6 067	**6,59**			104 072	104 072	9 420	9,05
958	**8,82**			16 300	16 300	1 402	8,60
2 105	**7,11**			40 753	40 753	3 354	8,23
		4 059	32 402		36 461		
2 128	**8,87**	1 617		18 986	20 603	1 562	7,58
35 941	**3,77**	143 618	133 345	710 027	986 990	47 952	4,86
		135 894			135 894		
35 941	**3,25**	279 512	133 345	710 027	1 122 884	47 952	4,27
28 927	**3,01**	143 545	67 364	771 490	982 399	31 493	3,21
28 927	**4,13**	50 785		689 400	740 185	31 493	4,25
30 532	**4,05**			771 490	771 490	34 694	4,50

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Annexure H – third-party funds under management

	2010 Rbn	2009 Rbn
Third party assets under management and funds under administration		
Members of the group provide discretionary and non-discretionary investment management services to institutional and private investors. Commissions and fees earned in respect of trust and management activities performed are included in profit or loss. Assets managed and funds administrated on behalf of third parties include:		
Banking activities		
Asset management		
Trusts and estates	87	141
Unit trusts/collective investments	4	8
Segregated funds	4	4
Linked investment and structured products		10
Portfolio management	48	26
	143	189
Funds under administration		
Trusts and estates	1	9
Unit trusts/collective investments	67	72
Portfolio management	69	57
	137	138
Total banking activities	280	327
Geographical area		
Africa	143	100
Outside Africa	137	227
	280	327
Liberty		
Asset management	36	46
Segregated funds	33	43
Properties	3	3
Wealth management – funds under administration	196	154
Single manager unit trust	87	74
Institutional marketing	41	25
Linked and structured life products	28	23
Multi-manager	9	8
Rest of Africa	31	24
Total Liberty	232	200
Total assets under management and funds under administration	512	527

Included in the balances above are funds for which the fund value is determined using directors' valuations.

Shareholder information

Chairman's letter to shareholders

Dear Shareholder

I extend an invitation to you to attend the 42nd annual general meeting (AGM) of Standard Bank Group Limited to be held in the HP de Villiers Auditorium, Ground Floor, Standard Bank Centre, 6 Simmonds Street, Johannesburg on Thursday, 26 May 2011 at 09:30.

This is your opportunity to meet and question members of the Standard Bank Group Limited board regarding the group's performance for the year ended 31 December 2010.

If you are not able to attend the AGM and hold shares in certificated form, or if you have dematerialised your shares and have elected "own-name" registration through a Central Securities Depository Participant (CSDP) or broker, I would urge you to complete and submit the proxy form in accordance with the instructions and return it to the address indicated.

If you are not able to attend the AGM and have dematerialised your shares on STRATE, and have not elected "own-name" registration, I would similarly urge you to submit voting instructions to your CSDP or broker. You will need to contact them regarding their particular cut-off time for votes to be lodged with us.

If you wish to attend the AGM, and have dematerialised your shares on STRATE, and have not elected "own-name" registration you will have to approach your CSDP or broker to provide you with the necessary authority in terms of the agreement that you have entered into with them.

Resolutions to be considered at the AGM

We find ourselves at an interesting point in the development of our corporate law. At the time of approval of the notice to shareholders, the effective corporate law in place is the Companies Act, No 61 of 1973. It is anticipated that during the course of the year, the new Companies Act, No 71 of 2008 will come into effect. In anticipation of this, we have chosen to table resolutions drafted in a manner that once passed, are able to operate under the provisions of both the abovementioned Companies Acts.

Ordinary business

The AGM will deal with the following ordinary business:

- To receive and adopt the annual financial statements for the year ended 31 December 2010 (ordinary resolution number 1).
- To re-elect directors retiring by rotation (ordinary resolution number 2). The company's articles of association makes provision for the annual retirement of a certain proportion of the board of directors. Those directors retiring in terms of this provision as well as directors appointed for the first time to the board since the previous AGM, offer themselves for re-election. Their abridged *curricula vitae* have been included in the notice.
- To reappoint KPMG Inc and PricewaterhouseCoopers Inc. as auditors of the company for the year ending 31 December 2011 (resolution number 3).

Placing authorised share capital under the control of the directors until the next AGM

Resolutions 4, 5, 9 and 10 deal with placing certain authorised share capital under the control of the directors until the next AGM:

- Resolutions 9 and 10 provide the directors with the ability to allot and issue ordinary shares for the practical functioning of the Standard Bank Equity Growth and Standard Bank Share Incentive Schemes. Please note that in terms of the rules of both schemes, an individual employee may not acquire in the aggregate in excess of 2,5% of the maximum number of shares reserved for the operation of both schemes. Resolutions 9.1 and 10.1 provide the directors with the ability to allot and issue ordinary shares to employees as defined in the respective scheme rules. Resolutions 9.2 and 10.2 make provision for the requirements of the new Companies Act. The new Companies Act requires resolutions 9.2 and 10.2 to be passed by at least 75% of the votes cast by members present or represented by proxy at the meeting.
- Resolution 4 provides the directors with the ability to allot and issue ordinary shares (other than those required for the operation of the schemes as dealt with in resolutions 9 and 10) up to a maximum of 5% of the ordinary shares in issue at 31 December 2010.
- The directors' ability to allot and issue non-redeemable, non-cumulative, non-participating preference shares is contained in the provisions of resolution 5.

Authority to make payments to shareholders

You will also be requested to give authority to the directors to make payments to shareholders on a pro rata basis, in compliance with the provisions of the Companies Act and the Listings Requirements of the JSE Limited (Listings Requirements) (resolution 6). The annual renewal of this resolution is necessary pursuant to the Listings Requirements to enable the directors to pay capital distributions to shareholders and should such payment(s) be made in any one financial year, they may not exceed 20% of the company's issued share capital and reserves.

Resolutions relating to directors’ fees, repurchase of securities and provision of financial assistance

The following resolutions (in addition to those set out earlier) will be tabled for consideration at the AGM:

- To approve the non-executive directors’ fees in respect of 2011, which have been considered by the group remuneration committee and recommended by the board. The resolution provides for the operation of both Companies Acts.
- To pass a non-binding advisory vote, as required in terms of the King Code, endorsing the company’s remuneration policy, as set out in the notice.
- To renew the authority given by shareholders at the previous AGM that will allow the repurchase of the company’s securities by the company or any subsidiary during the course of the year should the directors feel that the circumstances are appropriate. Any repurchases made will be in accordance with the Companies Act and the Listings Requirements.
- To give the directors of the company authority to provide financial assistance to any company that is related or inter-related to the company.

I look forward to meeting you at the AGM.

Fred Phaswana
Chairman
2 March 2011

Notice to members

Notice is hereby given that the 42nd annual general meeting of Standard Bank Group Limited (Standard Bank Group or the company) will be held in the HP de Villiers Auditorium, Ground Floor, Standard Bank Centre, 6 Simmonds Street, Johannesburg, on Thursday, 26 May 2011 at 09:30.

The record date on which members must be recorded as such in the register maintained by the transfer secretaries of the company for the purposes of being entitled to attend and vote at the meeting is 24 May 2011.

All meeting participants will be required to provide identification reasonably satisfactory to the chairman of the meeting.

The purpose of the meeting is to transact the business set out below, and to consider and, if deemed fit, to pass, with or without modification, the resolutions set out below:

1. To present and adopt the annual financial statements for the year ended 31 December 2010, including the reports of the directors and the audit committee.

   In order for this ordinary resolution number 1 to be adopted, the support of a majority of votes cast by members present or represented by proxy at this meeting is required.

2. To elect directors in place of those retiring in accordance with the provisions of the company's articles of association.

   Messrs DDB Band, AC Nissen, MC Ramaphosa and EM Woods as well as Ms KP Kalyan and Dr Yagan Liu retire by rotation while Hongli Zhang is required to retire at the annual general meeting following his appointment. All being eligible offer themselves for re-election.

   Messrs DDB Band, AC Nissen, and EM Woods as well as Ms KP Kalyan are independent non-executive directors. Details of the directors offering themselves for re-election are as follows:

2.1 **DDB Band**
Age: 66
Appointed: 1997
Educational qualifications: BCom (Wits), CA(SA)
Directorships: Standard Bank Group, The Standard Bank of South Africa, Gymnogene Investments, MTN Group and various subsidiaries and The Bidvest Group.
Committee member: Group/SBSA directors' affairs, group/SBSA risk and capital management, group remuneration and SBSA large exposure credit committee.

2.2 **KP Kalyan**
Age: 55
Appointed: 2007
Educational qualifications: BCom (Hons) (Durban-Westville)
Directorships: Standard Bank Group, The Standard Bank of South Africa, Edgo Merap (chairman), Kgontsi Holdings, MTN Group and a subsidiary, South African Bank Note and South African Mint Company.
Committee member: Group transformation.

2.3 **Yagan Liu**
Age: 37
Appointed: 2008
Educational qualifications: Chinese Certified Public Accountant, International Certified Internal Auditor, MA in Accounting (Beijing Technology Business University), Doctorate in Accounting (Research Institute for Fiscal Science, Ministry of Finance)
Directorships: Standard Bank Group, Seng Heng Bank.
Committee member: Group directors' affairs (alternate to Hongli Zhang) and group risk and capital management (alternate to Hongli Zhang).

2.4 **AC Nissen**
Age: 52
Appointed: 2003
Educational qualifications: BA (Hons), MA Humanities (Cape Town), Diploma in Theology
Directorships: Standard Bank Group, The Standard Bank of South Africa, Boschendal (chairman), South Atlantic Fisheries (SAFCO) (chairman), JCI, Sea Harvest Corporation and Woolworths Holdings.
Committee member: Group transformation.

2.5 **MC Ramaphosa**
Age: 58
Appointed: 2004
Educational qualifications: BProc (Unisa)
Directorships: Standard Bank Group, The Standard Bank of South Africa, The Bidvest Group (chairman), MTN Group (chairman) and chairman/director of various MTN subsidiaries, Mondi Shanduka Newsprint (chairman), Shanduka Group (chairman), Mondi (co-chairman), Kangra Coal, Lonmin, SABMiller, Tutuwa Strategic Holdings 1 and Alexander Forbes Equity Holdings.
Committee member: Group/SBSA directors' affairs.

2.6 **EM Woods**
Age: 64
Appointed: 2007
Educational qualifications: BCom (Wits), MBA (Cape Town), CA(SA), CFA
Directorships: Standard Bank Group, The Standard Bank of South Africa.
Committee member: Group/SBSA audit and group remuneration (chairman).

2.7 **Hongli Zhang**
Age: 46
Appointed: 2010
Educational qualifications: Masters Degree in Plant Genetics (Alberta), MBA (Santa Clara)
Directorships: Standard Bank Group (deputy chairman).
Committee member: Group directors' affairs and group risk and capital management.

Mr Hongli Zhang and Dr Yagan Liu are employed by ICBC as senior executive vice-president and deputy general manager, respectively.

In order for ordinary resolution numbers 2.1 to 2.7 to be adopted, the support of a majority of votes cast for each resolution by members present or represented by proxy at this meeting is required.

3. Reappointment of auditors.
   The board and audit committee have evaluated the performance of KPMG Inc and PricewaterhouseCoopers Inc and recommend their reappointment as auditors of the company.

   "Resolved to reappoint KPMG Inc. (with the designated registered auditor being Peter MacDonald) and PricewaterhouseCoopers Inc. (with the designated registered auditor being Fulvio Tonelli) as the auditors of Standard Bank Group Limited for the year ending 31 December 2011."

   In order for this resolution to be adopted, the support of a majority of votes cast by members present or represented by proxy at this meeting is required.

4. "Resolved that the unissued ordinary shares in the authorised share capital of the company (other than those specifically identified in resolutions number 9 and 10) be and are hereby placed under the control of the directors of the company who are authorised to allot and issue the ordinary shares at their discretion until the next annual general meeting of the company, subject to the provisions of the Companies Act 1973, as amended or replaced from time to time, the Banks Act, No 94 of 1990, as amended and the Listings Requirements of the JSE Limited as amended and subject to the aggregate number of ordinary shares able to be allotted and issued in terms of this resolution being limited to five percent (5%) of the number of ordinary shares in issue at 31 December 2010."

   In order for this resolution to be adopted, the support of a majority of votes cast by members present or represented by proxy at this meeting is required.

5. "Resolved that the unissued non-redeemable, non-cumulative, non-participating preference shares (non-redeemable preference shares) in the authorised share capital of the company be and are hereby placed under the control of the directors of the company who are authorised to allot and issue the non-redeemable preference shares at their discretion until the next annual general meeting of the company, subject to the provisions of the Companies Act 1973, as amended or replaced from time to time and the Listings Requirements of the JSE Limited as amended."

   In order for this resolution to be adopted, the support of a majority of votes cast by members present or represented by proxy at this meeting is required.

6. "Resolved that the directors of the company be and are hereby authorised and given a renewable general authority to make payments to shareholders in terms of the Listings Requirements of the JSE Limited as amended from time to time, and as they apply at the time of making the payment, (the Listings Requirements), subject to the provisions of the Companies Act 1973, as amended or replaced from time to time (the Companies Act), the Banks Act, No 94 of 1990, as amended from time to time and the Listings Requirements, and which as at the date of this notice include, amongst others, the following requirements:

   (a) payments to shareholders in terms of this resolution shall be made in terms of the Companies Act and be made pro rata to all shareholders;

   (b) in any one financial year, payments to shareholders in terms of this resolution but excluding payments to shareholders other than in terms of this resolution, shall not exceed a maximum of 20% of the company's issued share capital, including reserves but excluding minority interests, and revaluations of assets and intangible assets that are not supported by a valuation by an independent professional expert acceptable to the JSE Limited prepared within the last six months, measured as at the beginning of such financial year; and

   (c) this general authority to make payments to shareholders shall be valid until the next annual general meeting of the company or for 15 months from the date of this resolution whichever period is the shorter.

   For the avoidance of doubt if the Companies Act and/or the Listings Requirements are amended or replaced, the requirements of the Companies Act and/or the Listings Requirements that are applicable at the time the payment is made would apply to any payment and not the requirements applicable at the time of passing this resolution."

   The directors of the company are of the opinion that, taking into consideration the effect of the maximum payment in terms of this authority:

   – The company and the group would be in a position to repay its debts in the ordinary course of business for a period of 12 months after the date of the notice of this annual general meeting ("the Next Year").

   – The assets of the company and the group, fairly valued in accordance with International Financial Reporting Standards (IFRS) would be in excess of the liabilities of the company and the group for the Next Year.

   – The share capital and reserves of the company and the group for the Next Year will be adequate.

   The purpose of this resolution is to authorise the company's directors to make distributions to shareholders on a pro rata basis if they deem it appropriate.

   In order for this resolution to be adopted, the support of a majority of votes cast by members present or represented by proxy at this meeting is required.

7. To consider and endorse, by way of a non-binding advisory vote, the company's remuneration policy as set out below.

   At the heart of Standard Bank Group's strategy lies the value we place on our people. Consequently, effective management of our group-wide human resource must be a core competency.

   The group's remuneration policies, stated below, are foundational to our human resource management.

   The group remuneration committee (remco), as an integral part of its wider mandate, regularly examines the group's remuneration structures and practices to ensure that they are aligned with these policies. The group's remuneration structures and practices are described in remco's formal report to shareholders on page 98 of the annual integrated report.

   "Remuneration policy:

   – Reward strategies and remuneration must enable the group, in a highly competitive environment, to attract, motivate and retain high-calibre people at all levels of the organisation.

   – Remuneration designs must motivate strong and sustained performance in teams, but also promote risk management in line with the group's stated strategy and risk tolerance.

   – The balance between fixed and variable pay is to be appropriately structured according to seniority and roles, with particular care being given to risk and control areas.

   – Remco will annually approve the group's primary bonus pools and oversee the principles applied in allocating these pools to divisions and individual employees. These pools are to be shaped by a combination of group and divisional profitability and multi-year financial metrics, taking account of capital utilised, risks assumed and an evaluation of the business area's future development and growth prospects.

   – Individual performance is to be measured according to an appropriate range of absolute and relative criteria, including the person's quantitative delivery against specific metrics, qualitative individual behaviour and competitive performance. This measurement is to be integral to remuneration practices, and to underpin strong differentiation in individual pay.

Notice to members continued

- A portion of annual bonus incentive, typically above a certain threshold, is to be deferred into a share price linked programme with multi-year vesting and "clawback" provisions.

- A significant portion of senior management remuneration is to be awarded in deferred instruments and long-term share option-type awards, the values of which are directly linked to the performance of the Standard Bank Group share price over time. For key top management, the vesting of option-type awards is to be subject to future performance conditions.

- No remuneration schemes are to be linked by formula to revenue generation. No multi-year guaranteed minimum bonus arrangements are permitted, neither are substantial severance arrangements to be made.

- Transparency on remuneration designs and processes is to be maintained with employees and increasingly with shareholders.

- Wherever available and relevant, market information should be used to inform remuneration decisions.

- Stakeholders must be enabled to make a reasonable assessment of reward practices and associated governance processes.

- Members of remco will have unrestricted access to information that informs their independent judgements on the possible effects that remuneration may have on compliance with risk, regulatory and behavioural controls across the group."

In order for this resolution to be adopted, the support of a majority of votes cast by members present or represented by proxy at this meeting is required.

8. Resolved that the following fees payable to the non-executive directors be approved[1]:

8.1 Chairman of Standard Bank Group – R4 000 000 per annum[2].

8.2 Director of Standard Bank Group – R171 500 per annum.

8.3 International director of Standard Bank Group – £37 000 per annum.

8.4 Director's affairs committee:
8.4.1 Chairman – R148 000 per annum;
8.4.2 Member – R74 000 per annum.

8.5 Group risk and capital management committee:
8.5.1 Chairman – R484 500 per annum;
8.5.2 Member – R194 000 per annum.

8.6 Group remuneration committee:
8.6.1 Chairman – R243 000 per annum;
8.6.2 Member – R104 500 per annum.

8.7 Group transformation committee
8.7.1 Chairman – R154 500 per annum;
8.7.2 Member – R76 500 per annum.

8.8 Group audit committee:
8.8.1 Chairman – R484 500 per annum;
8.8.2 Member – R194 000 per annum.

8.9 Ad hoc meeting attendance[3] – R16 250 per meeting.

8.10 Consultation fee per hour – R3 000[4].

The reason for this resolution is to grant the company the authority to pay fees to its directors for their services as directors.

In order for this resolution to be adopted, the support of:

(i) a majority of votes cast by members present or represented by proxy at this meeting is required under the Companies Act, 1973; and

(ii) at least 75% of the total number of votes cast by members present or represented by proxy at this meeting is required under the Companies Act, 2008.

9. Equity Growth Scheme

9.1 "Resolved that all the ordinary shares required for the purpose of carrying out the terms of the Standard Bank Equity Growth Scheme (the Equity Growth Scheme), other than those which have specifically been appropriated for the Equity Growth Scheme in terms of ordinary resolutions duly passed at previous annual general meetings of the company, be and are hereby specifically placed under the control of the directors, who be and are hereby authorised to allot and issue those shares in terms of the Equity Growth Scheme subject to the provisions of the Companies Act, 1973, as amended or replaced."

In order for this resolution to be adopted, the support of a majority of votes cast by members present or represented by proxy at this meeting is required.

9.2 If the new Companies Act, 2008 (the new Companies Act) becomes effective before the next annual general meeting, a special resolution is required for the allotment and issue of ordinary shares from the Equity Growth Scheme to directors and officers of the company. It is proposed that the following special resolution be passed subject to the new Companies Act taking effect. It is not intended that the passing of this special resolution should affect resolution 9.1.

"Subject to the condition precedent that the Companies Act, 2008, takes effect, resolved as a special resolution that all the ordinary shares required for the purpose of carrying out the terms of the Standard Bank Equity Growth Scheme, other than

[1] *Fee increase effective from 1 January 2011.*
[2] *The chairman's fees include the board, subsidiary board and all committee memberships. The chairman is also the chairman of the directors' affairs committee. A company motor vehicle, against which fringe benefit tax is levied, is made available for use by the current chairman.*
[3] *Fee per meeting for attendance by non-executive director or persons acting in an alternate capacity (not a member of the committee) or non-executive director attendance at management/subsidiary board or committee meeting where no other fee is specifically approved. This same fee is applicable to all committees where attendance is in an ad hoc or alternate capacity.*
[4] *Hourly rate for non-executive directors attending to group business and where no other fee is specifically approved. Any such payment will be approved by the chairman of the board and the chairman of the remuneration committee prior to payment being made to a director.*

those which have specifically been appropriated for the Equity Growth Scheme in terms of resolutions duly passed at previous annual general meetings of the company, be and are hereby specifically placed under the control of the directors, who be and are hereby authorised to allot and issue those shares in terms of the Equity Growth Scheme to persons contemplated in section 41(1) of the Companies Act, 2008."

In order for this resolution to be adopted, the support of at least 75% of the total number of votes cast by members present or represented by proxy at this meeting is required.

10. Standard Bank Group Share Incentive Scheme

10.1 "Resolved that all the ordinary shares required for the purpose of carrying out the terms of the Standard Bank Group Share Incentive Scheme (the Scheme), other than those which have specifically been appropriated for the Scheme in terms of ordinary resolutions duly passed at previous annual general meetings of the company, be and are hereby specifically placed under the control of the directors, who be and are hereby authorised to allot and issue those shares in terms of the Scheme subject to the provisions of the Companies Act, 1973, as amended or replaced."

In order for this resolution to be adopted, the support of a majority of votes cast by members present or represented by proxy at this meeting is required.

10.2 If the new Companies Act, 2008 (the new Companies Act) becomes effective before the next annual general meeting, a special resolution is required for the allotment and issue of ordinary shares from the Scheme to directors and officers of the company. It is proposed that the following special resolution be passed subject to the new Companies Act taking effect. It is not intended that the passing of this special resolution should affect resolution 10.1.

"Subject to the condition precedent that the Companies Act, 2008, takes effect, resolved as a special resolution that all the ordinary shares required for the purpose of carrying out the terms of the Standard Bank Group Share Incentive Scheme (the Scheme), other than those which have specifically been appropriated for the Scheme in terms of resolutions duly passed at annual general meetings of the company, be and are hereby specifically placed under the control of the directors, who be and are hereby authorised to allot and issue those shares in terms of the Share Incentive Scheme to persons contemplated in section 41(1) of the Companies Act, 2008."

In order for this resolution to be adopted, the support of at least 75% of the total number of votes cast by members present or represented by proxy at this meeting is required.

11. The directors of the company intend, if the circumstances are appropriate, to implement a repurchase of the company's ordinary shares as permitted in terms of the Companies Act in force at the time (the Companies Act), the Banks Act, No 94 of 1990, as amended and the Listings Requirements of the JSE Limited as amended from time to time (the Listings Requirements) either by the company or one of its subsidiaries.

The reason for and effect of this special resolution is to generally approve, in terms of the provisions of the Companies Act, the acquisition by the company and/or a subsidiary of the company, of ordinary shares issued by it subject to the Listings Requirements.

The directors of the company are of the opinion that taking into consideration the maximum number of ordinary shares that could be repurchased:

– the company and the group would be in a position to repay its debts in the ordinary course of business for a period of 12 months after the date of the notice of this annual general meeting ("the Next Year");
– the assets of the company and group, fairly valued in accordance with IFRS, would be in excess of the liabilities of the company and the group for the Next Year; and
– the share capital and reserves of the company and the group for the next year will be adequate.

"Resolved as a special resolution that the company approves, with effect from the date of this annual general meeting, as a general approval in terms of the provisions of the Companies Act, 1973, as amended or replaced (the Companies Act), the acquisition by the company and, in terms of the Companies Act, the acquisition by any subsidiary of the company from time to time, of such number of ordinary shares issued by the company and at such price and on such other terms and conditions as the directors may from time to time determine, subject to the requirements of the Banks Act, No 94 of 1990, as amended and the Listings Requirements of the JSE Limited as amended from time to time (the Listings Requirements), which at the date of this notice include, amongst others, the following:

– the authority shall be valid only until the next annual general meeting of the company or 15 months from the date on which this resolution is passed, whichever is the earlier;
– any such acquisition will be implemented through the order book operated by the trading system of the JSE Limited and done without any prior understanding or arrangement between the company and the counterparty (reported trades being prohibited);
– the acquisition must be authorised by the company's articles of association;
– the authority is limited to the purchase of a maximum of 10% of the company's issued ordinary share capital in any one financial year;
– acquisition must not be made at a price more than 10% above the weighted average of the market value for the ordinary shares of the company for the five business days immediately preceding the date of acquisition;
– at any point in time, the company may only appoint one agent to effect any repurchase(s) on the company's behalf;
– the company or its subsidiary may not repurchase securities during a prohibited period, unless they have in place a repurchase programme where the dates and quantities of securities to be traded during the relevant period are fixed (not subject to any variation) and full details of the programme have been disclosed in an announcement over the securities exchange news service of the JSE Limited (SENS) prior to the commencement of the prohibited period;
– that an announcement containing full details of such acquisitions of shares will be published as soon as the

Notice to members continued

company and/or its subsidiary(ies) has/have acquired shares constituting, on a cumulative basis, three percent (3%) of the number of shares in issue at the date of the general meeting at which this special resolution is considered and, if approved, passed, and for each three percent (3%) in aggregate of the initial number acquired thereafter; and

– in the case of an acquisition by a subsidiary of the company, the authority shall be valid only if:

- the subsidiary is authorised by its articles of association;
- the shareholders of the subsidiary have passed a special resolution authorising the acquisition; and
- the number of shares to be acquired is not more than 10% in the aggregate of the number of issued shares of the company."

In order for this resolution to be adopted, the support of at least 75% of the total number of votes cast by members present or represented by proxy at this meeting is required.

12. "Resolved, subject to the Companies Act, 2008 (the Companies Act), becoming effective, as a special resolution that the directors of the company be and are hereby authorised, subject to the provisions of the Companies Act, 2008, as amended, to provide any financial assistance to any company or corporation which is related or inter-related to the company."

Companies within the group receive and provide loan financing and other support in the course of business. The reason for this special resolution is to grant the directors of the company the authority to provide financial assistance to any company or corporation which is related or inter-related to the company.

In order for this special resolution to be adopted, the support of at least 75% of the total number of votes which the members present or represented by proxy at this meeting are entitled to cast, is required.

Notes in regard to other Listings Requirements applying to resolutions 4 to 12

1. Details of directors
Directors' details as required by the Listings Requirements of the JSE Limited (the Listings Requirements) are set out on pages 94 to 97 of the annual integrated report that accompanies this notice of annual general meeting (the annual integrated report).

2. Directors' responsibility statement
The directors, whose names are given on pages 94 to 97 of the annual integrated report, collectively and individually accept full responsibility for the accuracy of the information given in these notes 1 – 7 and certify that to the best of their knowledge and belief there are no facts that have been omitted which would make any statement in these notes 1 – 7 false or misleading, and that all reasonable enquiries to ascertain such facts have been made and that the notice contains all information required by law and the Listings Requirements.

3. Interests of directors
The interest of the directors in the share capital of the company are set out on pages 206 and 207 of the annual integrated report.

4. Major shareholders
Details of major shareholders of the company are set out on page 350 of the annual integrated report.

5. Share capital of the company
Details of the share capital of the company are set out on pages 252 to 254 of the annual integrated report.

6. Material change
There has been no material change in the financial or trading position of the company and its subsidiaries since the date of publication of the company's annual results on 3 March 2011.

7. Litigation
The company and its subsidiaries are not, and have not in the 12 months preceding the date of this notice of annual general meeting been involved in any legal or arbitration proceedings which may have or have had a material effect on the financial position of the company and its subsidiaries, nor is the company aware of any such proceedings that are pending or threatened.

Standard Bank Group shareholders holding certificated shares and shareholders of the company who have dematerialised their shares and have elected own name registration in the sub-register maintained by the CSDP, may attend, speak and vote at the annual general meeting or may appoint one or more proxies (who need not be shareholders of the company) to attend, participate and vote at the annual general meeting on behalf of the such shareholder. A proxy form is attached to this notice of annual general meeting. Duly completed proxy forms must be returned to the transfer secretaries of Standard Bank Group or the registered office of the company to the addresses set out below, to be received by not later than 09:30 on Wednesday, 25 May 2010.

Standard Bank Group shareholders who have dematerialised their shares through a CSDP or broker and who have not elected own name registration in the sub-register maintained by a CSDP and who wish to attend the annual general meeting, should instruct their CSDP or broker to issue them with the necessary authority to attend, or if they do not wish to attend the annual general meeting, they may provide their CSDP or broker with their voting instructions in terms of the custody agreement entered into between such shareholders and their CSDP or broker.

On behalf of the board

L Wulfsohn
Group secretary
2 March 2011

Registered office
9th Floor, Standard Bank Centre
5 Simmonds Street
Johannesburg, 2001
(PO Box 7725, Johannesburg, 2000)
Fax: +27 11 636 4207

Transfer secretaries in South Africa
Computershare Investor Services (Pty) Limited
Ground Floor, 70 Marshall Street
Johannesburg, 2001
(PO Box 61051, Marshalltown, 2107)
Fax: +27 11 688 5238

Transfer secretaries in Namibia
Transfer Secretaries (Pty) Limited
Shop 8, Kaiserkrone Centre
Post Street Mall
Windhoek, 9000
(PO Box 2401, Windhoek)
Fax: +264 61 248 531

Proxy form

Standard Bank Group Limited
(Registration number 1969/017128/06)
("the company")
JSE share code: SBK
NSX share code: SNB
ISIN: ZAE000109815

Standard Bank

To be completed by certificated shareholders and dematerialised shareholders with "own name" registrations only.

A shareholder entitled to attend and vote at the annual general meeting is entitled to appoint one or more proxies to attend, speak and vote in his/her stead. A proxy need not be a member of the company.

I/We (Name in block letters)

of (Address in block letters)

being a shareholder(s) and the holder(s) of ordinary shares of 10 cents each and entitled to vote hereby appoint (see note 1)

1 or, failing him/her

2 or, failing him/her

the chairman of the annual general meeting,
as my/our proxy to vote for me/us and on my/our behalf at the annual general meeting of shareholders to be held at 09:30 on Thursday, 26 May 2011, in the HP de Villiers Auditorium, Standard Bank Centre, 6 Simmonds Street, Johannesburg, and at any adjournment thereof as follows:

		Number of votes		
		For*	**Against***	**Abstain***
	Resolutions to:			
1	Adopt annual financial statements			
2	To elect directors:			
2.1	Doug Band			
2.2	Koosum Kalyan			
2.3	Yagan Liu			
2.4	Chris Nissen			
2.5	Cyril Ramaphosa			
2.6	Ted Woods			
2.7	Hongli Zhang			
3	Reappoint KPMG and PricewaterhouseCoopers as external auditors			
4	Place unissued ordinary shares under control of directors			
5	Place unissued preference shares under control of directors			
6	Give directors general authority to make payment to shareholders			
7	Endorse the company's remuneration policy			
8	Approve non-executive directors' fees (2011):			
8.1	Standard Bank Group chairman			
8.2	Standard Bank Group director			
8.3	Standard Bank Group international director			
8.4	Directors' affairs committee			
8.4.1	Chairman			
8.4.2	Member			
8.5	Group risk and capital management committee			
8.5.1	Chairman			
8.5.2	Member			
8.6	Group remuneration committee			
8.6.1	Chairman			
8.6.2	Member			
8.7	Group transformation committee			
8.7.1	Chairman			
8.7.2	Member			
8.8	Group audit committee			
8.8.1	Chairman			
8.8.2	Member			
8.9	Ad hoc meeting attendance			
8.10	Consultation fee per hour			
9	Equity growth scheme			
9.1	Place shares for the Standard Bank Equity Growth Scheme under control of directors			
9.2	Place shares for the Standard Bank Equity Growth Scheme under control of the directors in terms of the Companies Act, 2008.			

Please read the notes overleaf

** Insert a cross or tick or number of votes. If no options are marked, the proxy can vote as he/she deems fit.*

Proxy form continued

		Number of votes		
		For*	Against*	Abstain*
	Resolutions to:			
10	Standard Bank Group Share Incentive Scheme			
10.1	Place shares for the Group Share Incentive Scheme under control of directors			
10.2	Place shares for the Group Share Incentive Scheme under control of the directors in terms of the Companies Act, 2008.			
11	Give general authority until the next annual general meeting for the company or its subsidiaries to repurchase the company's shares			
12	Authority to the directors to provide financial assistance to related or inter-related companies			

Please read the notes below

** Insert a cross or tick or number of votes. If no options are marked, the proxy can vote as he/she deems fit.*

Signed at on 2011

Signature

Assisted by (where applicable) (State capacity and full name)

Please provide contact details: Tel: ( )

Fax: ( )

Email:

Notes

1. A shareholder may insert the name of a proxy or the names of two alternative proxies of his/her choice in the space provided. The person whose name stands first on the proxy form and who is present at the annual general meeting will be entitled to act as proxy to the exclusion of those whose names follow.

2. To be effective, completed proxy forms must be lodged by not later than 09:30 on Wednesday, 25 May 2011 with either the transfer secretaries or the registered office:

   South Africa
   Computershare Investor Services (Pty) Limited
   Ground Floor, 70 Marshall Street
   Johannesburg
   PO Box 61051, Marshalltown, 2107
   Fax: +27 11 688 5238

   Namibia
   Transfer Secretaries (Pty) Limited
   Shop 8, Kaiserkrone Centre
   Post Street Mall, Windhoek
   PO Box 2401, Windhoek, 9000
   Fax: +264 61 248 531

   Registered office
   9th Floor, Standard Bank Centre
   5 Simmonds Street, Johannesburg
   PO Box 7725, Johannesburg, 2000
   Fax: +27 11 636 4207

3. The completion and lodging of this form of proxy will not prevent the relevant ordinary shareholder from attending the annual general meeting and speaking and voting in person at the annual general meeting instead of the proxy.

4. The chairman of the annual general meeting may accept or reject any proxy form which is completed and/or received other than in compliance with these notes.

5. The signatories must initial any alteration to this proxy form, other than the deletion of alternatives.

6. Documentary evidence establishing the authority of a person signing the proxy form in a representative capacity must be attached to this proxy form unless previously recorded by the company.

7. Where there are joint holders of ordinary shares:
   (a) any one holder may sign the proxy form; and
   (b) the vote of the senior ordinary shareholder (for that purpose seniority will be determined by the order in which the names of the ordinary shareholders who tender a vote (whether in person or by proxy) appear in the company's register) will be accepted as to the exclusion of the vote(s) of the other joint shareholders.

8. All beneficial shareholders of ordinary shares who have dematerialised their shares through a CSDP or broker, other than those shareholders who have elected to dematerialise their shares in "own-name" registrations, must provide their CSDP or broker with their voting instructions. Voting instructions must reach the CSDP or broker in sufficient time to allow the CSDP or broker to advise the company or its transfer secretaries of this instruction by no later than 09:30 on Wednesday, 25 May 2011. We recommend that you contact your CSDP or broker to ascertain their deadline for submission.

   If you have dematerialised your shares and wish to attend the meeting in person, you may do so by requesting your CSDP or broker to issue you with a letter of representation in terms of the custody agreement entered into with your CSDP or broker. Letters of representation must be lodged with the Company's transfer secretaries or at the registered office of the company by no later than 09:30 on Wednesday, 25 May 2011. We recommend that you contact your CSDP or broker to ascertain their deadline for submission.

   Shareholders who hold certificated shares and shareholders who have dematerialised their shares in "own-name" registrations, must lodge their completed proxy forms with the company's transfer secretaries or at the registered office of the company by not later than 09:30 on Wednesday, 25 May 2011.

Directorate

Standard Bank Group Limited

TMF Phaswana
Chairman

Hongli Zhang[1]
Deputy Chairman

SJ Macozoma
Deputy Chairman

JH Maree[2]
Chief executive

DDB Band

RMW Dunne[3]

TS Gcabashe

SE Jonah KBE[4]

Sir Paul Judge[3]

KP Kalyan

Yagan Liu[1]

KD Moroka

AC Nissen

MC Ramaphosa

SP Ridley[2]

MJD Ruck

Lord Smith of Kelvin, Kt[3]

EM Woods

The Standard Bank of South Africa Limited

TMF Phaswana
Chairman

SK Tshabalala[2]
Chief executive

DDB Band

RMW Dunne[3]

TS Gcabashe

SE Jonah KBE[4]

Sir Paul Judge[3]

KP Kalyan

SJ Macozoma

JH Maree[2]

KD Moroka

AC Nissen

MC Ramaphosa

SP Ridley[2]

MJD Ruck

Lord Smith of Kelvin, Kt[3]

EM Woods

Standard Bank Plc

BJ Kruger
Chairman

JK Knott[2,3]
Chief executive

ME Austen[3]

DPH Burgess[3]

RAG Leith[2]

JH Maree

CJ Sheridan[3]

HE Staunton[3]

R Vardanian[5]

Liberty Holdings Limited

SJ Macozoma
Chairman

JB Hemphill[2]
Chief executive

AWB Band

AP Cunningham

JH Maree

MP Moyo

L Patel

TDA Ross

SP Sibisi

JH Sutcliffe

CG Troskie[2]

BS Tshabalala

PG Wharton-Hood

Stanbic IBTC Bank Plc

ANA Peterside, OON[6]
Chairman

C Newson[2,3]
Chief executive

S David-Borha[2,6]
Deputy chief executive

Y Sanni[2,6]
Deputy chief executive

M Adedoyin[6]

AS Cookey[6]

I Esiri[6]

AG Gain

BJ Kruger

RI Mahtani[6]

JH Maree

AM Roets[2]

JJ Troost[2]

[1] *Chinese*
[2] *Executive*
[3] *British*
[4] *Ghanaian*
[5] *Russian*
[6] *Nigerian*

Shareholder analysis

Ten major shareholders[1]

	2010 Number of shares (million)	2010 % holding	2009 Number of shares (million)	2009 % holding
Industrial and Commercial Bank of China	**317,9**	**20,1**	313,0	20,1
Public Investment Corporation	**210,5**	**13,3**	189,7	12,2
Tutuwa participants	**88,6**	**5,6**	89,7	5,7
– Staff	**34,9**	**2,2**	36,0	2,3
– Strategic partners	**35,8**	**2,3**	35,8	2,3
– Communities and regional businesses	**17,9**	**1,1**	17,9	1,1
Dodge & Cox	**44,9**	**2,8**	46,9	3,0
Old Mutual Group	**39,6**	**2,5**	52,3	3,4
Investment Solutions	**28,3**	**1,8**	31,0	2,0
Sanlam Group	**23,9**	**1,5**	26,0	1,7
Vanguard Emerging Markets Fund	**18,0**	**1,1**	12,9	0,8
Liberty Group[2]	**17,3**	**1,1**	25,7	1,6
Lazard Emerging Markets Fund	**17,2**	**1,1**	15,1	1,0
	806,2	**50,9**	802,3	51,5
Spread of ordinary shareholders				
Public[3]	**961,9**	**60,7**	956,7	61,4
Non-public[3]	**623,1**	**39,3**	601,6	38,6
Directors and embargoed employees of Standard Bank Group, and its subsidiaries[4,5]	**3,6**	**0,2**	4,6	0,3
Industrial and Commercial Bank of China	**317,9**	**20,1**	313,0	20,1
Public Investment Corporation	**210,5**	**13,3**	189,7	12,2
Standard Bank Group and Liberty Group retirement funds	**1,9**	**0,1**	4,6	0,3
Tutuwa participants[6]	**88,6**	**5,6**	89,7	5,7
Associates of directors	**0,6**	**0,0**		
	1 585,0	**100,0**	1 558,3	100,0

	2010 Number of shares	2010 % holding	2009 Number of shares	2009 % holding
Spread of 6,5% cumulative preference shareholders				
Public[3]	**8 000 000**	**100,0**	7 996 500	100,0
Non-public[3]				
Directors and embargoed employees of Standard Bank Group and its subsidiaries			3 500	0,0
	8 000 000	**100,0**	8 000 000	100,0
Spread of non-redeemable, non-cumulative, non-participating preference shareholders				
Public[3]	**52 588 364**	**99,3**	52 510 976	99,1
Non-public[3]	**393 884**	**0,7**	471 272	0,9
Directors and embargoed employees of Standard Bank Group, and its subsidiaries	**387 517**	**0,7**	463 905	0,9
Associates of directors	**6 367**	**0,0**	7 367	0,0
	52 982 248	**100,0**	52 982 248	100,0

[1] *Beneficial holdings determined from the share register and investigations conducted on our behalf in terms of section 140A of the Companies Act.*
[2] *Policyholders' funds.*
[3] *As per the JSE Limited Listings Requirements.*
[4] *Excludes indirect holdings of strategic partners which are included in the Tutuwa participants.*
[5] *Restated.*
[6] *Includes Tutuwa Strategic Holdings 1 and 2, Tutuwa Staff Holdings 1, 2 and 3, Tutuwa Community and General Staff Share Trust.*

Geographic spread of shareholders

	2010 Number of shares (million)	2010 % holding	2009 Number of shares (million)	2009 % holding
South Africa	**825,8**	**52,1**	844,9	54,2
Foreign shareholders	**759,2**	**47,9**	713,4	45,8
China	**317,9**	**20,1**	313,0	20,1
United States of America	**244,3**	**15,4**	234,8	15,1
United Kingdom	**64,0**	**4,0**	39,7	2,6
Namibia	**16,9**	**1,1**	16,9	1,1
Netherlands	**12,4**	**0,8**	12,9	0,8
Singapore	**12,2**	**0,8**	12,7	0,8
United Arab Emirates	**12,0**	**0,8**	11,0	0,7
Luxembourg	**11,9**	**0,8**	14,4	0,9
Saudi Arabia	**11,8**	**0,7**	8,3	0,5
Australia	**8,5**	**0,5**	4,2	0,3
Norway	**8,5**	**0,5**	9,9	0,6
Other	**38,8**	**2,4**	35,6	2,3
	1 585,0	**100,0**	1 558,3	100,0

Number of shareholders	2010	2009
Ordinary shareholders[1]	**69 956**	57 076
Public	**69 143**	56 619
Non-public	**813**	457
6,5% first cumulative preference shareholders	**366**	408
Public	**366**	403
Non-public		5
Non-redeemable, non-cumulative, non-participating preference shareholders	**10 725**	9 397
Public	**10 675**	9 318
Non-public	**50**	79

[1] *Restated.*

Share statistics

		2010	2009
Market indicators			
JSE All Share Index (closing)		**32 119**	27 666
JSE Banks Index (closing)		**40 985**	36 675
MSCI Emerging Markets Index (closing)		**1 151**	989
Share statistics			
Share price			
High for the year	cents	**11 800**	10 500
Low for the year	cents	**10 075**	5 915
Closing	cents	**10 755**	10 200
Shares traded			
Number of shares	thousands	**1 169 927**	1 489 980
Value of shares	Rm	**125 756**	128 351
Turnover in shares traded	%	**74,2**	96,2

Shareholders' diary

2010 financial year	
Annual general meeting	26 May 2011
2011 financial year	
Financial year end	31 December
Reports	
Interim report and declaration of interim dividend	August 2011
Summarised annual financial statements and declaration of final dividend	March 2012
Publication of annual integrated report	April 2012
Dividend payments	
Ordinary shares:	
– Interim	September 2011
– Final	April 2012
6,5% first cumulative preference shares:	
Six months ending 30 June 2011	September 2011
Six months ending 31 December 2011	April 2012
Non-redeemable, non-cumulative, non-participating preference shares:	
Six months ending 30 June 2011	September 2011
Six months ending 31 December 2011	April 2012
Annual general meeting	May 2012

Instrument codes

JSE Limited

Ordinary shares

Share code: SBK
ISIN code: ZAE000109815

6,5% cumulative preference shares

Share code: SBKP
ISIN code: ZAE000038881

Non-redeemable, non-cumulative, non-participating preference shares

Share code: SBPP
ISIN code: ZAE000056339

Deposit notes

SBR002: ZAE000083853
SBR003: ZAE000128195

Namibian Stock Exchange (NSX)

Ordinary shares

Share code: SNB
ISIN code: ZAE000109815

Bond Exchange of South Africa

Subordinated debt

SBK 5: ZAG000023078
SBK 7: ZAG000024894
SBK 8: ZAG000029679
SBK 9: ZAG000029687
SBK 10: ZAG000046640
SBKI 11: ZAG000066382
SBK 12: ZAG000073388
SBK 13: ZAG000073396

Senior debt

SBS 3: ZAG000030586
SBS 4: ZAG000035049
SBS 5: ZAG000035650
SBS 6: ZAG000051475
SBS 7: ZAG000051483
SBS 8: ZAG000051491
SBS 9: ZAG000069329
SBSI 10: ZAG000069063
SBSI 11: ZAG000075789
SBSI 12: ZAG000080847
SBS 13: ZAG000080839

Credit ratings

Ratings as at 2 March 2011 for entities within Standard Bank Group are detailed below:

	Short term	Long term	Outlook
Fitch Ratings			
The Standard Bank of South Africa			
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
Standard Bank Plc			
Issuer default rating	F2	BBB+	Stable
Banco Standard de Investimentos SA (Brazil)			
National rating	F1+ (BRA)	AA+ (BRA)	Stable
Standard Bank Argentina SA			
National rating		AA+ (ARG)	Stable
Stanbic IBTC Bank Plc (Nigeria)			
National rating	F1+ (NGA)	AAA (NGA)	
CfC Stanbic Bank (Kenya)			
Issuer default rating	B	BB-	Stable
Liberty Group			
National rating		AA- (ZAF)	Negative
National Insurer Financial Strength		AA (ZAF)	Negative
Moody's Investor Services			
The Standard Bank of South Africa			
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
Standard Bank Plc			
Foreign and local currency deposit rating	P-2	Baa2	Negative
Standard Bank Argentina SA			
Foreign currency deposit rating	NP	Caa1	Stable
Local currency deposit rating	NP	Ba1	Stable
Standard & Poor's			
The Standard Bank of South Africa			
Local currency		BBBpi	
RSA Sovereign rating			
Foreign currency	A-2	BBB+	Stable
Local currency	A-1	A	Stable

Financial and other definitions

Standard Bank Group

Basic earnings per share (EPS) (cents)	Earnings attributable to ordinary shareholders divided by the weighted average number of ordinary shares in issue.
CAGR (%)	Compound annual growth rate.
Capital adequacy ratio (%)	Capital as a percentage of risk-weighted assets.
Diluted earnings per share (DEPS) (cents)	Earnings attributable to ordinary shareholders divided by the weighted average number of shares, adjusted for potential dilutive ordinary shares resulting from share-based payments.
Dividend cover (times)	Headline earnings per share divided by dividend per share.
Dividend per share (cents)	Total dividends to ordinary shareholders in respect of the year. Dividend is calculated using the cash component of any distribution where an election to receive scrip was available.
Dividend yield (%)	Dividend per share as a percentage of the closing share price.
Earnings yield (%)	Headline earnings as a percentage of the closing share price.
Headline earnings (Rm)	Earnings attributable to ordinary shareholders excluding goodwill gain or impairment, capital profits and losses, and recycled profits or losses on available-for-sale financial instruments.
Headline earnings per share (HEPS) (cents)	Headline earnings divided by the weighted average number of ordinary shares in issue.
Net asset value (Rm)	Equity attributable to ordinary shareholders.
Net asset value per share (cents)	Net asset value divided by the number of ordinary shares in issue at year end.
Price earnings ratio (times)	Closing share price divided by headline earnings per share.
Price-to-book (times)	Market capitalisation divided by net asset value.
Profit attributable to ordinary shareholders (Rm)	Profit for the year attributable to ordinary shareholders, calculated as profit for the year less dividends on non-redeemable, non-cumulative, non-participating preference shares declared before year end, less non-controlling interests.
Profit for the year (Rm)	Income statement profit attributable to ordinary shareholders, non-controlling interests and preference shareholders for the year.
Return on equity (ROE) (%)	Headline earnings as a percentage of monthly average ordinary shareholders' funds.
Shares in issue (number)	Number of ordinary shares in issue as listed on the exchange operated by the JSE Limited (JSE).
Turnover in shares traded (%)	Number of shares traded during the year as a percentage of the weighted average number of shares.
Weighted average number of shares (number)	The weighted average number of ordinary shares in issue during the year as listed on the JSE.

Banking activities

Cost-to-income ratio (%)	Operating expenses as a percentage of total income including share of profit from associates and joint ventures.
Credit loss ratio (%)	Total impairment charges on loans and advances per the income statement as a percentage of average daily and monthly gross loans and advances.
Effective taxation rate (%)	Direct and indirect taxation as a percentage of income before taxation.
Gross specific impairment coverage ratio (%)	Specific credit impairments as a percentage of specifically impaired loans.
Portfolio credit impairments (Rm)	Impairment for latent losses inherent in groups of loans and advances that have not yet been specifically impaired.
Net interest margin (%)	Net interest income as a percentage of daily and monthly average total assets, excluding trading derivative assets.
Non-interest revenue to total income (%)	Non-interest revenue as a percentage of total income.
Return on equity (ROE) (%)	Headline earnings, excluding Liberty, as a percentage of monthly average ordinary shareholders' funds, after deducting capital relating to Liberty.
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.
Specific credit impairments (Rm)	Impairment for specific identified credit losses on loans and advances, net of the present value of estimated recoveries.

Other definitions

Black	African, Coloured, Indian and South African Chinese people (who fall within the ambit of the definition of black people in the relevant legislation as determined by court ruling).
Broad-based black economic empowerment (BBBEE)	Socioeconomic term concerning formalised initiatives and programmes to enable historically disadvantaged black individuals and groups to participate gainfully and equitably in the mainstream economy.
CPI (%)	A South African index of prices used to measure the change in the cost of basic goods and services.
Deferred acquisition costs	The direct and indirect costs incurred during the financial period arising from the writing or renewing of investment contracts without DPF, which are deferred to the extent that these costs are recoverable out of future premiums.
Deferred revenue liability (DRL)	Initial and other front-end fees received for the rendering of future investment management services relating to investment contracts without DPF, which are deferred and recognised as revenue when the related services are rendered.
Discretionary participation features (DPF)	A contractual right given to a policyholder to receive, as a supplement to guaranteed benefits, additional benefits that are: – likely to be a significant portion of the total contractual benefits; – whose amount or timing is contractually at the discretion of the issuer; and – that are contractually based on the: • performance of a specified pool of contracts or a specified type of contract; • realised and or unrealised investment returns on a specified pool of assets held by the issuer; or • profit or loss of the company, fund or other entity that issues the contract.
Embedded value (EV)	The net worth of an insurer plus the value of in-force business less the cost of solvency capital. The net worth of an insurer includes financial services subsidiaries, other than life companies, at fair value.
Exposure at default (EAD)	Counterparty's expected exposure to the group at the time a default occurs.

Financial and other definitions continued

Financial soundness valuation (FSV)	The valuation methodology used to value insurance contracts and investment contracts with DPF as described in PGN 104 issued by the Actuarial Society of South Africa.
Incurred but not reported	Claims expected to be made by policyholders in respect of events that have already occurred at the insurer's year end but have not yet been reported to it.
International Financial Reporting Standards (IFRS)	International Financial Reporting Standards issued by the International Accounting Standards Board (IASB).
Life Offices Association (LOA)	The LOA is a membership body representing South Africa's major life assurance companies.
Loss given default (LGD)	Amount of counterparty's obligation to the group that is not expected to be recovered after default and is expressed as a percentage of the EAD.
Normalised results	The financial results and ratios restated on an economic substance basis – refer to page 51.
Probability of default (PD)	Probability of a counterparty not making full and timely repayment of credit obligations over a specific time horizon.
Reinsurance	Insurance or investment risk that is ceded to another insurer in return for premiums. The ultimate obligation to the policyholder remains with the entity who issued the original insurance contract.
Reversionary bonus policy	A policy with DPF where the benefit at a point in time is defined as the sum assured plus past bonus additions, to which annual bonuses are added. A final terminal bonus may also be added.
Risk appetite	An expression of the maximum level of residual risk that the group is prepared to accept in order to deliver its business objectives.
Special purpose entity (SPE)	An entity created to accomplish a narrow and well-defined objective.
Tutuwa	Tutuwa is the group's black economic empowerment ownership initiative entered into in terms of the Financial Sector Charter.
Value of in-force business	The present value of the projected stream of after tax profits for all business in force at the reporting date.
Value of new business	The present value, at point of sale, of the projected stream of after tax profits for new business issued, net of the cost of solvency capital. The present value is calculated using a risk-adjusted discount rate.

Acronyms and abbreviations

AGM	Annual general meeting
AIRB	Advanced internal ratings based
ALCO	Asset and liability committee
ALM	Asset and liability management
AMA	Advanced management approach
ATM	Automated teller machine
Bankseta	Banking Sector Education and Training Authority
Basel	Basel Capital Accord
BBBEE	Broad-based black economic empowerment
BCBS	Basel Committee on Banking Supervision
BEE	Black economic empowerment
BSD	Bank Supervision Department
CAGR	Compound annual growth rate
CAR	Capital adequacy requirement
CEBS	Customer evaluation of bank service
CGT	Capital gains taxation
Charter	Financial Sector Charter
CRO	Chief risk officer
CSDP	Central Securities Depository Participant
CSSS	Credit Suisse Standard Securities
DBS	Deferred bonus scheme
DPF	Discretionary participation features
DRL	Deferred revenue liability
dti	Department: Trade and Industry of the Government of South Africa
dti codes	Department: Trade and Industry Codes of Good Practice for Broad-Based Black Economic Empowerment
EAD	Exposure at default
EGS	Equity growth scheme
exco	Group executive committee
FIRB	Foundation internal ratings based
FSA	Financial Services Authority
FSB	Financial Services Board
FSV	Financial Soundness Valuation
GAC	Group audit committee
GDP	Gross domestic product
GIA	Group internal audit
GORC	Group operational risk committee
GRI	Global Reporting Initiative
GRCC	Governance, risk and compliance cluster
GRCMC	Group risk and capital management committee
GROC	Group risk oversight committee
GSIS	Group share incentive scheme
IAS	International Accounting Standards
IASB	International Accounting Standards Board
ICAAP	Internal capital adequacy assessment process
ICBC	Industrial and Commercial Bank of China
IFRIC	International Financial Reporting Interpretations Committee
IFRS	International Financial Reporting Standards
IMF	International Monetary Fund
IRB	Internal ratings based
ISDA	Institute of Swap Dealers Association
IT	Information technology
JSE	JSE Limited, 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
LGD	Loss given default
MCAR	Minimum capital adequacy requirement
MSCI	An index created by Morgan Stanley Capital International (MSCI) which is designed to measure equity market performance in global emerging markets
NPL	Non-performing loan
OCAR	Ordinary capital adequacy requirement
OCI	Other comprehensive income
OTC	Over-the-counter
PD	Probability of default
PGN	Professional Guidance Note
PVIF	Present value in-force
QRRE	Qualifying revolving retail exposures
Remco	Remuneration committee
Rm	Millions of rand
ROE	Return on equity
SAM	Solvency assessment and management
SARB	South African Reserve Bank
SBG	Standard Bank Group Limited
SBGRF	Standard Bank Group Retirement Fund
SBSA	The Standard Bank of South Africa Limited
SENS	Securities exchange news service of the JSE Limited
SGCC	State Grid Corporation of China
SIH	Standard International Holdings
SIL	Standard Insurance Limited
SPE	Special purpose entity
SRI	Socially responsible investment
STC	Secondary tax on companies
STRATE	Share transactions totally electronic
TCAR	Termination capital adequacy requirement
TCM	Global treasury and capital management
Tier I	Primary capital
Tier II	Secondary capital
Tier III	Tertiary capital
TSA	The standardised approach
Tutuwa	Black economic empowerment ownership initiative
UK	United Kingdom
US	United States
VaR	Value-at-risk
VAT	Value added tax
ZAR	South African rand

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Shareholder information

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