Annual integrated report

2011

Book II: Risk and capital management report and annual financial statements

Standard Bank

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Further information available on the web.

Further reading boxes refer the reader to other parts of the report that contain relevant information to the current section. Should the information be contained in a different book of the annual integrated report, specific mention is made of the book it is in.

Audited

Denotes text that forms part of the audited annual financial statements.

For a full list of financial and other definitions as well as acronyms and abbreviations, refer to pages 144 to 148 of book I.

Risk and capital management

Overview

Introduction

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

Capital is managed using regulatory and economic capital metrics, at both business line and legal entity level.

Risks are controlled at individual exposure level, as well as in aggregate within and across all business lines, legal entities and risk types.

The group's three business lines are:

- Personal & Business Banking;
- Corporate & Investment Banking; and
- Liberty.

The legal entities are listed in annexure B and C of the annual financial statements on pages 208 and 213.

The various risk types are defined on page 12.

This report uses the terms 'banking operations' and 'insurance operations' as descriptors of business activities within the group. Banking operations comprise the banking operations in the Personal & Business Banking and Corporate & Investment Banking business lines. Insurance operations comprise the long-term insurance operations housed in the Liberty business line and the short-term insurance operations housed in the Personal & Business Banking business line.

Statement from the chairman of the group risk and capital management committee

I have been chairman of the group risk and capital management committee (GRCMC) since the previous chairman, Martin Shaw, retired in July 2010. Other members of the committee during 2011 were Doug Band, Richard Dunne, Saki Macozoma, Rick Menell, Fred Phaswana and Hongli Zhang (alternate: Yagan Liu). With the exception of Rick Menell, who resigned in February 2011, all members of the GRCMC served throughout 2011 as independent non-executive directors.

Attendance of each member at meetings of the GRCMC in 2011 can be found on page 75 of book I in the corporate governance statement. Richard Dunne is also the chairman of the group audit committee (GAC). This common membership ensures effective oversight of all finance and risk issues, and that agendas are aligned and duplication is avoided. The GRCMC and GAC (through their chairmen) also have links with the remuneration committee, with particular regard to ensuring that relevant finance and risk matters are considered in the determination of appropriate levels of compensation. The chairman of the remuneration committee, Ted Woods, is a member of the GAC.

The main purpose of the GRCMC is to provide independent and objective oversight of risk and capital management in the group. The committee also reviews and assesses the integrity of risk control systems and ensures that risk policies and strategies are managed effectively. The key terms of reference of the GRCMC can be found on page 77 of book I in the corporate governance statement and these are considered annually by the GRCMC and approved by the board of directors (board).

A total of six meetings of the GRCMC were held during 2011: four scheduled meetings, a special meeting on stress testing and one to sign off the interim risk and capital management report. The GRCMC is responsible for:

- providing oversight and advice to the group, including The Standard Bank of South Africa Limited (SBSA) and other material subsidiary boards, in relation to current and potential future risk exposures of the group and its risk strategy, including determination of risk appetite;
- reviewing and providing oversight in respect of the adequacy and effectiveness of the group's risk management framework;
- approving and monitoring the group's risk appetite for each risk type under normal and potential stress conditions;
- approving risk and capital management governance standards and policies;
- assisting on such other matters as may be referred to it by the group risk oversight committee (GROC);
- promoting a risk awareness culture within the group; and
- reporting to the board any matters within its remit in respect of which it considers that action or improvement is needed and making recommendations as to the steps to be taken.

2011 GRCMC key focus areas:

- risk strategy framework;
- risk appetite and profile, including several reviews into specific areas of interest:
  - the group's economic capital model;
  - the physical commodity risk portfolio;
  - the banking book equity investments;
  - the home loans portfolio in South Africa;
  - the inclusive lending portfolio in South Africa; and
  - the approach to calibrating country risk appetite;
- stress testing and scenario analysis;
- capital adequacy of the banking operations;
- internal capital adequacy assessment process (ICAAP) submission to the South African Reserve Bank (SARB);
- preview of the capital impact of significant corporate actions entered into by the group;
- governance standards and related policies; and
- application to the SARB for approval to use the advanced measurement approach (AMA) for operational risk.

The GRCMC considered the group's risk profile relative to current and future group strategy. The committee reported to the board following each meeting on its consideration of the risk profile of the group and any longer-term macro or perceived strategic threats to the group, and made recommendations as appropriate. Through this oversight, the GRCMC was satisfied that there were no material risks that may threaten the long-term sustainability of the group.

At each meeting of the GRCMC, the group chief risk officer (CRO) provided the committee with an overview of the key risk issues discussed at GROC. An update was also given by the individual group risk type heads on the specific issues of group-level significance as well as other relevant items in their respective areas of responsibility.

The group risk framework provides a basis for ongoing self assessment of appropriate risk appetite and compliance with the group's minimum control requirements, as articulated in the group governance standards for business continuity, capital management, country, credit, insurance, liquidity, market and operational risk.

The GRCMC received regular reports on the development of the group risk framework during 2011. The approach to group risk appetite was developed significantly in the latter part of 2010 and during 2011, and continues to be enhanced. Risk appetite, the current risk profile and projected risk tendency were regularly reviewed by the GRCMC, which makes recommendations to the board on risk appetite as part of this ongoing process.

The committee also considered the group's exposure to country, single name obligor and sector concentration risk and ensured that rigorous stress testing of the group's business was undertaken, supplemented by forward-looking strategic risk threat analyses on a quarterly basis. The output of this testing was reviewed by the GRCMC throughout 2011, with a view to ensuring appropriate actions were taken where necessary. It made recommendations to the board regarding related authorities, limits and mandates where relevant.

During the course of the year, the GRCMC's mandate was expanded to include the remit of the group credit committee, which was then disbanded. In discharging its responsibilities in respect of credit risk, the GRCMC reviewed the group's detailed reports on all credit risk types and portfolios.

During 2011, an internal self assessment on the effectiveness of the GRCMC was conducted. This assessment concluded that the committee was operating effectively. In addition, the externally facilitated board evaluation, which included board committees, concluded that the GRCMC was operating effectively.

Myles Ruck
Chairman of the GRCMC
7 March 2012

Board responsibility

The board relies on quarterly reports to the committees within the governance structure on page 14, as well as attestations by senior risk managers and group internal audit (GIA), to satisfy itself that the group's risk management processes are fit for purpose.

The board further relies on the three lines of defence model on page 16, to satisfy itself as to the effectiveness of risk assessments, responses and interventions. During the year under review, the business activities of the group and its subsidiaries have been managed within the board-endorsed risk appetite.

The year in brief

Credit risk

- Demand for credit improved as consumers gained some confidence in the economic environment, particularly in South Africa. However, market volatility and ongoing turmoil in the Eurozone continued to dampen performance.
- The quality of the credit portfolio improved as a result of improving fundamentals in our key markets, focused credit management practices and the implementation of enhanced tools.
- Significant progress was made in the standardisation and enhancement of credit policies, procedures and measures across the group, particularly in the rest of Africa and Liberty.
- The group implemented a number of internal models to measure exposure profiles and to calculate credit valuation adjustment (CVA) parameters, thereby enabling more effective credit measurement, management and pricing.

Country risk and cross-border risk

- Consistent with a sharpened strategic focus on sub-Saharan Africa, the relative concentration of cross-border exposure to the region increased during 2011. Outside sub-Saharan Africa, significant exposures to select countries (Brazil, China, India and Russia) feature in the cross-border emerging markets portfolio.
- Direct exposures to troubled European periphery economies were limited and tightly managed.
- To support a more targeted Corporate & Investment Banking strategy by sector, a sector risk team has been embedded within the country risk function.

Market risk

- The banking operations' interest rate risk remained within approved limits. The group's largest exposure is within the SBSA balance sheet which is positioned to benefit from an interest rate hiking cycle.
- Trading book market risk remained within approved limits with a positively skewed profit distribution which is reflective of the client flow business model. In general, the group's trading desks ran low levels of market risk throughout 2011, with average value-at-risk (VaR) being largely unchanged. The SARB and United Kingdom (UK) Financial Services Authority (FSA) granted an extension of the approval for using internal models to cover trading book stress VaR, which is effective January 2012.
- The banking book equity risk committees were consolidated into a single committee, thereby aligning and ensuring a consistent approach to the evaluation, approval, management, monitoring and reporting of equity risk.
- An additional area of focus for both credit and market risk management was the enhancement of the management, monitoring and reporting of the combined risk profile where these risks overlap. Market risk instruments are used to hedge credit risk.

Operational risk

- During 2011, an enhanced operational risk management framework was approved by the GRCMC. This new framework is designed to meet the qualifying criteria of the AMA under Basel II. The qualitative aspects of this framework are minimum standards for all group operations, whereas the quantitative elements are being implemented in line with the relevant banking legal entity's adoption of the AMA for capital purposes.
- An internal quantitative model has been developed to calculate operational risk capital requirements. This model successfully passed an external independent validation process.
- In February 2011, the group became a member of the Operational Riskdata eXchange Association, a not-for-profit industry association dedicated to advancing the measurement and management of operational risk in the global financial services industry.
- In December 2011, the group submitted an application to the SARB to use the AMA for the calculation of operational risk regulatory capital requirements. This application is to adopt the AMA selectively across the group and the initial rollout is focused on SBSA legal entity.

Financial crime control

- During 2011, banks globally faced increased levels of financial crime, with fraudsters using increasingly sophisticated techniques. With the increase in attempted financial crimes, banks realised that safe banking will become a competitive differentiator. The group continued to consider financial crime holistically, incorporating all types of financial crime (including money laundering and physical security threats) into its risk assessment.
- Group financial crime control supported the group in minimising the overall impact of financial crime and established global structures across Corporate & Investment Banking, Personal & Business Banking, Liberty and the group enabling functions, to ensure the safety of our people and assets, and to retain the trust of our stakeholders.
- The group's global approach to financial crime was enhanced by creating a holistic framework as well as consistent policies, standards and methodologies.
- The UK Bribery Act 2010, as well as local legislation such as the Prevention and Combating of Corrupt Activities Act 12 of 2004, were considered in order to formulate a groupwide anti-bribery and corruption policy.

- The anti-fraud policy was updated to consider all elements of financial crime and a new group anti-financial crime policy was approved.
- A policy to guide and standardise the activities of physical security was implemented.
- The group updated the whistle-blowing policy, ensuring that it adheres to the highest standards set by legislation globally. Instances of financial crime or unethical conduct can be reported through an independently managed whistle-blowing hotline, available to all employees and clients. The facility is available across all geographies in which the group operates.
- 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 to detect, prevent and report money laundering and terrorist financing. Best practices and lessons learnt in South Africa are being applied in the rest of Africa in order to enhance detection and reporting in this area, as anti-money laundering and combating the financing of terrorism efforts mature and become operational in the rest of the continent.
- Group financial crime control rolled out the staff dismissal broadcast system during November 2011, whereby the group disclosed on the intranet details of individuals dismissed due to fraud and related misconduct.
- The group is committed to the continued training and raising awareness of employees and customers on financial crime-related matters.
- The group experienced a 10% reduction in the number of physical security incidents during 2011 compared to 2010, as well as a 46% reduction in the value lost. An increased focus during 2011 on preventing attacks against Standard Bank ATMs resulted in the group experiencing only 4% of the total industry value loss due to ATM attacks in South Africa.

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.

Legal risk

- During 2011, the suitability and efficacy of many of the group's contractual and security arrangements were tested in light of adverse economic conditions. No shortcomings were detected.
- In South Africa, the new Companies Act 71 of 2008 (Companies Act) introduced both administrative and contractual challenges which are ongoing but pose no material risk to the group.
- The efficacy and efficiency of legal risk management in Africa, outside South Africa, was enhanced in 2011, and steps were taken to enhance the legal support for our commodities trading desks.
- In all litigation considered material, no findings adverse to the group were made.

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.

Insurance risk

- The specialised customer management unit, in the Liberty retail business unit, focused on implementing a broad programme of initiatives to address the increase in discontinuance rates. These initiatives have continued to bear fruit in 2011 and Liberty has experienced a reduction in discontinuance rates on its major product lines. These improvements are broadly in line with targets.

Capital and liquidity management

- The group has successfully maintained its strong capital position, meeting or exceeding all target ratios.
- The group's liquidity positions were also maintained within approved limits. Appropriate liquidity buffers were held, taking into account ongoing global risk aversion and market volatility.
- The implications of the proposed Basel III liquidity and capital framework continue to be evaluated.
- During the course of the year, SBSA successfully implemented a new asset and liability management system.

Focus areas for 2012

The group will focus on the following areas during 2012:

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 augmented integrated risk management framework to manage inter-relationships between risk types and to support business planning and decisions across the group.

Credit risk

- Continuing to apply appropriate and responsible lending criteria to ensure prudent lending practices in line with anticipated economic conditions and our risk appetite.
- 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.
- Refining the credit risk framework and supporting tools to manage current and anticipated levels of risk against the agreed group credit risk appetite.
- Enhancing the group's active credit portfolio management capabilities, leveraging the foundations implemented during 2011.
- Extending the application of CVA 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.
- Managing risk concentrations across counterparties, portfolios and geographic regions, with an increased focus on distribution strategy.

Country and cross-border risk

- Proactively managing country risk appetite and mitigating country-specific risks in response to a potentially adverse global economic environment.
- Reviewing the risk appetite setting framework to account for a more geographically focused strategy.
- Enhancing the country risk modelling suite to account for structural changes in the global economy, especially in developed markets, and providing for more targeted measures of industry, transfer and convertibility risk.

Operational risk

- Further embedding the improved operational risk framework within the major business areas and introducing quantification tools into the management of operational risk.
- Enhancing the articulation of operational risk appetite and tolerance.
- Approval and rollout of an enhanced set of global minimum standards for business continuity management.
- Ongoing enhancement and embedding of information risk policies in partnership with the information security officers in the business lines.

Financial crime control

- Evaluating global trends in financial crime and developing heat maps and threat assessments per country.
- Implementing minimum standards and performing assessments of adherence.
- Assessing country competence and capabilities, and utilising centres of excellence to migrate capabilities into the rest of Africa.
- Launching our South African FraudStop programme globally, which rewards staff who proactively identify instances of financial crime and assist the bank in preventing it across the group.

Legal risk

- Many regulatory and legal developments are anticipated for 2012, brought about by governmental attempts to deal with economic upheavals. We believe that our legal resources are equipped to manage these developments.

Market risk

- Monitoring and managing the banking book interest rate risk and associated hedges in the context of current market volatility and monetary policy expectations.
- Consolidating and aligning trading book market risk processes across the banking operations.
- Enhancing market risk processes within insurance operations.
- Improving banking book equity risk monitoring.
- Continuing to focus on credit and market risk overlap and adapting processes, where necessary, to ensure these are fit for purpose.

Capital and liquidity management

Although the final Basel III rules afford the bank a period of time before full compliance is required, the bank maintains a strong focus on achieving these liquidity and capital requirements within the specified timelines. Specific areas of focus include:

- Optimising capital and liquidity allocation 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.
- Extending the SBSA asset and liability management system to include the group's rest of Africa banking entities.
- Supporting the group's refined strategy for growth in the rest of Africa through the enhancement of capital management practices in the rest of Africa legal entities.

- Ensuring that the group is adequately positioned to respond to changing regulatory capital rules under Basel III.

Insurance risk

- Continuing with the implementation of the programme of initiatives to address discontinuance rates.
- Continuing to focus on detailed mortality and morbidity investigations to gain insight into trends in and causes of death and disablement.
- Introducing a new group governance standard to facilitate the establishment of consistent minimum control criteria for the management of insurance risk across all group entities.

Regulatory developments

The group monitors global and local regulatory developments in the financial services sector. Major developments are discussed below.

Impacting banking operations

Basel Committee on Bank Supervision

The Basel Committee's report to the G20 describes the measures taken by the committee and its governing body of central bank governors and heads of supervision to strengthen the resilience of banks and the global banking system. The new global standards to address both firm-specific and broader systemic risks have been referred to as Basel III.

Key aspects affected by the proposed changes include:

- **Capital**
  - Enhanced definition of capital with a focus on tier I common equity.
  - Two new capital buffers, that is, a capital conservation buffer made up of common equity, previously referred to as core tier I, and amounting to up to 2,5% to ensure that banks can maintain capital levels by using the buffer to absorb losses during periods of stress. A countercyclical capital buffer made up of common equity of up to an additional 2,5% of risk weighted assets to protect the banking sector from periods of excessive credit growth, which typically results in a systemwide build up of risk.
  - **Leverage ratio:** capping leverage by constraining the ratio of tier I capital to assets.
  - **Risk-weighted assets**
    - **CVA:** An additional capital charge to cover the risk of mark-to-market losses on the expected counterparty risk of over-the-counter (OTC) derivatives.
    - **Asset value correlation:** A multiplier of 1,25 applied to the correlation parameter of exposures to large financial institutions or unregulated financial institutions in order to strengthen the ability to prevent systemic risk.
- **Liquidity**
  - **Liquidity coverage ratio (LCR):** A ratio intended to address the ability of a banking entity to survive a stress scenario by ensuring an appropriate holding of surplus qualifying liquid assets.
  - **Net stable funding ratio (NSFR):** A ratio intended to address the structural liquidity mismatch inherent in banking operations.

Systemically important financial institutions (SIFIs)

The SARB has not yet given an indication of their views on the proposals as set out by the Basel Committee on Banking Supervision for national SIFIs, however, it is anticipated that the four largest banks in South Africa would be classified as national SIFIs.

Implementation of IFRS 9 *Financial Instruments* (IFRS 9)

The International Accounting Standards Board (IASB) is currently replacing IAS 39 *Financial Instruments: Recognition and Measurement* (IAS 39) with IFRS 9. The replacement of IAS 39 with IFRS 9 will be achieved through three distinct phases. The first of these phases, being the classification and measurement of financial assets and financial liabilities, has been completed (subject to further proposed amendments that will be issued by the IASB during 2012). Both phase two, which encompasses the proposed expected loss impairment model that will replace IAS 39's incurred loss model, and phase three, which encompasses proposed simplifications to IAS 39's hedge accounting requirements, are yet to be finalised by the IASB. The group continues to participate in industry body discussions on the proposed changes.

While phase one 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 2015.

Financial Markets Bill

A key piece of upcoming legislation is the Financial Markets Bill which introduces an enabling framework for the regulation of derivatives trading, including a centralised clearing house for derivative trades.

A safer financial sector to serve South Africa better

The most significant policy proposals impacting business are those outlined in the 'A safer financial sector to serve South Africa better' document published by the South African Government in February 2011. These proposals include the move towards a 'twin peaks' model of regulation and supervision of banks and other financial services firms, with the SARB being responsible for all prudential supervision and the Financial Services Board (FSB) being responsible for market conduct regulation. A new market conduct regulator for banks will be established under the ambit of the FSB.

Other South African regulatory developments

Many South African regulatory developments during 2011 continued to focus on consumer protection and the fair treatment of customers.

National Environmental and Social Risk Industry Code

The group contributes towards a South African banking industry initiative to draft a code of conduct on managing environmental and social risk. The group contributed towards the Banking Association of South Africa's valuer's guide to land contamination, launched in 2011.

Protection of Personal Information Bill

The Protection of Personal Information Bill provides for conditions of privacy and protection of personal information. The Bill seeks to give effect to everyone's constitutional right to privacy and to bring the South African regulatory environment in line with international data protection and privacy standards. It introduces certain minimum conditions such as acquiring customer consent before the processing of personal information and provides for the establishment of an information regulator. The Bill impacts extensively on the group, particularly in relation to the manner in which it uses, records and transfers information, both within South Africa and across international borders. We are in the process of strengthening our systems in preparation for this new legislation, which is expected to become law in 2013 or 2014.

Impacting short- and long-term insurance

Solvency Assessment and Management (SAM)

The FSB is in the process of developing a new risk-based regulatory requirement for South African insurance and reinsurance organisations, known as SAM. This new regulatory regime aims to address the adequacy of capital allocation and risk management to protect policyholders. This initiative will align the South African insurance industry with the standards of the International Association of Insurance Supervisors. An industrywide adoption of SAM is expected by January 2014, with the implementation of interim measures for long-term insurers and short-term insurers during 2012.

The implementation of SAM is likely to have a significant impact on the South African insurance industry. The key issues are clustered around the following aspects:

- **Capital requirements:** There is still uncertainty as to the quantitative impact of SAM on South African insurers; it is expected to be far greater in the smaller (unlisted) niche insurance business, which may result in further consolidation within the industry.
- **Product profitability:** Generally, it is expected that quality of earnings will improve due to more accurate pricing of risk and the withdrawal of higher-risk products.
- **Assets and investment preferences:** The relative attractiveness of asset classes will shift, with assets reallocated towards SAM-optimised investments.
- **Risks and risk transfer:** As SAM is likely to recognise correlation within a group and between risk types, the quantification of risk diversification could prompt the realisation of benefits through rationalisation or organisational structures or transfer of risk between structures.
- **Costs:** SAM will result in higher costs of compliance, resulting in higher costs for providing insurance services. With capital constraints, insurers will be more focused on reducing costs and increasing efficiencies. This may result in further industry-level consolidations to improve advantages of scale.
- **Industry structure:** The supervision by regulators will be split between prudential supervision of re-insurers and banks, while market conduct will be subject to separate supervision by the FSB.

The new SAM regime will drive key changes to Liberty's business applications. These changes will predominantly lead to enhanced business capability in respect of risk-adjusted decision-making processes within Liberty. Liberty has established a formal SAM programme aimed at enhancing these capabilities in order to realise business value and address the new risk-based regulatory requirements introduced by SAM.

Liberty is well-represented at all levels of the FSB's SAM governance structures and is actively involved in the development of the new legislation through participation in the 12 task groups, the SAM steering committee and its three sub-committees.

Treating customers fairly (TCF)

TCF has been on the regulatory agenda of the FSB since the publication of the TCF discussion paper in May 2010. TCF is an approach to market conduct regulation using a balance of principles and rules to achieve outcomes that are fair for customers. The National Treasury paper 'A safer financial sector to serve South Arica better', describes TCF as 'a framework for tougher market conduct oversight'. The FSB then published 'TCF: The Roadmap' at the end of March 2011, in which it outlines the steps it will take to implement the TCF approach in South Africa. The impact will be across Liberty's entire value chain, to the extent that individual customers are impacted. Liberty has created a TCF steering committee to drive implementation and embed TCF across the business. Various initiatives are under way across the group as Liberty embraces the principles of TCF.

IFRS 4 Insurance contracts

Phase two

In 2010, the IASB issued an exposure draft on insurance contracts which proposes a comprehensive measurement approach for all types of issued insurance and reinsurance contracts. There has been a widespread global response to this exposure draft. Liberty has been extensively involved in South African industry bodies commenting on this exposure draft and will continue to monitor any decisions that are made prior to the final International Financial Reporting Standards (IFRS) being published. It is anticipated that the final standard will have a significant impact on the group's current reported financial position and future revenue recognition, but to date there is insufficient clarity around certain decisions to be able to understand and provide guidance on the specific implications of the new standard.

The exposure draft will affect Liberty and Standard Insurance Limited (SIL) as the group's issuers of insurance contracts. The IASB is expected to release a review draft or a revised exposure draft in the second quarter of 2012. The earliest estimate of an adoption date is for year commencing 1 January 2015.

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 from across the group has started 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.

Pension Funds Act amendments relating to fund member investment restrictions

The revised Regulation 28 of the Pension Funds Act 24 of 1956 came into effect in April 2011, limiting the amount and extent to which a pension fund may invest in particular assets. Regulation 28 aims to ensure that retirement savings are invested in a prudent manner. These amendments aim to reduce the investment risk to which members' savings for retirement are exposed in order to ensure more predictable retirement benefits. Regulation 28 covers retirement annuities, preservation funds, pension funds and provident funds, which are all sold by Liberty.

The main change to the regulation requires retirement funds to ensure that the spread of investments held at a member level, previously at a retirement fund level, complies with certain limits. In addition, new asset class categories have been defined and changes have been made to the maximum investment levels allowed. These changes will require the asset composition of existing fund member policyholder investment portfolios to be reviewed and adjusted if needed.

The Financial Advisory and Intermediary Services Act's fit-and-proper requirements for financial advisers

The FSB has introduced compulsory exams whereby all registered financial advisers are required to sit and pass the exam by 30 September 2012 in order to retain their financial adviser registration. Liberty continues to support its representatives and key individuals to help them prepare and pass the regulatory examinations to ensure that existing customers are provided advice by qualified advisers. As the number of qualified advisers might initially drop, measures are being implemented to ensure that customers of advisers who do not pass are assigned to another adviser.

Insurance act review

A new insurance act is proposed which will combine the current separate South African Long-Term Insurance Act 52 of 1998 (the Long-Term Insurance Act) and the South African Short-Term Insurance Act 53 of 1998 (the Short-Term Insurance Act) into one act. The regulators have already started drafting parts of this new insurance act.

Reporting protocols

The risk and capital information disclosed within these sections is in accordance with two frameworks: IFRS and Basel II pillar 3 (also referred to as pillar 3), as stated in Regulation 43 of the Regulations relating to Banks, governed by the South African Banks Act 94 of 1990 (Banks Act).

All tables, diagrams, quantitative information and commentary in this risk and capital management report are unaudited unless stated as audited.

Restatement of 2010 financial information is set out in annexure A on page 207.

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 types, page 12;
- capital management, page 21;
- credit risk, page 28;
- liquidity risk, page 58;
- market risk, page 67; and
- insurance risk, page 79.

Reporting protocol differences

While the overarching aim of both reporting frameworks is transparency and accountability, it is important to understand the differences between them in order to correctly interpret the disclosures in this report. The source of all risk and financial disclosures is a centralised set of data thereby enhancing compatibility across both reporting frameworks. The group's consolidated financial statements are prepared in accordance with, and comply with, IFRS and pillar 3 disclosures, which are intended to complement the minimum capital requirements and supervisory review process of Basel II.

Asset class differences

An important difference between IFRS and pillar 3 pertains to the analysis of credit risk exposures. Under IFRS the exposure is presented by class of financial instrument while 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 and the characteristics of the underlying financial instruments. Basel II asset classes, in the internal ratings-based (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 and pillar 3 disclosures. The principles in IFRS are applied for recognising, measuring and presenting financial assets and financial liabilities in the annual financial statements, including the IFRS sections of this risk and capital management report.

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 own creditworthiness is considered to 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 must be measured at fair value with all gains and losses, with the exception of impairment losses, dividends and interest income, recognised in other comprehensive income.

Banking supervisors generally agree that the resulting gains and losses in other comprehensive income 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 is 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 trigger 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 a 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 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.

Basis of consolidation

The principal accounting policies and procedures relevant to the interpretation of the bank's risk exposure are set out in accounting policy elections in annexure E of the annual financial statements on page 223. The differences relating to consolidation are explained in the table that follows.

Reporting protocol differences

	Basel II pillar 3	IFRS
Distinction of treatment	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[1]	Consolidated
Other subsidiaries	Deducted[2]	Consolidated
Significant influence or joint control of entities conducting banking, securities or financial activities, as defined	Proportionately consolidated[3]	Equity accounted
Significant influence or joint control of entities conducting other activities	Deducted[2]	Equity accounted

[1] *Includes the full risk-weighted exposure amounts of the subsidiary in the group consolidated risk-weighted exposures.*
[2] *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.*
[3] *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.*

Pillar 3 disclosures apply at a group level, thus disclosures related to individual banks within the group are not required. Contrary to accounting principles, banking regulations view consolidation as including only those group companies (subsidiaries, joint ventures and voluntarily consolidated minority-owned entities) that conduct banking and other financial operations. This includes credit institutions, securities firms and financial entities, but no other companies.

Basel II information has been disclosed in accordance with the following approaches, as explained above:

- consolidated;
- proportionately consolidated; and
- deducted.

Treatment of legal entities under the Basel II consolidation

	Banks[1]	Securities firms[2]	Financial entities[3]	Commercial entities[4]	Insurance entities[5]
2011					
Consolidated	24	5	88		
Proportionately consolidated			4		
Deduction	1		21	105	3
Total	25	5	113	105	3
2010					
Consolidated	24	5	87		
Proportionately consolidated			4		
Deduction	1	1	21	105	5
Total	25	6	112	105	5

[1] *Banks – public companies registered as banks in terms of the Banks Act or the relevant legislation if the entity is registered outside of the Republic of South Africa.*
[2] *Securities firms – entities that conduct securities business as envisaged in the Securities Services Act 36 of 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 or Long-Term Insurance Act or the relevant legislation if the entity is registered outside the Republic of South Africa.*

Risk types

The various risk types the group is exposed to are detailed below.

Credit risk

Credit risk is the risk of loss arising out of failure of counterparties to meet their financial or contractual obligations when due, for any reason.

Credit risk comprises counterparty risk, settlement risk and concentration risk. These risk types are defined as follows:

- **Counterparty risk:** 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:** 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:** 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:** The EAD arising from traded credit and equity products, including underwriting the issue of these products in the primary market.
- **Settlement risk:** 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:** The risk of loss to the group as a result of excessive build-up of exposure to a specific 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 and cross-border risk

Country risk is the risk of loss arising when political or economic conditions or events in a particular country inhibit the ability of counterparties in that country to meet financial obligations to the group. Country risk events may include sovereign defaults, banking or currency crises, social instability and governmental policy changes or interventions such as expropriation, nationalisation and asset confiscation.

Country risk also encompasses cross-border risk, which is the risk that government actions may restrict convertibility (local currency into non-local currency) and the transfer of funds, thereby impacting the ability of counterparties to meet financial obligations to the group. Examples of restrictions on the transfer of funds are exchange controls and debt moratoria.

Liquidity risk

Liquidity risk arises when the group, despite being solvent, is unable to maintain or generate sufficient cash resources to meet its payment obligations as they fall due, or can only do so on materially disadvantageous terms.

This inability to maintain or generate sufficient cash resources occurs when counterparties who provide the group with funding withdraw or do not rollover that funding, or as a result of a general 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, including commodities, caused by movements in market variables such as equity, bond and commodity prices, currency exchange rates and interest rates, credit spreads, recovery rates, correlations and implied volatilities in all of these measures.

Insurance risk

Insurance risk is the risk that future demographic, policyholder behaviour (such as discontinuances) and related expense experience will exceed the expected allowance for such experience as determined by the product pricing basis.

Insurance risk arises due to uncertainty regarding the timing and amount of future cash flows from insurance contracts. This could be due to variations in mortality, morbidity or persistency experience in the case of life products, or claims incidence and severity assumptions in the case of short-term insurance products.

Operational risk

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems, or from external events. Reputational risk and strategic risk are, in terms of general market convention, excluded from the definition of operational risk. Reputational risk is defined separately below. Strategic risk is included in the definition of business risk below.

Business risk

Business risk is the risk of loss, usually from inflexible cost structures or inefficiencies, due to adverse operating conditions caused by market-driven pressures such as decreased demand, increased competition or cost increases, and by group-specific causes such as a poor choice of strategy, reputational damage or the decision to absorb costs or losses to preserve reputation.

Reputational risk

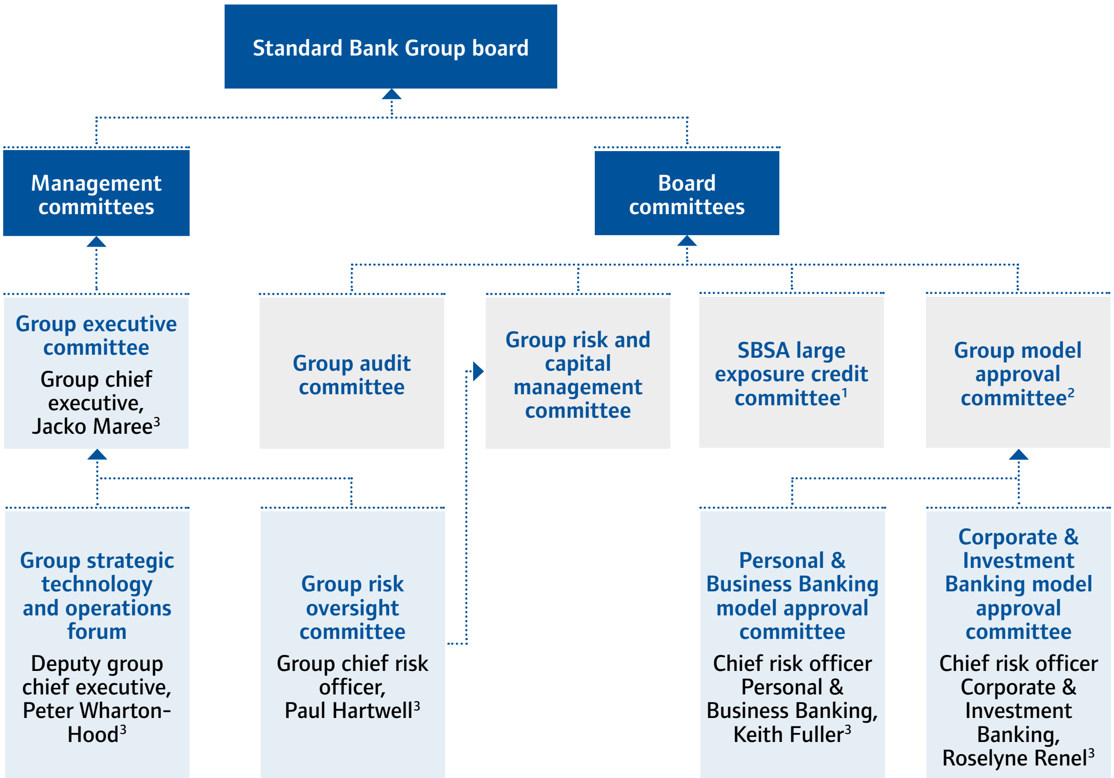
Reputational risk results from damage to the group's image which may impair its ability to retain and generate business. Such damage may result from a breakdown of trust, confidence or business relationships. Safeguarding the group's reputation is of paramount importance to its continued success and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

Risk management framework

The group's risk management framework comprises the following components:

- risk governance committees as described on page 14;
- a management organisation structure to support the three lines of defence model as described on page 16.
- governance standards as described on page 18; and
- policies to support the governance standards.

Risk governance committees



[1] *A sub-committee of SBSA board.*
[2] *Effective 1 January 2012.*
[3] *Chairman of management committee.*
Arrows denote reporting lines.

The board has ultimate responsibility for risk and capital management. Various committees enable the board and executive management to evaluate the risks faced by the group and the effectiveness of the group's management of these risks. These committees are integral to the group's risk management framework and are set out in the diagram above and alongside. The group's risk governance process relies 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.

Board committees

Board sub-committees responsible for effective risk management include the GAC, the GRCMC, the SBSA large exposure credit committee and the group model approval committee. Key roles and responsibilities of these committees, as they relate to risk and capital management, are detailed in the sections that follow.

Group audit committee

The main role of the GAC 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. In relation to risk and capital management, the GAC plays a crucial role in ensuring that the group's internal financial controls are adequate to ensure that all risks are effectively and efficiently mitigated. Minutes of the GRCMC meetings are tabled at the GAC meetings on a quarterly basis. In addition, the group CRO provides quarterly updates to the GAC on significant matters relating to risk and capital management discussed at the GRCMC and GROC. Furthermore, on a quarterly basis, the chairman of the GAC meets with the group CRO, group chief compliance officer and chief audit officer in the absence of management to discuss risk- and capital-related matters.

Further details on the GAC's roles, responsibilities and membership can be found in the corporate governance statement on pages 76 and 78 of book I.

Group risk and capital management committee

The 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 stress conditions.

SBSA large exposure credit committee

This committee is designated by the SBSA board to discharge the responsibility of ensuring compliance with the Banks Act regulations in respect of large exposures, as defined in the regulations. This committee meets on an *ad hoc* basis with the requirements for a quorum being mandatory in terms of guidance from the SARB. This committee reported quarterly to the SBSA board through its chairman on all large exposures as defined in the regulations. Following an internal review of the effectiveness of this committee, it was concluded that it operated effectively throughout 2011 and materially met its mandate.

Group model approval committee

The group model approval committee was established in 2011 and became effective on 1 January 2012, in line with the Banks Act regulations. This committee is responsible for assisting the board in reviewing and approving all aspects of the group's material credit rating models and estimation processes. It also reviews economic capital models. It reports to the board and the GRCMC through its chairman on its activities and deliberations, and will draw relevant matters to the attention of the committees. This committee is supported by the Personal & Business Banking and Corporate & Investment Banking model approval sub-committees.

Management committees

Group Risk Oversight Committee (GROC)

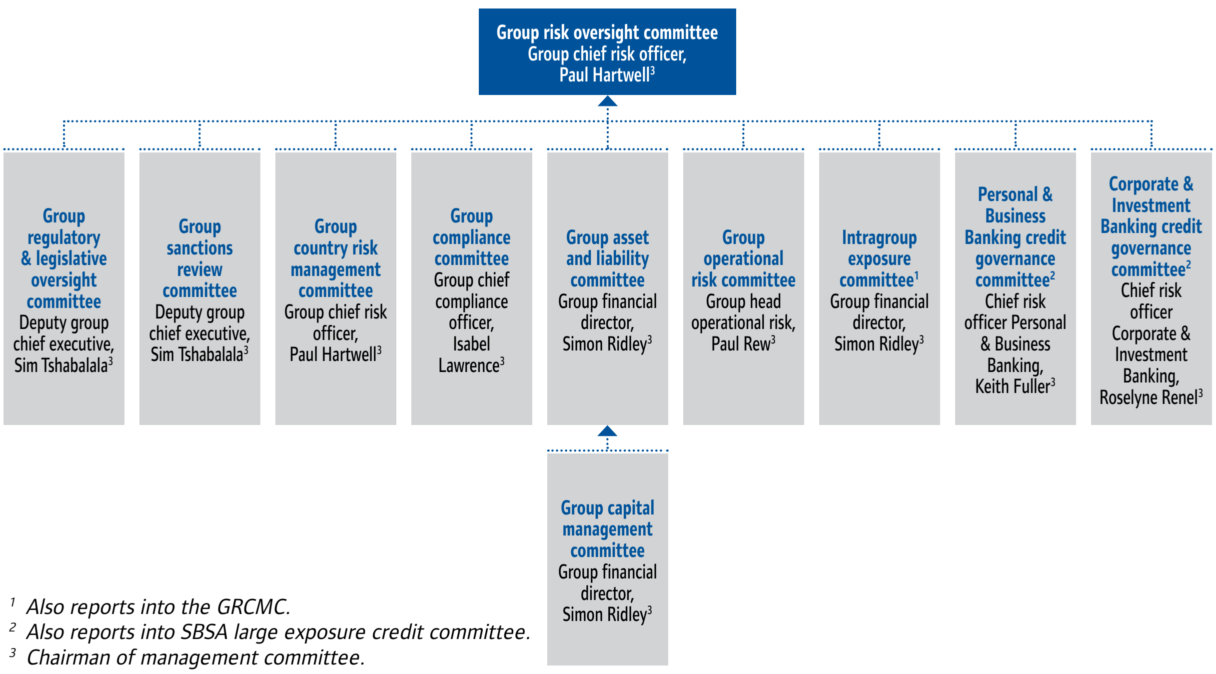
Executive management oversight for all risk types has been delegated by the group executive committee to GROC, the main management committee that assists the GRCMC to fulfil its mandate. GROC considers and, to the extent required, recommends for approval by the relevant board committees:

- levels of risk appetite;
- 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;
- utilisation of risk appetite, as well as the usage and allocation of economic capital parameters for modelling, stress testing and scenario analysis; and
- ICAAP.

GROC sub-committees

There are 10 GROC sub-committees as detailed in the committee structure below. Each deals in detail with the specific risk types, metrics or disciplines assigned to it.

GROC sub-committees



[1] *Also reports into the GRCMC.*
[2] *Also reports into SBSA large exposure credit committee.*
[3] *Chairman of management committee.*

Three lines of defence model

The group adopts the industry standard three lines of defence model. Responsibility for risk management within each line of defence lies at functional and committee level. Reporting lines reinforce segregation of duties and independence within the model.

The three lines of defence are described below.

First line of defence	Second line of defence	Third line of defence
Consists of: • management of business lines and legal entities.	**Consists of:** • finance function; • risk management function; • legal function; and • governance and assurance function excluding internal audit.	**Consists of:** • GIA function (administratively part of governance and assurance).
Responsibilities: • measures, assesses and controls risks through the day-to-day activities of the business, within the frameworks set by the second line of defence.	**Responsibilities:** • sets frameworks within the parameters set by the board; • provides independent oversight of the first line of defence; and • reports to management and board governance committees.	**Responsibilities:** • sets the internal audit framework; • provides independent assessment of first and second lines of defence; and • reports to board audit committee.

Second line of defence functions

The second line of defence comprises four specialist functions which are set out below.

Finance function	Risk management function	Legal function	Governance and assurance function
Consists of: • treasury and capital management (TCM)function – capital management; – liquidity risk; – banking book interest rate risk; – business risk; and – portfolio management; • group tax function; and • group financial control function.	**Consists of:** • credit risk; • country and cross-border risk; • market risk; • operational risk, including business continuity and resilience; • information risk management; • long- and short-term insurance risk; and • integrated risk management.	**Consists of:** • prudential, by geographic region; and • transactional, by product type.	**Consists of:** • governance office; • financial crime control; • sustainability management; • compliance; • occupational health and safety; and • physical security.

Each of these four functions has both resources at the centre and resources embedded within the business lines. The central resources coordinate activities within a function across business lines and legal entities. The resources dedicated to the business lines support business line management in ensuring that business line-specific risks are effectively managed as close to the source as possible.

Finance function

TCM function

The objective of TCM 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. This includes:

- raising capital and funding in an efficient, cost effective and sustainable manner;
- ensuring optimal use of capital and liquidity resources through effective planning, prioritisation, allocation and pricing of financial resources;
- managing the supply of and demand for financial resources within the group's risk appetite, ratings and regulatory constraints, the latter including the SARB macro prudential limits; and
- managing and positioning the banking book portfolios, taking account of economic cycles, availability and cost of financial resources.

Group tax function

The group tax function is headed by the group head of tax and reports to the group financial director, as well as to the GAC. Its mandate is to ensure compliance with group tax policy, in terms of which 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. All group tax employees, whether located centrally or in business units, report to the group head of tax, while those in business units also report administratively to management in their respective business unit and/or country of operation.

Group financial control function

The group financial control function provides independent product financial accounting and control for all trading desks and investment banking units, and financial control including balance sheet substantiation for legal entities.

Risk management function

Risk management has a matrix structure with functional and business line dimensions and a legal entity overlay.

The functional dimension comprises a risk-type head for each of the risk types described on page 12, while the business line dimension comprises three CROs, one for each of the three business lines:

- Personal & Business Banking;
- Corporate & Investment Banking; and
- Liberty.

Legal entity CROs are supported by risk management resources from within this matrix structure.

The group's philosophy is to manage risk as close as possible to where it arises. Consequently, 95% of risk employees are embedded within relevant business lines.

Legal function

All legal practitioners employed in such capacity in the group report primarily to the group's general counsel, with a secondary reporting line to the business lines they serve. To manage legal risk, these legal practitioners anticipate legal risks that may arise during the course of the group's activities and ensure that these risks 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.

Governance and assurance function

Governance office

The governance office ensures that the groupwide corporate governance framework is appropriate and in accordance with both home- and host-country legislative requirements, and that it facilitates effective decision making.

Financial crime control

The financial crime control function ensures that the group is able to proactively identify and respond to instances of financial crime in order to mitigate economic and reputational loss. It also provides independent forensic auditing services and investigates identified and potential threats.

Sustainability management

The group sustainability management unit is mandated to provide a consistent approach to environmental and social management by facilitating policy, systems, performance standards, monitoring and assurance within the group's operations.

Compliance

The compliance structure comprises heads of business compliance functions who report into the group chief compliance officer. The group compliance function comprises areas of expertise including regulatory support (training and regulatory developments), the sanctions desk, the conflicts control room, money laundering and terrorist financing control, and the operational support unit which includes reporting, policy oversight, budgetary management and information technology projects. In addition, dedicated compliance support is provided to business areas by line of business compliance officers.

The scope of the compliance function's responsibilities includes managing regulatory relationships, advising business on the appropriateness of structures and products from a compliance perspective, and fulfilling an advisory role regarding regulatory expectations. Furthermore, this function manages the monitoring of adherence to laws, regulations and internal policies and controls that fall within the ambit of compliance risk management, in accordance with the three lines of defence model.

Occupational health and safety

This function provides guidance and oversight 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.

Third line of defence

The GIA function, under the stewardship of the chief audit officer, reports to and operates under a mandate from the GAC. In terms of this mandate, the GIA's role is to provide independent and objective assurance, designed to add value and improve group operations. The GIA has the authority to independently determine the scope and extent of work to be performed. All internal audit employees in the group report operationally to the chief audit officer and administratively to management in their country of residence.

Governance standards

The specialist second line of defence functions maintain risk governance standards for each major risk type to which the group is exposed, to ensure that all material risks to the group's strategic and financial objectives are identified and managed proactively. 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 governance standards are applied consistently across the group and are approved by the GRCMC. It is the responsibility of executive management in each business unit to ensure the implementation of risk governance standards. Supporting policies and procedures are implemented by the management team and independently monitored by the embedded risk resources.

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

The group's approach to risk appetite

Risk appetite is an expression of the amount, type and tenure of risk the group is generally willing to take in pursuit of its financial and strategic objectives, reflecting its capacity to sustain losses and continue to meet its obligations as they fall due, under a range of stress conditions.

The board establishes 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, each business line and legal entity;
- regularly reviewing and monitoring performance in relation to risk through quarterly board reports; and
- conducting forward-looking analyses of risk tendency against risk appetite, under normal and stressed conditions.

The board delegates the determination of risk appetite to the GRCMC, which in turn ensures that risk appetite is in line with group strategy and the desired balance between risk and reward. GROC recommends the level of risk appetite to both the GRCMC and the board.

Risk appetite is described by the following six quantitative metrics which are supplemented by qualitative criteria:

- headline earnings volatility;
- liquidity;
- regulatory capital;
- economic capital;
- return on equity; and
- dividend cover.

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

The regulatory and economic capital metrics for risk appetite are a function of the available financial resources after the removal of capital buffers. The current risk profile and projected risk profiles based on statistical and macroeconomic scenarios are evaluated against the risk appetite. Risk tendency refers to the nature and scale of the difference between the current risk profile and the projected risk profiles.

The group's approach to stress testing

Stress testing is a key management tool within the group and facilitates a forward-looking perspective on risk tendency.

Stress testing supports a number of business processes including:

- strategic planning and budgeting;
- ICAAP, specifically capital planning and management, and setting capital buffers;
- assessing the impact of stress conditions on the risk profile;
- identifying and proactively mitigating potential risks through actions such as reviewing and changing risk limits, limiting exposures and hedging; and
- communication with internal and external stakeholders.

Stress tests are conducted at group, business line and legal entity level.

Portfolio-specific stress tests are conducted frequently within business lines, with specific focus on analysing the key drivers to which the portfolios are most sensitive.

Groupwide macroeconomic stress testing is conducted quarterly across all major risk types for various common scenarios. This allows the group to calibrate its risk tendency against its risk appetite, augmented by bottom-up stress testing and sensitivity analysis to identify the drivers of a change in risk tendency and necessary actions to constrain risk.

The appropriateness of the stress scenarios and the severity of the relevant scenarios used for capital planning are approved by the GRCMC based on GROC's recommendations.

In response to current volatile conditions, the group extended its stress-testing process to include a formal threat and risk assessment process. This process is undertaken regularly and used as an additional forward-looking risk management tool to supplement the existing risk management and stress-testing processes.

A threat is defined as a potential event with an unknown probability of occurrence, which is seen as plausible and would have a significant impact on the group should it materialise. Both internal and external threats are identified and assessed to determine the potential risk to the business activities of the group.

Threats are considered in terms of their overall potential impact and the effect they could have on the business from a cost, lost opportunity and revenue perspective. Ownership for material threats is assigned to the individual within the three lines of defence determining the appropriate risk responses to these threats, which include mitigating actions and the monitoring of risk triggers.

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 and the foundation internal ratings-based (FIRB) approach for Standard Bank Plc. For internal management purposes, the group utilises AIRB measures and principles wherever possible.

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 currently applies the standardised approach for operational risk, but is implementing the AMA operational risk framework. An application was made to the SARB in the fourth quarter of 2011 for permission to use the AMA to determine regulatory capital requirements. During 2012 it is intended to run the AMA in parallel with the standardised approach. Provided that the necessary approval is obtained from the SARB, the group will adopt a partial approach, that is, SBSA will make use of the AMA for regulatory capital purposes, with effect from the end of 2012, while the other entities will remain on the standardised approach until they are ready to migrate to the AMA under home and host regulatory requirements.

Market risk

The group has approval from the SARB to adopt the internal models approach for most trading product groups and across most market risk types for SBSA and Standard Bank Plc.

Capital management

Audited

Objectives

Capital management is a key contributor to shareholder value.

The 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 capital management functional pillar of TCM is structured into the following key functions:

- **Strategic capital management function:** Key responsibilities are capital raising, maintaining the dividend policy, facilitating capital allocation, risk-adjusted performance measurement and capital planning.
- **Portfolio analysis and reporting function:** Key responsibilities are to own and manage the regulatory and economic capital results and the engines used to produce the results, capital budgeting, reporting and analysis.
- **Methodology function:** Key responsibilities are the development of frameworks and policies on capital measurement and allocation, credit risk measurement, risk-adjusted performance measurement and transaction pricing tools.
- **Corporate & Investment Banking and Personal & Business Banking capital management functions:** Key responsibilities are to provide support on capital management matters such as deal pricing, key return measures and management of actual capital against budgets.
- **Africa capital management function:** Key responsibilities are to own and manage the regulatory and economic capital results, capital budgeting and reporting and analysis of the group's operations in the rest of Africa.

Audited

These functions work collectively to achieve the objectives of capital management, which are to:

- maintain sufficient capital resources to support:
  - the group's risk appetite and economic capital requirements;
  - internal and external regulatory capital requirements in the form of management's target ratios;
  - the SARB's minimum ratios set in accordance with Basel II and future Basel III requirements; and
  - minimum requirements set by foreign regulators for the group's foreign-regulated subsidiaries;
- allocate capital to businesses using risk-based capital allocation, to support the group's strategic objectives, including optimising returns on economic and regulatory capital;
- maintain the dividend policy and dividend declarations of the group while taking into consideration shareholder and regulatory expectations; and
- develop, review and approve the internal capital adequacy assessment process including short- to medium-term capital planning and stress testing.

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.

Regulatory capital

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

Regulatory capital

Banking operations

Regulatory capital adequacy is measured through three risk-based ratios:

- core tier I;
- tier I; and
- total capital adequacy.

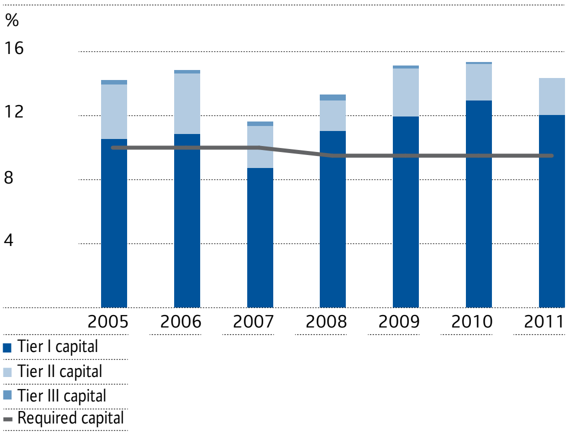
Core tier I capital represents ordinary share capital, share premium and appropriated retained earnings. Tier I capital comprises core tier I and perpetual, non-cumulative preference shares. Total capital includes other items such as subordinated debt and the general allowance for credit impairments.

All these ratios are a measure of the capital supply relative to the total risk-weighted assets and are measured against internal targets and regulatory minimum requirements.

Risk-weighted assets are determined on a granular basis by using risk weights calculated from internally derived risk parameters within the regulatory requirements:

- both on- and off-balance sheet exposures are included in the overall credit risk-weighted assets of the group;
- risk-weighted assets for equity risk are modelled on the standardised, market-based and probability of default (PD)/loss given default (LGD) approaches; and
- capital requirements for market, operational and other risk are converted into notional risk-weighted assets for the purpose of determining total risk-weighted assets.

Capital adequacy[1]

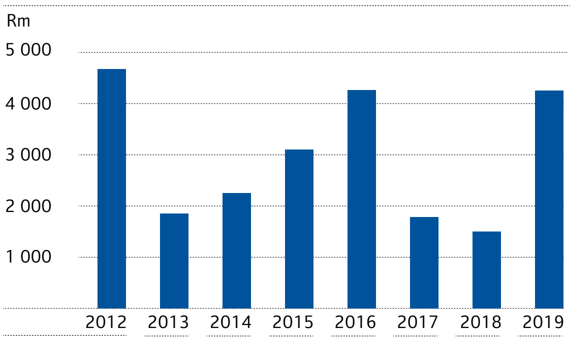


[1] Basel II implemented 1 January 2008. Risk-weighted assets and capital adequacy for 2007 are shown on a Basel II pro forma basis. 2008 to 2011 are shown on a Basel II basis. All other historical comparatives are shown on a Basel I basis.

During the period under review and the comparative period in 2010, the group complied with all externally imposed capital requirements on its banking operations. The main requirements are those specified in the Banks Act and related regulations which are broadly consistent with the Basel II guidelines issued by the Bank for International Settlements.

The group's tier I capital, including unappropriated profit, was R85,6 billion at 31 December 2011 (31 December 2010: R80,0 billion) and total capital, including unappropriated profit was R102,0 billion at 31 December 2011 (31 December 2010: R94,8 billion). The change in the group's capital was primarily due to an increase in retained earnings. The group maintained a well-capitalised position based on core tier I, tier I and total capital adequacy ratios as set out on page 25.

Tier II subordinated debt maturity profile by call date



The group has a balanced tier II subordinated debt maturity profile. Ongoing focus on capital raising opportunities resulted in the successful issue of R1,8 billion of Basel II compliant tier II instruments in November 2011, further bolstering the group's capital position and smoothing its debt maturity profile.

Further details of the terms and conditions of the capital instruments issued by the group are contained in the annual financial statements on pages 152 and 166.

Audited

Basel II regulatory capital

	2011 Rm	2010 Rm
Tier I		
Issued primary capital and unimpaired reserve funds	112 030	97 695
Ordinary share capital and premium	17 735	17 522
Ordinary shareholders' reserves	81 307	69 551
Non-controlling interest	12 988	10 622
Less: Regulatory deductions	(20 698)	(18 316)
Goodwill and other intangible assets	(11 449)	(8 965)
Investment in regulated non-banking entities		(129)
Investment in banks	(3 099)	(2 697)
Less: Regulatory deductions – 50% deducted from tier I and tier II respectively	(6 150)	(6 525)
Future expected loss exceeding eligible provisions on an incurred loss basis[1]	(1 452)	(1 553)
Investment in insurance and financial entities not consolidated	(4 660)	(4 822)
Loans to special purpose entities (SPEs) (first loss credit enhancement)	(38)	(150)
Less: Regulatory exclusions	(16 687)	(12 482)
Non-qualifying entities' ordinary shareholders' reserves[2]	(4 440)	(3 705)
Unappropriated profit[3]	(5 407)	(7 604)
Non-qualifying, non-controlling interest	(5 928)	(5 146)
Other reserves[4]	(912)	3 973
Preference share capital and premium	5 495	5 495
	80 140	72 392
Tier II		
Issued secondary capital and reserves	22 543	21 383
Preference share capital and premium	8	8
Subordinated debt	20 983	20 295
General allowance for credit impairments	1 552	1 080
Less: Regulatory deductions – 50% deducted from tier I and tier II respectively	(6 150)	(6 525)
Future expected loss exceeding eligible provisions on an incurred loss basis[1]	(1 452)	(1 553)
Investment in insurance and financial entities not consolidated	(4 660)	(4 822)
Loans to SPEs (first loss credit enhancement)	(38)	(150)
Investment in banks' tier II subordinated debt instruments	(262)	(515)
	16 131	14 343
Tier III		
Subordinated debt	300	466
Total regulatory capital (excluding unappropriated profits)	96 571	87 201
Total capital requirement	67 519	58 906
Total risk-weighted assets	710 725	620 064

[1] *Unaudited.*
[2] *Mainly insurance and commercial entities.*
[3] *Unappropriated profits of R5,4 billion (2010: R7,6 billion) have been excluded from tier I capital. Reserves qualifying as tier II capital have been deducted. Profits are appropriated by the board.*
[4] *Mainly the share-based payment reserve, cash flow hedging reserve, available-for-sale revaluation reserve and foreign currency translation reserve, where applicable.*

Basel II risk-weighted assets and associated capital requirements

	2011 Risk-weighted assets Rm	2011 Capital requirement[1] Rm	2010 Risk-weighted assets Rm	2010 Capital requirement[1] Rm
Credit risk	521 838	49 575	448 807	42 636
Portfolios subject to the standardised approach[2]	146 475	13 916	98 392	9 347
Corporate	84 469	8 025	50 683	4 815
Sovereign	25 111	2 385	18 718	1 778
Banks	7 134	678	4 044	384
Retail mortgages	6 282	597	6 461	614
Retail other[3]	22 978	2 183	18 318	1 740
Securitisation exposure	501	48	168	16
Portfolios subject to the FIRB approach	49 938	4 744	68 825	6 538
Corporate	35 117	3 336	56 277	5 346
Sovereign	1 286	122	1 277	121
Banks	13 535	1 286	11 271	1 071
Portfolios subject to the AIRB approach	292 625	27 799	251 721	23 913
Corporate	121 767	11 568	95 678	9 089
Sovereign	9 857	935	7 128	677
Banks	15 927	1 513	11 166	1 061
Retail mortgages	70 670	6 714	71 729	6 814
Qualifying revolving retail exposure (QRRE)	37 632	3 575	36 721	3 488
Retail other[3]	32 407	3 079	25 648	2 437
Securitisation exposure	4 365	415	3 651	347
Other assets	32 800	3 116	29 869	2 838
Equity risk in the banking book	20 904	1 986	15 584	1 481
Portfolios subject to the standardised approach[2]	3 986	379	2 207	210
Listed	3 385	322	1 277	122
Unlisted	601	57	930	88
Portfolios subject to the market-based approach	6 508	618	4 635	440
Listed	310	29	682	65
Unlisted	6 198	589	3 953	375
Portfolios subject to the PD/LGD approach	10 410	989	8 742	831
Market risk	59 244	5 628	52 385	4 977
Portfolios subject to the standardised approach[2]	33 540	3 186	29 251	2 779
Interest rate risk	25 685	2 440	19 613	1 864
Equity position risk	1 161	110	4 350	413
Foreign exchange risk	2 951	280	2 329	221
Commodities risk	3 743	356	2 959	281
Portfolios subject to the internal models approach	25 704	2 442	23 134	2 198
VaR-based	14 824	1 408	11 178	1 062
Commodities	5 640	536	6 056	575
Forex	1 909	181	1 056	100
Interest rates	14 853	1 411	7 698	732
Equities	5 333	507	2 256	214
Diversification	(12 911)	(1 227)	(5 888)	(559)
Non-VaR-based	10 880	1 034	11 956	1 136
Operational risk				
Portfolios subject to the standardised approach	108 739	10 330	103 288	9 812
Total risk-weighted assets/capital requirement	710 725	67 519	620 064	58 906

[1] *Capital requirement at 9,5% excludes bank specific add-ons and capital floor.*
[2] *Portfolios on the standardised approach relate to the rest of Africa operations and, in addition, portfolios 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 yet been granted.*
[3] *Retail other includes retail small and medium enterprises, vehicle and asset finance, and term lending exposures.*

Capital adequacy ratios

	Minimum regulatory requirement %	Target ratio %	Including unappropriated profits 2011 %	Including unappropriated profits 2010 %	Excluding unappropriated profits 2011 %	Excluding unappropriated profits 2010 %
Total capital adequacy ratio	9,5	11 – 12	14,3	15,3	13,6	14,1
Tier I capital adequacy ratio	7,0	9,0	12,0	12,9	11,3	11,7
Core tier I capital adequacy ratio	5,25		11,3	12,0	10,5	10,8

Capital adequacy ratios of banking subsidiaries

	2011 Tier I capital %	2011 Total capital %	2010 Tier I capital %	2010 Total capital %	Host tier I regulatory requirements %	Host total regulatory requirements %
Standard Bank Group	12,0	14,3	12,9	15,3	7,0	9,5
The Standard Bank of South Africa	10,7	13,5	11,5	14,9	7,0	9,5
Rest of Africa						
CfC Stanbic Bank (Kenya)	11,2	16,9	10,7	16,7	8,0	12,0
Stanbic Bank Botswana	10,6	18,3	10,2	17,7	7,5	15,0
Stanbic Bank Ghana	19,1	21,4	15,8	19,4	6,7	10,0
Stanbic Bank Tanzania	12,7	14,7	13,5	14,8	10,0	12,0
Stanbic Bank Uganda	12,8	14,6	12,6	14,3	8,0	12,0
Stanbic Bank Zambia	9,8	12,9	8,3	11,4	5,0	10,0
Stanbic Bank Zimbabwe	15,2	16,4	16,3	17,6	5,0	10,0
Stanbic IBTC Bank (Nigeria)	18,6	18,7	27,8	28,5	5,0	10,0
Standard Bank de Angola	47,4	47,6	145,9[1]	145,9[1]	5,0	10,0
Standard Bank Malawi	17,5	23,2	22,2	27,4	6,0	10,0
Standard Bank Mauritius	11,7	15,9	12,1	17,9	5,0	10,0
Standard Bank Mozambique	17,5	19,0	9,2	10,8	4,0	8,0
Standard Bank Namibia	10,8	12,8	9,3	14,6	7,0	10,0
Stanbic Bank RDC (DR Congo)	27,8	34,8	20,2	25,2	5,0	10,0
Standard Bank Swaziland	9,3	13,4	14,2	19,4	4,0	8,0
Standard Lesotho Bank	10,7	11,4	10,9	12,2	4,0	8,0
Standard International Holdings, consolidated[2]	10,9	15,9	9,0	13,7		12,32
Standard Bank Isle of Man	9,3	12,0	8,7	12,8		10,0
Standard Bank Jersey	10,1	14,7	10,8	16,2		10,0

[1] *The 2010 capital ratio reflects the capitalisation of the bank to support its establishment and in anticipation of set up costs that were incurred as well as growth in loans and advances that was expected.*

[2] *Incorporating:*
- *Banco Standard de Investimentos (Brazil)*
- *Standard Bank Argentina*
- *Standard Bank Plc (United Kingdom)*
- *Standard Merchant Bank (Asia) (Singapore)*

Insurance operations

The quarterly and annual returns submitted to the FSB in terms of the Long-Term Insurance Act and the Short-Term Insurance Act indicated that the minimum capital requirements were met throughout the year.

Liberty capital adequacy requirement (CAR)

		2011	2010
Statutory CAR[1]	Rm	2 495	2 688
Available statutory capital	Rm	7 200	7 172
Target CAR coverage ratio	(times)	1,7	1,7
Actual CAR coverage ratio	(times)	2,9	2,7

[1] *Based on ordinary CAR (OCAR).*

SIL CAR

	2011 %	2010 %
Regulatory solvency requirement	25,0	25,0
Actual solvency margin	54,9	50,5

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 its risk profile using both internally and externally developed models which are independently validated by the central validation function. Economic capital is used for risk management, capital management, capital planning, capital allocation, evaluation of new business and performance measurement.

ICAAP considers the qualitative capital management processes within the organisation and includes the organisation's governance, risk management, capital management and financial planning standards and frameworks. Furthermore, the quantitative internal assessments of the organisation's business models are used to assess capital requirements to be held against all risks the group is or may become exposed to, in order to meet current and future needs as well as to assess the group's resilience under stressed conditions. It informs the board in greater detail of the group's capital position and processes which are embedded within the financial, risk and operational management and control processes of the group.

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.

Economic capital of R64,3 billion (2010: R57,8 billion) 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 rating of A- translating to a confidence level of 99,92%. The group is capitalised above levels required to support its current A- target rating.

Stress testing was performed using both the most likely base case scenarios and several low probability but high impact scenarios. This confirmed the availability of financial resources to meet the increased economic capital requirements in a stress scenario.

Banking operations

Economic capital by risk type at end of the year

	2011 Rm	2010[1] Rm
Credit risk	44 975	40 100
Equity risk	6 992	6 044
Market risk	1 489	1 037
Operational risk	6 770	6 644
Business risk	2 253	1 681
Interest rate risk in the banking book	1 836	2 319
Banking activities – economic capital	**64 315**	57 825
Available financial resources	**95 844**	87 353
Capital coverage ratio (times)	**1,49**	1,51

[1] *Restated, refer to page 95.*

The available financial resources of R95,8 billion (2010: R87,3 billion) covers the minimum economic capital requirement of R64,3 billion (2010: R57,8 billion) by a factor of 1,49 times (2010: 1,51 times), indicating that risks are well covered by available financial resources.

Insurance operations

Insurance entities are excluded from the calculation of economic capital from a group perspective.

Insurance operations are 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. Liberty has sufficient capital to meet its economic capital requirements with respect to risks inherent in long-term insurance operations.

Risk-adjusted performance measurement (RAPM)

One of the objectives of the RAPM policy is to maximise shareholder value through optimal financial resource management within the agreed risk appetite.

Capital is centrally monitored and allocated based on usage and performance in a manner that enhances overall group economic profit and return on equity. Business units are held accountable to achieve their RAPM targets, ensuring the interests of shareholders and management are aligned.

RAPM is calculated on both regulatory and economic capital measures. RAPM is based on allocated capital on a tier I equivalent basis including buffers.

Cost of equity

The group's rand-based cost of equity (CoE) is estimated using the industry standard capital asset pricing model. CoE is recalibrated twice a year using the latest parameter estimates. Using the latest input parameter estimates, the group's cost of equity is 13,6% (2010: 13,3%), derived as follows:

CoE = Risk-free rate + (Beta x equity risk premium)
13,6% = 7,84% + (0,88 x 6,5%)

Credit risk

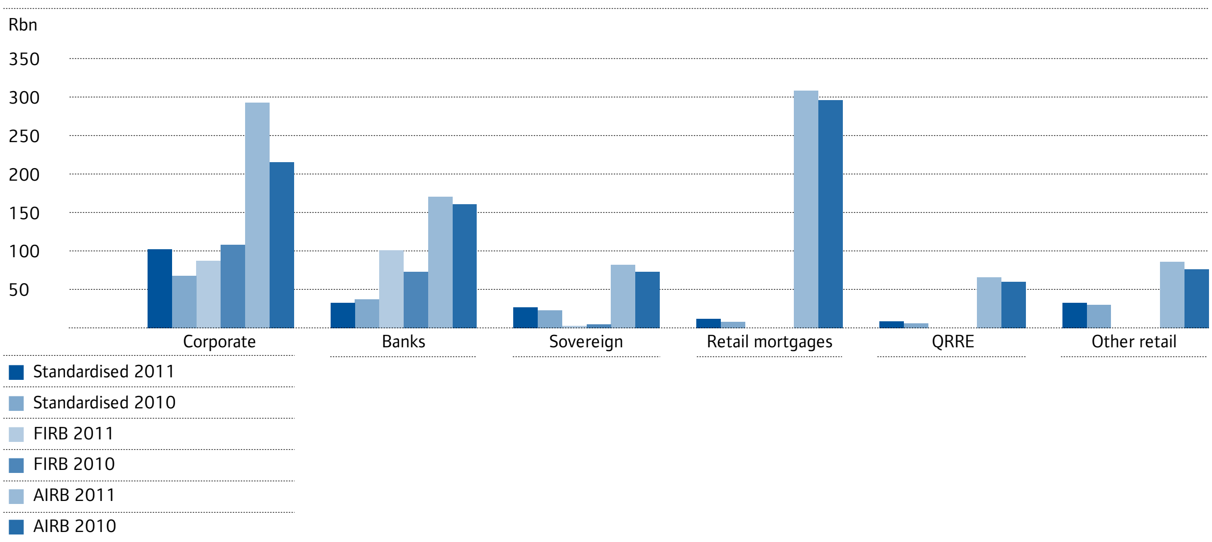
Introduction

Primary responsibility for credit risk management for banking operations resides within the group's business lines supported by the credit risk function, with oversight by GROC, the GRCMC and credit governance committees. A group credit governance standard sets out the principles and minimum control requirements under which the group is prepared to assume credit risk.

The principal management committee responsible for the oversight of credit risk is GROC. The group credit governance committees for both Personal & Business Banking and Corporate & Investment Banking report directly to GROC and indirectly through GROC to the GRCMC. These committees are responsible for credit risk and credit concentration risk decision making, and are mandated by the board as the designated committees for approving key aspects of the credit rating systems. The GRCMC is the principal board committee responsible for the oversight of credit risk, with the GAC having oversight responsibility for reviewing credit impairment adequacy. The committees have clearly defined mandates and delegated authorities, which are reviewed regularly.

Credit risk exposure for Liberty is relatively small when measured in terms of economic capital consumption; however, the potential for default does exist and thus this risk is also monitored and managed within the business with central oversight provided at a group level by GROC. Under Liberty's credit risk management framework, credit exposures are either directly managed through business units or indirectly managed through outsourced asset managers. Each asset manager is required to manage credit risk portfolios in line with investment guidelines specified in the asset manager's mandate. These investment guidelines specify Liberty's required asset characteristics for the particular credit portfolio. Liberty mandates responsibility for credit assessment and decision-making, as well as ongoing management and reporting of the credit assets, to the asset manager.

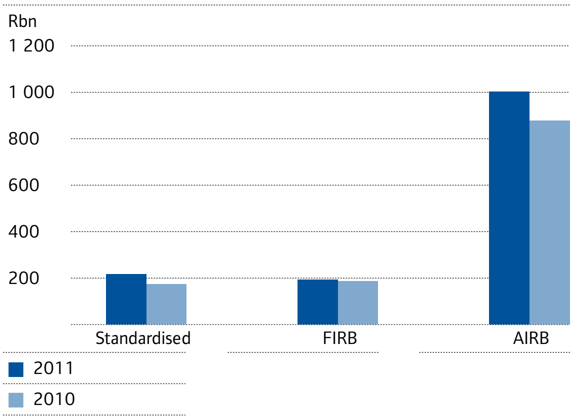
Basel II exposure by approach and asset class



Banking operations

Basel II

Basel II exposure by approach



Standardised approach

Credit exposures

The group has adopted the standardised approach for some of its less significant 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

	Moody's Investor Services	Standard & Poor's	Fitch
Asset class			
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.

Basel II exposure subject to the standardised approach per risk weighting

	2011 Exposure Rm	2011 Mitigation Rm	2011 Exposure after mitigation Rm	2010 Exposure after mitigation[1] Rm
Based on risk weights				
0% – 35%	5 295	567	4 728	5 698
50%	37 373	43	37 330	39 980
Rated	4 566		4 566	4 092
Unrated	32 807	43	32 764	35 888
75%	50 835	204	50 631	42 881
100% and above	122 686	3 213	119 473	79 957
Rated	8 022	131	7 891	7 621
Unrated	114 664	3 082	111 582	72 336
Total	216 189	4 027	212 162	168 516

[1] *Restated, refer to page 95.*

Equity exposures

Under the standardised approach, unlisted and listed equity exposures are assigned a 100% risk weighting. Where exposure relates to private equity and venture capital, a risk weighting of 150% is assigned.

	2011 Rm	2010 Rm
Listed		12
Unlisted	456	649
Total	456	661

IRB approach

The group has adopted the IRB approach for most credit risk portfolios. The group makes extensive use of internal risk estimates of PD, LGD and EAD in:

- 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.

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. The models are developed using internal historical default and recovery data. In low default portfolios, internal data is supplemented with external benchmarks and studies. Models are assessed frequently to ensure ongoing appropriateness as business environments and strategic objectives change, and are recalibrated annually using the most recent internal data.

PD

PD parameters measure the likelihood that the borrower will default over a prescribed period. The group uses a 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 and external credit assessment institutions' alphanumerical rating scales and grading categories is shown in the table below. 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 through-the-cycle PDs and point-in-time PDs, and utilises both measures in decision making and in managing credit risk exposures.

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

LGD

LGD measures the economic loss that the group will incur in the event of borrower default, 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. LGDs are estimated per product using historic recovery data. 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.

EAD

EAD is the exposure amount that the group estimates will be outstanding at the time of default. EAD captures the impact of potential draw-downs against unutilised facilities and changes in counterparty risk positions due to changes in market prices. By using historical data it is possible to estimate the average utilisation of limits of an account when default occurs, recognising that customers may make more use of their facilities as they approach default.

Independent validation
IRB models are validated at initial development and at least annually thereafter by the central independent validation function. Validation techniques test the appropriateness and effectiveness of the models. 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 model approval committees.

Credit exposures: 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.

Credit exposures: 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 on the financial strength of the borrower, as the group relies on repayment from the cash flows generated by the underlying asset.

Slotting approach
Under the supervisory slotting criteria approach, specialised lending assets are rated according to the slotting criteria provided by Basel II. Each category has been assigned a risk weight by the regulator for unexpected losses.

For certain specialised lending asset classes, the slotting approach has been adopted.

	2011 Rm	2010 Rm
Based on risk weight		
70% – 95%	**204**	703
115% – 250%		600
Total	**204**	1 303

The reduction in specialised lending exposures under the slotting approach is driven primarily by the close-out of deals booked in Brazil and Argentina.

Credit exposures: 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. 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.

Equity exposures: 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 approved credit risk grade models, described earlier, are used 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.

	2011 Rm	2010[1] Rm
Listed	**242**	329
Unlisted	**2 172**	1 564
Total	**2 414**	1 893

[1] *Restated, refer to page 95.*

Credit exposures: Retail mortgages, 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, retail small and retail 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 of 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 historical 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 historical data on limit utilisation.

Analysis of PDs, EADs and LGDs by risk grade under the IRB approach

		Corporate			Sovereign			Banks		
	Average PD %	EAD Rm	LGD %	Exposure weighted average risk weight[1] %	EAD Rm	LGD %	Exposure weighted average risk weight[1] %	EAD Rm	LGD %	Exposure weighted average risk weight[1] %
2011										
Non-default		269 185			76 600			137 575		
1 – 4	0,03	422	44,63	14,13	2 749	25,96	3,00	39 570	40,12	10,30
5 – 7	0,07	9 486	41,84	22,39	53 982	15,91	7,54	51 994	40,93	14,50
8 – 12	0,30	89 272	35,04	38,72	14 755	29,15	28,56	37 791	42,88	28,41
13 – 21	2,16	167 451	35,13	73,51	4 938	23,94	52,32	8 218	40,85	91,08
22 – 25	29,61	2 554	16,71	78,76	176	41,14	199,09	2	30,79	163,73
Default	100,00	8 018	42,95	43,58	485	44,48	0,01	50	44,67	
Total		277 203	35,40		77 085	19,56		137 625	41,23	
2010[2]										
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	18,68	48 071	20,98	10,03	77 983	35,70	13,10
8 – 12	0,33	78 530	34,27	38,57	18 302	23,17	22,67	14 897	39,91	36,24
13 – 21	2,23	131 497	35,53	79,09	1 835	20,01	42,82	4 388	42,36	101,26
22 – 25	28,26	4 699	19,97	97,16	91	45,12	219,94	1	36,14	196,93
Default	100,00	10 402	41,04	78,03	436	45,04		146	44,93	0,03
Total		240 218	35,24		72 038	22,07		123 850	36,73	

[1] Exposure weighted average risk weights have been weighted by the sum of the EAD within each of the PD bands.
[2] Restated, refer to page 95.

Retail mortgages			QRRE			Retail other			Equity	
EAD Rm	LGD %	Exposure weighted average risk weight[1] %	EAD Rm	LGD %	Exposure weighted average risk weight[1] %	EAD Rm	LGD %	Exposure weighted average risk weight[1] %	Exposure Rm	PD %
269 789			52 835			79 494			3 641	
37	10,03	1,01	281	64,03	1,46	3 417	37,70	3,74		
222	10,23	2,14	2 076	64,36	2,47	2 682	40,31	7,26		
55 993	11,09	6,84	5 938	65,01	9,84	10 161	40,42	19,85	552	0,41
190 494	13,09	24,60	40 753	66,20	56,94	59 356	36,26	44,61	3 089	1,84
23 043	15,01	80,16	3 787	66,32	174,25	3 878	42,47	96,11		
18 409	17,52	20,61	3 053	66,31	251,63	2 586	39,21	4,72	83	
288 198	13,13		55 888	66,01		82 080	37,35		3 724	
252 686			47 045			70 518			3 563	
			8	22,33	0,49	1 767	18,28	1,81		
42	12,91	1,91	1 124	53,84	2,52	3 011	22,32	4,13		
50 240	11,55	7,50	6 720	55,50	8,63	9 752	29,70	17,22	1 113	0,42
179 458	13,23	26,28	34 362	65,82	57,58	51 541	32,60	40,03	2 322	1,25
22 946	14,92	82,72	4 831	67,14	170,28	4 447	31,13	71,00	128	14,53
24 198	16,67	22,38	4 272	67,46	189,65	3 704	31,56	4,88		
276 884	13,37		51 317	64,46		74 222	31,32		3 563	

Credit portfolio analysis

The credit portfolio is analysed in the tables that follow in terms of the Basel II approach and asset class, industry, geography and residual contractual maturity. Accounting definitions of past due and impaired exposures as well as the credit impairment approaches adopted in terms of IFRS are set out in detail on page 45.

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
2011									
Corporate	65 812	28 742	167 061	33 676	5 095	82 110	897	33 457	18 343
Sovereign	24 444	929	68 546	1 076	43	7 233	1 661		3 998
Banks	32 398	17 175	64 139	422	1 519	4 944	233	40 479	18 721
Retail exposure	37 649		374 889	16 381		84 198			
Retail mortgages	11 613		274 022			33 304			
QRRE	2 893		35 656	6 417		30 323			
Other retail	23 143		65 211	9 964		20 571			
Total	160 303	46 846	674 635	51 555	6 657	178 485	2 791	73 936	41 062
2010[3]									
Corporate	42 657	52 410	117 917	20 879	6 447	63 370	2 000	28 378	10 875
Sovereign	21 511	3 657	60 872	1 181	52	5 918			4 508
Banks	36 587	12 912	62 353	381	2 768	5 396	20	31 919	11 581
Retail exposure	31 460		347 945	13 573		83 120			
Retail mortgages	8 461		259 374			35 252			
QRRE	2 190		32 411	4 146		28 004			
Other retail	20 809		56 160	9 427		19 864			
Total	132 215	68 979	589 087	36 014	9 267	157 804	2 020	60 297	26 964

[1] *Amount before the application of any offset, mitigation or netting.*
[2] *Specific impairments include impairments relating to securitisations.*
[3] *Restated, refer to page 95.*

Credit exposures increased by R168 billion from R1 239 billion in December 2010 to R1 407 billion in December 2011, generally attributable to the improved credit environment and growth in assets.

The following factors also contributed to portfolio movements:

- Corporate exposures increased as a result of growth in the portfolio, particularly in the mining, manufacturing and wholesale sectors.
- Retail exposures increased following improved consumer demand for credit in South Africa and other African countries.
- Repurchase and resale agreements increased due to increased activity with both local and foreign banks and corporate counterparties.

Derivative instruments			Total by approach				EAD		Gross past due but not impaired exposures	Gross default exposure[1]	Impairment of exposures	
Standardised Rm	FIRB Rm	AIRB Rm	Standardised Rm	FIRB Rm	AIRB Rm	Total Rm	FIRB Rm	AIRB Rm	Rm		Specific[2] Rm	Portfolio Rm
1 223	19 856	25 225	101 608	87 150	292 739	481 497	52 499	224 908	1 872	8 997	2 332	
	1 570	2 376	27 181	2 542	82 153	111 876	3 175	73 910	3	486	242	
316	42 655	77 319	33 369	101 828	165 123	300 320	41 591	96 034		50	1	
1			54 031		459 087	513 118		426 166	21 155	25 261	7 396	
			11 613		307 326	318 939		288 198	13 064	18 634	3 768	
			9 310		65 979	75 289		55 888	1 614	3 143	1 572	
1			33 108		85 782	118 890		82 080	6 477	3 484	2 056	
1 540	64 081	104 920	216 189	191 520	999 102	1 406 811	97 265	821 018	23 030	34 794	9 971	5 684
2 680	20 570	22 488	68 216	107 805	214 650	390 671	74 556	166 713	2 384	11 137	3 031	
7	1 705	1 852	22 699	5 414	73 150	101 263	5 678	66 360	16	437	46	
146	25 829	80 882	37 134	73 428	160 212	270 774	31 364	92 486		149	36	
2			45 035		431 065	476 100		402 423	21 590	33 470	9 109	
			8 461		294 626	303 087		276 884	11 880	24 380	4 394	
			6 336		60 415	66 751		51 317	2 877	4 317	2 225	
2			30 238		76 024	106 262		74 222	6 833	4 773	2 490	
2 835	48 104	105 222	173 084	186 647	879 077	1 238 808	111 598	727 982	23 990	45 193	12 222	4 884

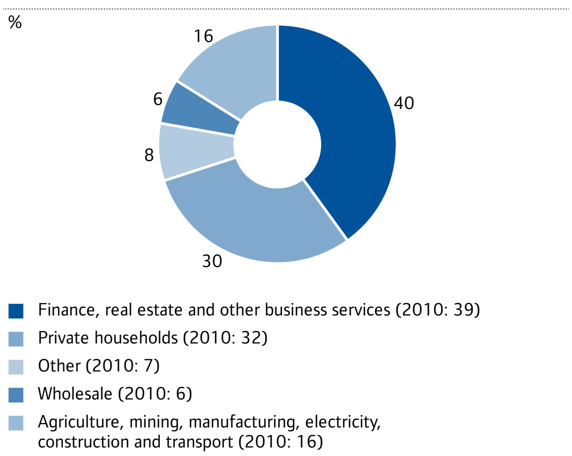
Analysis by industry

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	Impairment of exposures Specific Rm	Portfolio Rm
2011								
Agriculture	14 216	7 845	887	57	23 005	597	327	
Mining	38 383	28 412	244	2 329	69 368	960	73	
Manufacturing	40 483	28 141	802	5 706	75 132	1 013	411	
Electricity	10 629	2 334	196	560	13 719	248	32	
Construction	8 757	6 979		971	16 707	173	84	
Wholesale	40 347	23 960	13 727	4 440	82 474	500	246	
Transport	20 860	11 656		1 875	34 391	203	89	
Finance, real estate and other business services	268 325	37 114	100 124	153 513	559 076	7 445	2 325	
Private households	352 785	68 708		10	421 503	22 647	5 784	
Other	86 999	21 548	1 809	1 080	111 436	1 008	600	
Total	881 784	236 697	117 789	170 541	1 406 811	34 794	9 971	5 684
2010[2]								
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	325 183	68 087		14	393 284	29 873	7 310	
Other	72 885	16 363	48	1 587	90 883	1 019	352	
Total	790 281	203 085	89 281	156 161	1 238 808	45 193	12 222	4 884

[1] *Amount before the application of any offset, mitigation or netting.*
[2] *Restated, refer to page 95.*

Basel II total gross exposure by type of industry



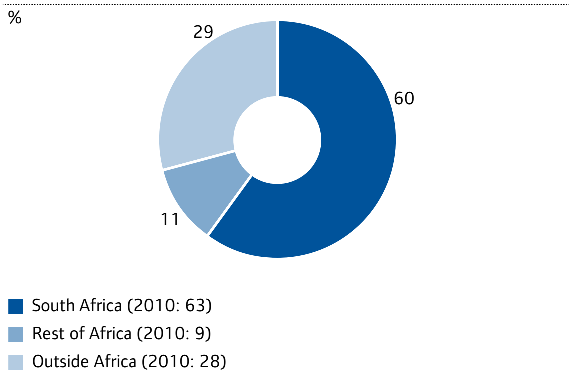
Analysis by geographic region

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	Impairment of exposures Specific Rm	Portfolio Rm
2011								
South Africa	613 798	175 328	21 519	38 812	849 457	26 236	7 462	
Other African countries	123 069	27 173	1 309	3 088	154 639	2 724	1 045	
Europe	53 335	5 806	57 754	82 711	199 606	2 625	232	
Asia	42 774	3 906	25 567	5 063	77 310	2 711	893	
North America	11 286	2 070	2 076	38 210	53 642	56	40	
South America	35 532	22 328	9 558	2 445	69 863	442	299	
Other	1 990	86	6	212	2 294			
Total	881 784	236 697	117 789	170 541	1 406 811	34 794	9 971	5 684
2010[2]								
South Africa	565 768	160 797	19 488	35 960	782 013	36 720	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	790 281	203 085	89 281	156 161	1 238 808	45 193	12 222	4 884

[1] *Amount before the application of any offset, mitigation or netting.*
[2] *Restated, refer to page 95.*

Basel II total gross exposure by geographic region



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
2011				
Corporate	209 751	221 240	50 506	481 497
Sovereign	62 097	31 101	18 678	111 876
Banks	192 719	80 583	27 018	300 320
Retail exposure	132 378	64 755	315 985	513 118
Retail mortgages	5 407	6 682	306 850	318 939
QRRE	66 125	9 164		75 289
Other retail	60 846	48 909	9 135	118 890
Total	596 945	397 679	412 187	1 406 811
2010[1]				
Corporate	174 298	167 401	48 972	390 671
Sovereign	55 318	28 974	16 971	101 263
Banks	174 332	66 889	29 553	270 774
Retail exposure	124 046	62 150	289 904	476 100
Retail mortgages	9 994	6 764	286 329	303 087
QRRE	63 112	3 639		66 751
Other retail	50 940	51 747	3 575	106 262
Total	527 994	325 414	385 400	1 238 808

[1] *Restated, refer to page 95.*

Loss analysis

Regulatory expected loss versus actual losses

The table that follows shows the actual losses experienced in the group's IRB exposure classes during 2010. Actual losses comprise impairments as determined by IFRS and amounts written off during the year. Actual losses in 2011 have reduced due to the significant focus placed on customer rehabilitation and collections processes during the year and improved market conditions.

Analysis of actual losses

	Actual loss 2011 Rm	Actual loss 2010 Rm
IRB exposure class[1]		
Corporate	689	491
Sovereign	212	3
Banks	(34)	(177)
Retail exposure	5 047	6 524
Retail mortgages	2 599	3 048
QRRE	1 537	1 421
Other retail	911	2 055
Total	5 914	6 841

[1] *Excludes all the standardised approach portfolios.*

The table, on the next page, provides the comparison of 2011 actual values to the estimated through the cycle PDs, LGDs and EADs determined for regulatory capital calculations. Note that this comparison represents a generalisation as the parameters are not identical. The parameters are:

- PDs and LGDs estimated at the end of 2010, to determine the regulatory expected loss for 2011. PDs are calibrated to long-run default experience to ensure stable regulatory models over an entire credit cycle. These models would tend to underestimate at the top of the credit cycle and overestimate actual defaults at the bottom of the credit cycle.
- LGDs are calibrated to select downturn periods to reflect depressed recovery during economic downturns.
- Actual PDs and LGDs derived from actual losses for 2011.
- The EAD ratio reflects estimated through the cycle EADs, used to derive the regulatory expected loss, as a percentage of EADs derived from the actual losses for 2011. The analysis is conducted on all accounts that defaulted during the year under review. A ratio above 100% indicates an overestimation of EAD.

Actual losses in 2011 have reduced due to:

- improved market conditions;
- focus placed on improved credit quality;
- customer rehabilitation; and
- collections processes.

Expected values are based on regulatory capital models applied as at December 2010. For PDs, these are applied to the total performing book as at December 2010. For the corporate, sovereign and bank asset classes, the actual default rates in 2011 were lower than the estimated default rates. This illustrates the general level of conservatism the group applies to its low-default portfolio 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. 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 not likely to be fully recovered by the end of the year.

The LGD analysis is based only on the South Africa portfolio, as entities outside South Africa are under the FIRB or standardised approach. The actual LGD experienced for the corporate asset class during 2011 is significantly lower than the estimated LGD. This difference can be attributed to the application of downturn parameters when estimating LGD, even when market conditions are improving or positive, and to the general conservatism of the LGD models the group applies to low-default portfolios.

No bank or sovereign defaults were experienced in the AIRB portfolio during the year under review, hence actual LGDs and EADs are not applicable.

IRB exposure class[1]

	PD		LGD[2]		EAD
	Estimated %	Actual %	Estimated %	Actual %	Estimate to actual ratio %
2011					
Corporate	2,4	1,7	31,8	13,0	92,9
Sovereign	1,4		20,9		
Banks	0,7	0,1	33,8		
Retail exposure	4,4	4,1	23,9	25,6	109,9
Retail mortgages	4,6	4,3	13,8	16,6	104,3
QRRE	5,1	4,6	64,2	65,2	118,2
Other retail	3,5	3,2	31,3	40,3	124,5
Total	3,1	2,4	26,2	15,9	107,4
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 exposure	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.*

Audited

Credit risk mitigation

Collateral, guarantees, derivatives and on- and off-balance sheet netting are widely used to mitigate credit risk. 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 enforcement. 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
- the underlying moveable assets financed under leases and instalment sales.

Reverse repurchase agreements are underpinned by the assets being financed, which are mostly liquid and tradable financial instruments.

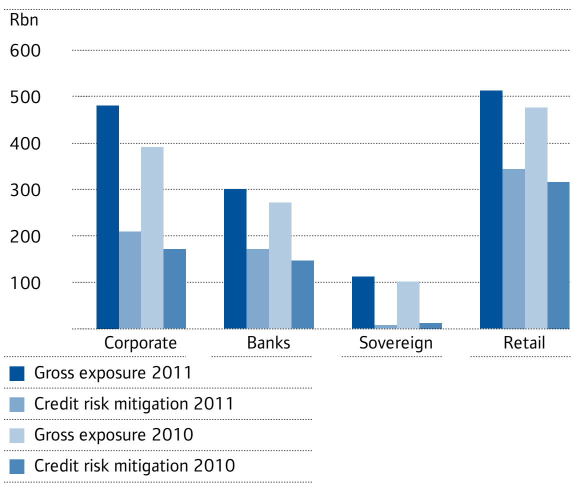
Audited

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 uses internationally recognised and enforceable International Swaps and Derivatives 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 with market risk over time, exposures to counterparty credit risk at any point in time are calculated by adding increases in future potential exposure to the balance of exposure at that point in time.

Basel II exposure and mitigation by asset class



Audited

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 at individual counterparty, sub-portfolio and portfolio levels through the use of syndication, distribution and sale of assets, asset and portfolio limit management, credit derivatives and credit protection.

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 high correlation between the default event and exposure to counterparty when calculating the potential exposure and security margin requirements 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 following tables 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 agreements Rm	Total credit risk mitigation Rm
2011					
Corporate	73 364	44 025	58 214	28 215	203 818
Sovereign	4 108	654	897	1 041	6 700
Banks	59 924		5 601	105 374	170 899
Retail exposures	2	342 864			342 866
Retail mortgages		303 577			303 577
QRRE		335			335
Other retail	2	38 952			38 954
Total	137 398	387 543	64 712	134 630	724 283
2010[1]					
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	315 232			315 241
Retail mortgages		285 065			285 065
QRRE		263			263
Other retail	9	29 904			29 913
Total	121 533	352 056	52 865	110 711	637 165

[1] *Restated, refer to page 95.*

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
2011				
Corporate	170	3 266	2 006	5 442
Banks	9	22	12	43
Retail		739	295	1 034
Total	179	4 027	2 313	6 519
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

Counterparty credit risk

The analysis of securities financing and 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 exposures are controlled as with any other type of credit risk. Additionally, as mentioned under credit risk mitigation, future potential exposure is assessed before concluding a transaction.

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.

Basel II securities financing transactions

	2011 Rm	2010 Rm
Exposure		
With master netting agreement	66 272	56 285
Without master netting agreement	51 519	32 998
Total	117 791	89 283
Collateral		
Cash	27 783	17 190
Commodities	14 241	11 776
Debt securities	66 156	54 641
Equities	2 577	9 085
Total	110 757	92 692
Exposure at default	19 095	9 606

Analysis of OTC derivatives

The details of this counterparty credit risk are disclosed in the table that follows. Derivative transactions traded on a recognised exchange or with a central counterparty, for example a clearing house, have been excluded as such exposures are currently not subject to capital requirements in respect of counterparty credit risk.

Basel II OTC derivatives exposure

	2011 Rm	2010 Rm
Notional principal amount		
Interest rate products	5 469 420	5 570 830
Forex and gold	2 090 012	1 089 010
Equities	49 311	29 827
Precious metals	78 637	83 126
Other commodities	237 375	240 257
Credit derivatives	264 811	216 758
Protection bought	131 735	102 016
Protection sold	133 076	114 742
Total	8 189 566	7 229 808
Gross positive fair value	170 539	155 957
Interest rate products	90 263	90 842
Forex and gold	53 478	40 866
Equities	4 482	1 510
Precious metals	4 488	3 399
Other commodities	10 613	14 290
Credit derivatives	7 215	5 050
Protection bought	6 531	3 245
Protection sold	684	1 805
Netting benefits	(134 811)	(110 929)
Netted current credit exposure (net fair value)	35 728	45 028
Exposure at default	77 461	78 585
Collateral		
Cash	14 698	11 883
Debt securities	174	
Total	14 872	11 883

Securitisation

The group has used securitisation primarily as part of its funding strategy to provide added flexibility in mitigating structural liquidity risk and diversifying the funding base. The group has entered into securitisation transactions in which it transferred recognised financial assets directly to third parties or SPEs, or in a secondary role as an investor in securitisation notes.

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 permitted 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, subordinated lender and calculation agent.

During September 2011, the group established a R10 billion securitisation programme called SuperDrive Investments for BMW Financial Services South Africa and simultaneously issued the first tranche of R2 billion to local institutional investors. The group also concluded a warehousing facility agreement of R500 million with Bayport Securitisation.

For originated and sponsor or administered securitisations consolidated under IFRS (that is, Siyakha Fund, Blue Granite and Blue Titanium Conduit) intragroup exposures to and between these securitisations have been eliminated and the underlying assets consolidated in the relevant sections (that is, primarily retail mortgages) of the risk disclosure. Only exposures to third-party securitisations are disclosed below. The approach applied in the calculation of risk-weighted assets is dependent on the group's model approval for the underlying assets and the presence of a rating from an eligible external credit assessment institution. To date, the group has applied the standardised approach, ratings-based approach and standard formula approach, where relevant, in the calculation of risk-weighted assets.

Analysis of securitisation activity for the year

	2011 Rm	2010[1] Rm
As investor		
– retail mortgages	353	480
– retail loans	1 010	
Total activity for the year	1 363	480

[1] *Restated, refer to page 95.*

Basel II securitised on-balance sheet exposures

	2011				2010[1]
	Corporate	Retail mortgages Rm	Retail loans Rm	Total Rm	Total Rm
Standardised – unrated[2]			204	204	
IRB	202	2 969	1 567	4 738	5 774
Unrated[2]		121		121	74
Investment grade		2 848	1 567	4 415	5 600
Sub-investment grade	202			202	100
Total	202	2 969	1 771	4 942	5 774

[1] *Restated, refer to page 95.*
[2] *This includes rated securitisation exposures whose ratings are not eligible for recognition from a regulatory perspective.*

Basel II securitised off-balance sheet exposures

	2011			2010[1]
	Retail mortgages Rm	Retail loans Rm	Total Rm	Total Rm
Standardised – unrated[2]		296	296	
IRB	3 313	100	3 413	2 816
Unrated[2]	3 129		3 129	2 676
Investment grade	184	100	284	140
Total	3 313	396	3 709	2 816

[1] *Restated, refer to page 95.*
[2] *This includes rated securitisation exposures whose ratings are not eligible for recognition from a regulatory perspective.*

Basel II securitisation capital deductions by approach

	Risk-weighted assets Rm
2011	
IRB	1 770
Standardised	349
Total	2 119
2010[1]	
IRB	2 465
Total	2 465

[1] *Restated, refer to page 95.*

Analysis of loans and advances in terms of IFRS

The tables that follow analyse the credit quality of loans and advances measured in terms of IFRS. Refer to page 10 for an understanding of the differences between IFRS and Basel II.

Maximum exposure to credit risk

Loans and advances are analysed and categorised based on credit quality using the following definitions.

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 payments 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

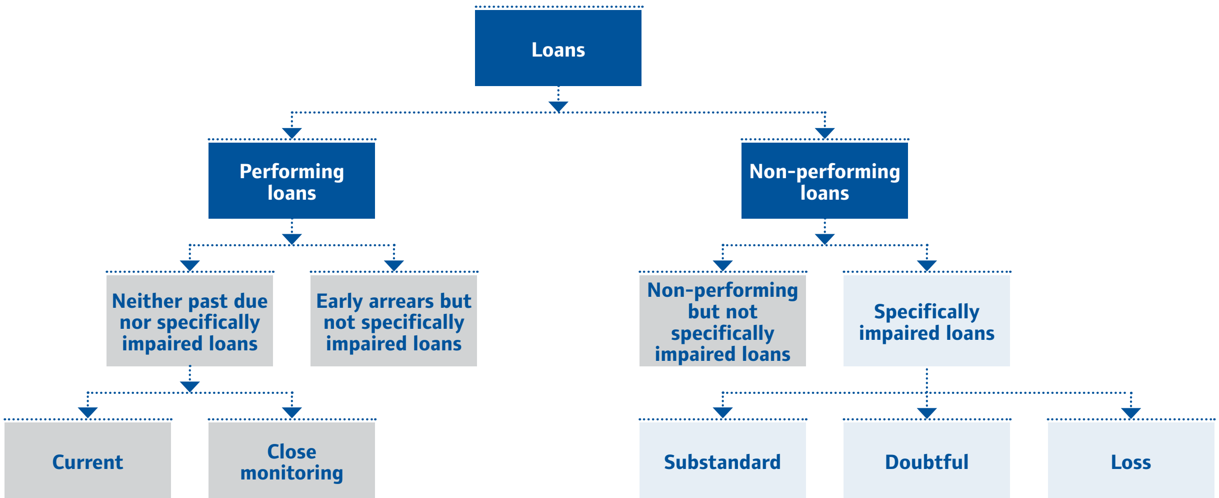
Non-performing loans are those loans for which:

- 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 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:

- substandard items that show underlying well-defined weaknesses and are considered to be specifically impaired;
- doubtful items that are not yet considered final losses due to 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 collateral into account.



Portfolio credit impairments
Specific credit impairments

Audited

Maximum exposure to credit risk by credit quality

		Performing loans			
		Neither past due nor specifically impaired		Not specifically impaired	
	Gross advances total Rm	Normal monitoring Rm	Close monitoring Rm	Early arrears Rm	Non-performing[1] Rm
2011					
Personal & Business Banking	454 899	390 474	17 488	21 890	
Mortgage loans	286 100	241 342	12 451	13 142	
Instalment sale and finance leases	53 741	48 168	1 117	2 706	
Card debtors	20 726	17 450	1 935	205	
Other loans and advances	94 332	83 514	1 985	5 837	
Corporate & Investment Banking	386 463	376 020	1 723	359	1 183
Corporate loans	345 756	336 347	1 688	178	919
Commercial property finance	40 707	39 673	35	181	264
Other services	(22 366)	(22 366)			
Gross loans and advances	818 996	744 128	19 211	22 249	1 183
Discontinued operations loans and advances	21 173	18 916	269	1 713	
Gross loans and advances including discontinued operations	840 169				
Less:					
Impairments for loans and advances – continuing operations	(15 185)				
Tutuwa loans and advances IFRS adjustment	(2 503)				
Discontinued operations loans and advances	(21 173)				
Net loans and advances of continuing operations	801 308				
Add the following other banking activities exposures:					
Cash and balances with central banks	31 907				
Derivatives	149 130				
Financial investments	97 360				
Trading assets	90 392				
Pledged assets	6 113				
Other financial assets	9 048				
Total on-balance sheet exposure of continuing operations	1 185 258				
Discontinued operations – financial assets	29 230				
Total on-balance sheet exposure	1 214 488				
Unrecognised financial assets					
Letters of credit and bankers' acceptances	15 345				
Guarantees	36 307				
Irrevocable unutilised facilities	75 929				
Commodities and securities lending transactions	13 922				
Total exposure to credit risk	1 355 991				

[1] *Includes loans of R781 million that are past due but 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 %
7 232	14 933	2 882	25 047	17 470	7 577	7 577	30	25 047	5,5
6 332	12 232	601	19 165	15 393	3 772	3 772	20	19 165	6,7
136	633	981	1 750	745	1 005	1 005	57	1 750	3,3
137	229	770	1 136	312	824	824	73	1 136	5,5
627	1 839	530	2 996	1 020	1 976	1 976	66	2 996	3,2
2 931	4 016	231	7 178	4 980	2 198	2 198	31	8 361	2,2
2 765	3 638	221	6 624	4 548	2 076	2 076	31	7 543	2,2
166	378	10	554	432	122	122	22	818	2,0
10 163	18 949	3 113	32 225	22 450	9 775	9 775	30	33 408	4,1
85	94	96	275	79	196	196	71	275	1,3

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Maximum exposure to credit risk by credit quality

		Performing loans			
		Neither past due nor specifically impaired		Not specifically impaired	
	Gross advances total 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
Other services	(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[2]	2 491				
Other financial assets	7 346				
Total on-balance sheet exposure	1 073 296				
Unrecognised financial assets					
Letters of credit and bankers' acceptances	10 407				
Guarantees	29 327				
Irrevocable unutilised facilities	59 125				
Commodities and securities lending transactions	4 573				
Total exposure to credit risk	1 176 728				

[1] *Includes loans of R481 million that are past due but not specifically impaired.*
[2] *Restated, refer to page 95.*

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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Ageing of loans and advances past due but not specifically impaired

	Less than 31 days Rm	31 – 60 days Rm	61 – 90 days Rm	91 – 180 days Rm	More than 180 days Rm	Total Rm
2011						
Personal & Business Banking	15 250	4 255	2 385			21 890
Mortgage loans	8 527	2 906	1 709			13 142
Instalment sale and finance leases	1 953	542	211			2 706
Card debtors	17	128	60			205
Other loans and advances	4 753	679	405			5 837
Corporate & Investment Banking	136	106	117	101	680	1 140
Corporate loans	49	15	114	101	680	959
Commercial property finance	87	91	3			181
Discontinued operations loans and advances	1 560	110	43			1 713
Total	16 946	4 471	2 545	101	680	24 743
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

Renegotiated loans and advances

Renegotiated loans and advances are exposures which have been refinanced, rescheduled, rolled over or otherwise modified due to 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 comprised R6,2 billion in 2011 (2010: R9,1 billion). Renegotiated loans that have arisen from secured lending comprised 61% (2010: 62%) of this amount and predominantly related to mortgage advances.

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Collateral

The table that follows shows the financial effect that collateral has on the group's maximum exposure to credit risk. The table is presented according to Basel II asset categories and includes collateral that may not be eligible for recognition under Basel II but that management takes into consideration in the management of the group's exposures to credit risk. All on- and off-balance sheet exposures which are exposed to credit risk, including non-performing assets, have been included.

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Collateral includes:

- financial securities that have a tradable market, such as shares and other securities;
- physical items, such as property, plant and equipment; and
- financial guarantees, suretyships and intangible assets.

Netting agreements, which do not qualify for offset under IAS 32 *Financial Instruments: Presentation* but which are nevertheless enforceable, are included as part of the group's collateral. All exposures are presented before the effect of any impairment provisions.

In the retail portfolio, 60% (2010: 61%) is fully collateralised. The R2 961 million (2010: R2 301 million) of retail accounts that lie within the 1% to 50% range of collateral coverage mainly comprise accounts which are either in default or legal. The total average collateral coverage for all retail mortgage exposures in the 50% to 100% collateral coverage category is 91%.

Of the group's total exposure, 43% (2010: 45%) is unsecured and mainly reflects exposures to well-rated corporate counterparties, bank counterparties and sovereign entities.

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Collateral

	Total exposure Rm	Un-secured Rm	Secured Rm	Netting agree-ments Rm	Secured exposure after netting Rm	Total collateral coverage 1% – 50% Rm	50% – 100% Rm	Greater than 100% Rm
2011								
Corporate	429 470	201 930	227 540	12 382	215 158	39 708	96 525	78 925
Sovereign	132 827	130 363	2 464	290	2 174	1 070	1 095	9
Bank	321 871	151 099	170 772	90 483	80 289	28 628	34 081	17 580
Retail	416 551	69 748	346 803	1 236	345 567	2 961	93 735	248 871
Retail mortgage	288 139	1 776	286 363		286 363	897	38 932	246 534
Other retail	128 412	67 972	60 440	1 236	59 204	2 064	54 803	2 337
Total	1 300 719	553 140	747 579	104 391	643 188	72 367	225 436	345 385
Discontinued operations	25 638	20 617	5 021		5 021		1	5 020
Total including discontinued operations	1 326 357	573 757	752 600	104 391	648 209	72 367	225 437	350 405
Add: Financial assets not exposed to credit risk	47 698							
Less: Impairments for loans and advances	(15 185)							
Less: Discontinued operations loans and advances impairments	(471)							
Less: Unrecognised off-balance sheet items	(141 503)							
Less: Tutuwa and treasury shares IFRS adjustment	(2 408)							
Total exposure	1 214 488							
Reconciliation to balance sheet								
Cash and balances with central banks	31 907							
Derivative assets	149 130							
Trading assets	90 392							
Pledged assets	6 113							
Financial investments	97 360							
Loans and advances	801 308							
Discontinued operations – Financial assets	29 230							
Other financial assets	9 048							
Total	1 214 488							

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Collateral continued

	Total exposure Rm	Unsecured Rm	Secured Rm	Netting agreements Rm	Secured exposure after netting Rm	Total collateral coverage 1% – 50% Rm	50% – 100% Rm	Greater than 100% Rm
2010								
Corporate	393 877	217 818	176 059	11 026	165 033	17 981	58 482	88 570
Sovereign	105 171	97 741	7 430	100	7 330	5 832	1 389	109
Bank	261 385	143 959	117 426	83 166	34 260	631	8 001	25 628
Retail	379 617	54 145	325 472	987	324 485	2 301	91 704	230 480
Retail mortgage	272 461	1 336	271 125		271 125	968	41 777	228 380
Other retail	107 156	52 809	54 347	987	53 360	1 333	49 927	2 100
Total	1 140 050	513 663	626 387	95 279	531 108	26 745	159 576	344 787
Add: Financial assets not exposed to credit risk	55 993							
Less: Impairments for loans and advances	(17 106)							
Less: Unrecognised off balance sheet items	(103 432)							
Less: Tutuwa and treasury shares IFRS adjustment	(2 209)							
Total exposure	1 073 296							
Reconciliation to balance sheet								
Cash and balances with central banks	28 675							
Derivative assets	147 892							
Trading assets	80 729							
Pledged assets	2 491							
Financial investments	95 441							
Loans and advances	710 722							
Other financial assets	7 346							
Total	1 073 296							

Insurance operations

The portfolio continues to be diversified through establishing the Liberty Financial Services division's (LibFin) credit origination business and introducing a centralised credit portfolio management capability. This centralised capability oversees the asset manager mandate process and resultant credit exposures generated through such mandates (indirectly managed) and the origination of credit exposure through LibFin (directly managed). The portfolio remained heavily weighted to South African counterparties including government, state-owned enterprises and banks as at 31 December 2011.

Key activities that result in the origination of credit risk are as per the tables that follow which show 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. These reinsurers are reviewed at least annually.

To further mitigate credit exposures to reinsurers, assurance management performs the following annual checks on reinsurers:

- analyses reports on reinsurers' claim paying abilities as assessed by reputable ratings agencies;
- analyses valuators' certificates;
- audits administration processes of reinsurers to whom Liberty has larger exposures; and
- reviews and renegotiates reinsurance agreements.

Consolidated mutual funds

Liberty invests in various registered mutual funds to provide for obligations under policyholders' 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 its 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 South African Collective Investment Schemes Control Act 45 of 2002, 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.

Liberty's credit exposure generated through its investment in mutual funds is classified at fund level under pooled funds and not at the underlying asset level. Going forward, it is Liberty's intention to look through to the underlying asset measure and report credit risk on a look through basis. Although mutual funds themselves are not rated, fund managers are however required to invest in credit assets within the defined parameters stipulated in the fund's mandate. These rules limit the extent to which fund managers can invest in unlisted and/or unrated credit assets and generally restrict funds to the acquisition of investment grade assets.

The mutual funds, into which Liberty has invested and which are defined as subsidiaries, are managed by Stanlib Limited, a wholly owned Liberty subsidiary, or Ermitage Funds Limited, an internationally based asset manager.

Credit exposure

The table below provides information regarding the aggregated credit risk exposure of Liberty to debt instruments categorised by credit ratings, if available, as at 31 December 2011.

Audited

Exposure to credit risk

	Sovereign Rm	AAA Rm	AA Rm	A Rm	BBB and below Rm	Not rated Rm	Pooled funds Rm	Total carrying value Rm
2011								
Debt instruments	18 226	6 034	18 843	5 097	1 211	1 625	12 827	63 863
Investment policies							17 183	17 183
Local prepayments, insurance and other receivables			207	23		1 987		2 217
Foreign prepayments, insurance and other receivables			15			388		403
Reinsurance assets			868	(4)		240		1 104
Derivatives and collateral deposits		819	914	417		11		2 161
Loan receivables to joint ventures						168		168
Cash and cash equivalents		80	3 003	1 178	55	37		4 353
Total assets bearing credit risk	18 226	6 933	23 850	6 711	1 266	4 456	30 010	91 452
Aggregated credit risk exposure by shareholder and policyholder								
Assets bearing credit risk exposure attributable to shareholders								45 249
Assets bearing credit risk exposure attributable to policyholders								44 467
Assets bearing credit risk exposure attributable to non-controlling interest								1 736
Total assets bearing credit risk								91 452

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Exposure to credit risk continued

	Sovereign Rm	AAA Rm	AA Rm	A Rm	BBB and below Rm	Not rated Rm	Pooled funds Rm	Total carrying value Rm
2010								
Debt instruments	13 597	10 194	15 942	6 049	603	2 581	13 883	62 849
Investment policies							14 268	14 268
Local prepayments, insurance and other receivables[1]			230	58		2 366		2 654
Foreign prepayments, insurance and other receivables[1]						203		203
Reinsurance assets			207	626		14		847
Derivatives and collateral deposits		464	346	399		80		1 289
Loan receivables to joint ventures						156		156
Cash and cash equivalents		98	4 091	11		403		4 603
Total assets bearing credit risk	13 597	10 756	20 816	7 143	603	5 803	28 151	86 869
Aggregated credit risk exposure by shareholders and policyholders[2]								
Assets bearing credit risk exposure attributable to shareholders								44 364
Assets bearing credit risk exposure attributable to policyholders								40 782
Assets bearing credit risk exposure attributable to non-controlling interest								1 723
Total assets bearing credit risk								86 869

[1] The total carrying value excludes R27 million dividend income relating to equities.
[2] Restated to show assets bearing credit risk exposure attributable to non-controlling interest separately.

Impairments

The table below indicates the impairments raised against financial assets.

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Financial assets impaired

	2011 Rm	2010 Rm
Mortgages and loans[1]		
Gross carrying value	1 043	854
Less: Accumulated impairment	(36)	(41)
Net carrying value	1 007	813

[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 after such impairment was R921 million (2010: R813 million).

Country and cross-border risk

Country risk is the risk of loss arising when political or economic conditions or events in a particular country inhibit the ability of counterparties in that country to meet financial obligations to the group. Country risk events may include sovereign defaults, banking or currency crises, social instability and government policy changes or interventions such as expropriation, nationalisation and asset confiscation.

Country risk also encompasses cross-border risk, which is the risk that government actions may restrict the convertibility (local currency into non-local currency) and transfer of funds, thereby impacting the ability of counterparties to meet 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 and investments in and funding of local subsidiaries of the group. Cross-border claims on third parties include cross-border loans and deposits, counterparty exposures through OTC 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 the country risk appetite for individual countries and ensures, through compliance with the country risk governance standard, that country risk exposures are effectively governed, identified, measured, managed and reported in the group.

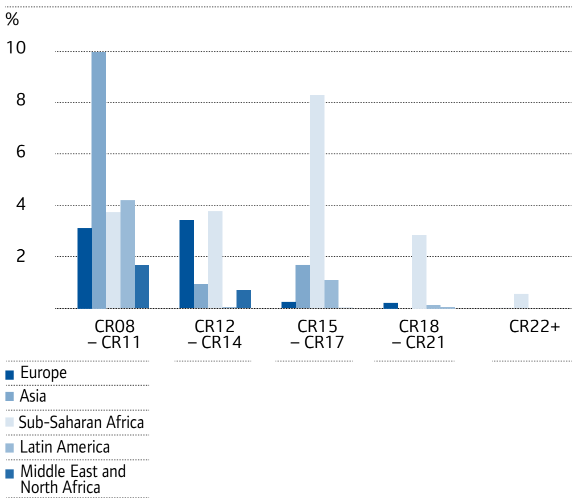
An internal rating model is used to determine the rating of each country in which the group has an exposure. These ratings are also a key input into the group's credit rating models. The model inputs are continuously updated to reflect economic and political changes in countries. The country risk model output provides an internal risk grade which is calibrated to a credit risk grade (CR) CR1 to CR25 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.

Credit loan conditions and covenants are linked to country risk events.

The country risk function also rates sovereigns. Sovereign ratings are distinct from country ratings in that they focus on sovereign creditworthiness. Country risk ratings provide a more holistic view, covering transfer and convertibility risk, economic (or credit portfolio risk), as well as sovereign risk. The sovereign rating process is an extension of the country rating process. Sovereign risk reviews occur simultaneously with country reviews. The research process underpinning sovereign reviews is comparable with the country risk process.

Countries rated eight (CR08) and higher, referred to as medium- and high-risk countries, are subject to increased analysis and monitoring. For countries with an internal risk grade of seven (CR07) and lower, 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 in 2011 amounted to USD19 billion and USD20 billion respectively (2010: USD17 billion and USD16 billion, respectively).

Medium- and high-risk country exposure by region



Country risk exposure by region and risk grade

	Europe %	Asia %	North America %	Sub-Saharan Africa %	Latin America %	Middle East and North Africa %	Australasia %
2011							
Country risk grade							
CR01 – CR07	30,7	6,3	14,4		1,1		0,8
CR08 – CR11	3,1	10,0		3,7	4,2	1,7	
CR12 – CR14	3,4	0,9		3,8		0,7	
CR15 – CR17	0,3	1,7		8,3	1,1		
CR18 – CR21	0,2			2,9	0,1		
CR22+				0,6			
2010							
Country risk grade							
CR01 – CR07	28,6	7,8	14,1		1,1	0,1	1,5
CR08 – CR11	3,2	13,2		2,8	5,7	2,8	
CR12 – CR14	3,0	1,5		2,8	0,3	2,2	
CR15 – CR17	0,4	1,1		5,2	0,9		
CR18 – CR21				0,5	0,2		
CR22+				1,0			

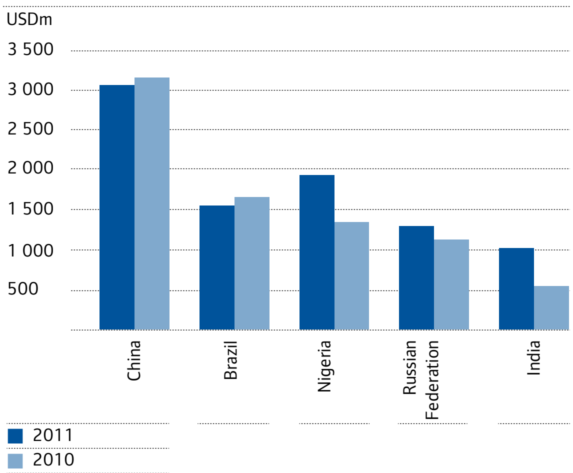
Where appropriate, country risk is mitigated through a number of methods including:

- 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.

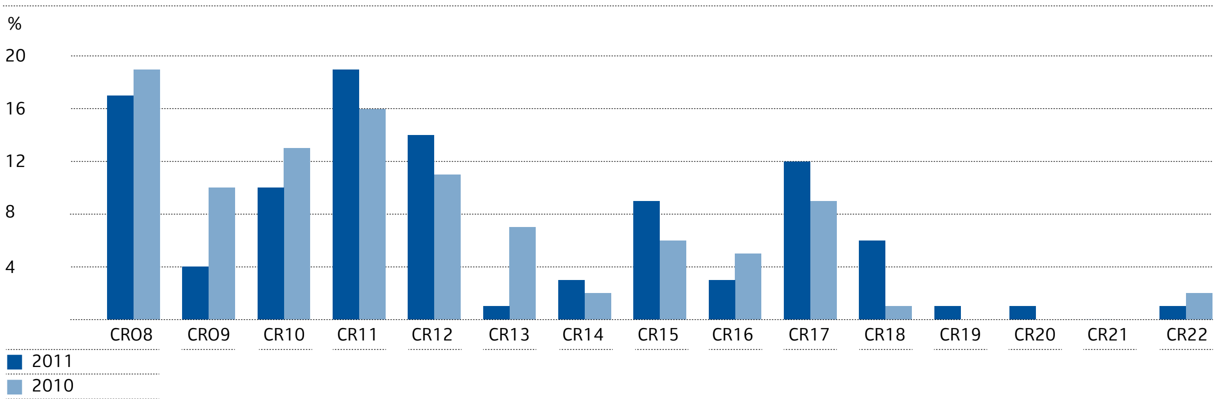
The risk distribution of country risk cross-border exposures is weighted towards European and North American low-risk countries. Exposure to troubled Eurozone peripheral countries is limited and closely managed by the country risk function.

Exposure to 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 select emerging markets.

Top five medium- and high-risk country risk EAD



Medium- and high-risk country EAD concentration by country rating



Liquidity risk

Introduction

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

Banking liquidity risk can be distinguished by two risk categories which are strictly managed by the group.

- **Market liquidity risk:** The risk that the group cannot easily offset or eliminate a position without significantly affecting the market price because of inadequate market depth or market disruption.
- **Funding liquidity risk:** The risk that the group will not be able to effectively meet both expected and unexpected current and future cash flow and collateral requirements without negatively affecting the daily operations or financial condition of the group.

The principal risk relating to insurance liquidity is the group's exposure to policyholder behaviour. Liquidity requirements are reviewed on a monthly basis. These requirements are also monitored on an ongoing basis as part of Liberty's normal operating activities.

Banking operations

Organisational structure and governance

GROC and the board review and set the liquidity risk governance standard annually in accordance with regulatory requirements, international best practice and the group's stated risk appetite. 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 committee (ALCO) responsible for ensuring compliance with liquidity risk policies. The SBSA ALCO, rest of Africa ALCO and international capital committee report into the group ALCO.

Basel III liquidity impact

Basel III requires the calculation and monitoring of two liquidity metrics, namely LCR, effective 1 January 2015, and the NSFR, effective 1 January 2018. The LCR's objective is to measure the ability to manage short-term liquidity stress and ensure the appropriate holding of surplus qualifying liquid assets. The NSFR's objective is to measure the group's long-term structural funding stability in order to address the structural liquidity mismatch inherent in banking operations. Both the LCR and NSFR calculations are subject to an observation period prior to implementation to address any unintended consequences. Banks are required to submit semi-annual Quantitative Impact Study reports to the Basel Secretariat under the Basel liquidity framework.

The group is taking several steps to ensure compliance with these ratios within the specified timelines. Liquid asset buffers have been increased to address the LCR requirement. The funding profile of the bank's diversified funding base is being extended for compliance with the NSFR. The group continues to ensure that the structural tenure of funding sources is sufficiently long in relation to the tenure of the asset base in order to provide excess liquidity to fund assets where required.

Liquidity and funding management

The group manages liquidity in accordance with applicable regulations, international best practice and within the group's risk appetite for liquidity risk.

As part of a comprehensive liquidity management process, the group distinguishes between tactical, structural and contingency liquidity risk. These three risk management categories are governed by a comprehensive internal governance framework to identify, measure and manage liquidity risk exposure. Combining each of these risk management categories allows for effective liquidity risk monitoring.

Liquidity management categories		
Tactical (shorter-term) liquidity risk management: • 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:** • 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; and • ensure appropriate transfer pricing of liquidity costs.	**Contingency liquidity risk management:** • 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; • set liquidity buffer levels in accordance with anticipated stress events; and • advise diversification of liquidity buffer portfolios.
Tools used to manage liquidity across all risk management types:	Liquidity ratios	
	Market triggers	
Liquidity cost management		

The liquidity management process is independently reviewed on a regular basis. 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

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

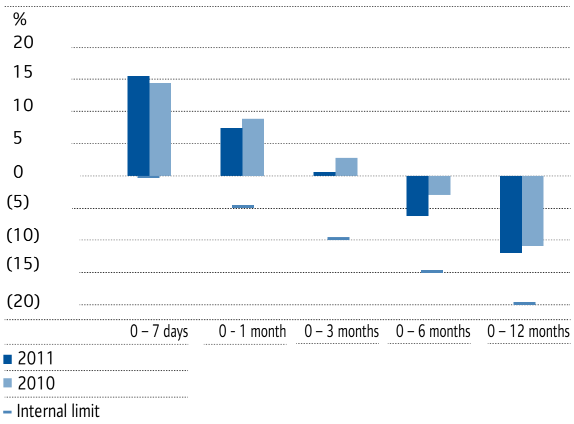
Structural requirements

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 historical 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, which exhibit stable behaviour despite being repayable on demand or at short notice.

Structural liquidity mismatch analyses are performed regularly to anticipate the mismatch between payment profiles of balance sheet items, in order to highlight potential risks within the group's defined liquidity risk thresholds.

The graph that follows 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. The structural mismatch has remained relatively static between 2010 and 2011 and is comfortably within the stated mismatch risk appetite.

Behaviourally adjusted cumulative liquidity mismatch



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Maturity analysis of financial liabilities by contractual maturity

The tables alongside 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 considers 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 following tables 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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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
2011						
Financial liabilities						
Derivative financial instruments	152 364	31	270	74	464	153 203
Instruments settled on a net basis	111 094		12	12	25	111 143
Instruments settled on a gross basis	41 270	31	258	62	439	42 060
Trading liabilities	33 290					33 290
Deposits and current accounts	458 468	99 961	153 967	85 907	139 435	937 738
Subordinated debt	65		540	3 717	25 030	29 352
Other		19 860				19 860
Total	644 187	119 852	154 777	89 698	164 929	1 173 443
Unrecognised financial instruments						
Letters of credit and bankers' acceptances	15 345					15 345
Financial guarantees	36 307					36 307
Irrevocable unutilised facilities	75 929					75 929
Commodities and securities borrowing transactions	5 274	215	568	100		6 157
Total	132 855	215	568	100		133 738
2010[1]						
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 and current accounts	396 333	90 167	124 608	82 064	132 314	825 486
Subordinated debt			606	3 072	21 940	25 618
Other		16 433				16 433
Total	569 492	106 625	125 771	85 591	155 726	1 043 205
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
Commodities and securities borrowing transactions	3 892	7	244	3		4 146
Total	102 751	7	244	3		103 005

Please refer to the annual financial statements for maturities of assets.

[1]*Restated, refer to page 95.*

Foreign currency liquidity management

A number of indicators are observed to monitor changes in either market liquidity or exchange rates. Foreign currency loans and advances are restricted to the availability of foreign currency deposits.

Funding strategy

Funding markets are evaluated on an ongoing basis to ensure 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.

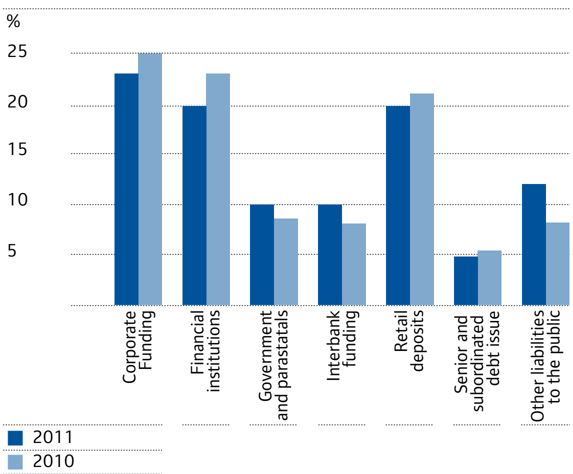
Primary funding sources are in the form of deposits across a spectrum of retail and wholesale clients, as well as long-term capital and loan markets. The group remains committed to increasing its core deposits and accessing domestic and foreign capital markets when appropriate to meet its anticipated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

Depositor concentrations

	2011 %	2010 %
Single depositor	2,1	1,8
Top 10 depositors	9,6	9,0

Depositor concentration was marginally higher at 31 December 2011 compared to 31 December 2010 due to higher balances held reflecting higher year end seasonal deposits.

Funding-related liabilities composition



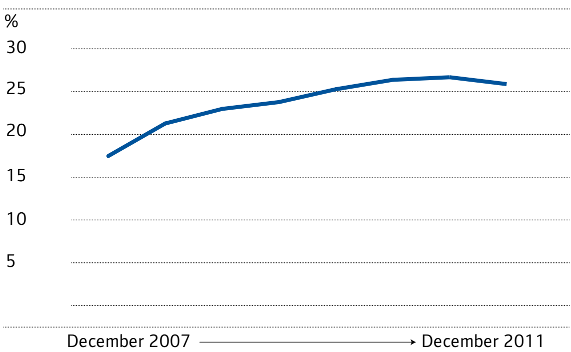
Funding-related liabilities composition

	2011 Rbn	2010 Rbn
Corporate funding	234	208
Financial institutions	198	200
Government and parastatals	100	72
Interbank funding	102	68
Retail deposits	198	172
Senior and subordinated debt issued	48	45
Other liabilities to the public	118	69
Total funding-related liabilities	998	834

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 31 December 2007 to 31 December 2011.

The long-term funding ratio remained fairly stable over 2011 but decreased towards the end of the year due to a material long-term loan deposit moving into the six-month maturity bucket.

Long-term funding ratio



Contingency liquidity risk management

Contingency funding plans

Contingency funding plans are designed to protect stakeholder interests and maintain market confidence to ensure a positive outcome in the event of a liquidity crisis. The plans incorporate an early warning indicator methodology supported by clear 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.

Liquidity stress testing and scenario analysis

Stress testing and scenario analysis are based on hypothetical as well as historical events. These are conducted on the funding profiles and liquidity positions of the group. The crisis impact is typically measured over a two-month period, as this is considered the most crucial time horizon for a liquidity event. This may, however, vary depending on the severity of the stress scenario and local in-country regulations (for example, FSA regulations require monitoring over a two-week to three-month period rather than a two-month period). 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 rollover; however, the rollover of liabilities will be partially impaired resulting in a funding shortfall. The results are assessed against the liquidity buffer and contingency funding plan to provide assurance as to the group's ability to maintain sufficient liquidity under adverse conditions. The results also inform target liquidity buffer positions.

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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 alongside provides a breakdown of the group's surplus marketable securities and foreign currency placements as at 31 December 2011 compared to the 2010 closing position. These portfolios are highly liquid and can be readily sold to meet liquidity requirements.

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Unencumbered surplus liquidity

	2011 Rbn	2010 Rbn
Total unencumbered marketable assets	143,9	101,2
Other readily accessible liquidity	4,2	5,6
Total unencumbered surplus liquidity	**148,1**	106,8

In addition to minimum requirements, surplus liquidity holdings are informed by the results from liquidity stress testing as per Basel principles and, in certain instances, in-country regulations. Unencumbered surplus liquidity increased to R148,1 billion as at 31 December 2011 (R106,8 billion as at 31 December 2010). The level reflects the continued prudent liquidity management approach as informed by stress-testing requirements and prevailing market conditions. The increase in marketable assets is mainly due to the group increasing liquidity buffers in anticipation of pending future regulations, prudent stress testing levels and increased FSA requirements.

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 detailed table representing the major credit ratings for the group's significant banking subsidiaries is provided in the shareholder information section on page 143 of book I. The following table provides a summary of the major credit ratings.

Credit ratings

SBSA[1]

Long-term	Fitch
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.

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, the 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 downgrade events 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 R489 million (2010: R396 million).

Conduits

The group provides standby liquidity facilities to two conduits, namely Blue Titanium Conduit and Thekwini Warehouse Conduit. These facilities, which totalled R8,3 billion as at 31 December 2011 (31 December 2010: R7,9 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

Liquidity profile of assets

Liberty's assets are highly 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.

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Financial asset liquidity

	2011		2010	
	%	Rm	%	Rm
Liquid[1]	73	172 767	74	164 457
Medium[2]	15	35 797	15	33 178
Illiquid[3]	12	27 164	11	23 997
Total	100	235 728	100	221 632

[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).*

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. Policyholders' liabilities under investment contracts, investment contracts with discretionary participation features (DPFs) and insurance contracts are managed according to expected and not contractual cash flows.

Audited

Maturity profile of liabilities – contractual cash flows

	0 – 3 months[1] Rm	3 – 12 months Rm	1 – 5 years Rm	Total Rm
2011				
Held for trading				
Collateral deposits	381			381
At amortised cost				
Callable capital bond	54	2 124		2 178
Non-controlling interests loan			103	103
Third party financial liabilities arising on consolidation of mutual funds	11 164			11 164
Other loans		59		59
Insurance and other payables	6 304			6 304
Total	17 903	2 183	103	20 189
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

[1] *0 – 3 months are either due within the timeframe or are payable on demand.*

Liquidity risks arising from obligations to policyholders

The following table indicates liquidity needs with respect to cash flows required to meet obligations arising under investment contracts, investment contracts with DPFs and insurance contracts. All the cash flows are shown gross of reinsurance on an undiscounted basis.

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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 discounting cash flows Rm	Total Rm
2011							
Investment contracts	5 689	8 273	6 349	12 736	26 925	(412)	59 560
Investment with DPFs	326	374	399	529	1 817	2	3 447
Insurance contracts	14 664	47 501	18 420	44 824	66 489	(46 340)	145 558
Total	20 679	56 148	25 168	58 089	95 231	(46 750)	208 565
2010							
Investment contracts	5 656	7 602	5 377	11 083	27 044	(391)	56 371
Investment with DPFs	253	13	135	465	1 766	2	2 634
Insurance contracts	12 251	39 742	17 347	43 889	65 795	(40 151)	138 873
Total	18 160	47 357	22 859	55 437	94 605	(40 540)	197 878

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.

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Cash surrender value for policyholders' liabilities

	2011 Carrying value Rm	2011 Surrender value Rm	2010 Carrying value Rm	2010 Surrender value Rm
Investment contracts	59 560	59 028	56 371	55 833
Investment contracts with DPF	3 447	3 238	2 634	2 431
Insurance contracts	145 558	120 171	138 873	111 985
Total policyholders' liabilities	208 565	182 437	197 878	170 249

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 2011 and 2010 this requirement has been met and attested to by the statutory actuary of Liberty.

Market risk

Introduction

For the purpose of identifying, managing, controlling, measuring and reporting, market risks have been categorised, consistent with the previous financial reporting period, as follows.

Market risk in the trading book

These risks result from two principal sources, namely the trading activities of the group's banking operations where the primary focus is client facilitation in chosen markets and Liberty's investment activities in various capital market instruments. All trading activities are carried out within the group's Corporate & Investment Banking division. Trading activities comprise market making, arbitrage and proprietary trading, with the latter constituting a small proportion of trading revenues.

Interest rate risk in the banking book

These risks result from the different repricing characteristics of banking assets and liabilities. They include endowment risk, repricing risk, basis risk, optionality risk and yield curve risk.

Equity investments in the banking book

These risks result from price changes in listed and unlisted equity investments.

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 and accruals.

Policyholder asset-liability mismatch in the insurance operations

The 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).

Insurer shareholder investment portfolio

Financial assets and liabilities utilised to support Liberty's capital base (also referred to as shareholder funds).

Banking operations

The GRCMC-approved market risk governance standard ensures that the measurement, reporting, monitoring and management of market risk across the group's banking entities follows a common governance framework.

Trading book market risk management

Framework

The board grants general authority to take on trading book market risk exposure to GROC, which delegates this authority to group ALCO. Group ALCO is chaired by the group financial director and operates through various legal entity and regional sub-ALCOs. There are two types of limits. Level one limits and triggers (for example, capital, VaR and entity stop loss) are approved by the group and sub-ALCOs. Level two limits and triggers (for example, desk level limits and desk stop loss) are set by market risk functions.

The market risk functions embedded in the business lines are independent of trading operations and accountable to sub-ALCOs. They are responsible for identifying, measuring, managing, controlling and reporting market risk as outlined in the market risk governance standard, with support from the central market risk function. The market risk functions also have the ability to set individual trader mandates. The central market risk function is accountable to group ALCO.

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

Measurement

The techniques used to measure and control trading book market risk and trading volatility include:

- VaR;
- stop-loss triggers;
- stress tests;
- backtesting; and
- specific business unit and product controls.

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VaR

The group uses the historical VaR simulation approach to derive quantitative measures, specifically for market risk under normal conditions. 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 calculated in four steps:

- Calculate 250 days' worth of price movements based on 251 days' historical data.
- Calculate hypothetical daily profit or loss for each position using observed market price movements.
- Aggregate all hypothetical profits or losses for day one across all positions, giving total profit or loss. Repeat for all other 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.

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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 certain products in its commodity trading, local markets (rates and foreign exchange), equity and credit trading businesses. 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 group has received internal model approval, a VaR using a confidence level of 99% and a 10-day holding period is used to determine market risk regulatory capital.

Limitations of historical VaR 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, 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 that such events would have on the group's profit. The daily losses experienced during 2011 were within the stress loss scenarios.

Backtesting
The group back-tests its VaR models to verify the predictive ability of the VaR calculations and ensure the appropriateness of the models within the inherent limitations previously referred to. Backtesting compares the daily hypothetical profit and losses under the one-day buy and hold assumption to the prior day's VaR. In addition, VaR is tested 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 of the VaR measurement and the effectiveness of hedges and risk-mitigation instruments, again within the limitations previously referred to. Regulators categorise a VaR model as green, amber or red. A green model is consistent with a satisfactory VaR model and is achieved for models that have four or less backtesting exceptions in a 12-month period. All the group's approved models were assigned green status for 2011 with the detailed backtesting results shown in the graph below.

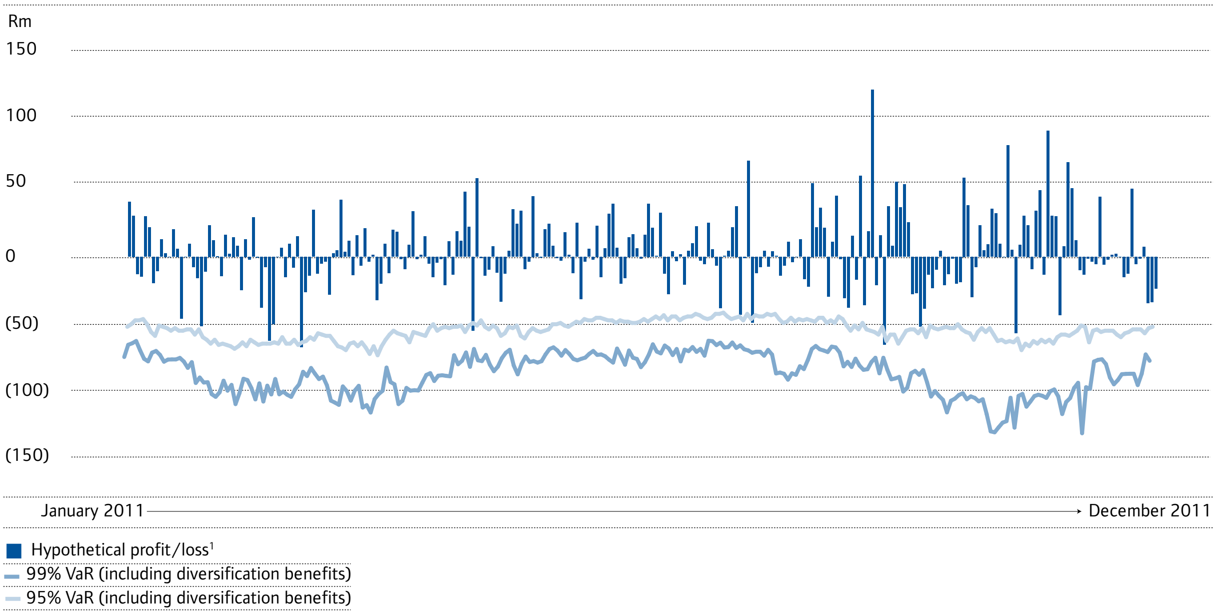
Specific business unit and product controls
Other market risk controls specific to individual business units include permissible instruments, concentration of exposures, gap limits, maximum tenure and stop loss triggers. In addition, only approved products that can be independently priced and properly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

The central validation function independently validates all new pricing models and performs an annual review of existing models to ensure they are still relevant and behaving within expectations.

VaR for the period under review
Trading book market risk exposures arise mainly from client transactions with limited trading for the group's own account. The table on the following page shows the aggregated historical VaR for the group's trading positions by market variable. 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 low levels of market risk throughout 2011, with average VaR being largely unchanged.

Backtesting: Hypothetical profit/loss and VaR



[1] *Hypothetical profit/loss excludes new deals, fees, commission and is used for the purpose of backtesting.*

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Trading book VaR analysis by market variable

	Normal VaR Maximum[1] Rm	Minimum[1] Rm	Average Rm	Closing Rm
2011				
Commodities	45,0	19,3	26,6	19,8
Forex	17,8	3,6	10,2	10,9
Equities	26,0	10,2	17,3	20,6
Debt securities	55,8	19,1	30,3	36,4
Diversification benefits[2]			(33,4)	(35,5)
Aggregate	67,7	41,0	51,0	52,2
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

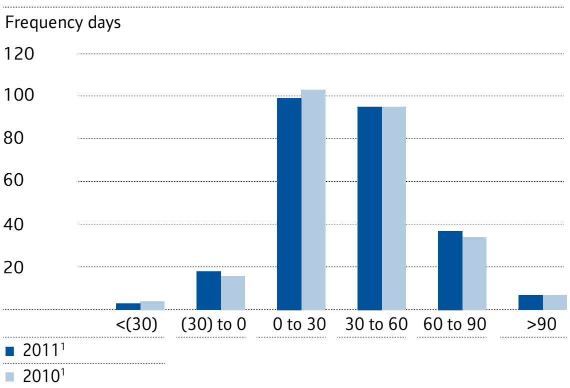
[1] *The maximum and minimum VaR figures reported for each market variable do not necessarily occur on the same day. As a result, the aggregate VaR will not equal the sum of the individual market VaR values, and it is inappropriate to ascribe a diversification effect to VaR when these values may occur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

The graph below shows the distribution of daily profit and losses in 2010 and 2011. 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. For 2011, trading profit was positive for 238 out of 259 days (2010: 239 out of 259 days).

Distribution of daily trading profit or loss for trading units



[1] *Daily trading profit or loss (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.

The group's approach to managing interest rate risk is governed by 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 monitored centrally by the group's TCM team with oversight by group 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.

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.

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.

The interest rate sensitivity gap is higher in 2011 when compared to 2010 as the overall balance sheet is slightly more asset sensitive than in the prior year and is therefore positioned for the rate hiking cycle.

Interest rate sensitivity gap

		0 – 3 months	3 – 6 months	6 – 12 months	>12 months
2011					
Interest rate sensitivity gap	Rm	64 134	16 177	3 535	(83 846)
Cumulative interest rate sensitivity gap	Rm	64 134	80 311	83 846	
Cumulative interest rate sensitivity gap as a percentage of total assets	%	5,1	6,4	6,7	
2010					
Interest rate sensitivity gap	Rm	67 552	321	(2 892)	(64 981)
Cumulative interest rate sensitivity gap	Rm	67 552	67 873	64 981	
Cumulative interest rate sensitivity gap as a percentage of total assets[1]	%	6,1	6,2	6,0	

[1] *Restated, refer to page 95.*

Hedging of 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 downturn in the economic cycle is hedged as and when it is considered opportune, using bonds, fixed rate loans and derivative instruments such as swaps and interest rate swaptions. A significant component of the group's endowment risk resides within SBSA. The interest rate view is formulated through the ALCO process, following meetings of the monetary policy committees, or notable market developments.

Outside the endowment exposure, all other banking book interest rate risk (basis, repricing, optionality and yield curve) was managed within the global markets portfolio.

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Analysis of banking book interest rate sensitivity

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

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Assuming no management intervention, a downward 100 basis point parallel interest rate shock across all foreign currency yield curves and a 200 basis point parallel interest rate shock across rand yield curves, would decrease the forecast 12-month net interest income on 31 December 2011 by R1,9 billion (31 December 2010: R1,8 billion).

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Interest rate sensitivity analysis

		ZAR	USD	GBP	Euro	Other	Total
2011							
Increase in basis points		200	100	100	100	100	
Sensitivity of annual net interest income	Rm	1 482	10	10	7	129	1 638
Sensitivity of equity	Rm	115	(12)			(129)	(26)
Decrease in basis points		200	100	100	100	100	
Sensitivity of annual net interest income	Rm	(1 688)	(33)	(10)	(7)	(140)	(1 878)
Sensitivity of equity	Rm	(115)	12			129	26
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)

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Equity investments

The equity risk committee, a sub-committee of GROC, approves investments in listed and unlisted entities in accordance with delegated authority limits. Periodic reviews and reassessments are undertaken on the performance of these investments.

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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.

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Market risk sensitivity of non-trading equity investments

	10% reduction Rm	Fair value Rm	10% increase Rm
2011			
Equity securities listed and unlisted	3 807	4 230	4 653
Impact on profit or loss	(401)		401
Impact on equity	(22)		22
2010			
Equity securities listed and unlisted	3 979	4 421	4 863
Impact on profit or loss	(417)		417
Impact on equity	(25)		25

Banking book equity exposures

Market risk on equity 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

	2011 Rm	2010 Rm
Fair value		
Listed	1 042	908
Unlisted	3 077	2 980
Total[1]	4 119	3 888

[1] 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.

Financial instruments include all financial assets and liabilities held for liquidity, investment, trading or hedging purposes. Financial instruments are accounted for and valued in terms of accounting policy 4 – financial instruments as described in the annual financial statements on page 225.

Cumulative realised gains from the sale or liquidation of equity positions in the banking book were R32 million loss (2010: R100 million gain).

Unrealised losses recognised in other comprehensive income were R32 million (2010: R58 million gain).

Foreign currency risk

Framework and governance

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.

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 permitted only for planned, specific future investment-related cash flows and hedging of rand 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 as either net investment or cash flow hedging relationships are reported directly in other comprehensive income (OCI), with all other gains and losses on derivatives being reported in profit or loss.

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Foreign currency risk sensitivity analysis

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, other derivative financial instruments and foreign-denominated cash balances and accruals. The sensitivity analysis reflects the sensitivity to OCI 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.

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As indicated below, the absolute impact of a 5% change in foreign currency rates on the OCI and/or profit or loss of the group before tax is R325 million (2010: R478 million). 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

		USD	Euro	GBP	Naira	Other	Total
2011							
Sensitivity	%	5	5	5	5	5	5
Total net long/(short) position	Rm	(56)	(3 576)	1 010	(540)	(1 341)	(4 503)
Impact on OCI	Rm		180	51	26	48	305
Impact on profit or loss	Rm	3				17	20
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 OCI	Rm	15	192	128	2	137	474
Impact on profit or loss	Rm		2	2			4

Insurance operations

The Liberty GRCMC-approved market risk framework ensures that the measurement, reporting, monitoring and management of market risk across the insurance entities follows a common governance framework.

Market risk management and reporting processes continue to mature. 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. These include market risks arising from assets backing shareholder funds as well as 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, and the mismatch risk arising from embedded derivatives including policyholders' investment guarantees. It also includes market risk arising from negative rand reserves, which represents the 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.

LibFin is responsible for managing Liberty's aggregate market risks, including exposures arising from shareholder funds and 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.

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 policyholders' 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, in both local and foreign currency. 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.

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.

Asset liability 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:

- The assumption of these market risks would result in Liberty operating outside its risk appetite.
- The capital-intensive nature of these market risks, particularly in an economic capital framework, which over time could potentially 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 due to current regulatory capital rules requiring available capital to be impaired for IFRS mark-to-market changes of such instruments.

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 are a negative liability on the IFRS statement of financial position. Negative rand reserves are calculated as the present value of future charges less the present value of future expenses and risk claims.

The table on the next page 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.

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Exposure to financial and property assets by risk category

	Total financial, property and insurance assets Rm	Attributable to: Policyholders' market-related liabilities Rm	Other policyholders' liabilities[1] Rm	Ordinary shareholders of Liberty[2] Rm	Non-controlling interests of Liberty Rm	Third-party financial liabilities on mutual funds Rm
2011						
Equity price	96 635	94 691	(7 413)	1 968		7 389
Interest rate	87 243	34 038	29 484	22 172	84	1 465
Property price	28 003	25 311	(2 491)	581	2 988	1 614
Mixed portfolios[3]	37 077	36 102	(2 058)	2 337		696
Reinsurance assets	1 104		901	203		
Total	250 062	190 142	18 423	27 261	3 072	11 164
Percentage (%)	100	76	7	11	1	5
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

[1] *Negative exposure to the various risk categories can occur in "Other policyholder 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 policyholder market-related liabilities by the amount of these negative liabilities.*

[2] *The Standard Bank Group has a 53,6% interest in Liberty and therefore shares in 53,6% 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 portfolios.*

Interest rate risk

The tables alongside 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. The effect of interest rate risk on these balances is not considered significant given the short-term duration of the underlying cash flows.

Audited

Interest rate exposure

	2011 Rm	2010 Rm
Financial instrument liabilities		
Carrying value	2 336	2 444
Exposed to cash flow interest rate risk	282	390
Exposed to fair value interest rate risk	2 054	2 054
Financial instrument assets		
Carrying value	55 958	53 994
Exposed to cash flow interest rate risk	14 099	13 879
Exposed to fair value interest rate risk	41 859	40 115

Foreign currency risk

Offshore assets are held in policyholders' 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, as well as through 90/10 fee exposure and management fees. In addition, some of the shareholder capital base is invested in offshore assets.

The total exposure to financial instruments expressed in rand (converted at closing rates) at 31 December 2011 is R32 billion (2010: R28 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 2011.

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Currency exposure by major currency

	GBP		USD		Euro		Japanese yen		AUD		Other	
	2011 Rm	2010[2] Rm	2011 Rm	2010[2] Rm	2011 Rm	2010[2] Rm	2011 Rm	2010[2] Rm	2011 Rm	2010[2] Rm	2011 Rm	2010[2] Rm
Foreign currency risk	2 211	1 635	21 138	15 741	2 414	2 809	1 724	1 530	484	539	3 785	5 447
Foreign currency amounts[1]	182	(163)	2 669	2 959	204	(336)	18 225	69 559	38	1		

[1] Certain currency exposures are reduced by means of forward exchange contracts.

[2] The table has been restated to exclude the Liberty group's exposure to the foreign currency risk of its net investment in its foreign subsidiary and joint venture companies.

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 2011 the proportion of unlet space in the property portfolio was 7,2% (2010: 4,2%).

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 2011 is shown alongside.

Audited

Exposure to property market risk

	2011 Rm	2010 Rm
Investment properties	24 462	22 484
Owner-occupied properties	1 598	1 513
Mutual funds with >80% property exposure	1 943	1 102
	28 003	25 099
Attributable to non-controlling interests	(2 988)	(2 609)
Net exposure	25 015	22 490
Concentration risk		
Shopping malls	20 022	18 343
Office buildings	2 803	2 650
Hotels	2 536	2 392
South African listed property securities held through mutual fund investments	1 943	1 102
Convention centre and residential property	699	612
	28 003	25 099

Derivative financial instruments and risk mitigation

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. Signed ISDA agreements are held with all approved counterparties.

Sensitivity analysis

The table alongside provides a description of risk sensitivities to various market variables. The interest rate yield curve and implied option volatility sensitivities reflect the financial impact of an instantaneous event at the financial position date. In determining the financial impact of such an event, new asset levels are applied to both the measurement of policyholders' liabilities and to long-term assumptions dependent on interest rate yield curves and implied option volatilities.

The equity price and rand currency sensitivities also reflect the impact of an instantaneous event at the financial position date. However, in the calculation of the financial impact of such an event, new asset levels are only applied to the measurement of policyholders' liabilities. No changes are made to long-term assumptions used in the measurement of policyholders' liabilities.

Market variable	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, shareholders' equity and attributable profit after taxation.

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Sensitivity analysis of risk variables

	2011			2010		
	Change in variable %	Impact on policy-holders' liabilities Rm	Impact on equity and attributable profit after taxation Rm	Change in variable %	Impact on policy-holders' liabilities Rm	Impact on equity and attributable profit after taxation Rm
Market assumptions						
Interest rate yield curve	12	(2 933)	(266)	12	(2 710)	(230)
	(12)	3 518	160	(12)	3 230	171
Option price volatilities	20	289	(177)	20	206	(133)
	(20)	(259)	156	(20)	(189)	123
Equity prices	15	13 814	927	15	12 889	954
	(15)	(13 680)	(952)	(15)	(12 751)	(1 010)
Rand exchange rates	12[1]	(2 581)	(502)	12[1]	(1 954)	(367)
	(12)[2]	2 605	505	(12)[2]	1 975	371

[1] *Strengthening of the rand.*
[2] *Weakening of the rand.*

Insurance risk

Introduction

Insurance risk applies to long-term insurance operations housed in the Liberty business line and the short-term insurance operations housed in the Personal & Business Banking business line.

Long-term insurance

Overview

The management and staff in all insurance business units, as the first line of defence, are responsible for the day-to-day identification, management and monitoring of insurance risk. Management is also responsible for reporting any material insurance risks, risk events and issues identified to senior management through certain predefined escalation procedures.

The statutory actuaries and the Liberty CRO, as the second line of defence, 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 under insurance contracts.

The timing is specifically influenced by assumptions on future mortality, longevity, morbidity, withdrawal and expenses made in the measurement of policyholders' 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 conducted on all insurance risks over a number of years to identify trends in experience and identify the reasons for deviations in experience.

The results of these analyses are used as an input into the assumption setting process for expected future experience used in measuring policyholders' liabilities.

Insurance risks are assessed and reviewed against the business line's risk appetite. To reduce the level of risk, mitigating actions are developed for any insurance risks that fall outside management's assessment of risk appetite.

Risk management

The management of insurance risk is essentially 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 Liberty's insurance risk 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.

Reinsurance is used to reduce exposures to some insurance risks.

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.

With respect to insurance risks, the reports contain the results of any experience investigations conducted 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 Liberty GROC.

Major insurance risks are incorporated into a report on Liberty's overall risk by the Liberty CRO, which is submitted to the Liberty group risk committee. Where it is deemed necessary, material insurance risk exposures are escalated to the Liberty board and Liberty GRCMC.

Long-term insurance risk sub-types

Policyholder behaviour risk

Policyholder behaviour risk is the risk of loss arising due to policyholders' actual behaviour being different from that expected.

The primary policyholder behaviour risk is persistency risk, which arises due to policyholders discontinuing or reducing contributions or withdrawing benefits 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. Policyholder behaviour risk also includes lapses, where policies terminate through non-payment of premiums without a surrender value being payable.

A specialised customer management unit addresses persistency. This team has focused on implementing a broad programme of initiatives, including:

- quality and profitability of new business written;
- product flexibility and migration options when client circumstances change; and
- actuarial risk management through setting of appropriate discontinuance terms to discourage selective withdrawals.

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 policyholders' 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 individuals, 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 and average income. Past scheme experience is also used in the rating of large schemes.
- Certain life products include the right to review premiums after a certain time period. Group risk rates are generally reviewable annually.
- Underwriting at inception reduces the risk of selection by lives which are likely to exhibit worse experience than allowed for in the pricing. The level of underwriting depends on the size of the sum assured and the life being underwritten. For group risk business, underwriting limits depend on the scheme, and normally relate to the size of the scheme and the distribution of the sums assured.
- Underwriting may also include financial underwriting to determine insurable interest.
- Specific testing for HIV is carried out in all cases where the applications for risk cover exceed set limits.
- Allowance for Aids is made in product pricing and specific Aids provisions are held within policyholder liabilities in accordance with South African actuarial guidance to provide for deterioration in experience.
- The policy terms and conditions contain exclusions for non-standard and unpredictable risks that may result in severe financial loss. For example, there is a suicide exclusion on life policies, which applies to the sum assured for death within two years from the date of issue.

- The expertise of reinsurers is used in the rating of non-standard risks. The group typically reinsures part of the risk on large cases to a reinsurer and hence reduces the impact of a large claim on the group. Reinsurance also provides protection against catastrophes. Reinsurance limits are reviewed annually.
- The actual claims experience is monitored on a regular basis so that deteriorating experience can be identified in a timely manner. 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.
- 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.
- Liberty performs an annual review of the reinsurance cover in line with the stated risk appetite and reinsurance strategy. Following the 2011 review, new treaties were concluded for new business in 2012. Under the new treaties in respect of mortality and accelerated lump sum disability benefits, Liberty Group Limited (LGL) and its subsidiaries will retain 95% (2010: 100%) of the risk subject to a maximum retention of R9,0 million per life under a quota share arrangement with the benefits in excess of R9,5 million (2010: R9,0 million) being reinsured under a surplus reinsurance arrangement. Reinsurance for non-accelerated lump sum morbidity benefits will include an 80% quota share subject to benefit-specific maximum retention limits. Benefits in excess of the retention limit will be reinsured under a surplus reinsurance arrangement. Special risks are partly reinsured by treaty and further reinsurance may be put in place on a case-by-case basis. Business written in the past was reinsured at lower retention levels, which are fixed for the life of the contract. For LGL corporate business, mortality and morbidity benefits in excess of R3,7 million (2010: R3,5 million) per main member are reinsured on an annually renewable basis. The retention limits under surplus reinsurance arrangements are reviewed annually to keep pace with inflation. Both corporate and retail income disability business are reinsured on a proportionate quota share and surplus basis.

The table that follows summarises 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.

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Profile for amounts at risk for individual and group business – retail and corporate

	Before reinsurance		After reinsurance	
	Rm	%	Rm	%
2011				
Bancassurance (all less than R1 499 999)	**75 537**	**7**	**75 537**	**8**
R0 – R1 499 999	**425 031**	**42**	**407 937**	**46**
R1 500 000 – R2 999 999	**199 963**	**20**	**183 286**	**20**
R3 000 000 – R7 499 999	**208 255**	**21**	**181 255**	**21**
R7 500 000 and above	**99 134**	**10**	**46 142**	**5**
Total	**1 007 920**	**100**	**894 157**	**100**
2010				
Bancassurance (all less than R1 499 999)	62 747	6	62 747	7
R0 – R1 499 999	472 876	47	455 443	51
R1 500 000 – R2 999 999	187 751	19	173 581	20
R3 000 000 – R7 499 999	185 227	19	163 553	18
R7 500 000 and above	86 351	9	39 863	4
Total	994 952	100	895 187	100

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 (2010: R50 million) up to a limit of R600 million (2010: R800 million) for single event disasters and R1 200 million (2010: R1 600 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.

Audited

Annual corporate business by industry class

	2011 %	2010 %
Administrative/ professional	31	28
Retail	23	24
Light manufacturing	31	32
Heavy manufacturing	13	15
Heavy industrial and other high risk	2	1
Total	**100**	100

In measuring 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 capital adequacy ratio 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 experienced is different from that expected.
- The risk that a mortality or morbidity catastrophe event occurs (including epidemic type events).
- 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 on reasonable terms, the mortality and morbidity economic capital requirements are likely to remain.

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 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.
- 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.

The eligibility of annuitants payable in South Africa with valid South African identity numbers is established by a monthly check of existence with the Department of Home Affairs. The eligibility of other annuitants is established with the requirement of proof of existence certificate reports on an annual basis.

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. 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 and the number of in-force and new business policies being less than expected.

Liberty manages expense risk by:

- regularly monitoring actual expenses against the budgeted expenses;
- regularly monitoring new business volumes;
- managing persistency as described above; and
- implementing cost control measures.

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 accounted 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 mortality	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

Sensitivities on expected taxation have not been provided.

Insurance risk sensitivities are applied as a proportional percentage change to the assumptions made measuring policyholders' liabilities. Over a reporting period, assets are expected to earn a return consistent with the long-term assumptions used in measuring policyholders' liabilities. 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.

Audited

Sensitivity analysis of risk variables

	2011			2010		
	Change in variable %	**Impact on policy-holders' liabilities Rm**	**Impact on equity and attributable profit after taxation Rm**	Change in variable %	Impact on policy-holders' liabilities Rm	Impact on equity and attributable profit after taxation Rm
Insurance assumptions						
Mortality						
Assured lives	**2**	**221**	**(159)**	2	175	(126)
	(2)	**(220)**	**158**	(2)	(176)	126
Annuitant longevity	**4[1]**	**216**	**(150)**	4[1]	218	(157)
	(4)[2]	**(206)**	**143**	(4)[2]	(208)	150
Morbidity	**5**	**324**	**(227)**	5	253	(182)
	(5)	**(323)**	**226**	(5)	(253)	182
Withdrawals	**8**	**325**	**(235)**	8	313	(226)
	(8)	**(358)**	**258**	(8)	(349)	252
Expense per policy	**5**	**234**	**(167)**	5	198	(141)
	(5)	**(233)**	**167**	(5)	(198)	141

[1] *Annuitant life expectancy increases, that is, annuitant mortality reduces.*
[2] *Annuitant life expectancy reduces, that is, annuitant mortality increases.*

Short-term insurance

SIL writes property insurance on a countrywide 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 are 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 group arises from catastrophe events such as flood, storm or earthquake damage. Key concentrations of exposure to catastrophe events are:

- earthquakes in Gauteng;
- storms and fires in the Western Cape; and
- storms in KwaZulu-Natal.

Insurance risk is managed through underwriting limits, approval procedures for transactions that involve new products or that exceed limits, pricing guidelines and 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 R67 million (2010: 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.

Operational risk

Operational risk management

Introduction

Operational risk exists in the natural course of business activity. It is not an objective to eliminate all exposure to operational risk as this would be neither commercially viable nor indeed possible. The group's approach to managing operational risk is to adopt fit-for-purpose operational risk practices that assist business line management in understanding their inherent risk and reducing their risk profile in line with the group's risk tolerance, while maximising their operational performance and efficiency.

Framework

The group has set minimum standards for managing operational risk through the group operational risk governance standard. This ensures a common approach. However, while all areas of the group are required to comply with the minimum standards, different business operations are at different levels of maturity in complying. Specific elements to note are:

- SBSA is adopting the quantitative components of the framework to the AMA quality for regulatory capital purposes.
- The remaining banking operations are planning a phased introduction of quantitative methodologies.
- The use of the AMA for regulatory capital purposes in other legal entities outside of South Africa is also dependent on the host regulator adopting Basel II.
- In addition to meeting the group minimum standards, the operational risk framework for the Insurance businesses is also subject to development as part of the implementation of SAM.

The framework sets out a structured and consistent approach for managing operational risk across the group. The risk management approach involves identifying, assessing, measuring, managing, mitigating, and monitoring the risks associated with operations, enabling comprehensive analysis and reporting of the group's operational risk profile.

The framework is based on the following core components:

- **Risk identification and control methodology:** Facilitates the identification of risks and the management thereof across each business and operational function. It comprises two key elements:
  - **Risk and control self assessments:** Each business unit and group enabling function is required to analyse their business activities and critical processes to identify the key operational risks to which they are exposed and assess the adequacy and effectiveness of their controls. For any area where management conclude that the level of residual risk is beyond an acceptable level, they are required to define action plans to reduce the level of risk. The assessments are facilitated, monitored and challenged by the relevant operational risk function aligned to each business unit and group enabling function.
  - **Indicators:** Based on the key risks and controls identified above, relevant indicators are used to monitor key business environment and internal control factors that may influence the group's operational risk profile. Each indicator has trigger thresholds to provide an early-warning indicator of potential risk exposures and/or a potential breakdown of controls.
- **Operational risk incidents:** All areas are required to report operational risk incidents to their relevant operational risk function. The definition of operational risk incidents includes not only events resulting in actual loss, but those resulting in non-financial impact and near misses. This process is intended to enable the root cause of individual incidents or trends of incidents to be analysed and actions taken to reduce the exposure or to enhance controls. All incidents relating to the group's banking operations are consolidated within a central group database, which is also integrated with risk and control self assessments and indicators. The insurance operations

are implementing an equivalent incident database using the same IT application as the banking operations.

- **External data:** The group analyses external industry incidents and loss data through a combination of publicly available data and the confidential loss data available from membership of the Operational Riskdata eXchange Association. This enhances the identification and assessment of risk exposures and provides additional data for scenario analysis purposes.
- **Scenarios:** Initially applying only to SBSA, scenarios are generated to represent the exposure to potentially severe operational risk losses. Internal subject matter experts develop estimates of potential impact and likelihood, which support the identification and assessment of key risks and controls, and provide data for quantitative modelling purposes.
- **Reporting:** 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 group operational risk committee (GORC), GROC and the GRCMC.

Managing operational risk

The primary responsibility for managing operational risk forms part of the day-to-day responsibilities of management and employees at all levels. Business line management is ultimately responsible for owning and managing risks resulting from their activities. The risks are managed where they arise.

The operational risk management function is independent from business line management and is part of the second line of defence. It is organised as follows:

- Individual teams are dedicated to each business unit and group enabling function. These teams are based alongside their business areas and facilitate the business's adoption of the operational risk framework. As part of the second line of defence, they also monitor and challenge the business units' and group enabling functions' management of their operational risk profile.
- A central function, based at a group level, provides groupwide oversight and reporting. It is also responsible for developing and maintaining the operational risk management framework.
- The primary oversight body for operational risk is 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 specialist functions and business units. GORC is also responsible for approving group-level operational risk policies and methodologies.
- Specialist functions are responsible for oversight of specific components of operational risk including legal, global financial crime control, physical commodities, information security and business continuity management.
- The physical commodities specialist function is based in Johannesburg, London and Singapore and has been established to manage physical commodities transactions executed within the group. The key role of the team is to focus on the risks embedded in each trade, on a pre- and post-trade basis, to ensure they are understood, tracked, controlled and escalated if appropriate. The team works with approved third parties who play a key role in the process and the provision of related control functions such as ship brokers, insurers, warehouse providers and security companies.

Measuring operational risk

The group continues to calculate capital for its banking operations based on the standardised approach in accordance with the SARB approval granted in 2008.

During 2011, the group developed an internal model quantification capability. At present this is being used to calculate indicative capital requirements for SBSA, which will be run in parallel with the standardised approach calculations throughout 2012. The capital requirement derived from the model is principally driven by data generated from scenarios although, where available, internal loss data is also used.

This quantitative methodology will be further developed during 2012, both across other parts of the banking operation and for internal purposes, in addition to regulatory capital considerations.

Within the insurance operations, operational risk is measured in the OCAR calculation. The method for calculating the operational risk capital requirement is not prescribed as there is still considerable debate around best practice approaches to calculate these capital requirements. The methodology used for the purposes of the OCAR calculation has been adopted from approaches used in the Quantitative Impact Studies under Solvency II. The quantification methodology for operational risk capital is likely to change with the implementation of the new risk-based regulatory regime introduced by the FSB's SAM project in 2014.

Further to the regulatory requirements for measuring operational risk, Liberty also includes an allowance for operational risk in the calculation of its economic capital requirements.

Specialist operational risk types

The definition of operational risk is very broad. Operational risk contains specific sub-risks that are subject to management and oversight by dedicated specialist functions. These include:

- model risk;
- taxation risk;
- legal risk;
- compliance risk;
- environmental and social risk;
- business continuity management and resilience;
- information risk;
- financial crime risk; and
- occupational health and safety.

Model risk

Model risk arises from potential weaknesses in a model that is used in the measurement, pricing and management of risk. These weaknesses include incorrect assumptions, incomplete information, inaccurate implementation, inappropriate use, or inappropriate methodologies leading to incorrect conclusions by the user.

The group's approach to managing model risk is based on the following principles:

- independence of model development and model validation functions;
- model validation summaries that highlight model limitations and recommend improvements;
- controlled implementation of approved models into production systems;
- ongoing monitoring of model performance;
- review and governance of data that is used as model inputs; and
- governance through committees with appropriate board and executive management members, and through policies which deal with materiality, validation criteria and approval criteria.

Taxation risk

In terms of the group tax policy, the group fulfils its responsibilities under tax law in each jurisdiction 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 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 would seriously undermine the others.

Identifying and managing 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.

Legal risk

Legal risk is defined as exposure to the adverse consequences of non-compliance with legal or statutory responsibilities and/or inaccurately drafted contracts and their execution, as well as the absence of written agreements or inadequate agreements. This includes exposure to new laws as well as changes in interpretations of existing law by appropriate authorities. This applies to the full scope of group activities and may also include others acting on behalf of the group.

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;
- regulatory requirements are incorrectly applied;
- the group may be liable for damages to third parties; or
- contractual obligations may be enforced against the group in an adverse way, resulting from legal proceedings being instituted against it.

The following sub-categories of legal risk are recognised:

- contract non-conclusion risk;
- contract unenforceability risk;
- security interest failure risk;
- netting and set-off disallowance risk;
- adverse tax and regulatory treatment risk;
- contract breach, damages and fines risk;
- copyright loss or contravention risk;
- litigation risk; and
- anti-competitive behaviour risk.

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.

Compliance risk

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

Approach to compliance risk management

The group's approach to managing compliance risk is proactive and premised on internationally accepted principles of risk management. It is aligned with other group risk type methodologies. Group compliance supports business in complying with current and emerging regulatory developments, including money laundering and terrorist financing control, sanctions management, identifying and managing conflicts of interest and market abuse, TCF 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 group chief executive and to the chairman of the GAC. The group chief compliance officer reports independently to the GAC.

The group's compliance framework for banking operations is based on the principles of effective compliance risk management, outlined in the Banks Act, and recommendations from international policy-making bodies.

The compliance structure for banking operations is a hybrid system comprising the central function, which incorporates areas of compliance expertise, and a line of business compliance model that provides compliance support to the businesses. Both banking and insurance operations support the three lines of defence model.

A robust risk management reporting and escalation procedure requires business unit compliance heads to report monthly and quarterly on the status of compliance risk management in the group.

Regulation and supervision

The group operates in a highly regulated industry and across multiple jurisdictions. Supervision is undertaken by host country regulators and by various regulatory bodies in South Africa. The group's primary banking regulator is the Bank Supervision Department (BSD) of the SARB which supervises the group on a consolidated basis. Senior management engage with the BSD on a regular basis, as well as with regulators in other jurisdictions as and when required.

South African financial services supervisory bodies include the FSB, which currently regulates the non-banking activities of the financial services industry in South Africa, the Financial Intelligence Centre, which oversees money laundering and terrorist financing control, and various regulatory bodies relating to financial markets. The National Credit Regulator is responsible for regulating the South African credit industry. From a consumer protection perspective, there are various ombuds serving the interests of the public, including the newly established Consumer Commission under the South African Consumer Protection Act 68 of 2008 (Consumer Protection Act).

The international regulators of our larger operations include the UK FSA, the Hong Kong Monetary Authority, the Monetary Authority of Singapore and the Central Banks of Kenya, Uganda and Nigeria, as well as the regulators in each African and offshore jurisdiction in which the group operates.

The details of key legislation impacting the group are available in the group sustainability report which can be accessed on the group's website, **www.standardbank.com**, and in book I.

Regulatory developments significantly inform the group's business planning processes. During 2011, SBSA continued to focus on consumer protection issues, including a qualification regime to accredit financial services advisers. Legislative advances during 2011 included the implementation of the Consumer Protection Act in the first quarter of 2011.

The Financial Advisory and Intermediary Services Act 37 of 2002 introduced compulsory examinations commencing in 2011 for those providing financial advice. This has a major impact on insurance operations. The new Companies Act came into effect in May 2011 and has had a number of operational implications for the business, particularly in respect of the new business rescue provisions for financially distressed companies.

Liberty partners with Standard Bank on regulatory issues of common concern. Engagement with legislators takes place primarily through participation in the various committees of Association for Savings and Investment in South Africa, the trade association for the South African long-term insurance sector and the South African Insurance Association which represents the short-term insurance sector.

In the UK, reforms to the way that financial institutions will be regulated are under way and are expected to take effect by the end of 2012. This involves dismantling the FSA tripartite system of regulation. Prudential supervision will be transferred to a new Prudential Regulation Authority under the Bank of England and the remaining functions of the FSA will be transferred to a new Consumer Protection and Markets Authority. Economic crime will be policed by a new Serious Economic Crime Agency. The group continues to monitor developments and will adjust Standard Bank Plc's compliance architecture where 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 money laundering control office is committed to continually improving its control measures, including customer monitoring tools. Group minimum standards are implemented throughout the group, taking cognisance of jurisdictional requirements where these may be more stringent.

Sanctions management

The group actively manages the legal, regulatory, reputational and operational risks associated with doing business in jurisdictions that are subject to embargoes and/or sanctions imposed by relevant competent authorities. A group sanctions review committee, supported by a sanctions desk, is jointly responsible for providing groupwide advice on all sanctions-related matters in a continuously evolving sanctions regime. Systems are continuously enhanced to detect payments to sanctioned persons or entities and processes have been designed to protect the group from participation in transactions that contravene the directives of sanctions enforcement agencies. Sanctions training is provided to relevant business areas as appropriate.

Compliance risk management training

Employees are made aware of their responsibilities in terms of current and emerging legislative and regulatory requirements and developments through induction programmes, ongoing training and awareness initiatives. The compliance team facilitates regulatory employee training within business and the different statutory requirements determine the training approaches adopted in the group. Employees, including senior management, are made aware of their legislative responsibilities either through e-learning, face-to-face interventions or through targeted awareness campaigns.

Environmental and social risk

Environmental and social risk assessment and management encompasses both the threats to global environmental systems which provide clean water, clean air and stable climate and risks to livelihoods, the health and rights of communities, and cultural heritage which might arise from business operations and lending activities. The group sustainability management unit develops the strategy, policy and management frameworks which enable the identification, management, monitoring and reporting of these issues. A new environmental and social risk policy was issued in 2011 and is being implemented across the group.

Environmental effects such as energy use, water use, waste production and carbon emissions resulting from our operations are recorded within an environmental management system, which is used both for improving efficiency and reporting to key stakeholders. Environmental efficiency targets have been set for SBSA, which is the group's largest subsidiary.

The group uses two approaches to screen and process projects, namely the Equator Principles for project finance loans and an internally developed appraisal system for other financial product types, including physical commodities which is a growth area for the group. Both tools are designed to identify the risks associated with a transaction and the customer's ability to manage environmental and social issues, as well as the risks associated with the transaction itself such as the nature and value of the loan, and the industry sector involved.

The group's 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 basis of engagement on sustainability issues with the group executive committee and the board.

Equator Principles

The Equator Principles are a set of standards for managing social and environmental risks in project finance. As a signatory to the principles, the group must ensure that the customers to whom the group lends capital or provides advice evaluates and actively avoids, manages or mitigates the social and environmental impacts associated with the projects being financed. The principles apply to all new project finance loans of USD10 million or more, across all industry sectors.

Since adopting the Equator Principles in February 2009, the group has fully integrated this performance assessment tool into the credit approval process and transaction life cycle of our project financing deals.

Business opportunities

Environmental risks, such as 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's successful strategic partnership with the United Nations Environment Programme's African Carbon Asset Development facility concluded in December 2011 and has been renegotiated for a second phase. This partnership has placed the group in a strategic position to assist in the development of African carbon markets. Standard Bank actively uses the Clean Development Mechanism (CDM) and concluded a number of significant deals across Africa in 2011.

We are also developing products and services that enable our customers to lower their carbon footprint without creating financial burdens, such as the rollout of solar water heating systems to low-income communities. During 2011, we developed a fleet management product which will help monitor and manage carbon emissions associated with vehicle fleets. We also launched a number of programmatic CDM projects which will help further increase the uptake of energy efficiency measures by South African organisations and reduce the transaction costs associated with CDM projects.

Business continuity management and resilience

Business continuity management is defined as a holistic management process that identifies potential impacts that threaten the group. It provides a framework for building resilience and the capability for an effective response that safeguards the interests of key stakeholders, reputation, brand and value-creating activities.

The group has business resiliency and continuity plans in place to ensure its ability to operate on an ongoing basis and limit losses in the event of severe business disruptions.

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

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

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 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.

Information risk management is responsible for establishing the information risk management 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.

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 2 of 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.

From January 2011 to date, the group has processed 21 (2010: 22) requests for access to information, of which 12 were granted, seven refused and two were withdrawn. The main reasons for the denial of access were that:

- the owners of personal information declined to give consent for access to be given to third parties;
- requests fell outside the ambit of the above Act; and
- information to which access was requested was subject to commenced criminal or civil proceedings.

Financial crime control

The group's values enshrine honesty, integrity and ethics. The group will not condone any instance of financial crime or corruption. Where these instances arise, the group takes timely and appropriate remedial action.

Financial crime control is defined as the prevention, detection and response to all financial crime in order to mitigate economic loss, reputational risk and regulatory sanction.

Financial crime includes fraud, money laundering, violent crime and misconduct by employees, customers, suppliers, business partners, stakeholders and third parties. The group financial crime control unit is mandated by the GAC to provide financial crime control capabilities which support the group in minimising the overall impact of financial crime. This ensures the safety of our people and assets as well as trust from our stakeholders. The GAC is provided with a single holistic view of financial crime prevention, detection and response as well as emerging financial crime threats across all geographies.

The group financial crime control unit functions independently, reporting to the group head of governance and assurance and the GAC. The group head of financial crime control has independent access to executives and the chairperson of the GAC.

During 2011, governance policies dealing with matters relating to financial crime were updated to provide a more comprehensive and inclusive approach to financial crime control across all geographies.

Liberty's financial crime control has aligned its structure and governance to that of the group.

Occupational health and safety

The health and safety of all employees remains a priority. Training of health and safety officers and employee awareness is an ongoing endeavour. Guidelines which were developed and implemented during 2011 have contributed to the facilitation of health and safety initiatives. Such initiatives to reduce the frequency of occupational incidents are already proving successful. A health and safety incident logging system was developed and implemented during 2011 and will enable more effective management of the function in future.

Business risk

Business risk is the risk of loss, usually from inflexible cost structures or inefficiencies, due to adverse operating conditions caused by market-driven pressures such as decreased demand, increased competition or cost increases, or caused at group level through factors such as a poor choice of strategy, reputational damage or the decision to absorb costs or losses to preserve reputation. Business risk is governed by the group executive committee which is ultimately responsible for managing the costs and revenues of the group.

Business risk includes strategic risk and post-retirement obligation risk.

The group mitigates business risk in a number of ways, including:

- Extensive due diligence during the investment appraisal process (in particular for new acquisitions).
- All three business lines have a new product process through which the risks and mitigating controls for new/amended products and services are tabled and discussed.
- Stakeholder management to ensure favourable 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.
- Being alert and responsive to changes in market forces, exploiting potentially favourable changes and managing the downside risk due to unfavourable changes.
- As part of the group's budget and revised estimate processes, there is a strong focus on achieving headline earnings growth while containing cost growth. In addition, contingency plans are built into the budget that allow for costs to be significantly reduced in the event that expected revenue generation does not materialise.
- The group continually aims to increase the ratio of variable costs to fixed costs, allowing for more flexibility to proactively reduce costs during economic downturn conditions.

Strategic risk

Strategic risk is the risk that the group's future business plans and strategies may be inadequate to prevent financial loss or protect the group's competitive position and shareholder returns.

The group's business plans and strategies are discussed and debated by appropriately qualified and experienced members of management and non-executive board members.

Post-retirement obligation risk

The group operates both defined contribution plans and defined benefit plans, with the majority of its employees participating in defined contribution plans.

Post-retirement obligation risk is the risk to the group's earnings that arises from the requirement to contribute as an employer to an under-funded defined benefit plan.

The risk arises due to either an increase in the estimated value of pension or medical liabilities or a decline in the market value of the fund's assets or reduction in their investment returns. The group maintains a number of defined benefit pension and medical aid provider schemes for past and certain current employees, collectively termed post-retirement obligations.

Further details of post-retirement obligations are included in note 37 in the annual financial statements on page 195.

Reputational risk

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 head of governance and assurance 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.

Restatements

During the year, the group revised certain financial information. Please refer to annexure A on page 207 of the annual financial statements for details concerning these restatements.

Credit risk

During the year, the treatment of simple risk-weighted equity exposures was aligned within the group and the comparative numbers have been restated accordingly.

The group aligned the calculation methodology of exposure weighted-average risk weights between business units and restated the comparative figures. Exposure weighted-average risk weights are calibrated to the sum of the EAD within each of the PD bands.

The group restated the classification of certain off-balance sheet items to reflect the exposures per the SARB approach on a comparable basis.

As approved by the SARB, the group revised its treatment of transactional products to assume a contractual maturity period of one year and accordingly restated comparative figures.

Economic capital

In order to be consistent with the presentation of economic capital requirements during the current reporting period, the comparative period economic capital requirement has been restated. The restatement is due to enhancements in methodology and portfolio coverage to more accurately assess the capital required to cover credit and equity risk.

Securitisations

The group performed a review of its pillar 3 disclosure in respect of securitisation exposures to, where relevant, align to IFRS disclosure. As a result, for originated and sponsored/administered securitisations consolidated under IFRS, the underlying assets have been consolidated for pillar 3 reporting and intragroup exposures have been eliminated. The remaining securitisations represent exposures that the group has to third party securitisations.

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Annual financial statements

The consolidated and separate annual financial statements were audited in terms of the Companies Act 71 of 2008.

The preparation of the group's consolidated and separate annual financial statements was supervised by the group financial director, Simon Ridley, BCom (Natal), CA(SA), AMP (Oxford). These results were made publicly available on 8 March 2012.

Directors' responsibility for financial reporting

In accordance with the Companies Act 71 of 2008 (the Act), 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 31 December 2011, and the net income and cash flows for the year then ended.

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's internal audit function, is provided in the corporate governance statement in book I of the annual integrated report and the risk and capital management section of this report.

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

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

The 2011 annual financial statements which appear on pages 101 to 243 and specified sections of the risk and capital management report contained within pages 1 to 95, were approved by the board of directors on 7 March 2012 and signed on its behalf by:

Fred Phaswana
Chairman

Jacko Maree
Chief executive

Group secretary's certification

Compliance with Companies Act 71 of 2008

In terms of the Companies Act 71 of 2008 (the Act) and for the year ended 31 December 2011, I certify that Standard Bank Group Limited has filed all returns and notices required by the Act with the Companies and Intellectual Property Commission and that all such returns and notices are true, correct and up to date.

Loren Wulfsohn
Group secretary
7 March 2012

Report of the group audit committee

This report is provided by the audit committee, in respect of the 2011 financial year of Standard Bank Group Limited, in compliance with section 94 of the Companies Act 71 of 2008 (the Act), as amended from time to time and in terms of the JSE Limited Listings Requirements. The committee's operation is guided by a detailed mandate that is informed by the Act, the Banks Act 94 of 1990 (Banks Act) and the King Code and is 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 activities is provided in greater detail in the corporate governance statement in book I of the annual integrated report.

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 2011, 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 process and evaluated the effectiveness of the audit;
  - obtained assurance from the external 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 external 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;
  - confirmed that no reportable irregularities were identified and reported by the external auditors in terms of the Auditing Profession Act 26 of 2005; and
  - considered reports from subsidiary audit committees and from management through the group's governance structures on the activities of subsidiary entities.

- In respect of the financial statements:
  - confirmed the going concern as the basis of preparation of the interim and annual financial statements;
  - examined and reviewed the interim and annual financial statements prior to submission and approval by the board;
  - reviewed reports on the adequacy of the provisions for performing and non-performing loans and impairment of other assets, and the formulae applied by the group in determining charges for and levels of impairment of performing loans;
  - 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 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 group chief compliance officer, the group chief risk officer, the group chief credit officer, the head of financial crime control, 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, internal audit and financial crime control:
  - 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;
- noted that there were no significant differences of opinion between the internal audit function and management;
- 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;
- 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;
- reviewed and approved the mandate of financial crime as an independent risk function; and
- discussed significant financial crime matters and control weaknesses identified.

- In respect of legal, regulatory and compliance requirements:
  - reviewed with management matters that could have a material impact on the group;
  - monitored compliance with the Act, the Banks Act, all other applicable legislation and governance codes and reviewed reports from internal audit, external auditors and compliance detailing the extent of this;
  - noted that no complaints were received through the group's ethics and fraud hotline concerning accounting matters, internal audit, internal financial controls, contents of financial statements, potential violations of the law and questionable accounting or auditing matters; and
  - reviewed and approved the annual compliance mandate and compliance plan.

- 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; and
  - the chairman is a member of and attended the risk and capital management committee meetings held during the year under review.

- In respect of the coordination of assurance activities, the committee:
  - reviewed the plans and work outputs of the external and internal auditors as well as compliance and financial crime control, 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 group;
- 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, group audit committee
7 March 2012

Independent auditors' report

To the members of Standard Bank Group Limited

Report on the annual financial statements

We have audited the consolidated annual financial statements and the annual financial statements of Standard Bank Group Limited, which comprise the consolidated and separate statements of financial position as at 31 December 2011, 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 a summary of significant accounting policies, other explanatory information, and the directors' report, as set out on pages 101 to 243 and specified sections of the risk and capital management report contained within pages 1 to 95.

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 the requirements of 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 about whether the financial statements are free from material misstatements.

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

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

Opinion

In our opinion, the financial statements present fairly, in all material respects, the consolidated and separate financial position of Standard Bank Group Limited as at 31 December 2011, 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 the requirements of the Companies Act of South Africa.

KPMG Inc	
KPMG Inc.	**PricewaterhouseCoopers Inc.**
Registered Auditor	*Registered Auditor*
Per *Peter MacDonald*	Per *Fulvio Tonelli*
Chartered Accountant (SA)	*Chartered Accountant (SA)*
Registered Auditor	*Registered Auditor*
Director	Director
7 March 2012	7 March 2012
85 Empire Road	2 Eglin Road
Parktown	Sunninghill
2193	2157

Directors' report

for the year ended 31 December 2011

Nature of business

Standard Bank Group Limited is the holding company for the interests of the Standard Bank Group (the group), a global banking group with African roots. It is South Africa's largest banking group, distinguished by its extensive operations in 17 African countries. Outside the African continent, the group's operations span 12 countries, with an emerging market focus.

Headquartered in Johannesburg, South Africa, the group's primary listing is on the securities exchange operated by the JSE Limited (JSE) and its secondary listing is on the Namibian Stock Exchange (NSX). Subsidiary banks are listed on exchanges in Kenya, Malawi, Nigeria and Uganda.

A simplified group organogram is shown on page 208.

Group results

A general review of the business and operations of major subsidiaries is provided in the chief executive's report to stakeholders and operational reviews commencing on pages 14 and 49 of book I, respectively.

A financial review of the results of the group for the year is provided on pages 20 to 39 of book I.

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 3 709 809 ordinary shares (2010: 6 800 254 ordinary shares) were issued in terms of the group's equity compensation plans and 19 979 912 ordinary shares were issued as scrip distributions in 2010. There were no other changes to the ordinary share capital of the company during 2011.

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 and preference share capital as reflected in the tables below.

Ordinary shares

Director	Direct beneficial[1]		Indirect beneficial[1]	
	2011 Number	2010 Number	**2011 Number**	2010 Number
DDB Band	**12 742**	12 742		
RMW Dunne			**42 000**	42 000
TS Gcabashe[2]			**111 112**	111 112
KP Kalyan[2]			**125 000**	125 000
SJ Macozoma[3]			**5 711 527**	5 711 527
JH Maree	**50 000**	50 000	**650 000**	650 000
KD Moroka[2]	**505**	505	**111 112**	111 112
AC Nissen[2]			**111 112**	111 112
MC Ramaphosa[4]	**2 327**	2 327	**4 237 848**	4 730 825
SP Ridley	**85**	85		
MJD Ruck	**175 000**	251 545		
EM Woods	**52 450**	52 450		
Total	**293 109**	369 654	**11 099 711**	11 592 688

[1] As per Listings Requirements of the JSE.
[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. Certain of these directors that were shareholders at the time, sold shares to Industrial and Commercial Bank of China (ICBC) through the scheme of arrangement with all shareholders.
[3] SJ Macozoma holds an effective 26,62% (2010: 26,62%) 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] MC Ramaphosa holds an effective 29,63% (2010: 33,08%) 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.

Second preference shares

Director

	Direct beneficial[1] 2011 Number	2010 Number
DDB Band	27 167	30 919
SJ Macozoma	1 140	1 140
JH Maree	10 331	10 331
Total	**38 638**	42 390

[1] *As per Listings Requirements of the JSE.*

No directors, other than those disclosed above, 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 group's equity compensation plans is provided in the remuneration report on pages 108 to 113 of book I. Details of options granted to all employees under equity compensation plans are provided in annexure D starting on page 216.

Directors' and prescribed officers' emoluments

Directors' and prescribed officers' emoluments are disclosed on page 183. Information relating to the determination of directors' and prescribed officers' emoluments, share incentive allocations, details of prescribed officers' interest in group shares and related matters is contained in the remuneration report commencing on page 100 of book I.

Shareholder analysis

The analysis of ordinary shareholders is given on page 13 of book III.

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 2011	2010
Ordinary shares		
Industrial and Commercial Bank of China	20,1	20,1
Public Investment Corporation	13,4	13,3
6,5% preference shares		
Old Sillery Proprietary Limited	9,1	9,1
Saks, DJ	7,2	
Van Tonder, JW	5,7	5,4
Lombard, L	5,5	4,2
Boerstra, G		8,1

Second preference shares

No shareholder holds 5% or more of this class of share capital.

Distributions to ordinary shareholders

Interim

On 10 August 2011 an interim dividend of 141,0 cents per share (2010: 141,0 cents) was declared to shareholders recorded at the close of business on 9 September 2011, and paid on 12 September 2011.

Final

On 7 March 2012, the directors declared a dividend of 284,0 cents per share (2010: 245,0 cents) to ordinary shareholders recorded at the close of business on 30 March 2012, and to be paid on 2 April 2012.

Dividends to preference shareholders

6,5% first cumulative preference shares

Interim

On 10 August 2011, a dividend of 3,25 cents per share (2010: 3,25 cents) was declared to shareholders recorded at the close of business on 2 September 2011, and paid on 5 September 2011.

Final

On 1 March 2012, a dividend of 3,25 cents per share (2010: 3,25 cents) was declared to shareholders recorded at the close of business on 23 March 2012, and to be paid on 26 March 2012.

Second preference shares

Interim

On 10 August 2011, a dividend of 312,41 cents per share (2010: 355,16 cents) was declared to shareholders recorded at the close of business on 2 September 2011, and paid on 5 September 2011.

Final

On 1 March 2012, a dividend of 317,59 cents per share (2010: 337,90 cents) was declared to shareholders recorded at the close of business on 23 March 2012 and to be paid on 26 March 2012.

Directorate

The directorate of Standard Bank Group is listed on pages 84 to 89 and the directorate of key subsidiaries is listed on page 142 of book I.

The following changes in directorate have taken place since the last annual report:

Standard Bank Plc

Appointments		
GM Vogel	as chief financial officer and director	17 March 2011
PG Wharton-Hood	as director	18 July 2011
Resignation		
R Vardanian	as director	14 March 2011

Stanbic IBTC PLC

Appointments		
AG Gain	as director	25 February 2011
M Uwais	as director	15 July 2011
PO Solola	as director	3 August 2011
Resignations		
C Newson	as chief executive	30 April 2011
AM Roets	as director	31 October 2011
JJ Troost	as director	30 November 2011

Group secretary and registered office

The group secretary is Loren Wulfsohn. She has advised the group that she will be leaving the group on 30 September 2012. 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 private equity division of the group for a five year period ended 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. No payments in respect of this agreement were received by Doug Band in 2011.

Subsidiaries, associates and joint ventures

The interests in subsidiary, associated and joint venture companies, where considered material in light of the group's financial position and results, are set out in annexure B on page 208 and annexure C on page 213, respectively.

Special resolutions passed during 2011

Group companies passed the following special resolutions during the year for the purposes indicated:

Amendment to the articles of association

Increase in the authorised share capital

- Standard Bank Fund Administration Jersey Limited
- Standard Bank Isle of Man Limited
- Standard Bank Jersey Limited
- Standard Bank Manx Holdings Limited
- SBN Holdings Limited
- Standard Bank Offshore Group Limited
- Standard Bank SA Mozambique
- Stanbic Bank Uganda Limited

Authorise the acquisition of shares by the company

- Standard Bank Group Limited
- Liberty Holdings Limited
- Turkish Retail Investment B.V.

Other

- Standard Bank Group Limited approved the fees payable to the non-executive directors for the 12 month period commencing with effect from 1 January 2011 and granted the directors authority to provide financial assistance to any company or corporation which is related or inter-related to the company.
- The Standard Bank of South Africa Limited granted the directors authority to provide financial assistance to any company or corporation which is related or inter-related to the company.
- Standard Bank London Holdings Limited amended its memorandum of association to give effect to the change of the company from a public company to a private company.
- Standard Bank Asia Limited amended its memorandum of incorporation to give effect to the change of the company from a public company to a private company.
- Liberty Holdings Limited approved the fees payable to the non-executive directors for the 12 month period commencing with effect from 1 January 2011 and granted authority to provide financial assistance to any company or corporation which is related or inter-related to the company.
- MTN Mobile Money SA Proprietary Limited changed its name to Oltio Proprietary Limited.
- Standard Financial Markets Proprietary Limited changed its name to SBG Securities Proprietary Limited after SBG Securities Proprietary Limited (formerly Credit Suisse Standard Securities Proprietary Limited) had changed its name to SBG Assets Proprietary Limited.
- Turkish Retail Investment B.V. amended the articles of association of the company to provide for the prior shareholder approval of the transfer of its shares.
- GCC Energy Fund Managers Limited approved an authorisation to voluntarily liquidate the company.

Contracts

Saki Macozoma, a director and deputy chairman of the company, has an effective shareholding of 26,62% in Safika which is a member of three different consortia that were party to the Andisa Capital and the Tutuwa transactions. Safika holds effective interests of 2,50% in Liberty Holdings Limited and 1,40% in Standard Bank Group Limited. The group holds an effective interest of 20,33% in Safika.

Cyril Ramaphosa, a director of the company, has an effective shareholding of 29,63% in Shanduka, which is a member of the Tutuwa consortium. Shanduka holds effective interests of 1,44% in Liberty Holdings Limited and 1,20% in Standard Bank Group Limited. The group holds an effective interest of 13,00% in Shanduka.

Insurance

The group protects itself against loss by maintaining banker's comprehensive crime and professional indemnity cover. The insurance terms and conditions are reviewed by the group's insurance committee annually to ensure they are 'fit for purpose' against the group's risk exposures.

Events subsequent to balance sheet date

Troika Dialog Group Limited

On 26 January 2012, the group completed the disposal of its 36,42% shareholding in Troika Dialog Group Limited (Troika), which was announced in March 2011.

Effect of change in capital gains tax inclusion rate

The South African Minister of Finance has announced as part of the Budget 2012 tax proposals that the effective capital gains tax rate will increase from 1 March 2012.

The impact on the Standard Bank Group is as follows:

- The inclusion rate for individuals and special trusts will increase to 33,3% (previously 25%). The impact on the individual policyholder fund within Liberty Holdings Limited is an increase in the effective capital gains tax rate from 7,5% to 10%.
- The inclusion rate for other entities will increase to 66,6% (previously 50%). The impact is an increase in the effective capital gains tax rate from 14% to 18,6%, mainly affecting the company policyholder fund within Liberty Holdings Limited, and the disposals of capital investments by SBSA.

In accordance with IAS 10 – *Events after the Reporting Period,* the change in tax rate enacted after the end of the reporting period is a non-adjusting event.

Had both SBSA and Liberty Holdings Limited applied the new inclusion rates as at 31 December 2011, the Standard Bank Group deferred tax liability would have increased by R483 million to R2 726 million.

The increase in the taxation liability of Liberty Holdings Limited will largely be absorbed by policyholders in terms of the provisions of their respective policies, thus reducing the liability to policyholders.

The estimated net impact for the Standard Bank Group would have been R131 million reduction in earnings and R145 million reduction in equity attributable to ordinary shareholders.

Statement of financial position

at 31 December 2011

	Note	Group 2011 Rm	2010[1] Rm	2009[1] Rm
Assets				
Cash and balances with central banks	3	31 907	28 675	24 983
Derivative assets	4	150 046	149 682	122 194
Trading assets	5	90 449	80 679	88 413
Pledged assets	6	6 113	2 491	5 808
Non-current assets held for sale	7	34 085		
Financial investments	8	289 319	283 295	261 066
Loans and advances	9	801 308	710 722	721 389
Current tax assets	10	443	473	136
Deferred tax assets	10	1 440	1 166	1 345
Other assets	11	22 640	17 882	16 926
Interest in associates and joint ventures	12	13 935	10 533	9 529
Investment property	13	23 470	21 521	19 058
Goodwill and other intangible assets	14	12 754	10 383	9 409
Property and equipment	15	14 920	14 907	12 250
Total assets		**1 492 829**	1 332 409	1 292 506
Equity and liabilities				
Equity		**117 533**	103 198	99 369
Equity attributable to ordinary shareholders		99 042	87 073	84 022
Ordinary share capital	16	159	159	156
Ordinary share premium	16	17 576	17 363	17 041
Reserves		81 307	69 551	66 825
Preference share capital and premium	16	5 503	5 503	5 503
Non-controlling interest		12 988	10 622	9 844
Liabilities		**1 375 296**	1 229 211	1 193 137
Derivative liabilities	4	153 142	145 004	115 221
Trading liabilities	18	32 409	30 375	54 505
Non-current liabilities held for sale	7	27 939		
Deposit and current accounts	19	876 777	785 601	765 161
Current tax liabilities	20	2 353	3 423	3 634
Deferred tax liabilities	20	3 683	2 892	3 257
Other liabilities	21	45 674	40 900	40 403
Policyholders' liabilities	22	208 565	197 878	184 300
Subordinated debt	23	24 754	23 138	26 656
Total equity and liabilities		**1 492 829**	1 332 409	1 292 506

[1] *2010 and 2009 figures restated, refer to annexure A – restatements.*

Income statement

for the year ended 31 December 2011

	Note	Group 2011 Rm	Group 2010 Rm
Continuing operations			
Income from banking activities		58 552	55 644
Net interest income		28 827	26 843
Interest income	28.1	59 909	60 225
Interest expense	28.2	31 082	33 382
Non-interest revenue		29 725	28 801
Net fee and commission revenue	28.3	19 782	17 883
Fee and commission revenue	28.3	22 957	20 849
Fee and commission expense	28.3	3 175	2 966
Trading revenue	28.4	7 896	8 113
Other revenue	28.5	2 047	2 805
Income from investment management and life insurance activities		48 835	51 149
Net insurance premiums	28.6	26 393	22 113
Investment income and gains	28.7	20 023	26 670
Management and service fee income		2 419	2 366
Total income		107 387	106 793
Credit impairment charges	28.8	6 436	7 394
Benefits due to policyholders		33 799	37 335
Net insurance benefits and claims	28.9	28 480	30 529
Fair value adjustment to policyholders' liabilities under investment contracts		4 089	6 257
Fair value adjustment on third-party fund interests		1 230	549
Income after credit impairment charges and policyholders' benefits		67 152	62 064
Operating expenses in banking activities		34 725	34 579
Staff costs	28.10	19 141	18 440
Restructuring costs	28.11		781
Other operating expenses	28.13	15 584	15 358
Operating expenses in investment management and life insurance activities		10 410	9 388
Acquisition costs	28.12	3 268	2 906
Other operating expenses	28.13	7 142	6 482
Net income before goodwill impairment		22 017	18 097
Goodwill impairment	28.14	61	144
Net income before associates and joint ventures		21 956	17 953
Share of profits from associates and joint ventures	12	284	621
Net income before indirect taxation		22 240	18 574
Indirect taxation	30.1	1 384	1 204
Profit before direct taxation		20 856	17 370
Direct taxation	30.2	5 713	4 791
Profit for the year from continuing operations		15 143	12 579
Discontinued operations			
Profit for the year from discontinued operations	28.15	641	428
Profit for the year		15 784	13 007
Attributable to non-controlling interests		2 213	1 846
Attributable to equity holders of the parent		13 571	11 161
Attributable to preference shareholders		345	387
Attributable to ordinary shareholders		13 226	10 774
Earnings per share from continuing and discontinued operations			
Basic earnings per ordinary share (cents)	32	875,7	722,1
Diluted earnings per ordinary share (cents)	32	849,2	696,0
Earnings per share from continuing operations			
Basic earnings per ordinary share (cents)	32	843,9	698,8
Diluted earnings per ordinary share (cents)	32	818,3	673,5

Statement of other comprehensive income

for the year ended 31 December 2011

	Note	Group Ordinary shareholders' equity Rm	Group Non-controlling interests and preference shareholders Rm	Group Total equity Rm
2011				
Profit for the year		13 226	2 558	15 784
Other comprehensive income after tax for the year from continuing operations[1]		4 080	776	4 856
Items that may be reclassified subsequently to profit or loss				
Exchange differences on translating foreign operations		4 551	980	5 531[2]
Net change on hedges of net investments in foreign operations		(279)		(279)
Net change in fair value of cash flow hedges		167	47	214
Realised fair value adjustments of cash flow hedges transferred to profit or loss		(112)	(41)	(153)
Net change in fair value of available-for-sale financial assets		(309)	(257)	(566)
Realised fair value adjustments on available-for-sale financial assets transferred to profit or loss		27	1	28
Items that may not be reclassified to profit or loss				
Revaluation and other gains		35	46	81
Other comprehensive income after tax for the year from discontinued operations	28.16	83	79	162
Total comprehensive income for the year		17 389	3 413	20 802
Attributable to non-controlling interests			3 068	3 068
Attributable to equity holders of the parent		17 389	345	17 734
Attributable to preference shareholders			345	345
Attributable to ordinary shareholders		17 389		17 389
2010				
Profit for the year		10 774	2 233	13 007
Other comprehensive income after tax for the year from continuing operations[1]		(4 357)	(768)	(5 125)
Items that may be reclassified subsequently to profit or loss				
Exchange differences on translating foreign operations		(3 397)	(765)	(4 162)[2]
Net change on hedges of net investments in foreign operations		(768)		(768)
Net change in fair value of cash flow hedges		(360)		(360)
Realised fair value adjustments of cash flow hedges transferred to profit or loss		146		146
Net change in fair value of available-for-sale financial assets		74	52	126
Realised fair value adjustments on available-for-sale financial assets transferred to profit or loss		(15)	(11)	(26)
Items that may not be reclassified to profit or loss				
Revaluation and other losses		(37)	(44)	(81)
Other comprehensive income after tax for the year from discontinued operations	28.16	(152)	(76)	(228)
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

[1] *Income tax relating to each component of other comprehensive income is disclosed in note 30.*
[2] *Includes realised foreign currency translation losses on foreign operations of Rnil (2010: R21 million loss) transferred to profit or loss.*

Statement of cash flows

for the year ended 31 December 2011

	Note	Group 2011 Rm	Group 2010[1] Rm
Net cash flows from operating activities		24 605	26 840
Cash flows used in operations		(6 879)	(1 616)
Net income before goodwill impairment		22 017	18 992
– continuing operations		22 017	18 097
– discontinued operations			895
Adjusted for:		(27 018)	(28 547)
Amortisation of intangible assets		739	691
Credit impairment charges on loans and advances		6 436	7 524
Defined benefit pension fund and post-employment benefits		(284)	(320)
Depreciation of property and equipment		2 288	2 098
Dividends included in trading revenue and investment income		(2 787)	(1 811)
Equity-settled share-based payments		366	444
Indirect taxation		(1 384)	(1 475)
Interest expense		30 256	34 099
Interest income		(66 295)	(69 613)
Fair value adjustment on third-party fund interests		1 230	549
Investment gains due to policyholders		(8 278)	(15 083)
Net fund flows after service fees on policyholder investment contracts		(900)	(1 729)
Non-cash flow movements to bonds		1 097	523
Other impairment losses		198	222
Policyholders' liability transfers		10 299	15 248
Loss on sale of businesses and divisions			30
Profit on sale of property and equipment		(62)	(23)
Provision for defined benefit pension funds and post-employment benefits		79	(365)
Provision for restructuring costs			462
Other		(16)	(18)
Increase in income-earning assets	34.1	(72 886)	(45 042)
Increase in deposits and other liabilities	34.2	71 008	52 981
Dividends received		4 356	3 482
Interest paid		(30 776)	(34 423)
Interest received		64 126	65 004
Direct taxation paid	34.3	(6 339)	(5 607)
Net cash flows from operating activities in discontinued operations	34.4	117	
Net cash flows used in investing activities		(10 138)	(13 867)
Capital expenditure on – property		(995)	(2 205)
– equipment, furniture and vehicles		(1 918)	(3 516)
– intangible assets		(2 571)	(2 502)
Proceeds from sale of property, equipment, furniture and vehicles		333	332
Net investment in investment properties		(900)	(1 083)
Net increase in investments by insurance operations		(3 763)	(4 917)
Net cash outflow resulting from the acquisition of subsidiaries	34.5	(153)	
Decrease in investment in associates and joint ventures		76	24
Net cash flows used in investing activities in discontinued operations	34.4	(247)	
Net cash flows used in financing activities		(8 388)	(7 531)
Proceeds from issue of share capital to shareholders		142	205
Equity transactions with non-controlling interests		(374)	(493)
Increase in investment in existing subsidiaries		(187)	(45)
Subordinated debt issued		1 834	616
Subordinated debt redeemed		(2 552)	(2 883)
Net dividends paid	34.6	(7 251)	(4 931)
Effect of exchange rate changes on cash and cash equivalents		2 002	(1 750)
Net increase in cash and cash equivalents		8 081	3 692
Cash and cash equivalents at the beginning of the year		28 675	24 983
Cash and cash equivalents at the end of the year	34.7	36 756	28 675

[1] *2010 figures restated, refer to annexure A – restatements.*

Statement of changes in equity

for the year ended 31 December 2011

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 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 shareholders, 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
Balance at 1 January 2011	**17 522**	**(2 971)**	**(499)**	**(5 672)**	**6**	**673**
Total comprehensive income/(loss) for the year				**4 627**	**(279)**	**52**
Profit for the year						
Other comprehensive income/(loss) after tax for the year				**4 627**	**(279)**	**52**
Increase in statutory credit risk reserve						
Transfer of owner occupied properties						
Transactions with shareholders, recorded directly in equity	**213**	**(108)**	**301**	**(13)**		
Equity-settled share-based payment transactions						
Transfer of vested equity rights						
Issue of share capital and share premium and capitalisation of reserves	**213**					
Deferred tax on share-based payment transactions						
Transactions with non-controlling shareholders				**(13)**		
Net decrease in treasury shares			**301**			
Net dividends paid		**(108)**				
Dividends paid to equity holders		**(132)**				
Dividends received from Tutuwa initiative and policyholders' deemed treasury shares		**24**				
Balance at 31 December 2011	**17 735**	**(3 079)**	**(198)**	**(1 058)**	**(273)**	**725**

[1] The empowerment reserve is explained in note 17 on page 155.
[2] The treasury shares reserve relates to Standard Bank Group (SBG) shares held by entities within the group. Refer to pages 37 to 39 of book I for an explanation on treasury shares held by entities within the group.
[3] Refer to annexure E, accounting policy 2 – Foreign currency translations. Includes cumulative comprehensive loss after tax of R404 million relating to discontinued operations.
[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
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
717	**382**	**745**	**273**	**75 897**	**87 073**	**5 503**	**10 622**	**103 198**
	(272)		39	13 222	17 389	345	3 068	20 802
				13 226	13 226	345	2 213	15 784
	(272)		39	(4)	4 163		855	5 018
243				(243)				
			(1)	1				
(8)		295		(6 100)	(5 420)	(345)	(702)	(6 467)
		336			336		30	366
		(41)		41				
				(71)	142			142
				(83)	(83)			(83)
(8)				(68)	(89)		(98)	(187)
				8	309		237	546
				(5 927)	(6 035)	(345)	(871)	(7 251)
				(5 994)	(6 126)	(345)	(950)	(7 421)
				67	91		79	170
952	**110**	**1 040**	**311**	**82 777**	**99 042**	**5 503**	**12 988**	**117 533**

Accounting policy elections

The principal accounting policies applied in the presentation of the group's[1] 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, the Listings Requirements of the JSE Limited, and the Companies Act 71 of 2008. 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 that 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 that are measured in terms of the projected unit credit method.

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

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

Changes in accounting policies

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

Adoption of new standards

The group has adopted the following revised IFRS prospectively as of 1 January 2011:

- IAS 1 *Presentation of Financial Statements* (2011 Improvements to IFRS);
- IAS 24 *Related Party Transactions* (revised);
- IAS 34 *Interim Financial Reporting* (2010 Improvements to IFRS); and
- IFRS 7 *Financial Instruments: Disclosures* (2010 Improvements to IFRS).

None of the revised IFRS have had any effect on the group's reported earnings or financial statement position but have affected the group's disclosures with no material impact on the group's accounting policies.

Please refer to annexure E for a detailed listing of the group's accounting policies.

1. Segment reporting

Operating segments

	Personal & Business Banking		Corporate & Investment Banking		Central and other[1]	
	2011 Rm	2010[3] Rm	2011 Rm	2010[3] Rm	2011 Rm	2010[3] Rm
Income from banking activities	36 775	34 020	22 538	21 591	(562)	137
Net interest income	19 858	18 213	8 820	8 292	349	523
Interest income	38 627	40 349	24 452	20 398	(2 970)	(337)
Interest expense	18 769	22 136	15 632	12 106	(3 319)	(860)
Non-interest revenue	16 917	15 807	13 718	13 299	(911)	(386)
Net fee and commission revenue	15 444	14 272	5 177	4 222	(839)	(611)
Fee and commission revenue	17 638	16 294	5 469	4 647	(150)	(92)
Fee and commission expense	2 194	2 022	292	425	689	519
Trading revenue	34	93	7 840	7 813	21	126
Other revenue	1 439	1 442	701	1 264	(93)	99
Income from investment management and life insurance activities						
Total income	36 775	34 020	22 538	21 591	(562)	137
Credit impairment charges	5 426	6 703	1 020	550	(10)	141
Benefits due to policyholders						
Income after credit impairment charges and policyholders' benefits	31 349	27 317	21 518	21 041	(552)	(4)
Operating expenses in banking activities	22 673	21 274	13 649	13 813	(1 597)	(508)
Staff costs	7 130	6 386	5 883	6 467	6 128	5 587
Restructuring costs						781
Other operating expenses	15 543	14 888	7 766	7 346	(7 725)	(6 876)
Operating expenses in investment management and life insurance activities						
Net income before goodwill impairment	8 676	6 043	7 869	7 228	1 045	504
Goodwill impairment	47		14	30		
Share of profit/(losses) from associates and joint ventures	188	176	60	404	9	(8)
Net income before indirect taxation	8 817	6 219	7 915	7 602	1 054	496
Indirect taxation	314	293	284	299	487	355
Profit before direct taxation	8 503	5 926	7 631	7 303	567	141
Direct taxation	2 519	1 635	1 463	1 482	330	(77)
Profit for the year from continuing operations	5 984	4 291	6 168	5 821	237	218
Profit for the year from discontinued operations					641	428
Profit for the year	5 984	4 291	6 168	5 821	878	646
Attributable to non-controlling interests	(75)	(71)	536	608	233	80
Attributable to preference shareholders					339	376
Attributable to ordinary shareholders	6 059	4 362	5 632	5 213	306	190
Headline earnings	6 092	4 364	5 816	5 252	263	274
Return on equity (ROE) (%)	21,6	16,9	13,3	13,1		
Net interest margin (%)	4,51	4,42	1,56	1,54		
Credit loss ratio (%)	1,25	1,64	0,30	0,17		
Cost-to-income ratio (%)	61,3	62,2	60,4	62,8		
Total assets	465 113	423 424	767 793	676 884	24 455	7 678
Average assets – banking activities excluding trading derivatives	440 129	412 283	565 598	539 288	(13 228)	(10 363)
Average loans and advances (gross)	433 362	409 759	337 140	325 693	(28 727)	(25 862)
Average ordinary shareholders' equity	28 225	25 748	43 684	40 210	16 184	17 690
Total liabilities	433 010	393 220	720 345	636 866	(694)	(14 967)
Interest in associates and joint ventures	1 191	1 052	631	3 248	59	88
Depreciation and amortisation	1 059	851	502	617	1 005	821
Impairment loss on non-financial assets		35	276	88	20	124
Number of employees	23 019	24 134	6 690	6 593	16 666	17 398

[1] *Certain functions within the group have been transferred into Central and other pursuant to the new business architecture of the group which mandates the centralisation of group functions. These functions include: legal, human resources, finance, governance and assurance, group IT, group operations, procurement and risk management.*

Banking activities		Liberty		Normalised Standard Bank Group		Adjustments to IFRS[2]		IFRS Standard Bank Group	
2011 Rm	2010 Rm	2011 Rm	2010 Rm	2011 Rm	2010 Rm	2011 Rm	2010 Rm	2011 Rm	2010 Rm
58 751	55 748			58 751	55 748	(199)	(104)	58 552	55 644
29 027	27 028			29 027	27 028	(200)	(185)	28 827	26 843
60 109	60 410			60 109	60 410	(200)	(185)	59 909	60 225
31 082	33 382			31 082	33 382			31 082	33 382
29 724	28 720			29 724	28 720	1	81	29 725	28 801
19 782	17 883			19 782	17 883			19 782	17 883
22 957	20 849			22 957	20 849			22 957	20 849
3 175	2 966			3 175	2 966			3 175	2 966
7 895	8 032			7 895	8 032	1	81	7 896	8 113
2 047	2 805			2 047	2 805			2 047	2 805
		48 806	51 466	48 806	51 466	29	(317)	48 835	51 149
58 751	55 748	48 806	51 466	107 557	107 214	(170)	(421)	107 387	106 793
6 436	7 394			6 436	7 394			6 436	7 394
		33 799	37 335	33 799	37 335			33 799	37 335
52 315	48 354	15 007	14 131	67 322	62 485	(170)	(421)	67 152	62 064
34 725	34 579			34 725	34 579			34 725	34 579
19 141	18 440			19 141	18 440			19 141	18 440
	781				781				781
15 584	15 358			15 584	15 358			15 584	15 358
		10 410	9 388	10 410	9 388			10 410	9 388
17 590	13 775	4 597	4 743	22 187	18 518	(170)	(421)	22 017	18 097
61	30		114	61	144			61	144
257	572	27	49	284	621			284	621
17 786	14 317	4 624	4 678	22 410	18 995	(170)	(421)	22 240	18 574
1 085	947	299	257	1 384	1 204			1 384	1 204
16 701	13 370	4 325	4 421	21 026	17 791	(170)	(421)	20 856	17 370
4 312	3 040	1 383	1 717	5 695	4 757	18	34	5 713	4 791
12 389	10 330	2 942	2 704	15 331	13 034	(188)	(455)	15 143	12 579
641	428			641	428			641	428
13 030	10 758	2 942	2 704	15 972	13 462	(188)	(455)	15 784	13 007
694	617	1 514	1 381	2 208	1 998	5	(152)	2 213	1 846
339	376			339	376	6	11	345	387
11 997	9 765	1 428	1 323	13 425	11 088	(199)	(314)	13 226	10 774
12 171	9 890	1 428	1 393	13 599	11 283	(199)	(314)	13 400	10 969
13,8	11, 8	20,2	21,9	14,3	12,5			14,6	12,7
2,92	2,87			2,92	2,87			2,91	2,86
0,87	1,04			0,87	1,04			0,87	1,04
58,8	61,4			58,8	61,4			59,0	61,5
1 257 361	1 107 986	240 069	229 535	1 497 430	1 337 521	(4 601)	(5 112)	1 492 829	1 332 409
992 499	941 208			992 499	941 208	(2 098)	(1 568)	990 401	939 640
741 775	709 590			741 775	709 590	(2 253)	(1 783)	739 522	707 807
88 093	83 648	7 063	6 371	95 156	90 019	(3 638)	(3 795)	91 518	86 224
1 152 661	1 015 119	222 746	214 192	1 375 407	1 229 311	(111)	(100)	1 375 296	1 229 211
1 881	4 388	12 054	6 145	13 935	10 533			13 935	10 533
2 566	2 289	461	426	3 027	2 715			3 027	2 715
296	247		148	296	395			296	395
46 375	48 125	5 752	5 226	52 127	53 351			52 127	53 351

[2] *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 37 to 39 of book I.*

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

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 and Channel Islands. Mortgage lending – Provides residential accommodation loans to mainly personal market customers. Instalment sale and finance leases – Provides finance of vehicles for 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, access points 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 contents and vehicle insurance and loan protection plans sold in conjunction with related 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. 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 advisory, debt products, structured finance, structured trade and commodity finance, debt capital markets and equity capital markets. Principal investment management – Includes investment in real estate and property finance.
Central and other	Includes the impact of the Tutuwa initiative, group hedging activities, group capital instruments and group surplus capital, strategic acquisition costs and Argentinean discontinued operations. Includes the results of centralised support functions (back office), for the South African region, including those functions that were previously embedded in the business segments. The direct costs of support functions are recharged to the business segments.
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, asset 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
2011							
Total income[1]	89 919	11 256	5 802	580	107 557	(170)	107 387
Banking activities	41 113	11 256	5 802	580	58 751	(199)	58 552
Liberty	48 806				48 806	29	48 835
Total headline earnings	12 531	1 030	(147)	185	13 599	(199)	13 400
Banking activities	11 103	1 030	(147)	185	12 171	(206)	11 965
Liberty	1 428				1 428	7	1 435
Total assets	1 162 061	139 287	273 770	(77 688)	1 497 430	(4 601)	1 492 829
Banking activities	921 992	139 287	273 770	(77 688)	1 257 361	(2 408)	1 254 953
Liberty	240 069				240 069	(2 193)	237 876
Non-current assets	42 932	7 001	1 293	(82)	51 144		51 144
Banking activities	15 662	7 001	1 293	(82)	23 874		23 874
Liberty	27 270				27 270		27 270
2010							
Total income[1]	90 679	9 806	6 157	572	107 214	(421)	106 793
Banking activities	39 213	9 806	6 157	572	55 748	(104)	55 644
Liberty	51 466				51 466	(317)	51 149
Total headline earnings	10 661	749	(143)	16	11 283	(314)	10 969
Banking activities	9 268	749	(143)	16	9 890	(139)	9 751
Liberty	1 393				1 393	(175)	1 218
Total assets	1 069 427	109 372	250 630	(91 908)	1 337 521	(5 112)	1 332 409
Banking activities	839 892	109 372	250 630	(91 908)	1 107 986	(2 209)	1 105 777
Liberty	229 535				229 535	(2 903)	226 632
Non-current assets	38 393	6 362	1 334	722	46 811		46 811
Banking activities	12 984	6 362	1 334	722	21 402		21 402
Liberty	25 409				25 409		25 409

[1] *Total income from continuing operations. 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 group's revenue streams.

2. Key management assumptions

In preparing the financial statements, estimates and assumptions are made that could materially 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]	
	2011 Months	2010 Months	2011 Rm	2010 Rm
Personal & Business Banking	3	3	460	372
Mortgage lending	3	3	213	148
Instalment sale and finance leases	3	3	51	68
Card debtors	3	3	65	69
Other lending	3	3	131	87
Corporate & Investment Banking	6 – 12	5 – 12	108	113
South Africa	6 – 12	12	53	52
Rest of Africa	12	12	23	16
Outside Africa	6	5	32	45
			568	485

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

2. Key management assumptions continued

2.1 Credit impairment losses on loans and advances continued

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]	
	2011 Months	2010 Months	2011 %	2010 %	2011 Rm	2010 Rm
Personal & Business Banking	6 – 15	6 – 15	70	71	175	236
Mortgage lending	10	10	80	83	155	208
Instalment sale and finance leases	6	6	43	42	7	11
Card debtors	15	15	27	23	3	4
Other lending	14	14	34	33	10	13
Corporate & Investment Banking	6 – 34	12 – 36	69	71	50	61
South Africa	6	12	74	56	9	15
Rest of Africa	24	24	59	61	3	3
Outside Africa	34	36	69	78	38	43
			70	71	225	297

[1] The expected time to recovery has been adjusted in 2011 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.

2.2 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 2011 was a net gain of R611 million (2010: R2 071 million net gain).

Additional disclosures on fair value measurements of financial instruments are set out in note 25.

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 fair value. 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 R283 million (2010: R34 million) in its financial statements, being the transfer of the negative revaluations within the available-for-sale reserve to profit or loss.

2. Key management assumptions continued

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 R18 528 million (2010: R22 691 million). The consolidated SPEs made net profits of R14 million (2010: R51 million). The group has not consolidated SPEs with assets of R2 892 million (2010: R2 998 million) as these entities were not considered to be controlled by the group. These SPEs made a profit of Rnil (2010: Rnil).

2.5 Held-to-maturity investments

The group follows the guidance of IAS 39 *Financial Instruments: Recognition and Measurement* (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 R2 811 million (2010: R2 039 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 2011 amounted to R7 940 million (2010: R5 763 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 30 and note 20 respectively, in the period in which such determination is made.

2.8 Financial risk management

The group's risk management policies and procedures are disclosed in the risk and capital management section of the annual integrated report starting on page 1. All IFRS 7 information included in the financial risk and capital management section as set out on page 9 forms part of the audited annual financial statements as indicated in the risk report.

2. Key management assumptions continued

2.9 Valuation of investment property

The valuation of investment properties within the insurance operations located in South Africa has been carried out by Ian Mitchell Investment Property Consultants CC (Chartered Valuation Surveyor – Professional Valuer) and Asset Valuation Services CC (Professional Associate Valuer) as at 31 December 2011. The properties located in Kenya were independently valued as at 31 December 2011 by various registered professional valuers in Kenya.

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 2011. 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 2011. 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 South African long-term bond yield (R204 risk free rate) and the relative attractiveness that an investor may place on property as an asset class.

Primary discount rates used to value the South African properties range from 7,25% to 11,75% (2010: 7,25% to 12,00%) on a property by property basis. Exit capitalisation rates generally range from 7,25% to 11,75% (2010: 7,25% to 12,00%).

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 600 million (2010: R3 300 million increase) if the assumption decreased, and decrease the total fair value by R2 700 million (2010: 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.

Process used to decide on assumptions and changes in assumptions.

2. Key management assumptions continued

2.10 Long-term insurance contracts continued

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.

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 appropriate ASSA 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 investigations are performed every half year for the large lines of business and annually for the smaller classes and incorporate 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 reporting date, 8,15% (2010: 8,27%);
- equity rate: gilt rate plus 3,5 percentage points as an adjustment for risk, 11,65% (2010: 11,77%);
- property rate: gilt rate plus 1 percentage point as an adjustment for risk, 9,15% (2010: 9,27%); and
- cash: gilt rate less 1,5 percentage points, 6,65% (2010: 6,77%).

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-tax discount rate is set at the same rate. The rate averaged across the blocks of business, excluding annuity and guaranteed capital bond business, is 10,4% per annum in 2011 (2010: 10,6% per annum). Where appropriate, the investment return assumption will be adjusted to make allowance for investment expenses, taxation and the relevant prescribed margins in accordance with PGN 104 *Life Offices – valuation of long-term insurers* (PGN 104) issued by the Actuarial Society of South Africa.

For life annuity and guaranteed endowments, discount rates are set at risk-free rates consistent with the duration and type of the liabilities, allowing for an average illiquidity premium on the backing assets and reduced by an allowance for investment expenses and the relevant prescribed margin.

2. Key management assumptions continued

2.10 Long-term insurance contracts continued

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.

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 5,15% at 31 December 2011 (2010: 5,27%). The expense inflation assumption is set taking into consideration the expected future development of the number of in-force 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 58 of 1962 (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 tax (CGT), taxation is allowed for at the full CGT rate. Deferred taxation liabilities include a provision for CGT on unrealised gains or losses at the valuation date, at the full undiscounted value.

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. The 30-year annualised implied at-the-money volatility assumption, estimated using the economic scenario generator output for the FTSE/JSE Top 40 index, is 28,11% (2010: 28,05%). Correlations between asset classes are set based on historical data. Twenty thousand simulations are performed in calculating the liability.

2. Key management assumptions continued

2.10 Long-term insurance contracts continued

Using the simulated investment returns, the prices and implied volatilities of the following instruments are:

Instrument	2011 Price %	2011 Volatility %	2010 Price %	2010 Volatility %
A 1-year at-the-money (spot) put on the FTSE/JSE Top 40 index	8,44	25,31	7,60	23,13
A 1-year put on the FTSE/JSE Top 40 index, with a strike price equal to 80% of spot	1,82	25,19	1,46	23,41
A 1-year at-the-money (forward) put on the FTSE/JSE Top 40 index	9,77	25,26	8,95	23,13
A 5-year at-the-money (spot) put on the FTSE/JSE Top 40 index	10,63	24,91	10,70	26,26
A 5-year put on the FTSE/JSE Top 40 index, with a strike price equal to $1,04^{5\#}$ of spot	19,11	25,07	18,78	26,23
A 5-year (forward) put on the FTSE/JSE Top 40 index	19,09	25,07	20,13	26,23
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	9,37	N/A	9,28	N/A
A 20-year at-the-money (spot) put on the FTSE/JSE Top 40 index	3,65	24,63	4,30	26,89
A 20-year put on the FTSE/JSE Top 40 index, with a strike price equal to $1,04^{20\#}$ of spot	17,51	25,11	18,80	27,54
A 20-year at-the-money (forward) put on the FTSE/JSE Top 40 index	23,84	25,19	26,61	27,74
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	0,46	N/A	0,40	N/A

Exponent.

The Top 40 index above is a capital index whereas the ALBI is a total return index. “Spot” refers to the value of the index at market close at the relevant date. “At-the-money (spot)” means that the strike price of the option is equal to the current market value of the underlying. “At-the-money (forward)” means that the strike price of the forward is equal to the market’s expectation of the capital index at the maturity date of the forward.

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	**2011**	2010
1 year	**5,54**	5,48
2 years	**5,79**	5,88
3 years	**6,16**	6,35
4 years	**6,51**	6,81
5 years	**6,82**	7,17
10 years	**7,72**	7,93
15 years	**7,76**	7,89
20 years	**7,73**	7,77
25 years	**7,74**	7,54
30 years	**7,63**	7,25
35 years	**7,61**	7,15
40 years	**7,58**	7,05
45 years	**7,58**	6,99
50 years	**7,55**	6,91

Changes in assumptions

Modelling and other changes were made to realign valuation assumptions with expected future experience. These changes resulted in a net decrease in policyholders' liabilities of R502 million in 2011 compared to a net increase of R64 million in 2010.

The primary items were:

- a change in the assumptions to allow for expected future withdrawals, resulting in a decrease in the liability of R624 million;
- a change in future mortality assumptions to reflect expected future experience, amounting to an increase in the liability of R104 million (2010: increase of R173 million);
- a change in the economic valuation assumptions to realign these with expected future experience, resulting in a decrease in the liability of R32 million (2010: decrease of R262 million);
- strengthening the annuitant longevity assumptions, resulting in an increase in the liability of R435 million (2010: increase of R89 million);
- a change in the modelling for policies being made paid-up resulting in a decrease in the liability of R108 million;
- a change in the life annuities and guaranteed endowments illiquidity premium methodology resulting in a decrease in the liability of R190 million;
- a change in the expense valuation assumptions resulted in an increase in the liability of R154 million; and
- the balance of modelling and assumption changes resulted in a decrease in liabilities of R241 million (2010: increase of R64 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 37 and annexure D, respectively.

	2011 Rm	2010 Rm
3. Cash and balances with central banks		
Coins and bank notes	**11 470**	8 628
Balances with central banks	**20 437**	20 047
	31 907	28 675

Cash and balances with central banks include R17 365 million (2010: R18 867 million) that is not available for use by the group. These balances primarily consist of reserving requirements held with central banks.

4. Derivative instruments

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

4.1 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, credit risk, commodity 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 there is both a legal right of set-off and 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 effected by way of an exchange of cash flows that mirror changes in the value of the underlying asset and any income derived therefrom.

Options are contractual agreements under which the seller 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 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 tailormade agreements that are transacted between counterparties in the OTC market, whereas futures are standardised contracts transacted on regulated exchanges.

4.2 Derivatives held-for-trading

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:

4.2.1 Foreign exchange derivatives

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

4.2.2 Interest rate derivatives

Interest rate derivatives are primarily 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, forwards, options, swaps and swaptions.

4.2.3 Commodity derivatives

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

4. Derivative instruments continued

4.2 Derivatives held-for-trading continued

4.2.4 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, credit linked notes and total return swaps.

4.2.5 Equity derivatives

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

4.3 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:

4.3.1 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.

4.3.2 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 instrument 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 reinvestment or reborrowing of current balances.

The group uses currency forwards to mitigate against the 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.

4.3.3 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, the group enters into currency option contracts and forward exchange contracts where considered appropriate.

4.4 Day one profit or loss

Where the fair value of an instrument differs from the transaction price and the fair value of the instrument is evidenced by comparison with other observable current market transactions in the same instrument or based on a valuation model whose variables include only data from observable markets, the difference, commonly referred to as day one profit or loss, is recognised in profit or loss immediately. If the fair value of the financial instrument is not able to be evidenced by comparison with other observable current market transactions in the same instrument or non-observable market data is used as part of the input to the valuation models, any resulting difference between the transaction price and the valuation model is deferred and subsequently recognised in accordance with the group's accounting policies (refer to accounting policy 4 – *Financial instruments*).

4.5 Fair values

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

4.6 Notional amount

The gross notional amount is the sum of the absolute value of all bought and sold contracts. The notional amounts have been translated at the closing rate at the reporting date where cash flows are receivable in foreign currency. 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. Derivative instruments continued

4.7 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
2011							
Derivatives held-for-trading							
Foreign exchange derivatives	(1 478)	(1 708)	313	(2 873)	33 931	(36 804)	1 465 249
Forwards	(1 743)	(909)	339	(2 313)	29 108	(31 421)	1 378 635
Futures	(1)	5		4	343	(339)	48 995
Swaps		(10)	(28)	(38)		(38)	296
Options	266	(794)	2	(526)	4 480	(5 006)	37 323
Interest rate derivatives	(955)	2 018	593	1 656	90 653	(88 997)	8 738 123
Bond options	34	(245)		(211)	2 272	(2 483)	158 798
Caps and floors	(34)	17	26	9	98	(89)	84 012
Forwards	(339)	(265)	800	196	2 664	(2 468)	1 715 659
Options	107	356	(7)	456	760	(304)	3 286 927
Swaps	(757)	2 155	(383)	1 015	84 548	(83 533)	3 469 521
Swaptions	34		157	191	311	(120)	23 206
Commodity derivatives	(110)	(294)	46	(358)	19 707	(20 065)	3 344 927
Forwards	(171)	43	61	(67)	4 561	(4 628)	136 125
Futures	622	125		747	13 324	(12 577)	3 086 073
Options	(561)	(462)	(15)	(1 038)	1 822	(2 860)	122 729
Credit derivatives	(1 743)	16	(102)	(1 829)	2 990	(4 819)	282 531
Credit default swaps	(1 254)	790	(102)	(566)	2 936	(3 502)	279 634
Credit linked notes		(755)		(755)	23	(778)	881
Total return swaps	(489)	(19)		(508)	31	(539)	2 016
Equity derivatives	(479)	(278)	29	(728)	1 478	(2 206)	140 889
Forwards	(91)	(131)		(222)	85	(307)	2 427
Futures	(2)	4		2	53	(51)	11 695
Index options	(326)	(199)		(525)	530	(1 055)	115 625
Options	(35)	(74)	29	(80)	528	(608)	9 075
Swaps	(24)	113		89	128	(39)	2 048
Other	(1)	9		8	154	(146)	19
Total derivative (liabilities)/assets held-for-trading	(4 765)	(246)	879	(4 132)	148 759	(152 891)	13 971 719

4. Derivative instruments continued

4.7 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
2011							
Derivatives held-for-hedging							
Derivatives designated as fair value hedges	1	(1)	499	499	500	(1)	30 398
Interest rate swaps	(1)	(1)	499	497	498	(1)	30 381
Currency futures	2			2	2		17
Derivatives designated as cash flow hedges	649	(64)	12	597	766	(169)	19 975
Currency swaps	484	(10)	12	486	522	(36)	7 490
Currency options	110	(61)		49	135	(86)	878
Equity forwards	11			11	11		85
Interest rate swaps	44	7		51	98	(47)	11 522
Derivatives designated as hedges of net investments in foreign operations							
Forward exchange contracts	(60)			(60)	21	(81)	1 726
Total derivative assets/(liabilities) held-for-hedging	590	(65)	511	1 036	1 287	(251)	52 099
Total derivative (liabilities)/assets	(4 175)	(311)	1 390	(3 096)	150 046	(153 142)	14 023 818

4. Derivative instruments continued

4.7 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-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
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
4.7 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
Currency options	(19)	102		83	135	(52)	709
Equity 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

4. Derivative instruments continued

4.8 Derivatives held-for-hedging

4.8.1 Derivatives designated as fair value hedges and fair value portfolio hedges

Gains or losses arising from fair value hedges

	2011 Rm	2010 Rm
Gains/(losses)		
on hedging instruments	739	211
on the hedged items attributable to the hedged risk	(707)	(312)

4.8.2 Derivatives designated as cash flow hedges

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
2011				
Net cash inflow/(outflow)	297	(48)	9	749
2010				
Net cash (outflow)/inflow	(3)	(7)	(88)	659

Reconciliation of movements in the cash flow hedging reserve

	2011 Rm	2010 Rm
Balance at the beginning of the year	673	887
Amounts recognised directly in other comprehensive income before tax	189	(492)
Less: Amounts released to profit or loss before tax		
Net interest income	(80)	223
Trading revenue	5	(5)
Other operating expenses	(81)	(37)
Less: Deferred tax	19	97
Balance at the end of the year	725	673

Ineffectiveness that arises from cash flow hedges is recognised immediately in profit or loss. A loss of R10 million (2010: R1 million loss) due to ineffectiveness was recognised in profit or loss.

There were no transactions for which cash flow hedge accounting had to be discontinued in 2011 or 2010 as a result of highly probable cash flows no longer being expected to occur.

4.8.3 Derivatives designated as hedges of net investments in foreign operations

No ineffectiveness was recognised in profit or loss for the year ended 31 December 2011 that arose from hedges of net investments in foreign operations (2010: Rnil).

4.9 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:

	2011 Rm	2010 Rm
Unrecognised profit at the beginning of the year	53	81
Additional profit on new transactions	450	17
Recognised in profit or loss during the year	(65)	(45)
Unrecognised profit at the end of the year	438	53

		2011 Rm	2010 Rm
5.	**Trading assets**		
5.1	**Classification**		
	Listed	52 409	55 102
	Unlisted	38 040	25 577
		90 449	80 679
	Comprising:		
	Government, municipality, utility bonds and treasury bills	32 012	18 102
	Corporate bonds and floating rate notes	14 858	15 458
	Listed equities	2 761	3 307
	Unlisted equities	80	281
	Collateral	2 819	5 546
	Reverse repurchase agreements	23 274	12 711
	Commodities	8 197	19 346
	Other instruments	6 448	5 928
		90 449	80 679
	Maturity analysis[1]		
	The maturities represent periods to contractual redemption of the trading assets recorded.		
	Redeemable on demand	1 278	4 393
	Maturing within 1 month	10 613	10 291
	Maturing after 1 month but within 6 months	15 778	10 898
	Maturing after 6 months but within 12 months	7 330	4 523
	Maturing after 12 months	44 349	27 633
	Undated assets	11 101	22 941
		90 449	80 679

[1] *2010 reclassified to include all commodities as undated assets.*

		2011 Rm	2010 Rm
5.2	**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:		
	Unrecognised profit at the beginning of the year		
	Additional profit on new transactions	3	
	Recognised in profit or loss during the year	(1)	
	Unrecognised profit at the end of the year	2	

	2011 Rm	2010[1] 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	1 349	1 567	3 196
Corporate bonds	25	515	1 737
Listed equities[2]			875
Commodity leases	4 739	409	
	6 113	2 491	5 808

[1] *2010 figures restated, refer to annexure A – restatements.*
[2] *Listed equities which are being utilised in scrip lending transactions.*

	2011 Rm	2010[1] Rm	2009 Rm
Maturity analysis[3]			
The maturities represent periods to contractual redemption of the pledged assets recorded.			
Redeemable on demand			
Maturing within 1 month	26	70	45
Maturing after 1 month but within 6 months	653	425	1 389
Maturing after 6 months but within 12 months	192	282	799
Maturing after 12 months	503	1 305	2 700
Undated	4 739	409	875
	6 113	2 491	5 808

[3] *2009 reclassified to include listed equities as undated assets.*

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 2011 was R17 948 million (2010: R23 897 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 R95 737 million (2010: R66 552 million)[1].

The fair value of financial assets accepted as collateral that have been sold or repledged is R17 826 million (2010: R25 169 million)[1]. 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.*

6.4 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 or partial 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, credit and other price risks.

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

6. Pledged assets and assets not derecognised continued

6.4 Securitisations and other structured transactions continued

The table below analyses the carrying amount of securitised financial assets at 31 December 2011 that did not qualify for derecognition and their associated liabilities:

	Carrying amount of transferred assets 2011 Rm	Carrying amount of associated liabilities 2011 Rm	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	12 175	11 986	13 676	13 387	15 879	15 829
Instalment sale and finance leases					365	349
	12 175	11 986	13 676	13 387	16 244	16 178

6.5 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, that have associated liabilities, which have been sold or otherwise transferred, but have not been derecognised.

	Carrying amount of assets 2011 Rm	Carrying amount of associated liabilities 2011 Rm	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	375	24	940	829	2 941	2 693
	375	24	940	829	2 941	2 693

7. Non-current assets and liabilities held for sale

Disposal groups held for sale and discontinued operation relating to the partial disposal of shareholding in Standard Bank Argentina S.A.

Standard Bank Argentina S.A.

The group holds 75% of the issued shares of Standard Bank Argentina S.A. and 70% of the issued shares of Standard Bank Argentina's affiliates Standard Investments S.A. Sociedad Gerente de Fondos Comunes de Inversion (SI) and Inversora Diagonal S.A. (ID), the three companies collectively referred to as SBA.

The group and its Argentinean partners have agreed with ICBC that ICBC, a 20% shareholder of the group, will acquire 80% of the shares of each of Standard Bank Argentina S.A., SI and ID for a cash consideration of USD600 million (valuing 100% of SBA at USD750 million). This consideration is subject to variation based on the increase in the peso net asset value of SBA from 1 January 2011 to the closing date of the proposed transaction (which is expected to be in the first half of 2012) converted into USD at that date and adjusted on a dollar for dollar basis from an agreed USD68 million, should such increase be less than USD63 million or more than USD73 million. ICBC will acquire a 55% stake in Standard Bank Argentina S.A. and a 50% stake in SI and ID from the group, with the group retaining 20% of each company and the group's Argentinean partners exiting entirely. The net proceeds after estimated transaction costs attributable to the group would be approximately USD400 million.

The agreed disposal resulted in the group classifying its investment in SBA as a discontinued operation in line with the requirements of IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations* (IFRS 5). The assets and liabilities, classified as held for sale, have been separately disclosed in the statement of financial position. The investment qualifies as a discontinued operation as it is a component of the group that has been classified as held for sale and represents a separate major geographical area of business. In line with the requirements of IFRS 5, the income and expenses relating to the disposal group have been presented in the income statement and statement of other comprehensive income as a single amount relating to the after-tax profit and other comprehensive income relating to the discontinued operation. SBA will continue to be consolidated within the Central and other segment up to the disposal date.

All non-current assets and liabilities held for sale are measured at their carrying amounts in accordance with the group's accounting policies, which are lower than fair value less costs to sell.

Troika Dialog Group Limited

In March 2011, the disposal of Troika was agreed upon and announced by TDM Limited Partnership (TDMP), the 63,6% controlling shareholder of Troika, Sberbank of Russia (Sberbank) and SBG. After the receipt of all necessary approvals this transaction has been successfully closed during January 2012. Under the agreed terms, Sberbank acquired the entire shareholding of Troika (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. The group sold all of its shareholding in Troika 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 above USD1 billion determined over a three-year earn-out period to 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.

7. Non-current assets and liabilities held for sale continued

Details of non-current assets and liabilities held for sale:

	2011 Standard Bank Argentina S.A. Rm	2011 Troika Dialog Group Limited Rm	2011 Total Rm
Assets held for sale			
Cash and balances with central banks	4 849		4 849
Derivative assets	50		50
Trading assets	413		413
Pledged assets	34		34
Financial investments	3 182		3 182
Loans and advances	20 702		20 702
Current tax assets	3		3
Deferred tax assets	164		164
Other assets	543		543
Interest in associates and joint ventures	8	3 010	3 018
Goodwill and other intangible assets	75		75
Property and equipment	1 052		1 052
Total assets held for sale	31 075	3 010	34 085
Liabilities held for sale			
Derivative liabilities	37		37
Deposit and current accounts	24 342		24 342
Current tax liabilities	268		268
Other liabilities	3 292		3 292
Total liabilities held for sale	27 939		27 939

		2011 Rm	2010 Rm
8.	**Financial investments**		
	Financial investments held in banking activities (note 8.1)	**97 360**	95 441
	Financial investments held by investment management and life insurance activities (note 8.2)	**191 959**	187 854
		289 319	283 295
8.1	**Financial investments held in banking activities**		
	Short-term negotiable securities	**60 781**	56 840
	Listed	**5 100**	9 074
	Unlisted[1]	**55 681**	47 766
	Other financial investments	**36 579**	38 601
	Listed	**29 241**	26 757
	Unlisted	**7 338**	11 844
		97 360	95 441

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

	2011 Rm	2010 Rm
Comprising:		
Government, municipality, utility bonds and treasury bills	**70 995**	63 036
Corporate bonds	**17 736**	18 410
Listed equities	**1 133**	1 283
Unlisted equities	**3 086**	3 110
Mutual funds and unit-linked investments	**2 495**	7 772
Other instruments	**1 915**	1 830
	97 360	95 441
Maturity analysis		
The maturities represent periods to contractual redemption of the financial investments recorded.		
Redeemable on demand	**1 088**	116
Maturing within 1 month	**11 626**	18 699
Maturing after 1 month but within 6 months	**24 944**	21 930
Maturing after 6 months but within 12 months	**21 103**	14 843
Maturing after 12 months	**30 894**	27 237
Undated	**7 705**	12 616
	97 360	95 441

	2011 Rm	2010 Rm
8. Financial investments continued		
8.2 Financial investments held by investment management and life insurance activities		
Quoted in an active market – listed	**116 616**	121 120
Equities	**77 424**	80 053
Preference shares	**1 728**	1 814
Commercial term deposits	**9 107**	9 114
Mutual funds	**816**	4 073
Government, municipal and utility bonds	**27 541**	26 066
Quoted in an active market – unlisted	**50 308**	43 521
Commercial term deposits	**11 453**	10 852
Mutual funds	**38 824**	32 646
Government, municipal and utility bonds	**31**	23
Unquoted and unlisted	**19 676**	17 797
Equities	**1 210**	1 223
Preference shares	**1 283**	2 230
Mutual funds		76
Investment policies	**17 183**	14 268
Loans and receivables	**5 359**	5 416
Mortgages and loans	**1 007**	813
Cash held with banks	**4 352**	4 603
	191 959	187 854
Maturity analysis		
Maturity profile of commercial term deposits, government, municipal and utility bonds and mortgages and loans:		
Maturing within 1 year	**6 279**	4 065
Maturing after 1 year but within 5 years	**14 561**	14 613
Maturing after 5 years but within 10 years	**14 606**	9 545
Maturing after 10 years but within 20 years	**9 544**	10 471
Maturing after 20 years	**3 287**	7 361
Open ended[1]	**862**	813
Undated[2]	**142 820**	140 986
	191 959	187 854

[1] Open ended represent certain 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.

[2] 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.

		2011 Rm	2010 Rm
9.	**Loans and advances**		
9.1	**Loans and advances net of impairments**		
	Loans and advances to banks	**131 155**	107 090
	Call loans	**21 843**	14 911
	Loans granted under resale agreements	**41 358**	20 638
	Balances with banks	**67 954**	71 541
	Loans and advances to customers	**670 153**	603 632
	Gross loans and advances to customers	**685 338**	620 738
	Mortgage loans	**287 597**	271 181
	Instalment sale and finance leases (note 9.2)	**57 373**	52 917
	Card debtors	**20 726**	21 696
	Overdrafts and other demand loans	**56 702**	66 395
	Other term loans	**160 377**	140 439
	Loans granted under resale agreements	**20 222**	16 613
	Commercial property finance	**40 710**	34 781
	Foreign currency loans	**40 052**	10 697
	Other loans and advances	**1 579**	6 019
	Credit impairments for loans and advances (note 9.3)	**(15 185)**	(17 106)
	Specific credit impairments	**(9 775)**	(12 222)
	Portfolio credit impairments	**(5 410)**	(4 884)
	Net loans and advances	**801 308**	710 722
	Comprising:		
	Gross loans and advances	**816 493**	727 828
	Less: Credit impairments	**(15 185)**	(17 106)
	Net loans and advances	**801 308**	710 722

The carrying value of loans and advances decreased by R467 million (2010: increased by R795 million) for fair value adjustments arising from risks subject to fair value hedging relationships.

	2011 Rm	2010 Rm
Maturity analysis		
The maturity analysis is based on the remaining periods to contractual maturity from year end.		
Redeemable on demand	**116 387**	118 308
Maturing within 1 month	**111 061**	105 151
Maturing after 1 month but within 6 months	**79 998**	67 316
Maturing after 6 months but within 12 months	**62 989**	53 189
Maturing after 12 months	**446 058**	383 864
Gross loans and advances	**816 493**	727 828
Segmental analysis – industry		
Agriculture	**17 741**	14 624
Construction	**21 356**	21 480
Electricity	**3 034**	3 789
Finance, real estate and other business services	**244 706**	219 712
Individuals	**346 304**	318 240
Manufacturing	**35 540**	27 811
Mining	**35 580**	24 598
Other services	**56 504**	43 546
Transport	**15 144**	17 383
Wholesale	**40 584**	36 645
Gross loans and advances	**816 493**	727 828

9. Loans and advances continued

9.1 Loans and advances net of impairments continued

The following table sets out the distribution of the group's loans and advances by geographic area where the loans are recorded.

	2011 %	2011 Rm	2010 %	2010 Rm
Segmental analysis – geographic area				
South Africa	74	603 950	74	535 994
Rest of Africa	9	71 553	6	47 286
Outside Africa	17	140 990	20	144 548
Gross loans and advances	100	816 493	100	727 828

9.2 Instalment sale and finance leases

	2011 Rm	2010 Rm
Gross investment in instalment sale and finance leases	66 502	60 672
Receivable within 1 year	21 766	22 779
Receivable after 1 year but within 5 years	44 573	37 094
Receivable after 5 years	163	799
Unearned finance charges deducted	(9 129)	(7 755)
Net investment in instalment sale and finance leases	57 373	52 917
Receivable within 1 year	18 475	19 577
Receivable after 1 year but within 5 years	38 767	32 548
Receivable after 5 years	131	792

9. Loans and advances continued

9.3 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
2011							
Specific impairments							
Balance at the beginning of the year	4 399	1 534	1 170	2 562	2 394	163	12 222
Reclassified as held for sale	(2)	(11)	(57)	(100)	(35)		(205)
Net impairments raised and released	2 672	728	761	1 670	1 339	92	7 262
Impaired accounts written off	(2 633)	(1 197)	(961)	(2 096)	(1 901)	(133)	(8 921)
Discount element recognised in interest income	(686)	(65)	(89)	(102)	(2)		(944)
Exchange and other movements	22	16		42	281		361
Balance at the end of the year	3 772	1 005	824	1 976	2 076	122	9 775
Portfolio impairments							
Balance at the beginning of the year	994	626	581	1 449	1 224	10	4 884
Reclassified as held for sale		(5)	(66)	(60)	(60)		(191)
Net impairments raised and released	420	(132)	(77)	330	68	(22)	587
Exchange and other movements				50	(96)	176	130
Balance at the end of the year	1 414	489	438	1 769	1 136	164	5 410
Total	5 186	1 494	1 262	3 745	3 212	286	15 185

9. Loans and advances continued

9.3 Credit impairments for loans and advances continued

	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 the 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
Continuing operations	3 118	1 311	1 254	1 775	1 246	110	8 814
Discontinued operations	2	7	49	64	(19)		103
Impaired accounts written off	(2 036)	(1 406)	(1 322)	(1 616)	(951)	(309)	(7 640)
Discount element recognised in interest income – continuing operations	(1 371)	(96)	(127)	(134)	(23)		(1 751)
Exchange and other movements	(13)	(81)	(22)	(10)	(256)		(382)
Balance at the end of the year	4 399	1 534	1 170	2 562	2 394	163	12 222
Portfolio impairments							
Balance at the 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)
Continuing operations	(40)	(142)	(108)	419	(767)		(638)
Discontinued operations			35	2	(10)		27
Exchange and other movements	(2)	(1)	(6)	(35)	124	(173)	(93)
Balance at the 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

		2011 Rm	2010 Rm
9.	**Loans and advances** continued		
9.3	**Credit impairments for loans and advances** continued		
	Segmental analysis of specific impairments – industry		
	Agriculture	317	486
	Construction	119	468
	Electricity	36	26
	Finance, real estate and other business services	1 851	1 184
	Individuals	6 010	7 255
	Manufacturing	278	412
	Mining	94	164
	Other services	762	1 802
	Transport	86	124
	Wholesale	222	301
		9 775	12 222

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.

	2011 %	2011 Rm	2010 %	2010 Rm
South Africa	75	7 312	83	10 177
Rest of Africa	8	776	5	623
Outside Africa	17	1 687	12	1 422
	100	9 775	100	12 222

		2011 Rm	2010 Rm
10.	**Current and deferred tax assets**		
	Current tax assets	443	473
	Deferred tax assets (note 20.1)	1 440	1 166
		1 883	1 639
11.	**Other assets**		
	Trading settlement assets	6 294	4 648
	Items in the course of collection	691	866
	Operating leases – accrued income (note 13)	1 085	1 107
	Deferred acquisition costs	403	364
	Retirement funds and post-employment healthcare benefits (note 37)	952	668
	Insurance prepayments and reinsurance assets	2 490	2 005
	Accounts receivable	1 233	1 263
	Prepayments	2 164	1 615
	Properties in possession	571	659
	Other debtors	6 757	4 687
		22 640	17 882

		2011 Rm	2010 Rm
12.	**Interest in associates and joint ventures**		
	Associates and joint ventures accounted for under the equity method	2 238	4 719
	Associates held at fair value	11 697	5 814
		13 935	10 533
	Equity accounted associates and joint ventures		
	Carrying value at the beginning of the year	4 719	4 550
	Share of profits – continuing operations	343	641
	Share of profits – discontinued operations		12
	Total impairments of associates	(37)	(29)
	Impairments of associates[1]		(29)
	Impairment of associate reclassified to held for sale investments[2]	(37)	
	Reversal of impairment of associate		19
	Impairments of private equity associates included in non-interest revenue	(60)	(43)
	Deemed disposal of associate – carrying value	(130)	(41)
	Loss on deemed disposal of associate	(22)	(10)
	Deemed disposal of associate – fair value	(108)	(31)
	Acquisitions	13	36
	Disposals	(124)	(60)
	Share of direct reserve movements	557	(256)
	Distribution of profit	(25)	(110)
	Reclassified as held for sale	(3 018)	
	Carrying value at the end of the year	2 238	4 719
	Comprising:		
	Cost of investments	1 799	4 044
	Share of reserves	1 233	1 409
	Cumulative impairment	(794)	(734)
		2 238	4 719
	Share of profits from associates and joint ventures		
	Share of profits	343	641
	Impairments of associates	(37)	(29)
	Reversal of impairment of associate		19
	Loss on deemed disposal of associate	(22)	(10)
	Share of profits – continuing operations	284	621
	Share of profits – discontinued operations		12
		284	633

[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.*
[2] *The recoverable amount was based on the agreed minimum disposal proceeds.*

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.

		2011 Rm	2010 Rm
12.	**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	5 943	13 061
	Current assets	7 002	43 890
	Non-current liabilities	(4 726)	(6 610)
	Current liabilities	(2 073)	(36 825)
	Income statement		
	Total income	6 088	8 864
	Total expense	(5 604)	(6 711)
	Total profit or loss	475	1 732
	Equity accounted associates and joint ventures and the group's interests therein are listed in annexure C on pages 213 to 215.		
	Key financial information of associates held at fair value		
	Total investments	31 362	17 008
	Current assets	7 078	539
	Current liabilities	(37)	(378)
	Total revenue	1 848	596
	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.		
13.	**Investment property**		
	Fair value at the beginning of the year	21 521	19 058
	Revaluations net of lease straight-lining	904	1 293
	Revaluations	933	1 285
	Net movement on straight-lining operating leases	(29)	8
	Additions – capitalised subsequent expenditure	900	1 093
	Disposals		(10)
	Transfers from property and equipment	93	87
	Other transfers	43	
	Foreign currency translation	9	
	Fair value at the end of the year	23 470	21 521
	Investment property and related operating lease balances comprise the following:		
	Investment properties at fair value	23 470	21 521
	Operating leases – accrued income (note 11)	1 085	1 107
	Operating leases – accrued expense (note 21.1)	(93)	(144)
	Total investment property	24 462	22 484
	Located in:		
	South Africa	24 403	22 484
	Kenya	59	
	Total investment property	24 462	22 484

		2011 Rm	2010 Rm
13.	**Investment property** continued		
	At the end of the year investment property comprised the following property types:		
	Office buildings	1 205	1 137
	Shopping malls	20 022	18 343
	Hotels	2 536	2 392
	Other	699	612
	Total investment property	24 462	22 484

The investment properties located in South Africa were independently valued as at 31 December 2011 by registered professional valuers with the South African Council for the Property Valuers Profession as well as members of the Institute of Valuers of South Africa. The method of valuation is more fully described in note 2.9.

The properties located in Kenya were independently valued as at 31 December 2011 by various registered professional valuers in Kenya.

At 31 December 2011 unlet space amounted to 7,2% (2010: 4,2%) of available lease area in the investment properties held by the group. The average net rental growth is 6,9% (2010: 13,2%).

The property rental income earned by the group from its investment property, all of which is leased out under operating leases, amounted to R1 902 million (2010: R1 711 million), including straight-lining operating leases or R1 823 million (2010: R1 671 million) excluding straight-lining operating leases. Direct operating expenses arising on the investment property amounted to R516 million (2010: R400 million).

		2011 Rm	2010 Rm
14.	**Goodwill and other intangible assets**		
	Goodwill (note 14.1)	3 733	3 256
	Other intangible assets (note 14.2)	9 021	7 127
		12 754	10 383
14.1	**Goodwill**		
	Goodwill on subsidiaries		
	Cost at the beginning of the year	3 920	4 375
	Reclassified as held for sale	(10)	
	Acquisitions	46	36
	Exchange movements	512	(491)
	Cost at the end of the year	4 468	3 920
	Accumulated impairment at the beginning of the year	(664)	(536)
	Reclassified as held for sale	10	
	Goodwill impairment charge (note 28.14)	(61)	(144)
	Exchange movements	(20)	16
	Accumulated impairment at the end of the year	(735)	(664)
	Carrying amount	3 733	3 256

14. Goodwill and other intangible assets continued
14.1 Goodwill continued

	2011			2010		
	Gross goodwill Rm	Accumulated impairment Rm	Net goodwill Rm	Gross goodwill Rm	Accumulated impairment Rm	Net goodwill Rm
Goodwill comprises:						
Argentina ING Bank				10	(10)	
Standard Bank s.a.r.l (Mozambique)	110		110	75		75
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	(15)	3	18		18
Standard Bank Limited (Malawi)	32		32	28		28
Stanbic Bank Uganda Limited	9		9	8		8
Standard Bank Asia Limited (Hong Kong)	54	(54)		44	(44)	
Triskelion Trust Company Limited	56	(56)		46	(46)	
Stanbic IBTC Bank PLC (Nigeria)	2 659		2 659	2 309		2 309
Standard Ünlü Menkul Degerler A.S. (Turkey)	163	(31)	132	166	(31)	135
CfC Stanbic Holdings Limited (Kenya)	730		730	625		625
eCentric Switch	36		36	36		36
Halberg Guss South Africa Proprietary Limited	7	(7)				
MTN Mobile Money	39	(39)				
	4 468	(735)	3 733	3 920	(664)	3 256

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 transaction was tested for impairment on 31 December 2011. The recoverable amount was based upon the fair value less costs to sell of the holding in Stanbic IBTC Bank PLC, which was determined using the market value of Stanbic IBTC's listed shares based on the 60-day (2010: 30-day) volume-weighted average share price calculated to 31 December 2011, adjusted for a controlling stake. Based on the tests performed, no impairment was identified.

14. Goodwill and other intangible assets continued

14.1 Goodwill continued

CfC Stanbic Holdings Limited

Goodwill relating to CfC Stanbic Holdings Limited was tested for impairment on 31 December 2011. The recoverable amount was determined to be the value in use. Unless indicated otherwise, the value in use in 2011 was determined in a manner consistent with that used in 2010. 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 16,00% (2010: 13,42%). 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 20,25% per annum (2010: 17,62%). 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 derived from the 10-year local Kenyan government bond. 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.

Goodwill relating to other entities

The remaining aggregated carrying amount of the goodwill of R344 million (2010: R322 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.

14.2 Other intangible assets

14.2.1 Summary

	2011			2010		
	Cost Rm	Accumulated amortisation and impairment Rm	Net book value Rm	Cost Rm	Accumulated amortisation and impairment Rm	Net book value Rm
Computer software	10 169	2 229	7 940	7 477	1 714	5 763
Other intangible assets[1]	984	398	586	1 040	318	722
Present value of in-force life insurance[2]	1 722	1 227	495	1 672	1 030	642
	12 875	3 854	9 021	10 189	3 062	7 127

[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 (2010: 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.*

[2] *Represents the present value (at acquisition date) of future profits before taxation, on policyholder contracts acquired from business acquisitions, less amortisation. No internally generated value of in-force has been recognised, since it does not meet the recognition criteria in IAS 38 Intangible Assets (IAS 38).*

14. Goodwill and other intangible assets continued

14.2 Other intangible assets continued

14.2.2 Movement

	2010 Net book value Rm	Reclassified as held for sale Rm	Additions[1] Rm	Disposals Rm	Impairments[2] Rm	Amortisation Rm	Exchange movements Rm	2011 Net book value[3] Rm
Computer software	5 763	(2)	2 604	(27)	(109)	(476)	187	7 940
Other intangible assets	722	(25)		(34)		(84)	7	586
Present value of in-force life insurance	642		28			(179)	4	495
	7 127	(27)	2 632	(61)	(109)	(739)	198	9 021

	2009 Net book value Rm	Additions[1] Rm	Disposals Rm	Impairments:[2] Continuing operations	Amortisation: Continuing operations Rm	Amortisation: Discontinued operations Rm	Exchange movements Rm	2010 Net book value[3] Rm
Computer software	3 967	2 615	(117)	(159)	(421)	(12)	(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)	(679)	(12)	(163)	7 127

[1] *During 2011, R126 million (2010: R76 million) of interest was capitalised.*
[2] *Includes amounts arising on restructuring costs of Rnil (2010: R17 million), refer to note 28.11.*
[3] *Includes work in progress of R4 116 million (2010: R4 041 million) for which amortisation has not yet commenced.*

There are no significant intangible assets pledged as security for liabilities.

15. Property and equipment

15.1 Summary

	2011 Cost Rm	2011 Accumulated depreciation and impairment Rm	2011 Net book value Rm	2010 Cost Rm	2010 Accumulated depreciation and impairment Rm	2010 Net book value Rm
Property						
Freehold	5 673	520	5 153	5 688	489	5 199
Leasehold	2 711	757	1 954	2 124	427	1 697
	8 384	1 277	7 107	7 812	916	6 896
Equipment						
Computer equipment	8 999	5 575	3 424	8 814	5 443	3 371
Motor vehicles	604	316	288	810	413	397
Office equipment	1 171	598	573	1 212	547	665
Furniture and fittings	5 961	2 433	3 528	5 490	1 912	3 578
	16 735	8 922	7 813	16 326	8 315	8 011
Total	25 119	10 199	14 920	24 138	9 231	14 907

15.2 Movement

	2010 Net book value Rm	Reclassified as held for sale Rm	Additions[1] Rm	Disposals Rm	Impairments Rm	Depreciation Rm	Transfers[2] Rm	Exchange movements Rm	2011 Net book value[3] Rm
Property									
Freehold	5 199	(497)	570	(36)		(54)	(93)	64	5 153
Leasehold	1 697	(87)	564	(4)	(29)	(301)		114	1 954
	6 896	(584)	1 134	(40)	(29)	(355)	(93)	178	7 107
Equipment									
Computer equipment	3 371		1 182	(35)		(1 179)		85	3 424
Motor vehicles	397	(2)	155	(175)		(97)		10	288
Office equipment	665	(101)	98	(5)		(111)		27	573
Furniture and fittings	3 578	(80)	517	(16)		(546)		75	3 528
	8 011	(183)	1 952	(231)		(1 933)		197	7 813
Total	14 907	(767)	3 086	(271)	(29)	(2 288)	(93)	375	14 920

[1] *R42 million of interest was capitalised. Includes additions arising from business acquisitions of R101 million.*
[2] *Refer to note 13 – Investment property.*
[3] *Includes work in progress of R1 282 million for which depreciation has not yet commenced.*

15. Property and equipment continued

15.2 Movement continued

	2009 Net book value Rm	Additions[1] Rm	Disposals Rm	Depreciation: Continuing operations Rm	Depreciation: Discontinued operations Rm	Transfers[2] Rm	Exchange movements Rm	2010 Net book value[3] Rm
Property								
Freehold	4 074	1 408	(326)	(56)	(7)	260	(154)	5 199
Leasehold	1 559	797		(200)	(10)	(347)	(102)	1 697
	5 633	2 205	(326)	(256)	(17)	(87)	(256)	6 896
Equipment								
Computer equipment	2 628	1 905	(18)	(1 084)			(60)	3 371
Motor vehicles	388	215	(50)	(139)	(1)		(16)	397
Office equipment	542	321	(8)	(109)	(35)		(46)	665
Furniture and fittings	3 059	1 075	(9)	(448)	(9)		(90)	3 578
	6 617	3 516	(85)	(1 780)	(45)		(212)	8 011
Total	12 250	5 721	(411)	(2 036)	(62)	(87)	(468)	14 907

[1] R1 million of interest was capitalised.
[2] Refer to note 13 – Investment property.
[3] Includes work in progress of R2 560 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.

15.3 Valuation

The fair value of completed freehold property, based on valuations undertaken during 2011 and 2010, was estimated at R5 866 million (2010: R6 180 million). Registers of property are available for inspection by members, or their authorised agents, at the registered office of the company and its subsidiaries. Valuations were generally in terms of the investment method whereby net income is capitalised having regard to tenancy, location and the physical nature of the property.

	2011 Rm	2010 Rm
16. Share capital		
16.1 Authorised		
2 000 000 000 (2010: 2 000 000 000) ordinary shares of 10 cents each	200	200
8 000 000 (2010: 8 000 000) 6,5% first cumulative preference shares of R1 each	8	8
1 000 000 000 (2010: 1 000 000 000) non-redeemable, non-cumulative, non-participating preference shares of 1 cent each	10	10
	218	218

	2011 Rm	2010 Rm
16. Share capital continued		
16.2 Issued		
Ordinary share capital		
1 588 747 130 (2010: 1 585 037 321) ordinary shares of 10 cents each	159	159
Ordinary share premium	17 576	17 363
A premium of R213 million (2010: R324 million) was raised on the allotment and issue during the year of 3 709 809 ordinary shares (2010: 6 800 254).		
During 2010 the group declared a scrip distribution with a cash alternative. The scrip distribution was financed from share premium and 19 979 912 ordinary shares were issued. R2 million was transferred to ordinary share capital.		
Preference share capital and premium	5 503	5 503
8 000 000 (2010: 8 000 000) 6,5% first cumulative preference shares of R1 each – first preference shares	8	8
52 982 248 (2010: 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.		
	23 238	23 025

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 109 073 781 (2010: 107 532 408).

The Group Share Incentive Scheme and Equity Growth Scheme reconciliations are disclosed in annexure D on pages 216 to 222.

	Number of ordinary shares	Number of first preference shares	Number of second preference shares
16. Share capital continued			
16.2 Issued continued			
Reconciliation of shares issued			
Shares in issue at 1 January 2010	1 558 257 155	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 17)	99 190 197		
Less: Portion of shares financed directly by third parties (note 17)	(24 691 358)		
Less: Number of shares sold in terms of the ICBC transaction (note 17)	(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
Shares issued during 2011 in terms of the group's equity compensation plans	3 709 809		
Shares in issue at 31 December 2011	1 588 747 130	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 17)	99 190 197		
Less: Portion of shares financed directly by third parties (note 17)	(24 691 358)		
Less: Number of shares sold in terms of the ICBC transaction (note 17)	(11 020 029)		
Shares held by entities within the group	11 170 972		
Shares held by other shareholders	1 514 097 348	8 000 000	52 982 248

All issued shares are fully paid up.

Details of the shareholder spread and ten major shareholders are given in the shareholder analysis on page 13 of book III.

	2011 Rm	2010 Rm
16. Share capital continued		
16.3 Unissued shares		
255 427 154 (2010: 259 136 963) ordinary shares of 10 cents each, of which 79 251 866 (2010: 77 912 858) are under the general authority of the directors which authority expires at the annual general meeting to be held on 31 May 2012	26	26
155 825 716 (2010: 155 825 716) 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 26 May 2011	16	16
947 017 752 (2010: 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 31 May 2012	9	9
	51	51
16.4 Interest of directors in the capital of the company		
The directors' interests are listed on pages 108 to 113 of book I and page 101 of this report.		
Number of shares as at 31 December		
Beneficial ordinary shares	11 392 820	11 962 342
Beneficial non-redeemable, non-cumulative, non-participating preference shares	38 638	42 390
Share incentives	2 650 000	2 552 500

17. Empowerment reserve

SBG and Liberty entered into a series of transactions in 2004 whereby investments were made in cumulative redeemable preference shares issued by black economic empowerment (BEE) entities (SPEs). The initial investments made by SBG 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 SBG and Liberty shares. The BEE entities initially purchased and owned 99 190 197 ordinary shares of SBG.

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 SBG shares held by the SPEs that are deemed to be treasury shares in terms of accounting conventions. Refer to page 37 of book I 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 SBG 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 SBG 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 SBG were amended. These amendments permit dividends paid on SBG 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 SBG 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 503 million (2010: R2 303 million) for SBG and R1 095 million (2010: R1 141 million) for Liberty.

17. Empowerment reserve continued

The investments in the cumulative redeemable preference shares of the BEE entities are set out below.

	2011 Number of preference shares	2010 Number of preference shares	Issue price per share (R)	2011 Rm	2010 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				1 075	1 119
Shanduka	171 000	180 000	1 000	171	180
Safika	261 000	273 000	1 000	261	273
Black Managers' Trust	429 000	444 000	1 000	429	444
The Community Trust	214 000	222 000	1 000	214	222
Total investment				4 106	4 150
Financing by parties external to the group[2]				(1 000)	(1 000)
Preference dividends accrued but not received due to dividends distributed				472	340
Attributable to non-controlling interests of Liberty				(499)	(519)
Standard Bank Group empowerment reserve				3 079	2 971

[1] The above SPEs owned 88 170 168 (2010: 88 170 168) ordinary shares of the group at 31 December 2011, of which 24 691 358 (2010: 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.

17. Empowerment reserve continued

	Standard Bank Group Rm	Liberty Rm	Total Rm
Reconciliation of investment in preference shares			
Original amount invested in 2004	4 017	1 251	5 268
Redemption – 2006[1]		(92)	(92)
Financing by external parties – 2007[2]	(1 000)		(1 000)
Redemption – 2008[3]	(986)		(986)
Redemption – 2010[1]		(40)	(40)
Redemption – 2011[1]		(44)	(44)
Attributable to non-controlling interests of Liberty		(499)	(499)
Preference dividends accrued but not received due to dividends distributed	472		472
Remaining amounts invested at 31 December 2011	**2 503**	**576**	**3 079**

[1] *Redemption of cumulative preference shares.*
[2] *On 20 December 2007 the group obtained financing external to the group for a portion of the financing provided to the SPEs.*
[3] *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.*

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 (2010: 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 32).

		2011 Rm	2010 Rm	2009[1] Rm
18.	**Trading liabilities**			
	Classification			
	Listed	**16 259**	18 894	26 322
	Unlisted	**16 150**	11 481	28 183
		32 409	30 375	54 505
	Comprising:			
	Government, municipality and utility bonds	**5 010**	5 590	12 920
	Corporate bonds	**520**	359	1 548
	Listed equities	**5 845**	6 958	12 695
	Unlisted equities	**334**	421	273
	Collateral	**2 511**	1 148	1 428
	Repurchase agreements	**7 413**	3 891	13 541
	Credit linked notes	**8 271**	7 957	6 063
	Commodities			3 387
	Other instruments	**2 505**	4 051	2 650
		32 409	30 375	54 505
	Maturity analysis[2]			
	The maturity analysis is based on the remaining periods to contractual maturity from year end.			
	Repayable on demand	**185**	191	3 695
	Maturing within 1 month	**9 494**	3 055	12 664
	Maturing after 1 month but within 6 months	**1 349**	3 606	3 901
	Maturing after 6 months but within 12 months	**3 235**	2 069	3 560
	Maturing after 12 months	**11 958**	14 030	12 931
	Undated	**6 188**	7 424	17 754
		32 409	30 375	54 505

[1] *2009 restated, refer to annexure A – restatements.*
[2] *2010 and 2009 reclassified to include all listed equities as undated liabilities.*

	2011 Rm	2010 Rm	2009 Rm
19. Deposit and current accounts			
Deposits from banks	**115 696**	87 830	102 631
Deposits from banks and central banks	**112 408**	83 511[1]	99 402[1]
Deposits from banks under repurchase agreements	**3 288**	4 319	3 229
Deposits from customers	**761 081**	697 771	662 530
Current accounts	**106 259**	93 165	87 496
Cash management deposits	**98 480**	83 455	72 970
Call deposits	**174 115**	151 001	152 249
Savings accounts	**23 893**	26 203	24 169
Term deposits	**256 460**	240 458	195 418
Negotiable certificates of deposit	**77 135**	71 211	102 045
Repurchase agreements	**2 208**	2 073	653
Securitisation issuances	**7 278**	10 152	13 960
Other funding	**15 253**	20 053	13 570
Total deposit and current accounts	**876 777**	785 601	765 161

[1] *2010 and 2009 figures restated, refer to annexure A – restatements.*

The carrying value of deposits and current accounts was increased by R354 million (2010: reduced by R804 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.

	2011 Rm	2010 Rm	2009 Rm
Repayable on demand	**436 815**	392 436	374 444
Maturing within 1 month	**101 759**	89 029	81 286
Maturing after 1 month but within 6 months	**148 260**	120 084	127 172
Maturing after 6 months but within 12 months	**80 008**	77 169	74 769
Maturing after 12 months	**109 935**	106 883	107 490
	876 777	785 601	765 161

Segmental analysis – geographic area

The following table sets out the distribution of the group's deposit and current accounts by geographic area where recorded.

	2011 %	2011 Rm	2010 %	2010 Rm	2009 %	2009 Rm
South Africa	**77**	**671 884**	76	595 601	74	565 750
Rest of Africa	**11**	**99 141**	10	80 448	9	72 125
Outside Africa	**12**	**105 752**	14	109 552	17	127 286
	100	**876 777**	100	785 601	100	765 161

		2011 Rm	2010 Rm
20.	**Current and deferred tax liabilities**		
	Current tax liabilities	2 353	3 423
	Deferred tax liabilities	3 683	2 892
		6 036	6 315
20.1	**Deferred tax analysis**		
	Accrued interest receivable	(4)	69
	Assessed losses	(426)	(199)
	Assets on lease	557	561
	Capital gains tax	1 252	1 131
	Credit impairment charges	(713)	(1 007)
	Deferred acquisition costs	113	102
	Deferred revenue liability	(46)	(39)
	Property and equipment	97	112
	Derivatives	1 662	1 231
	Fair value adjustments on financial instruments	220	306
	Intangible asset – present value of in-force life insurance (PVIF)	142	171
	Policyholder change in valuation basis	1 514	1 238
	Post-employment benefits	(56)	(123)
	Secondary tax on companies	(122)	(329)
	Share-based payments	(430)	(507)
	Special transfer to life fund	(373)	(285)
	Other differences	(1 144)	(706)
	Deferred tax closing balance	2 243	1 726
	Deferred tax liabilities	3 683	2 892
	Deferred tax assets (note 10)	(1 440)	(1 166)

	2011 Rm	2010 Rm
20. Current and deferred tax liabilities continued		
20.2 Deferred tax reconciliation		
Deferred tax at the beginning of the year	1 726	1 912
Acquisitions	(27)	
Reclassified to assets and liabilities held for sale	143	
Originating/(reversing) temporary differences for the year:	401	(215)
Accrued interest receivable	(64)	(3)
Assessed losses	(226)	(14)
Assets on lease	9	44
Capital gains tax	87	237
Credit impairment charges	200	868
Deferred acquisition costs	11	8
Deferred revenue liability	(7)	(4)
Property and equipment	(19)	(3)
Derivatives	415	(1 841)
Fair value adjustments on financial instruments	(81)	137
Intangible asset – PVIF	(46)	(45)
Policyholder change in valuation basis	276	118
Post-employment benefits	67	179
Secondary tax on companies (STC)	207	83
Share-based payments	77	(146)
Special transfer to life fund	(88)	194
Other differences	(417)	(27)
Originating/(reversing) temporary differences from discontinued operations for the year:		29
Accrued interest receivable		(9)
Assets on lease		(2)
Property and equipment		(2)
Derivatives		11
Fair value adjustments on financial instruments		17
Other		14
Deferred tax at the end of the year	2 243	1 726

	2011 Rm	2010 Rm
20. Current and deferred tax liabilities continued		
20.2 Deferred tax reconciliation continued		
Temporary differences for the year comprise:		
Recognised in other comprehensive income from continuing operations	**401**	(215)
Recognised in other comprehensive income – fair value adjustments on financial instruments	**(53)**	(105)
Recognised in equity – deferred tax on share-based payments	**83**	(2)
Recognised in profit or loss	**192**	(214)
Translation movement	**179**	106
Recognised in other comprehensive income	**(12)**	(2)
Other items	**191**	108
Recognised in other comprehensive income from discontinued operations		29
Recognised in other comprehensive income – fair value adjustments on financial instruments		9
Recognised in profit or loss		46
Translation movement – other items		(26)
	401	(186)

There are unused tax losses amounting to R413 million (2010: R606 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.

With effect from 1 April 2012, STC will be abolished and will be replaced by dividends tax, which is a withholding tax on shareholders. The deferred STC tax asset as at 31 December 2011 will be utilised by 31 March 2012.

	2011 Rm	2010 Rm
21. Other liabilities		
21.1 Summary		
Trading settlement liabilities	**8 645**	4 446
Items in the course of transmission	**1 887**	444
Provision for post-employment benefits (note 21.2)	**1 267**	1 188
Third-party liabilities arising on consolidation of mutual funds (note 21.3)	**11 164**	11 000
Operating leases – accrued expense (note 13)	**93**	144
Cash-settled share-based payment liability (annexure D)	**1 296**	732
Insurance payables	**3 820**	3 759
Staff-related accruals	**3 586**	3 097
Deferred revenue liability	**159**	139
Accounts payable	**2 323**	5 443
Provision for restructuring costs		462
Other liabilities	**11 434**	10 046
	45 674	40 900

		2011 Rm	2010 Rm
21.	**Other liabilities** continued		
21.2	**Provision for post-employment benefits**		
	Balance at the beginning of the year	1 188	1 553
	Net provision raised/(released)	79	(365)
	Balance at the end of the year	**1 267**	**1 188**

Details on post-employment benefits are provided in note 37.

		2011 Rm	2010 Rm
21.3	**Third-party liabilities arising on consolidation of mutual funds**		
	Balance at the beginning of the year	11 000	10 557
	Additional mutual funds classified as subsidiaries	918	246
	Change in effective ownership or repayments through withdrawal	(420)	798
	Mutual funds no longer classified as subsidiaries	(1 564)	(1 150)
	Fair value adjustment	1 230	549
	Balance at the end of the year	**11 164**	**11 000**

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 Liberty's control.

		2011 Rm	2010 Rm
22.	**Policyholders' liabilities**		
	Policyholders' liabilities under insurance contracts	149 005	141 507
	Insurance contracts (note 22.1)	145 558	138 873
	Investment contracts with DPF (note 22.1)	3 447	2 634
	Policyholders' liabilities under investment contracts (note 22.2)	59 560	56 371
		208 565	197 878

22. Policyholders' liabilities continued

22.1 Policyholders' liabilities under insurance contracts and reinsurance assets

	2011 Insurance contracts Rm	2011 Investment contracts with DPF[1] Rm	2011 Reinsurance assets[2] Rm	2010 Insurance contracts Rm	2010 Investment contracts with DPF[1] Rm	2010 Reinsurance assets[2] Rm
Balance at the beginning of the year	138 873	2 634	(847)	129 765	2 692	(788)
Additions through business acquisitions	301	769	(2)	3		
Inflows	38 678	494	(837)	40 087	446	(688)
Insurance premiums	26 362	455	(767)	22 628	184	(699)
Investment returns	12 309	39	(70)	17 415	262	11
Unwinding of discount rate	1 017		(70)	1 305		(41)
Investments	11 292	39		16 110	262	52
Equity accounted earnings from joint ventures	7			44		
Outflows	(30 422)	(521)	617	(29 394)	(484)	586
Claims and policyholders' benefits	(22 106)	(472)	543	(21 648)	(448)	558
Claims and policyholders' benefits under insurance contracts	(22 106)	(234)	543	(21 648)	(322)	558
Switches between investment contracts with DPF to investment contracts without DPF		(238)			(126)	
Acquisition costs associated with insurance contracts	(2 685)	(11)	3	(2 499)	(6)	1
General marketing and administration expenses	(3 694)	(31)	2	(3 366)	(23)	1
Preference dividend	(621)			(497)		
Finance costs	(32)			(21)		
Taxation	(1 284)	(7)	69	(1 363)	(7)	26
Net income from insurance operations	(1 920)	(46)	167	(1 585)	(20)	43
Changes in estimates	(498)		(4)	84		(20)
Planned margins and other variances	(2 524)	(51)	238	(2 460)	(27)	87
New business	144			(32)		
Shareholder taxation on transfer of net income	958	5	(67)	823	7	(24)
Foreign currency translation	48	117		(3)		
Balance at the end of the year	145 558	3 447	(902)	138 873	2 634	(847)
Liquidity profile						
Current	14 664	326	(168)	12 251	253	(134)
Non-current	130 894	3 121	(734)	126 622	2 381	(713)
	145 558	3 447	(902)	138 873	2 634	(847)

[1] *The group cannot reliably measure the fair value of the investment contracts with discretionary participation features (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.*
[2] *Reinsurance assets are included in insurance prepayments and reinsurance assets under other assets in note 11 on page 144.*

22. Policyholders' liabilities continued

22.2 Policyholders' liabilities under investment contracts

	2011 Rm	2010 Rm
Balance at the beginning of the year	56 371	51 843
Fund inflows from investment contracts (excluding switches)	9 661	8 819
Net fair value adjustment including the change in deferred taxation on investment property	4 089	6 257
Fund outflows from investment contracts (excluding switches)	(9 924)	(9 793)
Switches between investment with DPF to investment without DPF	238	126
Service fee income	(875)	(881)
Balance at the end of the year	**59 560**	**56 371**
Liquidity profile		
Current	5 689	5 656
Non-current	53 871	50 715
	59 560	56 371
Net income from investment contracts[1]	**65**	**136**
Service fee income	875	881
Expenses	(810)	(745)
Property expenses applied to investment returns	407	345
Shareholder taxation on transfer of net income	(28)	(47)
Acquisition costs	(222)	(175)
General marketing and administration expenses	(954)	(861)
Finance costs	(13)	(7)

[1] *Prior to deferred acquisition cost and deferred revenue liability adjustments.*

		Redeemable/ repayable date	Date issued	Rate %
23.	**Subordinated debt**			
	Subordinated bonds[2]			
	The Standard Bank of South Africa			
	SBK 5	17 November 2016[3]	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[9]
	SBK 12	24 November 2021	24 November 2009	10,82[7]
	SBK 13	24 November 2021	24 November 2009	JIBAR[4] + 2,20
	SBK 14	1 December 2022	1 December 2011	9,66[7]
	Standard Bank Swaziland	December 2019 – October 2020	December 2009 – October 2010	8,10 to 8,70
	Standard Bank Namibia	20 November 2016[3]	20 November 2006	9,74
	Stanbic Bank Botswana	June 2016 – June 2021	June 2006 – June 2011	BWC[11] + (0,05 to 1,30)
	Standard Bank Mozambique	29 June 2017	29 June 2007	WA[12] + 0,50[13]
	CfC Stanbic Bank Kenya	April 2011 – July 2016	October 2005 – December 2010	7Y T-Bond[14] and T-Bill[15] + 1,75
	Stanbic Bank Uganda	10 August 2016	10 August 2009	14,50 and T-Bill[16] + 1,50[17]
	Standard Bank Plc			
		27 July 2016	27 July 2006	8,012
		2 December 2019	2 December 2009	8,125
		3 December 2019[18]	3 December 2009[19]	8,00[20]
	Tier III	3 December 2011[3]	3 December 2009[19]	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 foreign exchange movements, accrued interest and the unamortised fair value adjustments relating to bonds hedged for interest rate risk.
[2] Tier II, unless otherwise stated.
[3] Redeemed during 2011.
[4] JIBAR is the three-month floating Johannesburg interbank agreed rate.
[5] These bonds were issued in US dollars (USD355 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 issuer may redeem on this date, or any subsequent interest payment date.
[9] The interest rate is calculated in terms of the pricing supplement using the base rate as defined, adjusted for changes in the consumer price index (CPI) as published by Statistics South Africa.
[10] RY is the real yield, which is the return from an investment adjusted for the effects of inflation, compounded semi-annually.

Callable date	Rate after call date %	Notional value 2011 LCm	Carrying value 2011[1] Rm	Notional value 2011 Rm	Carrying value 2010[1] Rm	Notional value 2010 Rm
			16 095	15 178	15 683	15 398
17 November 2011	JIBAR[4] + 1,62	ZAR2 000			2 035	2 000
31 July 2012	LIBOR[6] + 1,88	USD355	2 925	2 548	2 404	2 548
24 May 2015[8]	JIBAR[4] + 1,97	ZAR3 000	3 033	3 000	3 035	3 000
10 April 2013[8]	JIBAR[4] + 1,50	ZAR1 500	1 528	1 500	1 528	1 500
10 April 2018[8]	JIBAR[4] + 1,68	ZAR1 500	1 529	1 500	1 529	1 500
		ZAR300	302	300	302	300
10 April 2014[8]	RY[10] of 7,25	ZAR1 800	2 206	1 800	2 072	1 800
24 November 2016	JIBAR[4] + 3,90	ZAR1 600	1 618	1 600	1 619	1 600
24 November 2016	JIBAR[4] + 4,20	ZAR1 150	1 159	1 150	1 159	1 150
1 December 2017[8]	CPI indexed[9] + 2,69	ZAR1 780	1 795	1 780		
December 2014 – October 2015	JIBAR[4] + 1,00	E80	80	80	80	80
19 November 2011	JIBAR[4] + 2,46	NAD150			150	150
May 2011 – June 2016	BWC[11] + (0,81 to 2,05)	BWP200	216	216	208	208
29 June 2012	WA[12] + 0,50[13]	MT260	78	78	53	53
		KES5 400	514	514	450	450
10 August 2014		UGX30 000	98	98	86	86
			5 913	5 395	4 656	4 600
27 July 2016[8]	LIBOR[6] + 3,25	USD142	1 189	1 147	973	940
		USD500	4 522	4 046	3 349	3 328
3 December 2014		USD25	202	202	167	166
		USD25			167	166
			(666)	(648)	(681)	(663)
			22 328	20 911	20 685	20 362
12 September 2012	JIBAR[4] + 1,86	ZAR2 000	2 054	2 000	2 054	2 000
			24 382	22 911	22 739	22 362
September 2011 – March 2015	LIBOR[6] + (1,75 to 5,00)	USD60	372	372	399	399
			24 754	23 283	23 138	22 761

[11] BWC is the rate for three-month Botswana certificates.
[12] 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.
[13] The interest is payable quarterly.
[14] 7Y T-Bond refers to the yield on the seven year Kenya Treasury Bond.
[15] T-Bill refers to the yield on the latest 91-day or 180-day Kenyan Treasury Bill.
[16] T-Bill refers to the yield on the latest 182-day Uganda Treasury Bill.
[17] 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.
[18] 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.
[19] Regulatory approval was received in 2010 on which date these balances qualified as subordinated bonds.
[20] 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.

24. 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
2011			
Assets			
Cash and balances with central banks	3		
Derivative assets	4	150 046	
Trading assets	5	90 449	
Pledged assets	6	4 764	
Non-current assets held for sale	7	539	
Financial investments	8	550	258 687
Loans and advances to banks	9	63	3 481
Loans and advances to customers	9		3 618
Interest in associates and joint ventures	12		11 697
Other financial assets			
Other non-financial assets			
		246 411	277 483
Liabilities			
Derivative liabilities	4	153 142	
Trading liabilities	18	32 409	
Non-current liabilities held for sale	7	37	
Deposits from banks	19		3 271
Deposits from customers	19		85 060
Policyholders' liabilities	22		59 560
Subordinated debt	23		
Other financial liabilities			11 164
Other non-financial liabilities			
		185 588	159 055
2010			
Assets			
Cash and balances with central banks	3		
Derivative assets	4	149 682	
Trading assets	5	80 679	
Pledged assets[3]	6	1 090	259
Financial investments[4]	8	4 227	247 558
Loans and advances to banks	9	451	3 785
Loans and advances to customers	9	12	4 753
Interest in associates and joint ventures	12		5 814
Other financial assets			
Other non-financial assets			
		236 141	262 169
Liabilities			
Derivative liabilities	4	145 004	
Trading liabilities	18	30 375	
Deposits from banks[3]	19	3	2 100
Deposits from customers[5]	19		84 732
Policyholders' liabilities	22		56 371
Subordinated debt	23		
Other financial liabilities			11 000
Other non-financial liabilities			
		175 382	154 203

[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. Refer to the fair value section in accounting policy 4 – Financial instruments for a description on how fair values are determined.*
[3] *Reclassified to reflect the presentation consequences of the restatements in annexure A – restatements.*

Held-to-maturity Rm	Loans and receivables Rm	Available-for-sale Rm	Other amortised cost Rm	Other non-financial assets/ liabilities Rm	Total carrying amount Rm	Fair value[2] Rm
	31 907				31 907	31 907
					150 046	150 046
					90 449	90 449
		1 349			6 113	6 113
	25 551	3 140		4 855	34 085	34 085
10 052	5 359	14 671			289 319	292 045
	127 611				131 155	130 959
	666 535				670 153	669 948
				2 238	13 935	13 886
	11 660				11 660	11 660
				64 007	64 007	
10 052	868 623	19 160		71 100	1 492 829	
					153 142	153 142
					32 409	32 409
			24 342	3 560	27 939	27 939
			112 425		115 696	115 386
			676 021		761 081	760 222
				149 005	208 565	208 565
			24 754		24 754	25 082
			26 928		38 092	38 092
				13 618	13 618	
			864 470	166 183	1 375 296	
	28 675				28 675	28 675
					149 682	149 682
					80 679	80 679
52		1 090			2 491	2 492
11 935	5 749	13 826			283 295	286 477
	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	
11 987	746 291	14 916		60 905	1 332 409	
					145 004	145 004
					30 375	30 375
			85 727		87 830	87 672
			613 039		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	
			744 926	154 700	1 229 211	

[4] *An amount of R4 346 million was reclassified from designated at fair value to held-to-maturity for financial investments to reflect the original intention of management. No adjustments to the carrying value of the financial investments arose as a result of the reclassification.*

[5] *An amount of R26 992 million was reclassified from other amortised cost to designated at fair value for deposits from customers to reflect the original intention of management. No adjustments to the carrying value of the deposits from customers arose as a result of the reclassification.*

25. Financial instruments measured at fair value

The tables below analyse 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 that quoted prices are used in the calculation of the fair value of the financial instruments and the levels have been defined as follows:

Level 1 – fair 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 (that is, as quoted prices) or indirectly (that is, derived from quoted 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
2011				
Assets				
Derivative assets	12 411	133 785	3 850	150 046
Trading assets	23 169	61 414	5 866	90 449
Pledged assets	4 739	1 374		6 113
Non-current assets held for sale	3 609	50	20	3 679
Financial investments	138 900	128 669	6 339	273 908
Loans and advances to banks	816	2 728		3 544
Loans and advances to customers		2 702	916	3 618
Associates held at fair value		11 697		11 697
	183 644	342 419	16 991	543 054
Comprising:				
Held-for-trading				246 411
Designated at fair value				277 483
Available-for-sale				19 160
				543 054
Liabilities				
Derivative liabilities	9 883	140 549	2 710	153 142
Trading liabilities	9 473	16 843	6 093	32 409
Non-current liabilities held for sale	37			37
Deposits from banks		3 271		3 271
Deposits from customers	5 704	79 250	106	85 060
Policyholders' liabilities		59 532	28	59 560
Other financial liabilities		11 164		11 164
	25 097	310 609	8 937	344 643
Comprising:				
Held-for-trading				185 588
Designated at fair value				159 055
				344 643

25. Financial instruments measured at fair value continued

	Level 1 Rm	Level 2 Rm	Level 3 Rm	Total Rm
2010[1]				
Assets				
Derivative assets	10 080	137 088	2 514	149 682
Trading assets	20 273	56 193	4 213	80 679
Pledged assets	708	1 731		2 439
Financial investments	147 069	111 860	6 682	265 611
Loans and advances to banks	841	3 395		4 236
Loans and advances to customers		3 157	1 608	4 765
Associates held at fair value		5 814		5 814
	178 971	319 238	15 017	513 226
Comprising:				
Held-for-trading				236 141
Designated at fair value				262 169
Available-for-sale				14 916
				513 226
Liabilities				
Derivative liabilities	14 245	130 176	583	145 004
Trading liabilities	11 347	15 993	3 035	30 375
Deposits from banks		2 103		2 103
Deposits from customers	4 785	79 498	449	84 732
Policyholders' liabilities		56 336	35	56 371
Other financial liabilities		11 000		11 000
	30 377	295 106	4 102	329 585
Comprising:				
Held-for-trading				175 382
Designated at fair value				154 203
				329 585

[1] *The comparative information was restated to reflect the presentation consequences of the restatements in annexure A – restatements.*

25. Financial instruments measured at fair value continued

Reconciliation of level 3 financial assets

The tables below set 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	Non-current assets held for sale Rm	Financial investments Rm	Loans and advances to customers Rm	Total Rm
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		2 222
– other revenue				370	(76)	294
– investment gains				234		234
Originations	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]	1	659		236		896
Transfers out of level 3[2]		(565)		(8)	(338)	(911)
Exchange movements	(201)	(439)		(142)	(128)	(910)
Balance at 1 January 2011	**2 514**	**4 213**		**6 682**	**1 608**	**15 017**
Reclassified as held for sale			**19**	**(19)**		
Total gains/(losses)						
– in profit or loss	**1 815**	**(219)**	**15**	**675**	**(115)**	**2 171**
– interest income					**(42)**	**(42)**
– trading revenue	**1 815**	**(219)**	**15**	**63**		**1 674**
– other revenue				**303**	**(73)**	**230**
– investment gains				**309**		**309**
Originations	**188**	**2 981**	**1**	**537**	**280**	**3 987**
Sales	**(819)**	**(3 506)**		**(1 749)**		**(6 074)**
Settlements	**(244)**		**(17)**	**(87)**	**(980)**	**(1 328)**
Transfers into level 3[1]	**130**	**1 442**				**1 572**
Transfers out of level 3[2]	**(104)**	**(1)**		**(598)**	**(43)**	**(746)**
Exchange movements	**370**	**956**	**2**	**898**	**166**	**2 392**
Balance at 31 December 2011	**3 850**	**5 866**	**20**	**6 339**	**916**	**16 991**

[1] *During 2011 and 2010, the valuation inputs of certain financial assets became unobservable. The fair value of these assets was transferred into level 3.*
[2] *During 2011 and 2010, the valuation inputs of certain level 3 financial assets became observable. The fair value of these assets was transferred into level 2.*

25. 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 investments Rm	Loans and advances to customers Rm	Total Rm
2011					
Interest income				(42)	(42)
Trading revenue	1 801	(344)	63		1 520
Other revenue			165	(85)	80
Investment gains			309		309
	1 801	(344)	537	(127)	1 867
2010					
Interest income				(136)	(136)
Trading revenue	1 886	258	30		2 174
Other revenue			352	(138)	214
Investment gains			234		234
	1 886	258	616	(274)	2 486

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 customers Rm	Policy-holders' liabilities Rm	Total Rm
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
Originations	46	1 485	449		1 980
Sales	(22)				(22)
Settlements	(33)	(1 508)			(1 541)
Transfers into level 3[1]	32	280			312
Transfers out of level 3[2]	(9)	(374)			(383)
Net change in policyholders' liabilities				(1)	(1)
Exchange movements	(3)	(333)			(336)
Balance at 1 January 2011	583	3 035	449	35	4 102
Total losses/(gains)					
– in profit or loss	1 848	(296)	8		1 560
– interest expense			8		8
– trading revenue	1 848	(296)			1 552
Originations	30	2 753	104		2 887
Sales	(104)		(3)		(107)
Settlements	(494)	(3 238)	(67)		(3 799)
Transfers into level 3[1]	540	2 917			3 457
Transfers out of level 3[2]	(219)		(369)		(588)
Net change in policyholders' liabilities				(7)	(7)
Exchange movements	526	922	(16)		1 432
Balance at 31 December 2011	2 710	6 093	106	28	8 937

[1] *During 2011 and 2010, the valuation inputs of certain financial liabilities became unobservable. The fair value of these liabilities was transferred into level 3.*
[2] *During 2011 and 2010, the valuation inputs of certain level 3 financial liabilities became observable. The fair value of these liabilities was transferred into level 2.*

25. 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
2011			
Trading revenue	1 864	(311)	1 553
Total	1 864	(311)	1 553
2010			
Trading revenue	191	350	541
Total	191	350	541

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 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
2011				
Derivative instruments	Discounted cash flow model, Black-Scholes model	Discount, liquidity discount, risk-free, and volatility rates	353	(353)
Trading assets	Discounted cash flow model	Discount and liquidity discount rates	147	(141)
Financial investments	Discounted cash flow model, earnings multiple, sustainable earnings	Discount and liquidity discount rates, earnings multiple	217	(208)
Loans and advances to customers	Discounted cash flow model	Discount rate	6	(6)
Trading liabilities	Discounted cash flow model	Discount rate	264	(264)
			987	(972)

25. Financial instruments measured at fair value continued

	Valuation basis/technique	Main assumptions	Effect on profit or loss Favour-able Rm	(Unfavour-able) Rm
2010				
Derivative instruments	Discounted cash flow model, Black-Scholes model	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	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)

26. Financial assets and financial liabilities designated at fair value through profit or loss

26.1 Loans and advances

The group's maximum exposure to credit risk for loans and advances designated at fair value through profit or loss is R7 099 million (2010: R8 538 million).

The maximum exposure to credit risk is reduced by R680 million (2010: Rnil) by using credit derivatives and similar instruments.

Fair value changes attributable to changes in credit risk on loans and advances designated at fair value through profit or loss amounted to a loss of R79 million (2010: R77 million gain).

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.

26.2 Financial liabilities

Fair value changes attributable to changes in credit risk on financial liabilities designated at fair value through profit or loss amounted to a gain of R18 million (2010: R54 million loss).

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 R83 475 million (2010: R81 747 million), R4 856 million lower (2010: R5 085 million lower) than the carrying amount. This does not include policyholders' liabilities with a carrying value of R59 560 million (2010: R56 371 million) and third-party liabilities arising on consolidation of mutual funds with a carrying value of R11 164 million (2010: R11 000 million).

		2011 Rm	2010 Rm
27.	**Contingent liabilities and commitments**		
27.1	**Contingent liabilities**		
	Letters of credit and bankers' acceptances	15 345	10 407
	Guarantees	36 307	29 327
		51 652	39 734

Loan commitments of R75 929 million (2010: R59 125 million) that are irrevocable over the life of the facility or revocable only in response to material adverse changes are included in the risk and capital management section on page 46.

		2011 Rm	2010 Rm
27.2	**Capital commitments**		
	Contracted capital expenditure[1]	2 846	2 662
	Capital expenditure authorised but not yet contracted[2]	7 901	8 415
		10 747	11 077

[1] *Includes an amount of R627 million (2010: R452 million) relating to investment property.*
[2] *Includes an amount of R824 million (2010: R1 185 million) relating to investment property.*

The expenditure will be funded from the group's internal resources.

		2011 Rm	2010 Rm
27.3	**Operating lease commitments**		
	The future minimum payments under non-cancellable operating leases are as follows:		
	Properties		
	Within 1 year	1 338	1 108
	After 1 year but within 5 years	3 094	2 655
	After 5 years	1 096	1 192
		5 528	4 955
	Equipment		
	Within 1 year	266	252
	After 1 year but within 5 years	76	74
		342	326

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.

27.4 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.

	2011 Rm	2010 Rm
28. Supplementary income statement information		
28.1 Interest income		
Interest on loans and advances	56 331	54 721
Interest on investments	1 409	895
Unwinding of discount element of credit impairments for loans and advances (note 9.3)	944	1 751
Fair value adjustments on dated financial instruments	(312)	1 300
Dividends on dated securities	1 537	1 558
	59 909	60 225

All interest income reported above with the exception of R1 172 million (2010: R2 149 million) relates to financial assets not carried at fair value through profit or loss.

	2011 Rm	2010 Rm
28.2 Interest expense		
Current accounts	355	372
Savings and deposit accounts	10 975	10 595
Foreign finance creditors	631	532
Subordinated debt	2 136	2 084
Other interest-bearing liabilities	16 985	19 799
	31 082	33 382

All interest expense reported above with the exception of R2 347 million (2010: R3 058 million) relates to financial liabilities not carried at fair value through profit or loss.

	2011 Rm	2010 Rm
28.3 Net fee and commission revenue[1]		
Fee and commission revenue	22 957	20 849
Account transaction fees	9 101	8 383
Card-based commission	3 644	3 366
Knowledge-based fees and commission	2 680	2 444
Electronic banking	1 858	1 746
Insurance – fees and commission	1 203	1 099
Foreign currency service fees	1 274	1 082
Documentation and administration fees	890	878
Other	2 307	1 851
Fee and commission expense	(3 175)	(2 966)
	19 782	17 883

All net fee and commission revenue reported above relates to financial assets or liabilities not carried at fair value through profit or loss.

	2011 Rm	2010 Rm
28.4 Trading revenue[1]		
Foreign exchange	3 605	3 280
Debt securities	2 615	2 388
Commodities	1 376	1 421
Equities	247	880
Other	53	144
	7 896	8 113
Interest and dividend income included in trading revenue:		
Net interest income	769	2 024
Dividend income	153	120
	922	2 144

[1] *Comparative figures restated to align with 2011 presentation.*

		2011 Rm	2010 Rm
28.	**Supplementary income statement information** continued		
28.5	**Other revenue**[1]		
	Banking and other	344	583
	Property-related revenue	386	403
	Insurance – bancassurance profit	1 365	1 285
	(Loss)/profit on realisation of undated available-for-sale financial assets	(35)	37
	Net (loss)/gains on undated financial instruments designated at fair value through profit or loss	(13)	527
	Losses on the disposal of businesses and divisions		(30)
		2 047	2 805
28.6	**Net insurance premiums**		
	Insurance premiums	27 302	22 812
	Reinsurance premiums	(909)	(699)
		26 393	22 113
28.7	**Investment income and gains**		
	Investment income	11 723	11 587
	Investment gains	8 300	15 083
		20 023	26 670
	Comprising:		
	Investment income	11 723	11 587
	Interest income[2]	6 444	7 402
	Dividends received	2 634	1 691
	Listed shares	2 107	1 276
	Unlisted instruments	527	402
	Manufactured dividends on scrip lending		13
	Rental income from investment property	1 902	1 711
	Hotel operations sales	679	687
	Adjustment to surplus recognised on defined benefit pension fund	15	30
	Scrip lending fees		2
	Sundry income	49	64
	Investment gains	8 300	15 083
	Investment property	904	1 293
	Financial instruments held at fair value through profit or loss	6 956	14 572
	Financial instruments held for trading through profit or loss	(502)	(879)
	Cash and cash equivalents	32	(28)
	Foreign exchange differences on subsidiaries	(9)	9
	Foreign currency translation reserve recycled through profit or loss		(21)
	Impairment of investment in joint venture		(14)
	Adjustment to joint venture purchase price	4	
	Consolidated mutual funds	915	151
		20 023	26 670

[1] *Comparative figures restated to align with 2011 presentation.*
[2] *Interest of R6 354 million (2010: R7 292 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 R58 million (2010: R888 million).*

	2011 Rm	2010 Rm
28. Supplementary income statement information continued		
28.8 Credit impairment charges		
Net credit impairments raised and released for loans and advances	7 849	8 176
Recoveries on loans and advances previously written off	(1 413)	(782)
	6 436	7 394
Comprising:		
Net specific credit impairment charges	5 849	8 032
Specific credit impairment charges (note 9.3)	7 262	8 814
Recoveries on loans and advances previously written off	(1 413)	(782)
Portfolio credit impairment charges/(reversal) (note 9.3)	587	(638)
	6 436	7 394
28.9 Net insurance benefits and claims		
Claims and policyholders' benefits under insurance contracts	22 897	22 096
Insurance claims recovered from reinsurers	(627)	(558)
	22 270	21 538
Change in policyholder liabilities under insurance contracts	6 210	8 991
Insurance contracts	6 336	9 108
Investment contracts with DPF	(73)	(58)
Reinsurance assets	(53)	(59)
	28 480	30 529
28.10 Staff costs – banking activities		
Salaries and allowances	18 295	17 693
Equity-linked transactions (annexure D)	846	747
Group equity compensation plans	846	689
Group equity participation plans		58
	19 141	18 440
28.11 Restructuring costs – banking activities		
Retrenchment 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
28.12 Acquisition costs – investment management and life insurance activities		
Insurance contracts	2 693	2 504
Investment contracts	197	148
Short-term insurance	42	
Asset management	336	254
	3 268	2 906
Comprising:		
Incurred during the year	3 293	2 933
Deferred acquisition costs	(244)	(210)
Amortisation and impairment of deferred acquisition costs	219	183
	3 268	2 906

		2011 Rm	2010 Rm
28.	**Supplementary income statement information** continued		
28.13	**Other operating expenses**		
	Banking activities	**15 584**	15 358
	Information technology	**3 183**	3 227
	Communication	**1 227**	1 126
	Premises	**2 876**	2 579
	Other	**8 298**	8 426
	Investment management and life insurance activities	**7 142**	6 482
	Staff costs	**2 595**	2 330
	Office costs	**1 811**	1 493
	Training and development costs	**412**	351
	Other	**2 324**	2 308
		22 726	21 840
	The following disclosable items are included in other operating expenses:		
	Amortisation – intangible assets (note 14.2)	**739**	679
	Auditors' remuneration	**245**	224
	Audit fees	**195**	190
	Current year	**194**	163
	Prior year	**1**	27
	Fees for other services	**50**	34
	Depreciation (note 15.2)	**2 288**	2 036
	Property		
	– Freehold	**54**	56
	– Leasehold	**301**	200
	Equipment		
	– Computer equipment	**1 179**	1 084
	– Motor vehicles	**97**	139
	– Office equipment	**111**	109
	– Furniture and fittings	**546**	448
	Impairments	**138**	162
	Property (note 15.2)	**29**	
	Intangible assets (note 14.2)	**109**	179
	Computer software	**109**	159
	Other intangible assets		20
	Impairment included in restructuring costs		(17)
	Operating lease charges	**1 848**	1 759
	Properties	**1 832**	1 733
	Equipment	**16**	26
	Premises – other expenses	**2 228**	2 015
	Professional fees	**1 950**	1 968
	Managerial	**56**	201
	Technical and other	**1 894**	1 767
	Profit on sale of property and equipment	**(62)**	(23)
	Retirement fund administration		9

		2011 Rm	2010 Rm
28.	**Supplementary income statement information** continued		
28.14	**Goodwill impairment**		
	Goodwill impairment charge on subsidiaries (note 14.1)	61	144
28.15	**Profit for the year from discontinued operations**		
	The agreed disposal of the group's investment in Standard Bank Argentina S.A. (SBA) resulted in the group classifying its investment in SBA as a discontinued operation. Refer to note 7.		
	Net interest income	2 295	1 899
	Interest income	3 151	2 351
	Interest expense	856	452
	Non-interest revenue	1 477	1 203
	Net fee and commission revenue	1 035	758
	Fee and commission revenue	1 482	1 065
	Fee and commission expense	447	307
	Trading revenue	377	396
	Other revenue	65	49
	Total income	3 772	3 102
	Credit impairment charges	152	130
	Income after credit impairment charges	3 620	2 972
	Operating expenses in banking activities	2 311	2 077
	Staff costs	1 373	1 102
	Other operating expenses	938	975
	Net income before associates and joint ventures	1 309	895
	Share of profits from associates and joint ventures	15	12
	Net income before indirect taxation	1 324	907
	Indirect taxation	359	271
	Profit before direct taxation	965	636
	Direct taxation	324	208
	Profit for the year from discontinued operations	641	428
	Attributable to non-controlling interests	160	80
	Attributable to ordinary shareholders	481	348

28. Supplementary income statement information continued

28.16 Other comprehensive income after tax for the year from discontinued operations

	Ordinary shareholders' equity Rm	Non-controlling interests and preference shareholders Rm	Total equity Rm
2011			
Profit for the year from discontinued operations	481	160	641
Other comprehensive income after tax for the year from discontinued operations	83	79	162
Items that may be reclassified subsequently to profit or loss			
Exchange differences on translating foreign operations	76	77	153
Net change in fair value of cash flow hedges	(2)	(1)	(3)
Realised fair value adjustments of cash flow hedges transferred to profit or loss	(1)		(1)
Net change in fair value of available-for-sale financial assets	33	11	44
Realised fair value adjustments on available-for-sale financial assets transferred to profit or loss	(23)	(8)	(31)
Total comprehensive income for the year from discontinued operations	564	239	803
2010			
Profit for the year from discontinued operations	348	80	428
Other comprehensive loss after tax for the year from discontinued operations	(152)	(76)	(228)
Items that may be reclassified subsequently to profit or loss			
Exchange differences on translating foreign operations	(164)	(80)	(244)
Net change in fair value of cash flow hedges	3	1	4
Realised fair value adjustments of cash flow hedges transferred to profit or loss	(3)	(1)	(4)
Net change in fair value of available-for-sale financial assets	31	10	41
Realised fair value adjustments on available-for-sale financial assets transferred to profit or loss	(19)	(6)	(25)
Total comprehensive income for the year from discontinued operations	196	4	200

		2011 Rm	2010 Rm
29.	**Emoluments of Standard Bank Group Limited directors and prescribed officers**		
	Executive directors		
	Emoluments of directors in respect of services rendered[1]:		
	While directors of Standard Bank Group Limited		
	– as directors of subsidiary companies	26	13
	Prescribed officers		
	Emoluments of prescribed officers in respect of services rendered[1]:		
	As prescribed officers of Standard Bank Group Limited	56	42
	Non-executive directors		
	Emoluments of directors in respect of services rendered:		
	As directors of Standard Bank Group Limited	12	11
	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
		100	80

[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.*

		2011 Rm	2010 Rm
30.	**Taxation**		
	Indirect taxation (note 30.1)	1 384	1 204
	Direct taxation (note 30.2)	5 713	4 791
		7 097	5 995
30.1	**Indirect taxation**		
	Value added tax	1 163	1 247
	Duties	7	7
	Financial services levy	24	17
	Skills development levy	98	86
	Other indirect taxes	92	(153)
		1 384	1 204
30.2	**Direct taxation**		
	Current year	5 924	4 752
	South African normal tax	4 059	4 691
	South African deferred tax	720	(1 206)
	Secondary tax on companies	104	201
	Secondary tax on companies – deferred tax	207	83
	Foreign normal and withholding tax	1 311	592
	Foreign deferred tax	(751)	(53)
	Capital gains tax current	144	207
	Capital gains tax deferred	130	237
	Prior years	(193)	(101)
	South African normal tax	(63)	(703)
	South African deferred tax	10	616
	Capital gains tax deferred	(43)	
	Foreign normal and withholding tax	(34)	(14)
	Foreign deferred tax	(63)	
		5 731	4 651
	Income tax recognised in other comprehensive income	65	138
	Deferred tax	65	107
	Current tax		31
	Deferred tax recognised directly in equity	(83)	2
	Direct taxation per the income statement	5 713	4 791

30. Taxation continued

30.2 Direct taxation continued

Income tax recognised in other comprehensive income from continuing operations

The table below sets out the amount of income tax relating to each component within other comprehensive income:

	Before tax Rm	Tax (expense)/ benefit Rm	Net of tax Rm
2011			
Items that may be reclassified subsequently to profit or loss			
Exchange differences on translating foreign operations	5 531		5 531
Net change on hedges of net investments in foreign operations	(279)		(279)
Net change in fair value of cash flow hedges	258	(44)	214
Realised fair value adjustments of cash flow hedges transferred to profit or loss	(211)	58	(153)
Net change in fair value of available-for-sale financial assets	(624)	58	(566)
Realised fair value adjustments on available-for-sale financial assets transferred to profit or loss	35	(7)	28
Items that may not be reclassified to profit or loss			
Revaluation and other gains	81		81
	4 791	65	4 856
2010			
Items that may be reclassified subsequently to profit or loss			
Exchange differences on translating foreign operations	(4 162)		(4 162)
Net change on hedges of net investments in foreign operations	(768)		(768)
Net change in fair value of cash flow hedges	(498)	138	(360)
Realised fair value adjustments of cash flow hedges transferred to profit or loss	187	(41)	146
Net change in fair value of available-for-sale financial assets	129	(3)	126
Realised fair value adjustments on available-for-sale financial assets transferred to profit or loss	(37)	11	(26)
Items that may not be reclassified to profit or loss			
Revaluation and other losses	(114)	33	(81)
	(5 263)	138	(5 125)

30. Taxation continued

30.2 Direct taxation continued

Future tax relief

The group has estimated tax losses of R1 391 million (2010: R582 million) which are available for set-off against future taxable income. These amounts were utilised to reduce the deferred tax balance.

	2011 %	2010 %
Rate reconciliation including indirect and direct tax		
The total tax charge for the year as a percentage of net income before indirect tax	32	32
Value added tax	(5)	(7)
Duties, skills development levy and other indirect taxes	(1)	
Secondary tax on companies	(1)	(1)
Policyholder funds – normal tax	(1)	(2)
Capital gains tax	(1)	(2)
The corporate tax charge for the year as a percentage of profit before indirect tax	23	20
Tax relating to prior years	1	1
Net tax charge	24	21
The charge for the year has been reduced/(increased) as a consequence of:		
Dividends received	4	4
Other non-taxable income	4	5
Other permanent differences	(4)	(2)
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	27	28
Secondary tax on companies	(2)	(1)
Foreign tax		(1)
Policyholder funds – normal tax	(1)	(2)
Capital gains tax	(1)	(2)
Tax relating to prior years	1	1
Net tax charge	24	23
The charge for the year has been reduced/(increased) as a consequence of:		
Dividends received	4	4
Other non-taxable income	4	5
Other permanent differences	(4)	(4)
Standard rate of South African tax	28	28

	2011 Gross Rm	2011 Direct tax Rm	2011 Non-controlling interests and preference shareholders Rm	2011 Profit attributable to ordinary shareholders Rm	2010 Gross Rm	2010 Direct tax Rm	2010 Non-controlling interests and preference shareholders Rm	2010 Profit attributable to ordinary shareholders Rm
31. Headline earnings								
Profit for the year from continuing operations	20 856	(5 713)	(2 398)	12 745	17 370	(4 791)	(2 153)	10 426
Headline adjustable items added/(reversed)	231	(33)		198	334	(41)	(79)	214
Goodwill impairment – IFRS 3	61			61	144		(68)	76
Profit on sale of property and equipment – IAS 16	(62)	9	1	(52)	(23)	4	2	(17)
Impairment of property and equipment – IAS 16	29	(7)		22				
Impairment of non-current assets held for sale – IFRS 5	37			37				
Realised foreign currency translation reserve on foreign operations – IAS 21					21		(10)	11
Losses on the disposal of businesses and divisions – IAS 27					30	(6)	1	25
Impairment of associates – IAS 28					29		(7)	22
Reversal of impairment of associates – IAS 28					(19)			(19)
Loss on deemed disposal of associate – IFRS 3	22			22	10			10
Impairment of intangible assets – IAS 38	109	(28)		81	179	(50)	(8)	121
Realised losses/(gains) on available-for-sale assets – IAS 39	35	(7)	(1)	27	(37)	11	11	(15)
Standard Bank Group headline earnings from continuing operations	21 087	(5 746)	(2 398)	12 943	17 704	(4 832)	(2 232)	10 640
Profit for the year from discontinued operations	965	(324)	(160)	481	636	(208)	(80)	348
Headline adjustable items reversed	(49)	17	8	(24)	(38)	13	6	(19)
Profit on sale of property and equipment – IAS 16	(1)			(1)				
Realised gains on available-for-sale assets – IAS 39	(48)	17	8	(23)	(38)	13	6	(19)
Standard Bank Group headline earnings from discontinued operations	916	(307)	(152)	457	598	(195)	(74)	329
Standard Bank Group headline earnings	22 003	(6 053)	(2 550)	13 400	18 302	(5 027)	(2 306)	10 969

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. 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 the sale of ring-fenced private equity joint ventures or associates that are held by a banking institution. Refer to annexure C on page 213 for the required disclosure in terms of the circular.

32. 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:

	2011	2010
Earnings based on weighted average shares in issue (Rm)		
Headline earnings	13 400	10 969
Continuing operations	12 943	10 640
Discontinued operations	457	329
Earnings attributable to ordinary shareholders	13 226	10 774
Continuing operations	12 745	10 426
Discontinued operations	481	348
Weighted average number of ordinary shares in issue (number of shares)		
Weighted average number of ordinary shares in issue before adjustments	1 587 053 915	1 576 091 961
Adjusted for shares held pursuant to Tutuwa initiative[1]	(63 478 810)	(63 478 810)
Adjusted for deemed treasury shares held by entities within the group[2]	(13 223 280)	(20 657 018)
	1 510 351 825	1 491 956 133
Headline earnings per ordinary share (cents)	887,2	735,2
Continuing operations	857,0	713,2
Discontinued operations	30,2	22,0
Basic earnings per ordinary share (cents)	875,7	722,1
Continuing operations	843,9	698,8
Discontinued operations	31,8	23,3
Diluted earnings per ordinary share		
Weighted average number of ordinary shares in issue (number of shares)	1 510 351 825	1 491 956 133
Adjusted for the following potential dilution:		
Standard Bank Group Share Incentive Scheme	3 154 095	5 322 975
Standard Bank Equity Growth Scheme	5 798 170	8 667 846
Tutuwa initiative[3]	38 110 854	42 053 769
Tutuwa consortium and Community Trust	26 618 355	29 508 183
Black Managers' Trust	11 492 499	12 545 586
Diluted weighted average number of ordinary shares in issue (number of shares)	1 557 414 944	1 548 000 723
Diluted headline earnings per ordinary share (cents)	860,4	708,6
Continuing operations	831,1	687,3
Discontinued operations	29,3	21,3
Diluted earnings per ordinary share (cents)	849,2	696,0
Continuing operations	818,3	673,5
Discontinued operations	30,9	22,5

[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 held pursuant to Tutuwa initiative.

Refer to page 37 of book I for further details on the Tutuwa initiative and the group shares held by entities within the group.

32. Earnings per ordinary share continued

4 745 950 (2010: 2 204 700) 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 share because they were non-dilutive.

20 162 766 (2010: 10 252 851) rights outstanding at the end of the year in terms of the Standard Bank Equity Growth Scheme, convertible into nil (2010: nil) 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 non-dilutive.

Dilutive impact of shares issued during the year

2 377 250 (2010: 2 606 250) share options were issued during the year in terms of the Standard Bank Group Share Incentive Scheme, of which 50 000 (2010: 295 000) were included in the calculation of diluted earnings per ordinary share because they were dilutive.

11 005 225 (2010: 11 724 941) rights were issued during the year in terms of the Standard Bank Equity Growth Scheme, of which 303 000 (2010: 798 340) rights were convertible into 9 761 (2010: 27 066) ordinary shares which were included in the calculation of diluted earnings per ordinary share because they were dilutive.

Refer to annexure D on page 216 for further details on the group's share incentive schemes.

	2011 Rm	2010 Rm
33. Distributions		
Ordinary shares		
Distribution No. 83 of 245,0 cents per share (2010: 245,0 cents per share), paid on 11 April 2011 to shareholders registered on 8 April 2011	3 888	3 834
Less: Scrip taken up by shareholders		(2 201)
Cash distribution elected by shareholders	3 888	1 633
Dividend No. 84 of 141,0 cents per share (2010: 141,0 cents per share), paid on 12 September 2011 to shareholders registered on 9 September 2011	2 238	2 227
	6 126	3 860
A final dividend No. 85 of 284,0 cents per share, payable on 2 April 2012, was declared to shareholders registered on 30 March 2012, bringing the total dividends declared in respect of 2011 to 425,0 cents per share (2010: 386,0 cents).		
Preference shares		
6,5% first cumulative preference shares:		
Dividend No. 83 of 3,25 cents per share (2010: 3,25 cents) paid on 4 April 2011 to shareholders registered on 1 April 2011	–	–
Dividend No. 84 of 3,25 cents per share (2010: 3,25 cents) paid on 5 September 2011 to shareholders registered on 2 September 2011	–	–
Non-redeemable, non-cumulative, non-participating preference shares		
Dividend No. 13 of 337,90 cents per share (2010: 374,76 cents) paid on 4 April 2011 to shareholders registered on 1 April 2011	179	199
Dividend No. 14 of 312,41 cents per share (2010: 355,16 cents) paid on 5 September 2011 to shareholders registered on 2 September 2011	166	188
	345	387

6,5% first cumulative preference shares dividend No. 85 of 3,25 cents per share (2010: 3,25 cents), payable on 26 March 2012, was declared to shareholders registered on 23 March 2012.

Non-redeemable, non-cumulative, non-participating preference shares dividend No. 15 of 317,59 cents per share (2010: 337,90 cents), payable on 26 March 2012, was declared to shareholders registered on 23 March 2012.

		2011 Rm	2010 Rm
34.	**Statement of cash flows notes**		
34.1	**Decrease/(increase) in income-earning assets**		
	Net derivative assets	6 672	2 127
	Trading assets	2 695	(746)
	Pledged assets	(2 899)	(6 805)
	Financial investments	(3 825)	(18 700)
	Loans and advances	(71 042)	(24 022)
	Other assets	(4 487)	3 104
		(72 886)	(45 042)
34.2	**Increase/(decrease) in deposits and other liabilities**		
	Deposit and current accounts	67 841	67 150
	Trading liabilities	(2 469)	(16 757)
	Other liabilities and provisions	5 636	2 588
		71 008	52 981
34.3	**Direct taxation paid**		
	Taxation payable and deferred taxation at the beginning of the year	(4 676)	(5 410)
	Reclassified as held for sale	(120)	
	Net addition through business acquisition	35	(3)
	Direct taxation	(5 731)	(4 870)
	Recognised directly in equity and other comprehensive income	(18)	129
	Recognised in profit or loss	(5 713)	(4 999)
	Taxation payable and deferred taxation at the end of the year	4 153	4 676
		(6 339)	(5 607)
34.4	**Net cash flows from/(used in) discontinued operations**		
	Cash and cash equivalents at the beginning of the year	4 231	4 497
	Net cash flows from operating activities	117	419
	Net cash flows used in investing activities	(247)	(218)
	Effect of exchange rate changes on cash and cash equivalents	748	(467)
	Cash and cash equivalents at the end of the year	4 849	4 231
34.5	**Net cash outflow resulting from the acquisition of subsidiaries**		
	Net cash outflow resulting from the acquisition of subsidiaries	153	
	Comprising:		
	Trading assets	270	
	Loans and advances	259	
	Current and deferred taxation	35	
	Other assets	46	
	Goodwill and other intangible assets	46	
	Property and equipment	101	
	Trading liabilities	(246)	
	Other liabilities	(250)	
	Fair value of net assets acquired	261	
	Deemed disposal of associate (note 12)	(108)	
	Net cash outflow resulting from acquisition of subsidiaries	153	

		2011 Rm	2010 Rm
34.	**Statement of cash flows notes** continued		
34.6	**Net dividends paid**		
	Dividends to ordinary shareholders	**(6 126)**	(3 860)
	Dividends to preference shareholders	**(345)**	(387)
	Dividends received in terms of the Tutuwa initiative and on deemed treasury shares	**170**	157
	Dividends to non-controlling shareholders in subsidiaries	**(950)**	(841)
		(7 251)	(4 931)
34.7	**Cash and cash equivalents**		
	Cash and balances with central banks (note 3)	**31 907**	28 675
	Cash and balances with central banks held for sale (note 7)	**4 849**	
		36 756	28 675

35. Reclassification of financial assets previously reclassified

Amount reclassified from held-for-trading to loans and receivables at amortised cost

Following the amendments to IAS 39, 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 and previous year.

	2011 Rm	2010 Rm
Carrying value of reclassified financial assets at the end of the year	**2 451**	3 870
Fair value of reclassified financial assets at the end of the year	**2 364**	3 671

A fair value loss of R23 million (2010: R38 million) after tax together with other post-tax losses of R1 million (2010: R46 million) and foreign currency translation losses of R8 million (2010: R14 million gain) would have been recognised in 2011 had all reclassifications not been effected.

The table below sets out the amounts actually recognised in profit or loss:

	2011 Rm	2010 Rm
Period after reclassification		
Net interest income	**132**	262
Credit impairments	**(219)**	(85)

36. Related party transactions

36.1 Parent

Standard Bank Group Limited is the ultimate holding company of the Standard Bank Group of companies.

36.2 Subsidiaries

Details of effective interests, investments in and loans to subsidiaries are disclosed in annexure B.

36.3 Associates and joint ventures

Details of effective interests, investments in and loans to associates and joint ventures are disclosed in annexure C. SBSA, a subsidiary of Standard Bank Group Limited, has purchased Rnil (2010: R3 273 million) of home loans from South African Home Loans Proprietary Limited during the year. South African Home Loans Proprietary Limited also originates loans on behalf of SBSA and Blue Banner Securitisation Vehicle RCI Proprietary Limited, an SPE of the group. Origination, management and performance fees incurred by the group amounted to R150 million (2010: R61 million) for the year.

36.4 Key management personnel

Key management personnel includes: The members of the Standard Bank Group Limited board of directors and prescribed officers effective for 2011 and the members of the Standard Bank Group Limited board of directors and Standard Bank Group Limited executive committee which was effective for 2010. The group executive committee has been restructured commencing January 2011. Non-executive directors are included in the definition of key management personnel as required by IAS 24 *Related Party Disclosure* (IAS 24). The definition of key management includes the close members of family of key management personnel and any entity over which key management exercise control, joint control or significant influence. Close members of family are those family members who may be expected to influence, or be influenced by that person in their dealings with SBG. They include the person's domestic partner and children, the children of the person's domestic partner, and dependants of the person or the person's domestic partner.

	2011 Rm	2010 Rm
The table below sets out for comparison purposes the key management compensation restated for 2010 based on the key management structure effective for 2011.		
Key management compensation		
Salaries and other short-term benefits	96	76
Post-employment benefits	4	4
IFRS 2 value of share options and rights expensed	41	30
	141	110
The following table below sets out the key management compensation for 2010 based on the key management structure effective for 2010.		
Key management compensation		
Salaries and other short-term benefits		178
Post-employment benefits		9
Other long-term benefits		2
Termination benefits		6
IFRS 2 value of share options and rights expensed		48
		243
The transactions below are entered into in the normal course of business.		
Loans and advances		
Loans outstanding at the beginning of the year	50	19
Change in key management structures	(21)	
Loans granted during the year	20	66
Loan repayments during the year	(22)	(35)
Loans outstanding at the end of the year	27	50
Net interest earned	2	3

Loans include mortgage loans, instalment sale and finance leases and credit cards. No specific impairments have been recognised in respect of loans granted to key management (2010: Rnil). The mortgage loans and instalment sale and finance leases are secured by the underlying assets. All other loans are unsecured.

		2011 Rm	2010 Rm
36.	**Related party transactions** continued		
36.4	**Key management personnel** continued		
	Deposit and current accounts		
	Deposits outstanding at the beginning of the year	527	264
	Change in key management structures	(429)	
	Net deposits received during the year	31	263
	Deposits outstanding at the end of the year	129	527
	Net interest expense	2	17
	Deposits include cheque, current and savings accounts.		
	Insurance and investment		
	Details of key management personnel's investment transactions and balances with Standard Bank Group are set out below.		
	Insurance		
	Premiums received relating to life, disability and other insurance		1
	Investment products		
	Balance at the beginning of the year	1 062	935
	Change in key management structures	(846)	
	Investments placed during the year	59	367
	Investments repaid during the year	(56)	(240)
	Balance at the end of the year	219	1 062
	Net investment return	8	159
	Third-party funds under management		
	Fund value balance at the beginning of the year	480	589
	Change in key management structures	(119)	
	Net deposits/(withdrawals) including commission and other transaction fees	25	(109)
	Fund value at the end of the year	386	480
	Other fees		
	Financial consulting fees and commissions	9	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)	12 946 766	13 203 729
	Share options held (number)	6 451 500	10 340 300

	2011 Rm	2010 Rm
36. Related party transactions continued		
36.5 Transactions with a shareholder		
The following transactions took place between the group and ICBC, a 20% shareholder of Standard Bank Group:		
Revenue		
Trading revenue	29	
Net interest income	41	6
Total revenue earned	70	6
Deposits		
Deposits outstanding at the beginning of the year	953	1 150
Net deposits received/(repaid) during the year	323	(197)
Deposits outstanding at the end of the year	1 276	953

36.6 Other contracts

Saki Macozoma, a director and deputy chairman of the company, has an effective shareholding of 26,62% in Safika, which is a member of three different consortia that were party to the Andisa Capital and the Tutuwa transactions. Safika holds effective interests of 2,50% in Liberty Holdings Limited and 1,40% in Standard Bank Group Limited. The group holds an effective interest of 20,33% in Safika.

Cyril Ramaphosa, a director of the company, has an effective shareholding of 29,63% in Shanduka, which is a member of the Tutuwa consortium. Shanduka holds effective interests of 1,44% in Liberty Holdings Limited and 1,20% in Standard Bank Group Limited. The group holds an effective interest of 13,00% in Shanduka.

In 2010, 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 in early 2011.

36.7 Post-employment benefit plans

	2011 Rm	2010 Rm
Details of balances with SBG and transactions between SBG and the group's post-employment benefit plans are listed below:		
Fee income	40	52
Deposits held with the group	566	638
Interest paid	234	193
Value of assets under management	10 363	10 525
Investments held in bonds and money market	1 214	886
Number of ordinary Standard Bank Group Limited shares held ('000)	1 453	1 908

	2011 Rm	2010 Rm
37. Pensions and other post-employment benefits		
Amount recognised as assets in the statement of financial position (note 11)		
Standard Bank operations		
Retirement funds (note 37.1)	445	214
Post-employment healthcare benefits – provider funds (note 37.2)	308	252
Liberty		
Retirement funds (note 37.1)	199	202
	952	668
Amounts recognised as liabilities in the statement of financial position (note 21.2)		
Standard Bank operations		
Retirement funds (note 37.1)	65	57
Post-employment healthcare benefits – other funds (note 37.2)	743	731
Liberty		
Post-employment healthcare benefits (note 37.3)	459	400
	1 267	1 188

The total amount recognised as an expense for the defined contribution plans operated by the group amounted to R975 million (2010: R1 047 million).

37.1 Retirement funds

37.1.1 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 24 of 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.

37.1.2 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 24 of 1956.

[1] *This includes the Liberty Group defined benefit pension fund, ACA defined benefit fund and Rentmeester defined benefit fund.*

	2011 Rm	2010 Rm
37. Pensions and other post-employment benefits continued		
37.1 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	22 701	22 028
Fair value of plan assets	(23 769)	(23 774)
Surplus	(1 068)	(1 746)
Defined benefit pension fund employer surplus[1]	(199)	(202)
Unrecognised actuarial gains	688	1 589
Included in the statement of financial position	(579)	(359)
Comprising:		
SBGRF	(445)	(214)
Liberty retirement funds	(199)	(202)
Other retirement funds	65	57
	(579)	(359)

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.

	2011 Rm	2010 Rm
Movement in the present value of funded obligations		
Balance at the beginning of the year	22 028	21 103
Adjustment[2]		2
Current service cost and interest cost	2 355	2 377
Employee contributions	502	432
Actuarial gains	(187)	(152)
Exchange differences	138	(81)
Benefits paid	(2 135)	(1 653)
Balance at the end of the year	22 701	22 028
Movement in the fair value of plan assets		
Balance at the beginning of the year	23 774	22 696
Expected return on plan assets	1 961	2 345
Contributions received	1 065	897
Actuarial losses	(986)	(472)
Reduction in employer surplus account	(14)	
Exchange differences	107	(41)
Benefits paid	(2 138)	(1 651)
Balance at the end of the year	23 769	23 774
Plan assets consist of the following:		
Cash	1 892	3 627
Equities	11 213	9 219
Government bonds	6 564	5 322
Property and other	4 100	5 606
	23 769	23 774

Plan assets include R19 million (2010: R15 million) of property occupied by the group.

The group expects to pay R553 million in contributions to the Standard Bank retirement funds in 2012 (2011: R519 million).

[1] 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 Fund 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.
[2] 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.

	2011 Rm	2010 Rm
37. Pensions and other post-employment benefits continued		
37.1 Retirement funds continued		
The amounts recognised in profit or loss are determined as follows:		
Current service cost	539	445
Interest cost	1 816	1 933
Expected return on plan assets	(1 961)	(2 345)
Net actuarial gains recognised during the year	(78)	(93)
Curtailment gain	(28)	
Included in staff costs	288	(60)
Actual return on plan assets	796	2 174

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

	2011 Rm	2010 Rm	2009 Rm	2008 Rm	2007 Rm
Present value of funded obligation	22 701	22 028	20 951	20 763	24 254
Fair value of plan assets	(23 769)	(23 774)	(22 686)	(20 855)	(24 696)
Surplus	(1 068)	(1 746)	(1 735)	(92)	(442)
Excess not recognised	112	111	96	91	459
(Surplus)/unfunded obligation	(956)	(1 635)	(1 639)	(1)	17
Defined benefit pension fund employer surplus included in other assets in the statement of financial position	199	202	170	144	162
Experience adjustments arising on plan liabilities	(234)	(227)	1 605	4 966	(1 582)
Experience adjustments arising on plan assets	(980)	(586)	(7)	(4 985)	1 041

37. Pensions and other post-employment benefits continued

37.2 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 or withdrawal 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 at 31 December 2011. The next actuarial valuation is to be performed at 31 December 2012.

	2011 Rm	2010 Rm
The amounts recognised in the statement of financial position in respect of post-employment healthcare benefits are determined as follows:		
Present value of unfunded defined benefit obligations	743	720
Present value of funded defined benefit obligations	861	694
Total present value of defined benefit obligations	1 604	1 414
Fair value of plan assets	(1 264)	(1 340)
Unfunded obligation	340	74
Unrecognised actuarial gains	95	405
Included in the statement of financial position	435	479
Comprising:		
Provider fund	(308)	(252)
Other funds	743	731
	435	479
Movement in the present value of defined benefit obligations		
Balance at the beginning of the year	1 414	1 304
Current service cost and interest cost	156	158
Exchange differences	(23)	(5)
Actuarial losses	182	121
Benefits paid	(125)	(164)
Balance at the end of the year	1 604	1 414

	2011 Rm	2010 Rm
37. Pensions and other post-employment benefits continued		
37.2 Standard Bank post-employment healthcare benefits continued		
Movement in the fair value of plan assets		
Balance at the beginning of the year	1 340	1 237
Expected return on plan assets	117	121
Actuarial (losses)/gains	(122)	91
Benefits paid	(71)	(109)
Balance at the end of the year	1 264	1 340
Plan assets consist of the following:		
Cash	249	210
Equities	499	856
Government bonds	397	116
Property and other	119	158
	1 264	1 340

The group expects to pay R52 million in contributions to post-employment healthcare benefit plans in 2012 (2011: R51 million).

	2011 Rm	2010 Rm
The amounts recognised in profit or loss are determined as follows:		
Current service cost	38	36
Interest cost	118	122
Expected return on plan assets	(117)	(121)
Net actuarial gains recognised in the year	(13)	(86)
Included in staff costs	26	(49)
Actual return on plan assets	(5)	212

37. Pensions and other post-employment benefits continued

37.2 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:

	2011		2010	
	1% increase Rm	1% decrease Rm	1% increase Rm	1% decrease Rm
Effect on the aggregate of the current service cost and interest cost	11	(8)	8	(6)
Effect on the defined benefit obligation	92	(77)	74	(63)

Historical information

	2011 Rm	2010 Rm	2009 Rm	2008 Rm	2007 Rm
Present value of obligations	1 604	1 414	1 456	1 433	1 411
Fair value of plan assets	(1 264)	(1 340)	(1 247)	(1 157)	(1 374)
Unfunded obligation	340	74	209	276	37
Experience adjustments arising on plan liabilities	(185)	(166)	(111)	84	280
Experience adjustments arising on plan assets	(122)	91	91	(276)	134

37.3 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.

	2011 Rm	2010 Rm	2009 Rm	2008 Rm	2007 Rm
Movement in the liability recognised in the statement of financial position					
Present value of unfunded defined benefit obligations at the beginning of the year	400	354	344	293	261
Additions through business acquisition					11
Benefits paid	(9)	(8)	(7)	(6)	(6)
Recognised in profit or loss	68	54	17	57	27
Present value of unfunded defined benefit obligations at the end of the year	459	400	354	344	293

	2011 Rm	2010 Rm
37. Pensions and other post-employment benefits continued		
37.3 Liberty post-employment healthcare benefits continued		
The amounts recognised in profit or loss are determined as follows:		
Current service cost	8	6
Interest cost	34	34
Actuarial losses	26	14
Included in staff costs	68	54

A one percentage point change in medical inflation rates would have the following effect on the post-employment medical aid liability recognised:

	2011		2010	
	1% increase Rm	1% decrease Rm	1% increase Rm	1% decrease Rm
Increase/(decrease) in the liability	79	(64)	71	(56)

37.4 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 %
2011					
Discount rate	8,76	8,76	8,76	8,76	8,78
Return on investments	8,76	8,76	8,76	8,76	8,78
Salary/benefit inflation	7,37	8,37		6,11	
CPI inflation	6,37	6,37	6,37	5,12	
Medical inflation			7,42		7,38
Remaining service life of employees (years)	12,94	16,48		12,41	
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	5,43	
Medical inflation			6,92		6,10
Remaining service life of employees (years)	13,42	14,00		12,91	

Statement of financial position as at 31 December 2011

	Note	Company 2011 Rm	Company 2010 Rm
Assets			
Current tax		37	
Deferred tax	38		52
Other assets		607	301
Interest in subsidiaries	39	56 425	55 362
Interest in associates	40	142	144
Total assets		57 211	55 859
Equity and liabilities			
Equity		57 114	55 857
Share capital and premium	16	23 238	23 025
Reserves		33 876	32 832
Liabilities		97	2
Current tax			1
Deferred tax	38	6	
Other liabilities		91	1
Total equity and liabilities		57 211	55 859

Statement of comprehensive income for the year ended 31 December 2011

	Note	Company 2011 Rm	Company 2010 Rm
Dividends from subsidiaries		7 612	5 168
Interest income		135	307
Other income	41	(6)	(15)
Total income		7 741	5 460
Operating expenses		6	5
Profit before direct taxation		7 735	5 455
Direct taxation	42	182	158
Profit for the year		7 553	5 297
Other comprehensive income			
Fair value adjustments on cash flow hedges		(85)	
Total comprehensive income		7 468	5 297

Statement of cash flows for the year ended 31 December 2011

	Note	Company 2011 Rm	Company 2010 Rm
Operating activities			
Profit before direct taxation		7 735	5 455
Adjusted for:			
Dividends received		(7 612)	(5 168)
Interest income		(135)	(307)
Fair value adjustments on derivatives			(3)
Net cash flows used in operating activities		(12)	(23)
Interest received		135	317
Dividends received		7 612	5 168
Taxation paid	43.1	(129)	(90)
Net cash flows used in operating funds	43.2	(334)	(197)
Net cash flows used in investing activities		(1 014)	(1 253)
Decrease in interest in associates		2	32
Increase in investment in subsidiaries	43.3	(1 016)	(1 285)
Net cash flows used in financing activities		(6 258)	(3 922)
Proceeds from issue of share capital		213	325
Net dividends paid	43.4	(6 471)	(4 247)
Net increase in cash and cash equivalents		–	–
Cash and cash equivalents at the beginning of the year		–	–
Cash and cash equivalents at the end of the year		–	–

Statement of changes in equity for the year ended 31 December 2011

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 2010		22 700	399	3 100	969	(2 031)	29 235	54 372
Issue of share capital and share premium	16.2	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	33					(340)	(3 907)	(4 247)
Balance at 31 December 2010		23 025	81	3 100	969	(2 371)	31 053	55 857
Balance at 1 January 2011		**23 025**	**81**	**3 100**	**969**	**(2 371)**	**31 053**	**55 857**
Issue of share capital and share premium	16.2	**213**						**213**
Equity-settled share-based payment transactions			**47**					**47**
Transfer of vested equity options			**(11)**				**11**	
Total comprehensive income					**(85)**		**7 553**	**7 468**
Dividends paid	33					**(132)**	**(6 339)**	**(6 471)**
Balance at 31 December 2011		**23 238**	**117**	**3 100**	**884**	**(2 503)**	**32 278**	**57 114**

		Company 2011 Rm	Company 2010 Rm
38.	**Deferred tax**		
	Secondary tax on companies	(39)	52
	Deferred tax on cash flow hedge reserve recognised in other comprehensive income	33	
	Deferred tax (liability)/asset	(6)	52
38.1	**Deferred tax reconciliation**		
	Deferred tax asset at the beginning of the year	52	110
	(Reversing)/originating temporary difference for the year		
	Secondary tax on companies	(91)	(53)
	Deferred tax on cash flow hedge reserve recognised in other comprehensive income	33	
	Fair value adjustment		(5)
	Deferred tax (liability)/asset at the end of the year	(6)	52
39.	**Interest in subsidiaries**		
	Shares at cost	53 867	50 280
	Net indebtedness to the company	1 777	4 348
	Indebtedness to the company	2 611	5 143
	Indebtedness by the company	(834)	(795)
	Investment through equity-settled share incentives	781	734
		56 425	55 362
	Subsidiaries and investments and loans therein, are listed in annexure B on page 208.		
40.	**Interest in associates**		
	Carrying value at the beginning of the year	144	176
	Disposal of associate	(2)	(32)
	Carrying value at the end of the year	142	144
	The associates include an investment in South African Home Loans Proprietary Limited, refer to annexure C on page 213.		
41.	**Other income**		
	Realised losses on derivatives	(6)	(18)
	Fair value adjustments on derivatives		3
		(6)	(15)

		Company 2011 Rm	Company 2010 Rm
42.	**Direct taxation**		
	Current year		
	South African normal tax	59	101
	Deferred tax charge		5
	Capital gains tax		(1)
	Foreign and withholding taxes	32	
	Secondary tax on companies – deferred tax	91	53
	Direct taxation	182	158
	Deferred tax on cash flow hedge reserve recognised in other comprehensive income	33	
	Total direct taxation recognised in the statement of comprehensive income	215	158
	South African tax rate reconciliation (%)		
	Effective tax rate	2	3
	Secondary tax on companies	(1)	(1)
	Net tax charge	1	2
	The charge for the year has been reduced as a consequence of:		
	Dividends received	27	26
	Standard rate of South African tax	28	28
43.	**Cash flow statement notes**		
43.1	**Taxation paid**		
	Current and deferred taxation receivable at the beginning of the year	52	110
	Direct taxation	(215)	(158)
	Recognised in profit or loss	(182)	(158)
	Deferred tax on cash flow hedge reserve recognised in other comprehensive income	(33)	
	Increase due to interest charge allocated to interest expense		9
	Withholding taxes realised	32	
	Tax on cash flow hedge	33	
	Current taxation (receivable)/payable at the end of the year	(37)	1
	Deferred taxation payable/(receivable) at the end of the year	6	(52)
		(129)	(90)
43.2	**Net cash flows used in operating funds**		
	Increase in other assets	(424)	(194)
	Increase/(decrease) in other liabilities	90	(3)
		(334)	(197)
43.3	**Increase in investment in subsidiaries**		
	Cost of investment in subsidiaries net of disposal	(3 587)	(1 174)
	Movement in net indebtedness	2 571	(111)
		(1 016)	(1 285)
43.4	**Net dividends paid**		
	Dividends paid to ordinary shareholders	(6 126)	(3 860)
	Dividends paid to preference shareholders	(345)	(387)
		(6 471)	(4 247)

44. Liquidity, credit and market risk information

Indebtedness to the company consists mainly of cash held in current and call accounts with SBSA and is considered to be neither past due nor impaired.

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.

45. 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 208 to 212.

Annexure A – restatements

Group statement of financial position restatements

	December 2010			December 2009		
	As previously reported Rm	Commodity restatement[1] Rm	Restated Rm	As previously reported Rm	Commodity restatement[1] Rm	Restated Rm
Assets						
Cash and balances with central banks	28 675		28 675	24 983		24 983
Derivative assets	149 682		149 682	122 194		122 194
Trading assets	80 679		80 679	88 413		88 413
Pledged assets	6 390	(3 899)	2 491	5 808		5 808
Financial investments[2]	283 295		283 295	261 066		261 066
Loans and advances	710 722		710 722	721 389		721 389
Current tax assets	473		473	136		136
Deferred tax assets	1 166		1 166	1 345		1 345
Other assets	17 882		17 882	16 926		16 926
Interest in associates and joint ventures	10 533		10 533	9 529		9 529
Investment property	21 521		21 521	19 058		19 058
Goodwill and other intangible assets	10 383		10 383	9 409		9 409
Property and equipment	14 907		14 907	12 250		12 250
Total assets	1 336 308	(3 899)	1 332 409	1 292 506		1 292 506
Equity and liabilities						
Equity	103 198		103 198	99 369		99 369
Equity attributable to ordinary shareholders	87 073		87 073	84 022		84 022
Preference share capital and premium	5 503		5 503	5 503		5 503
Non-controlling interest	10 622		10 622	9 844		9 844
Liabilities	1 233 110	(3 899)	1 229 211	1 193 137		1 193 137
Derivative liabilities	145 004		145 004	115 221		115 221
Trading liabilities	30 375		30 375	51 118	3 387	54 505
Deposit and current accounts[3]	789 500	(3 899)	785 601	768 548	(3 387)	765 161
Current tax liabilities	3 423		3 423	3 634		3 634
Deferred tax liabilities	2 892		2 892	3 257		3 257
Other liabilities	40 900		40 900	40 403		40 403
Policyholders' liabilities	197 878		197 878	184 300		184 300
Subordinated debt	23 138		23 138	26 656		26 656
Total equity and liabilities	1 336 308	(3 899)	1 332 409	1 292 506		1 292 506

[1] Following a review of the group's commodity transactions in terms of IFRS and group accounting policies, certain commodity transactions that had previously been classified as deposits from banks were reclassified to trading liabilities in 2009. The subsequent settlement of those trading liabilities reduced pledged assets and deposits from banks in 2010. The group believes that this restatement better reflects the nature of the underlying transactions. The restatement had no impact on reserves or the income statement.

[2] An amount of R4 346 million was reclassified from designated at fair value to held-to-maturity for financial investments to reflect the original intention of management. No adjustments to the carrying value of the financial investments arose as a result of the reclassification.

[3] An amount of R26 992 million was reclassified from other amortised cost to designated at fair value for deposits from customers to reflect the original intention of management. No adjustments to the carrying value of the deposits from customers arose as a result of the reclassification.

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 Bank Zimbabwe

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 IBTC Bank PLC, Nigeria (52,7%)
- Standard Bank Limited, Malawi (60,2%)
- Standard Bank Mauritius
- Standard Bank s.a.r.l Mozambique (98%)
- Standard Bank RDC, DR Congo

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 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%)[2]

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

Liberty Holdings[1] **(53,62%)**

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]
- CfC Insurance Holdings (56,82%)
- Neil Harvey and Associates[1] (74,9%)

[1] Incorporated in South Africa.
[2] Held for sale, refer to note 7.

This diagram depicts principal subsidiaries only.

The holding in subsidiaries is 100% unless otherwise indicated. The country of incorporation is stated where not obvious from the entity's name.

	Nature of operation	Nominal share capital issued Rm	Effective holding 2011 %	Effective holding 2010 %	Book value of shares 2011 Rm	Book value of shares 2010 Rm	Net indebtedness 2011 Rm	Net indebtedness 2010 Rm
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	99	99				
Standard 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)	Commercial bank	**	100	100	135			
Stanbic IBTC Bank PLC (Nigeria)[1#]	Commercial bank	516	53	51				
Standard Bank Argentina S.A. (Argentina)[1]	Commercial 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	100	350	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	2 024	929		
Standard Bank s.a.r.l. (Mozambique)[1#]	Commercial bank	56	98	96				
Standard Bank Swaziland Limited (Swaziland)[#]	Commercial bank	15	65	65	33	33		
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	27 097	25 097	1 776[3]	4 379[3]

Standard Bank Group will ensure that, except in the case of political risk, its subsidiaries denoted by # are able to meet their contractual liabilities.

See footnotes on page 212.

Annexure B – subsidiaries continued

	Nature of operation	Nominal share capital issued Rm	Effective holding 2011 %	Effective holding 2010 %	Book value of shares 2011 Rm	Book value of shares 2010 Rm	Net indebtedness 2011 Rm	Net indebtedness 2010 Rm
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]	Securitisation vehicle							
Diners Club (SA) (Pty) Limited[1#]	Travel and entertainment card	**	100	100				
eCentric Switch Proprietary Limited	Development and marketing transactions – switching software and services	**	80	60				
Erf 224 Edenburg (Pty) Limited	Property holding and development	**	100	100				
Gleneagles Retail Centre (Pty) Limited	Property owning and investing company	**	100	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[#]	Asset and portfolio management	**	100	100	53	53		
SBG Securities (Pty) Limited[6#]	Stockbrokers	**	100		181			
SBIC Finance Limited (Isle of Man)[1]	Project finance	**	100	100				
SBIC Investments S.A. (Luxembourg)[1#]	Investment holding company	542	100	100				

See footnotes on page 212.

	Nature of operation	Nominal share capital issued Rm	Effective holding 2011 %	Effective holding 2010 %	Book value of shares 2011 Rm	Book value of shares 2010 Rm	Net indebtedness 2011 Rm	Net indebtedness 2010 Rm
Non-banking subsidiaries continued								
SBN Holdings Limited (Namibia)	Bank holding company	**	**100**	100				
Siyakha Fund (Pty) Limited[4]	Securitisation vehicle							
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 Properties (Pty) Limited	Properties and financial services	**	**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 Executors and Trustees Limited[#]	Trust company	**	**100**	100				
Standard Finance (Isle of Man) Limited (Isle of Man)[1#]	Finance company	**	**100**	100				

See footnotes on page 212.

	Nature of operation	Nominal share capital issued Rm	Effective holding 2011 %	Effective holding 2010 %	Book value of shares 2011 Rm	Book value of shares 2010 Rm	Net indebtedness 2011 Rm	Net indebtedness 2010 Rm
Non-banking subsidiaries continued								
Standard Financial Markets (Pty) Limited[6#]	Stockbrokers	**		100				
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	**1**	(31)
					53 867	50 280	**1 777**	4 348

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 mainly cash held in current and call accounts.
[4] Consolidated special purpose entity, no shareholding.
[5] Listed on the exchange operated by the JSE.
[6] The group purchased the remaining 50% shareholding in its former associate, Credit Suisse Standard Securities Proprietary Limited, in January 2011 and renamed the business SBG Securities Proprietary Limited. Subsequently, Standard Financial Markets acquired the business undertaking of SBG Securities Proprietary Limited and the resultant entity was renamed as SBG Securities Proprietary Limited.
[**] Issued share capital less than R1 million.

Annexure C – associates and joint ventures

	Troika Dialog Group Limited[1]		RCS Investment Holdings Proprietary Limited		Safika Holdings Proprietary Limited	
Ownership structure	Associate		Associate		Associate	
Nature of business	Investment banking		Finance		Investment holding company	
Year end	September		March		February	
Date to which equity accounted	31 March 2011		31 December 2011		31 December 2011	
	2011	2010	**2011**	2010	**2011**	2010
Effective holding (%)		36	**45**	45	**20**	20
	Rm	Rm	**Rm**	Rm	**Rm**	Rm
Carrying value		2 467	**724**	623	**457**	411
Balance sheet[2]						
Non-current assets		2 803	**99**	96	**2 924**	3 703
Current assets		35 002	**3 335**	2 732	**521**	602
Non-current liabilities		(420)	**(2 039)**	(1 634)	**(714)**	(1 083)
Current liabilities		(31 661)	**(225)**	(283)	**(409)**	(421)
Loans to entity[3]		332	**392**	92		
Attributable income before impairments		370	**100**	82	**85**	51

	The Cullinan Hotel Proprietary Limited		South African Home Loans Proprietary Limited		Credit Suisse Standard Securities Proprietary Limited[4]	
Ownership structure	Joint venture		Associate		Joint venture	
Nature of business	Leisure		Finance		Stockbroker	
Year end	March		February		February	
Date to which equity accounted	31 December 2011		31 December 2011		31 December 2010	
	2011	2010	**2011**	2010	**2011**	2010
Effective holding (%)	**50**	50	**44**	44		50
	Rm	Rm	**Rm**	Rm	**Rm**	Rm
Carrying value	**394**	387	**423**	352		129
Balance sheet[2]						
Non-current assets	**730**	741	**199**	170		35
Current assets	**92**	90	**1 292**	1 123		567
Non-current liabilities			**(142)**	(122)		
Current liabilities	**(44)**	(58)	**(241)**	(211)		(391)
Loans to/(from) entity[3]	**64**	64	**279**	(461)		
Attributable income before impairments	**7**	44	**71**	56		(6)

[1] Due to Troika's September year-end, the group recognises earnings from this associate a quarter in arrears. Post the announcement of the sale of the group's investment in Troika in March 2011, the investment was classified as a non-current asset held for sale and was only equity accounted for the first quarter to 31 March 2011. The investment in Troika was agreed to be sold for an initial cash amount equal to its carrying value at 31 December 2010 of USD372 million and the group will receive an earn-out payment of approximately 8% of any increase in the value of Troika over USD1 billion determined over the three years to December 2013. This transaction was completed in January 2012.

[2] Represents the summarised financial information of the associates and joint ventures.

[3] These loans are provided on an arm's length basis.

[4] 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 was subsequently changed to SBG Securities Proprietary Limited. Refer to note 6 in annexure B.

Annexure C – associates and joint ventures continued

	Edu-Loan Proprietary Limited		Integrated Processing Solutions Proprietary Limited		Dairy Belle Proprietary Limited	
Ownership structure	Associate		Joint venture		Associate	
Nature of business	Student loans		Financial services		Dairy products	
Year end	December		December		September	
Date to which equity accounted	31 December 2011		31 December 2011		31 December 2011	
	2011	2010	**2011**	2010	**2011**	2010
Effective holding (%)	**29**	29	**50**	50	**50**	50
	Rm	Rm	**Rm**	Rm	**Rm**	Rm
Carrying value	**37**	41	**44**	41	*****	30
Balance sheet[1]						
Non-current assets	**13**	14	**27**	29	**405**	492
Current assets	**331**	338	**106**	86	**531**	587
Non-current liabilities	**(89)**	(36)	**(4)**		**(242)**	(580)
Current liabilities	**(147)**	(190)	**(53)**	(39)	**(317)**	(350)
Loans to entity[2]		154			**231**	224
Attributable income before impairments	**5**	8	**3**	6	**(3)**	(9)

	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 2011		31 December 2011			
	2011	2010	**2011**	2010	**2011**	2010
Effective holding (%)	**Various**	Various	**Various**	Various	**Various**	Various
	Rm	Rm	**Rm**	Rm	**Rm**	Rm
Carrying value	**123**	191	**36**	47	**2 238**	4 719
Balance sheet[1]						
Non-current assets	**1 522**	4 962	**24**	16	**5 943**	13 061
Current assets	**729**	2 702	**65**	61	**7 002**	43 890
Non-current liabilities	**(1 490)**	(2 729)	**(6)**	(6)	**(4 726)**	(6 610)
Current liabilities	**(580)**	(3 179)	**(57)**	(42)	**(2 073)**	(36 825)
Loans to/(from) entities[2]	**417**	(144)	**44**	44	**1 427**	305
Attributable income before impairments	**73**	36	**2**	15	**343**	653

[1] *Represents the summarised financial information of the associates and joint ventures.*
[2] *These loans are provided on an arm's length basis.*
* *Investment fully impaired.*

Private equity/venture capital associates and joint ventures[1]

	2011 Rm	2010 Rm
Cost	287	382
Carrying value	613	641
Statement of financial position[2]		
Non-current assets	4 239	5 204
Current assets	1 934	1 633
Non-current liabilities	(1 767)	(2 385)
Current liabilities	(1 176)	(1 104)
Loans to/(from) entity[3]	195	(37)
Income statement		
Attributable income before impairment	83	43
Impairments included in non-interest revenue	(60)	(43)
Fair value	591	651

All investments in associates and joint ventures, other than those recognised at fair value through profit and 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.

[1] Included in total associates and joint ventures on pages 213 and 214.
[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.

	2011 Rm	2010 Rm
Expenses recognised in staff costs		
Banking activities	846	747
Share options and appreciation rights	311	296
Standard International Holdings S.A. (SIH) long-term incentive scheme		(48)
Quanto stock scheme	467	394
Deferred bonus scheme (DBS)	68	47
Black ownership initiative (group equity participation plans)		58
Liberty	52	60
Share options	52	50
Black ownership initiative (group equity participation plans)		10
	898	807
Expenses recognised in restructuring costs – banking activities		
Share options and appreciation rights		26
DBS		5
		31
Liabilities recognised in other liabilities		
SIH long-term incentive scheme	43	50
Quanto stock scheme	1 116	605
DBS	137	77
	1 296	732

Further details on the group's share incentive schemes are provided below.

Share options and appreciation rights

SBG has two equity-settled schemes, namely the Group Share Incentive Scheme and the Equity Growth Scheme. The Group Share Incentive Scheme confers rights to employees to acquire ordinary shares at the value of the SBG share price at the date the option is granted. The Equity Growth Scheme was implemented in 2005 and 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 108 to 113 of book I 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) 2011	Number 2011	Number 2010
Reconciliation			
Options outstanding at the beginning of the year		15 104 350	19 123 282
Granted	93,74 – 107,55	2 377 250	2 606 250
Exercised	27,80 – 98,00	(2 962 100)	(5 762 232)
Lapsed	40,65 – 111,94	(289 400)	(862 950)
Options outstanding at the end of the year		14 230 100	15 104 350

Share options were exercised regularly throughout the period. The weighted average share price for the year was R98,66 (2010: R107,49).

Share options and appreciation rights continued

The following options granted to employees, including executive directors, had not been exercised at 31 December 2011:

Number of ordinary shares	Option price range (rand)	Weighted average exercise price (rand)	Option expiry period
428 600	27,80 – 35,70	28,01	Year to 31 December 2012
1 187 000	27,70 – 32,19	27,93	Year to 31 December 2013
2 036 800	39,90 – 48,00	40,73	Year to 31 December 2014
193 400	64,27 – 65,60	65,50	Year to 31 December 2015
738 600	76,40 – 85,80	79,54	Year to 31 December 2016
877 800	97,95 – 107,91	98,49	Year to 31 December 2017
1 955 650	89,00 – 92,00	91,94	Year to 31 December 2018
2 076 000	62,39 – 98,20	63,02	Year to 31 December 2019
2 395 000	102,00 – 114,60	110,96	Year to 31 December 2020
2 341 250	93,74 – 107,55	98,90	Year to 31 December 2021
14 230 100			

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 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	
	2011	2010	2011	2010
Number of options granted	1 265 000	1 516 000	1 112 250	1 090 250
Weighted average fair value at grant date (R)	33,47	39,68	35,28	41,42
The principle inputs are as follows:				
Weighted average share price (R)	98,89	111,17	98,91	110,86
Weighted average exercise price (R)	98,89	111,17	98,91	110,86
Expected life (years)	5,9	5,9	6,9	6,9
Expected volatility (%)	33,9 – 35,4	35,7 – 38,1	33,9 – 35,4	35,7 – 38,1
Risk-free interest rate (%)	7,0 – 8,2	7,1 – 8,7	7,3 – 8,4	7,2 – 8,8
Dividend yield (%)	3,7	3,7	3,7	3,7

The options granted during the year which are expected to vest, have an estimated fair value of R60 million (2010: R79 million).

Share options and appreciation rights continued

Equity Growth Scheme	Price range (rand) 2011	Number 2011	2010
Reconciliation			
Rights outstanding at the beginning of the year		47 163 913	41 257 077
Granted	90,50 – 107,55	11 005 225	11 724 941
Exercised[1]	90,50 – 109,32	(2 318 085)	(2 524 982)
Lapsed	62,39 – 111,94	(4 468 886)	(3 293 123)
Rights outstanding at the end of the year[2]		51 382 167	47 163 913

[1] During the year 322 684 (2010: 529 137) SBG shares were issued to settle the appreciated rights value.
[2] At the end of the year the group would need to issue 6 082 325 (2010: 9 400 489) SBG 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. 393 825 (2010: 487 285) SBG shares were issued and sold to settle the employees tax due during the year. This amount settled reduces the liability due in respect of the outstanding appreciated rights value.

The following rights granted to employees, including executive directors, had not been exercised at 31 December 2011:

Number of rights	Price range (rand)	Weighted average exercise price (rand)	Option expiry period
2 957 214	60,35 – 69,50	65,41	Year to 31 December 2015
5 000 707	76,40 – 87,00	79,63	Year to 31 December 2016
4 411 389	94,50 – 117,30	98,46	Year to 31 December 2017
9 060 200	69,99 – 100,08	91,82	Year to 31 December 2018
9 823 991	62,39 – 99,00	64,19	Year to 31 December 2019
9 913 191	102,00 – 116,80	111,41	Year to 31 December 2020
10 215 475	90,50 – 107,55	98,83	Year to 31 December 2021
51 382 167			

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)	Option 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			

Share options and appreciation rights continued

The share appreciation rights granted during the year were valued using a Black-Scholes option pricing model. Each grant was valued separately. The weighted fair value of the options granted per vesting type and the assumptions utilised are illustrated below:

	Type A		Type B	
	2011	2010	**2011**	2010
Number of appreciation rights granted	**5 903 947**	6 986 053	**5 101 278**	4 738 888
Weighted average fair value at grant date (R)	**33,47**	39,85	**35,26**	41,73
The principal inputs are as follows:				
Weighted average share price (R)	**98,87**	111,39	**98,81**	111,26
Weighted average exercise price (R)	**98,87**	111,39	**98,81**	111,26
Expected life (years)	**5,9**	5,9	**6,9**	6,9
Expected volatility (%)	**33,9 – 35,4**	35,5 – 38,3	**33,9 – 35,4**	35,5 – 38,3
Risk-free interest rate (%)	**6,5 – 8,3**	6,9 – 8,8	**6,8 – 8,4**	7,0 – 8,9
Dividend yield (%)	**3,7**	3,7	**3,7**	3,7

The appreciation rights granted during the year which are estimated to vest, have a fair value of R280 million (2010: R356 million).

Liberty has similar share-based payment transactions and has recognised a total expense of R52 million (2010: R50 million) relating to the share-based payments, comprising of R52 million (2010: R49 million) for share options and Rnil (2010: R1 million) relating to the SBG employee scheme.

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 SBG. From March 2005 shadow share options have been issued without funding from SBG 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 USD5,3 million at 31 December 2011 (2010: USD7,5 million), with no amount released or charged for the year (2010: USD6,6 million released).

	Option price range (USD)	Number	Number
SIH shadow share scheme	**2011**	**2011**	2010
Reconciliation			
Options outstanding at the beginning of the year		**14 848 677**	22 874 466
Lapsed	**0 – 2,83**	**(3 652 941)**	(3 285 870)
Transfers		**33 000**	
Exercised[1]	**0 – 2,79**	**(2 070 679)**	(4 739 919)
Options outstanding at the end of the year		**9 158 057**	14 848 677

[1] *During the year 31 200 (2010: 21 600) SBG shares were issued to settle the underpinning SIH shadow scheme liability.*

SIH long-term incentive scheme continued

The following options granted to employees had not been exercised at 31 December 2011:

Number of ordinary shares	Option price range (USD)	Weighted average exercise price (USD)	Option expiry period
536 430	1,59	1,59	Year to 31 December 2012
1 578 001	2,83	2,83	Year to 31 December 2013
1 700 000	0 – 2,20	1,94	Year to 31 December 2014
1 257 500	0 – 1,89	1,79	Year to 31 December 2015
3 962 626	0 – 1,99	1,99	Year to 31 December 2016
123 500	2,48	2,48	Year to 31 December 2017
9 158 057			

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	0 – 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			

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 defers a portion 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 SBG.

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 SBG 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 USD138,0 million as at 31 December 2011 (2010: USD91,1 million), and the charge for the year was USD64,4 million (2010: USD53,8 million). The change in the liability, due to the change in the group share price, is hedged through the use of derivatives designated as cash flow hedges.

	Units ('000)	
Quanto stock scheme	**2011**	2010
Reconciliation		
Units outstanding at the beginning of the year	1 235	885
Granted	621	455
Lapsed	(377)	(105)
Exercised	(171)	
Units outstanding at the end of the year	**1 308**	1 235

Quanto stock scheme continued

Quanto stock units granted not yet exercised at 31 December 2011:

Number of units ('000)	Unit expiry period
170	Year to 31 December 2018
344	Year to 31 December 2019
302	Year to 31 December 2020
492	Year to 31 December 2021
1 308	

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	

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 implemented a scheme to 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 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 SBG share price at payment date. To enhance the retention component of the scheme, additional increments on the deferred bonus become payable at vesting and one year thereafter. Variables on thresholds and additional increments in the 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 R137 million at 31 December 2011 (2010: R77 million) and the amount charged for the year was R68 million (2010: R52 million including restructuring costs). The change in the liability, due to the change in the group share price, is hedged through the use of derivatives designated as cash flow hedges.

	Units	
	2011	2010
Reconciliation		
Units outstanding at the beginning of the year	**1 784 466**	1 154 244
Granted	**1 081 285**	758 122
Exercised	**(113 562)**	(4 675)
Lapsed	**(141 725)**	(123 225)
Units outstanding at the end of the year	**2 610 464**	1 784 466
Weighted average fair value at grant date (R)	**87,93**	96,41
Expected life (years)	**3,00**	3,00
Risk-free interest rate (%)	**6,13**	6,24
Dividend yield (%)	**3,63**	3,45

Black ownership initiative

The group entered into a BEE transaction during 2004 whereby SBG and Liberty made investments in cumulative redeemable shares issued by BEE entities of R4 017 million and R1 251 million respectively (refer to note 17). The proceeds received from the issue of the cumulative redeemable preference shares were used by the BEE entities to purchase SBG 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 *First-time Adoption of International Financial Reporting Standards* (IFRS 1), the group elected not to apply the provisions of IFRS 2 *Share-based Payments* (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 SBG shares, were accounted for over the vesting period ended 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 SBG share at 4 October 2004, the grant date.

The instruments relating to the Standard Bank Black Managers' Trusts were accounted for over the vesting period ended 31 December 2010, resulting in a total expense in 2010 of R58 million for banking operations. Liberty has applied similar principles and has accounted for an expense of R10 million in 2010.

Changes to the terms of the preference share agreements referred to in note 17 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

Annual financial statements

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.

Intragroup transactions, balances and unrealised gains and losses are eliminated on consolidation. Unrealised losses are eliminated in the same manner as unrealised gains, but only to the extent that there is no evidence of impairment.

Accounting policies of subsidiaries conform to the policies adopted by the group.

Investments in subsidiaries are accounted for at cost less impairment losses in the separate financial statements. The carrying amounts of these investments are reviewed annually and impaired when necessary.

Special purpose entities

Special purpose entities are entities that are 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 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 on each acquisition 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.

Unincorporated property partnerships

The group consolidates its interests in those property partnerships where the group holds a majority stake in the property and controls the management of the property including the power over all significant decisions around use and maintenance of the property. Non-controlling interests in the unincorporated property partnerships are measured at their proportionate share of the fair value in the various properties and any non-distributed net accumulated 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. Gains 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 annual financial statements are presented in South African rand, which is the functional and presentation currency of Standard Bank Group Limited.

Group companies

The results and financial position of all foreign operations 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 reclassified 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 (debt) classified as available-for-sale financial assets are recognised in the available-for-sale reserve in OCI (profit or loss) whereas the exchange differences on equities and debt 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 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.

3. Cash and cash equivalents

Cash and cash equivalents disclosed in the statement of financial position and statement of cash flows consist of cash and balances with central banks. Cash and balances with central banks comprise coins and bank notes, and balances with central banks.

4. Financial instruments

Initial recognition and measurement

Financial instruments include all financial assets and liabilities. These instruments are typically held for liquidity, investment, trading or hedging purposes. All financial instruments are initially recognised at fair value plus directly attributable transaction costs, except those carried at fair value through profit or loss where transaction costs are recognised immediately in profit or loss. Financial instruments are recognised (derecognised) on the date the group commits to purchase (sell) the instruments (trade date accounting).

Subsequent measurement

Subsequent to initial measurement, financial instruments are measured either at fair value or amortised cost, depending on their classifications as follows:

Held-to-maturity

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that management has both the positive intent and ability to hold to maturity. Were the group to sell more than an insignificant amount of held-to-maturity investments, the entire category would be tainted and reclassified as available-for-sale assets with the difference between amortised cost and fair value being accounted for in OCI.

Held-to-maturity investments are carried at amortised cost, using the effective interest method, less any impairment losses.

Held-for-trading assets and liabilities

Held-for-trading assets and liabilities include those financial assets and liabilities acquired or incurred principally for the purpose of selling or repurchasing in the near term, those forming part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking, and commodities that are acquired principally by the group for the purpose of selling in the near future and generating a profit from fluctuations in price or broker-traders' margin. Derivatives are also categorised as held-for-trading, unless they are designated as hedging instruments.

Subsequent to initial recognition, the financial instruments' fair values are remeasured at each reporting date. All gains and losses arising from changes in fair value are recognised in profit or loss as trading revenue within non-interest revenue.

Interest and dividends on held-for-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 and financial investments 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.

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 reclassified 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.

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.

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 loans and advances are included in the loans and receivables category.

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, that is, the fair value of the consideration paid or received, unless the fair value is evidenced either 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, or the comparison with other observable current market transactions in the same instrument indicate that the fair value differs from the transaction price, the 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 or where the fair value of the financial instrument is not able to be evidenced by comparison with other observable current market transactions in the same instrument the 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 a market-related discount 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 which 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 its estimated future cash flows, including the recoverable amount of any collateral, discounted at the financial asset's original effective interest rate. The carrying amount of the loan is reduced through the use of a specific credit impairment account and the loss is recognised as a credit impairment charge in profit or loss.

The calculation of the present value of the estimated future cash flows of collateralised financial assets recognised on an amortised cost basis includes cash flows that may result from foreclosure less costs of obtaining and selling the collateral, whether or not foreclosure is probable.

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 within credit impairment charges 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 reclassified 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 no initial net investment or an initial net investment that is smaller than would be required for other types of contracts that would be expected to have a similar response to changes in market factors 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 intragroup 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 changes in fair value are 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 reclassified 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 reclassified to profit or loss. On disposal of a foreign operation, all remaining gains and losses recognised in OCI are reclassified 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 and redemption, or are redeemable on a specific date, at the occurrence of a contingent future event, at the option of the shareholder 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, that is, 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, 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 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 and the acquisition date fair value of any previously held equity interest (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 10 years) from the date that the assets are available for use, 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.

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.

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, distribution forces 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 (four to 12 years). 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 are typically 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, that is, 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 effective rate of return. The tax 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, contingent assets 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 assets are not recognised in the annual financial statements but are disclosed when, as a result of past events, it is highly likely that economic benefits will flow to the group, but this will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events which are not wholly within the group's control.

Contingent liabilities include certain guarantees, other than financial guarantees, and letters of credit pledged as collateral. 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 to 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.

16. Policyholder insurance and investment contracts

Policyholder contracts are classified into four categories, depending on the duration of or type of investment benefit or insurance risks, namely, short-term, long-term, investment with discretionary participation feature (DPF) and investment without DPF.

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

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.

Short-term insurance

Short-term insurance provides benefits under short-term policies, which include engineering, fire, personal liability, marine and aviation, motor, personal accident, medical expenses, theft and Workmen's Compensation Act, or a contract comprising a combination of any of those policies.

Recognition and measurement

Gross written premiums

Gross premiums exclude value added tax. Premiums are accounted for as income when the risk related to the insurance policy commences and are amortised over the contractual period of risk cover by using an unearned premium provision. All premiums are shown before deduction of commission payable to intermediaries.

Provision for unearned premiums

The provision for unearned premiums represents the portion of the current year's premiums that relate to risk periods extending into the following year. The unearned premiums are calculated using a straight-line basis, except for those insurance contracts where allowance is made for uneven exposure.

Liability adequacy

Provision is made for underwriting losses that may arise from unexpired risks when it is anticipated that unearned premiums will be insufficient to cover future claims, as well as claims-handling fees and related administrative costs.

Provision for reported claims and claims incurred but not reported

Provision is made on a prudent basis for the estimated final cost of all claims that had not been settled on the reporting date, less amounts already paid. Claims and loss adjustment expenses are charged to income as incurred based on the estimated liability for compensation owed to contract holders or third parties damaged by the contract holders. The group's own assessors or contracted external assessors individually assess claims. The claims provision includes an estimated portion of the direct expenses of the claims and assessment charges.

Provision is also made for claims arising from insured events that occurred before the close of the reporting period, but which had not been reported to the group at that date. This provision is calculated using run-off triangle techniques. The provision for claims is not discounted for the time value of money due to the expected short duration of settlement.

Deferred acquisition costs (DAC) in respect of short-term contracts

Commissions that vary and are related to securing new contracts and renewing existing contracts are deferred over the period in which the related premiums are earned, and recognised as a current asset. All other costs are recognised as expenses when incurred.

Deferred revenue liability in respect of short-term contracts

A deferred revenue liability (DRL) is raised for any income receivable on the placement of reinsurance for risks arising from short-term insurance contracts. The DRL is released to income systematically over the coverage period of the respective reinsurance contract.

Receivables and payables related to insurance contracts

Receivables and payables are recognised when due. These include amounts due to and from agents, intermediaries and insurance contract holders and are included under prepayments, insurance and other receivables and insurance and other payables.

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 long-term 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.

Long-term 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* (PGN 104), 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 biannually. 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.

Long-term 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.

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;
- 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 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 held pursuant to 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 commissions and placement 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 reclassified from OCI to profit or loss on derecognition or impairment 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 and when 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.

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 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.

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 operation's 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 engages in trust or other fiduciary activities 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 directly thereon are excluded from these annual financial statements as they are not assets of the group. However, fee income earned and fee expenses incurred by the group relating to the group's responsibilities from fiduciary activities are recognised in profit or loss.

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 not yet adopted

The following new or revised standards and amendments are not yet effective for the year ended 31 December 2011 and have not been applied in preparing these annual financial statements.

Pronouncement	Title	Effective date
IFRS 7 (amendments)	*Financial Instruments: Disclosures – Transfers of Financial Assets* The amendment requires additional disclosures relating to the transfers of financial assets (e.g. securitisations of financial assets) and the nature of and risks associated with the transferred assets. The amendment will be applied prospectively and will result in additional disclosures.	Annual periods beginning on or after 1 July 2011
IFRS 7 (amendments)	*Financial Instruments: Disclosures – Offsetting Financial Assets and Financial Liabilities* The amendment requires additional disclosure to assist in understanding the effect or potential effect of netting arrangements, including rights of set-off associated with an entity's recognised financial assets and financial liabilities, on an entity's financial position. The amendment will be applied retrospectively and will result in additional disclosures.	Annual periods beginning on or after 1 January 2013
IFRS 9	*Financial Instruments* This standard will replace the existing standard on the recognition and measurement of financial instruments and requires all financial assets to be classified and measured on the basis of the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets. The accounting for financial assets differs in various other areas to existing requirements such as embedded derivatives and the recognition of fair value adjustments in other comprehensive income. All changes in the fair value of financial liabilities that are designated at fair value through profit or loss due to changes in own credit risk will be required to be recognised within other comprehensive income. The standard will be applied retrospectively. The impact on the annual financial statements has not yet been fully determined.	Annual periods beginning on or after 1 January 2015
IFRS 10	*Consolidated Financial Statements* The standard establishes principles for the presentation and preparation of consolidated financial statements when an entity controls one or more other entities. It introduces a single control model to be applied in determining control. An investor controls an investee when it has: • power over the investee; • exposure, or rights, to variable returns from its involvement with the investee; and • the ability to use its power over the investee to affect the amount of its returns. The standard will be applied retrospectively. The impact on the annual financial statements has not yet been fully determined.	Annual periods beginning on or after 1 January 2013
IFRS 11	*Joint Arrangements* This standard focuses on the rights and obligations of joint arrangements, rather than the legal form. The standard: • distinguishes between joint operations and joint ventures; • defines joint operations as those arrangements in which the parties have joint control and have rights to the arrangement's assets and liabilities; • defines joint ventures as those arrangements in which the parties have joint control and have rights to the net assets of the arrangement; • requires joint operations to be accounted for by recognising own assets, separately incurred liabilities, own revenue and expenses as well as the share of assets, liabilities, revenue and expenses arising from the joint operation; and • requires joint ventures to be accounted for using the equity method (consistent with the group's existing accounting policies). The standard will be applied retrospectively. The impact on the annual financial statements has not yet been fully determined.	Annual periods beginning on or after 1 January 2013

Pronouncement	Title	Effective date
IFRS 12	*Disclosure of Interests in Other Entities* This standard contains disclosure requirements for interests in subsidiaries, joint arrangements, associates and unconsolidated structured entities. The disclosures seek to provide information to enable users to evaluate: • the nature of, and risks associated with, an entity's interests in other entities; and • the effects of those interests on the entity's financial position, financial performance and cash flows. The standard will be applied retrospectively and will result in additional disclosures.	Annual periods beginning on or after 1 January 2013
IFRS 13	*Fair Value Measurement* The standard provides a single source of fair value measurement guidance. It defines fair value, establishes a framework for measuring fair value and sets out disclosure requirements for fair value measurements. The standard does not introduce any new requirements to measure additional assets or liabilities at fair value. The standard will be applied prospectively. The impact on the annual financial statements has not yet been fully determined.	Annual periods beginning on or after 1 January 2013
IAS 19	*Employee Benefits* The amendment includes the following requirements: • actuarial gains and losses are to be recognised immediately in other comprehensive income. This change will remove the corridor method and eliminate the ability for entities to recognise all changes in the defined benefit obligation and plan assets in profit or loss; and • the expected return on plan assets that is recognised in profit or loss is calculated based on the rate used to discount the defined benefit obligation. The standard will be applied retrospectively. The group currently applies the corridor method to the Standard Bank retirement and post-employment healthcare funds. The impact on the annual financial statements has not yet been fully determined.	Annual periods beginning on or after 1 January 2013
IAS 27	*Separate Financial Statements* The amended standard includes both existing and amended accounting and disclosure requirements for separate financial statements. The standard will be applied retrospectively. The standard is not expected to have a material impact on the company's financial statements.	Annual periods beginning on or after 1 January 2013
IAS 28	*Investments in Associates and Joint Ventures* The amended standard carries forward existing accounting requirements for separate financial statements as well as the existing equity accounting requirements for associates and joint ventures for group financial statements, with minor clarifications. The standard will be applied retrospectively. The standard is not expected to have a material impact on the company or group's financial statements.	Annual periods beginning on or after 1 January 2013
IAS 32 (amendments)	*Offsetting Financial Assets and Financial Liabilities* The amended standard clarifies the requirements for offsetting of financial assets and liabilities. The standard will be applied retrospectively. The impact on the annual financial statements has not yet been fully determined.	Annual periods beginning on or after 1 January 2014

Annexure F – segmental statement of financial position

	Personal & Business Banking		Corporate & Investment Banking		Central and other	
	2011 Rm	2010 Rm	2011 Rm	2010 Rm	2011 Rm	2010 Rm
Assets						
Cash and balances with central banks	3 754	7 666	20 417	16 905	7 736	4 104
Financial investments, trading and pledged assets	3 137	3 087	190 860	172 313	(227)	3 167
Loans and advances	443 639	398 202	382 965	320 610	(22 793)	(5 787)
Investment property						
Derivative and other assets	3 607	4 293	165 198	158 270	(772)	(634)
Non-current assets held for sale			3 010		31 075	
Interest in associates and joint ventures	1 191	1 052	631	3 248	59	88
Goodwill and other intangible assets	5 396	4 310	3 377	3 324	2 676	1 331
Property and equipment	4 389	4 814	1 335	2 214	6 701	5 409
Total assets	465 113	423 424	767 793	676 884	24 455	7 678
Equity and liabilities						
Equity	32 103	30 204	47 448	40 018	25 149	22 645
Equity attributable to ordinary shareholders	30 946	28 962	45 438	38 099	18 498	16 809
Preference share capital and premium					5 503	5 503
Non-controlling interest	1 157	1 242	2 010	1 919	1 148	333
Liabilities	433 010	393 220	720 345	636 866	(694)	(14 967)
Deposit and current accounts	419 536	384 231	467 931	405 731	(644)	2 774
Derivative, trading and other liabilities	4 023	351	235 673	217 265	(25 163)	(16 998)
Non-current liabilities held for sale					27 939	
Policyholders' liabilities						
Subordinated debt	9 451	8 638	16 741	13 870	(2 826)	(743)
Total equity and liabilities	465 113	423 424	767 793	676 884	24 455	7 678
Average assets – banking activities excluding trading derivatives	440 129	412 283	565 598	539 288	(13 228)	(10 363)
Average loans and advances (gross)	433 362	409 759	337 140	325 693	(28 727)	(25 862)
Average ordinary shareholders' equity	28 225	25 748	43 684	40 210	16 184	17 690

	Banking activities		Liberty		Normalised Standard Bank Group		IFRS adjustments		IFRS Standard Bank Group	
	2011 Rm	2010 Rm	2011 Rm	2010 Rm	2011 Rm	2010 Rm	2011 Rm	2010 Rm	2011 Rm	2010 Rm
	31 907	28 675			31 907	28 675			31 907	28 675
	193 770	178 567	194 209	190 707	387 979	369 274	(2 098)	(2 809)	385 881	366 465
	803 811	713 025			803 811	713 025	(2 503)	(2 303)	801 308	710 722
			23 470	21 521	23 470	21 521			23 470	21 521
	168 033	161 929	6 536	7 274	174 569	169 203			174 569	169 203
	34 085				34 085				34 085	
	1 881	4 388	12 054	6 145	13 935	10 533			13 935	10 533
	11 449	8 965	1 305	1 418	12 754	10 383			12 754	10 383
	12 425	12 437	2 495	2 470	14 920	14 907			14 920	14 907
	1 257 361	1 107 986	240 069	229 535	1 497 430	1 337 521	(4 601)	(5 112)	1 492 829	1 332 409
	104 700	92 867	17 323	15 343	122 023	108 210	(4 490)	(5 012)	117 533	103 198
	94 882	83 870	7 641	6 885	102 523	90 755	(3 481)	(3 682)	99 042	87 073
	5 503	5 503			5 503	5 503			5 503	5 503
	4 315	3 494	9 682	8 458	13 997	11 952	(1 009)	(1 330)	12 988	10 622
	1 152 661	1 015 119	222 746	214 192	1 375 407	1 229 311	(111)	(100)	1 375 296	1 229 211
	886 823	792 736	(10 046)	(7 135)	876 777	785 601			876 777	785 601
	214 533	200 618	22 839	22 076	237 372	222 694	(111)	(100)	237 261	222 594
	27 939				27 939				27 939	
			208 565	197 878	208 565	197 878			208 565	197 878
	23 366	21 765	1 388	1 373	24 754	23 138			24 754	23 138
	1 257 361	1 107 986	240 069	229 535	1 497 430	1 337 521	(4 601)	(5 112)	1 492 829	1 332 409
	992 499	941 208			992 499	941 208	(2 098)	(1 568)	990 401	939 640
	741 775	709 590			741 775	709 590	(2 253)	(1 783)	739 522	707 807
	88 093	83 648	7 063	6 371	95 156	90 019	(3 638)	(3 795)	91 518	86 224

Annexure G – banking activities average statement of financial position (normalised)

				2011
	Trading book Rm	Non-interest earning Rm	Interest earning Rm	Total average balance Rm
Assets				
Cash and balances with central banks[2]	490	12 822	12 418	25 730
Trading assets	93 773	13 613		107 386
Financial investments	351		77 686	78 037
Net loans and advances	12 349		712 948	725 297
Loans and advances to banks	4 124		87 742	91 866
Loans and advances to customers	8 225		641 684	649 909
Mortgage loans			278 243	278 243
Instalment sale and finance leases			53 262	53 262
Card debtors			19 678	19 678
Overdrafts and other demand loans	1 163		38 131	39 294
Other term loans	7 062		186 047	193 109
Commercial property finance			39 518	39 518
Foreign currency loans			26 805	26 805
Gross loans and advances	12 349		729 426	741 775
Credit impairment for loans and advances			(16 478)	(16 478)
Investment property	106	4 709		4 815
Other assets	9 380	11 645		21 025
Interest in associates and joint ventures		6 520		6 520
Goodwill and other intangible assets		9 768		9 768
Property and equipment	1 374	12 547		13 921
Total average assets and interest excluding trading derivative assets	117 823	71 624	803 052	992 499
Trading derivative assets	124 878			124 878
Total average assets and interest	242 701	71 624	803 052	1 117 377
Equity and liabilities				
Equity	4 069	98 985		103 054
Liabilities	111 619	22 275	758 393	892 287
Trading liabilities	14 146	5 388		19 534
Deposit and current accounts	68 097		737 060	805 157
Deposits from banks	7 394		66 208	73 602
Deposits from customers	60 703		670 852	731 555
Current accounts			110 064	110 064
Cash management deposits			70 756	70 756
Call deposits			144 270	144 270
Savings accounts			21 367	21 367
Term deposits	60 703		257 824	318 527
Negotiable certificates of deposit			66 571	66 571
Other liabilities and provisions	27 936	16 887		44 823
Subordinated bonds	1 440		21 333	22 773
Total average equity, liabilities and interest excluding trading derivative liabilities	115 688	121 260	758 393	995 341
Trading derivative liabilities	122 036			122 036
Total average equity, liabilities and interest	237 724	121 260	758 393	1 117 377
Margin on total average assets excluding trading derivatives	117 823	71 624	803 052	992 499
Margin on total average loans and advances	12 349		712 948	725 297
Margin on average interest-earning assets			803 052	803 052

[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.

		2010					
Interest[1] Rm	Average rate %	Trading book Rm	Non-interest earning Rm	Interest earning Rm	Total average balance Rm	Interest[1] Rm	Average rate %
		412	10 340	10 755	21 507		
		82 786	19 826		102 612		
5 749	7,37	374		72 964	73 338	5 861	7,99
56 225	7,75	15 303		676 090	691 393	55 355	8,01
3 210	3,49	3 635		95 645	99 280	3 006	3,03
53 015	8,16	11 668		598 642	610 310	52 349	8,58
22 339	8,03			264 183	264 183	23 441	8,87
5 468	10,27			51 736	51 736	5 622	10,87
2 055	10,44			20 544	20 544	2 368	11,53
4 905	12,48	1 563		35 652	37 215	5 059	13,59
13 684	7,09	10 105		174 487	184 592	11 936	6,47
3 867	9,79			33 331	33 331	3 293	9,88
697	2,60			18 709	18 709	630	3,37
56 225	7,58	15 303		694 287	709 590	55 355	7,80
				(18 197)	(18 197)		
		190	6 104		6 294		
		8 079	11 329		19 408		
			6 268		6 268		
			9 744		9 744		
		1 148	9 496		10 644		
61 974	6,24	108 292	73 107	759 809	941 208	61 216	6,50
		145 439			145 439		
61 974	5,55	253 731	73 107	759 809	1 086 647	61 216	5,63
		2 861	94 525		97 386		
32 947	3,69	119 927	32 568	711 977	864 472	34 188	3,95
		20 773	6 238		27 011		
30 873	3,83	75 713		689 267	764 980	32 160	4,20
2 789	3,79	5 419		70 490	75 909	2 193	2,89
28 084	3,84	70 294		618 777	689 071	29 967	4,35
1 249	1,13			97 215	97 215	1 446	1,49
2 955	4,18			70 494	70 494	3 532	5,01
5 876	4,07			124 887	124 887	6 034	4,83
239	1,12			20 642	20 642	275	1,33
13 599	4,27	70 294		212 691	282 985	11 898	4,20
4 166	6,26			92 848	92 848	6 782	7,30
		21 680	26 330		48 010		
2 074	9,11	1 761		22 710	24 471	2 028	8,29
32 947	3,31	122 788	127 093	711 977	961 858	34 188	3,55
		124 789			124 789		
32 947	2,95	247 577	127 093	711 977	1 086 647	34 188	3,15
29 027	2,92	108 292	73 107	759 809	941 208	27 028	2,87
29 027	4,00	15 303		676 090	691 393	27 028	3,91
32 133	4,00			759 809	759 809	30 087	3,96

Annexure H – third-party funds under management

	2011 Rbn	2010 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[1]	52	73
Unit trusts/Collective investments	9	4
Segregated funds		4
Portfolio management[1]	78	62
	139	143
Fund administration		
Trusts and estates		1
Unit trusts/Collective investments	53	67
Portfolio management	91	69
Other	3	
	147	137
Geographical area		
Africa	171	143
International	115	137
	286	280
Liberty		
Asset management	40	36
Segregated funds	36	33
Properties	4	3
Wealth management – funds under administration	215	196
Single manager unit trust	88	87
Institutional marketing	37	41
Linked and structured life products	33	28
Multi-manager	15	9
Rest of Africa	42	31
Total Liberty	255	232
Total assets under management and funds under administration	541	512

[1] *2010 figures restated.*

Included in the balances above are funds for which the fund value is determined using directors' valuations.

Contact details

Standard Bank Group Limited
Registration No. 1969/017128/06
Incorporated in the Republic of South Africa
Website: www.standardbank.com

Investor relations
Linda Dodgen
Tel: +27 11 636 5039

Group financial director
Simon Ridley
Tel: +27 11 636 3756

Group secretary
Loren Wulfsohn
Tel: +27 11 636 5119

Group sustainability management
Karin Ireton
Tel: +27 11 631 4586

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

Head office switch board
Tel: +27 11 636 9111

Transfer secretaries in South Africa
Computershare Investor Services (Pty) Limited
Ground Floor, 70 Marshall Street
Johannesburg, 2001
PO Box 61051
Marshalltown, 2107

Transfer secretaries in Namibia
Transfer Secretaries (Pty) Limited
Shop 8, Kaiserkrone Centre
Post Street Mall
Windhoek
PO Box 2401
Windhoek

Please direct all annual report queries and comments to:
Annual.Report@standardbank.co.za

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

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

BASTION GRAPHICS