The Standard Bank of South Africa

Annual report 2012

Standard Bank

Contents

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

Our reports

This report is the **Standard Bank of South Africa (SBSA) annual report** and includes risk and capital management and financial information. In addition to this report, the Standard Bank Group (SBG) produces a full suite of reporting publications to cater for the needs of our diverse stakeholders.

- **Standard Bank Group annual integrated report**
  As SBG's primary report, the annual integrated report aims to present a balanced and succinct analysis of SBG's strategy, performance and prospects.
  www.standardbank.com/reporting

- **Standard Bank Group risk and capital management report and annual financial statements**
  The risk and capital management report provides detailed discussion of the management of strategic risks related to SBG's banking and insurance operations, including capital and liquidity management and regulatory developments. The annual financial statements set out SBG's audited annual financial statements in full, including the report of the group audit committee.
  www.standardbank.com/reporting

- **Standard Bank Group sustainability report**
  Presents a balanced and comprehensive analysis of SBG's sustainability performance in relation to issues material to the group and stakeholders.
  www.standardbank.com/sustainability

Cross-referencing tools

Indicates that additional information is available online.

The following icons refer readers to information elsewhere in this report or in the SBG sustainability report.

AR

SBSA annual report (this report)

AIR

SBG annual integrated report

SR

SBG sustainability report

Audited

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

Feedback

We welcome the views of our stakeholders on the annual report and the way we approach our strategic priorities. Please contact us at **Annual.Report@standardbank.co.za** with your feedback.

Celebrating 150 years
of moving South Africa forward

Established in 1862, Standard Bank is one of South Africa's oldest companies. The bank's original vision was to understand its customers better, have people with strong knowledge of local business conditions and to do a better job of connecting borrowers with lenders. This vision created the platform for the kind of bank it would become and the qualities on which its customers and clients would come to rely.

Over its history, Standard Bank has grown from a mere few staff members to over 28 000 today, and extended its roots deep into the fabric of South African society. We have evolved and adapted along with our customers and clients, growing a rich heritage while nurturing and protecting our reputation. We uphold high standards of corporate governance and are committed to advancing the principles and practices of sustainable development. We are inspired to advance national development objectives.

Our success and growth over the long term is built on making a difference in the communities in which we operate. **We are committed to moving South Africa forward.**

Our values

Serving our customers

Growing our people

Delivering to our shareholders

Being **proactive**

Working in **teams**

Guarding against **arrogance**

Respecting each other

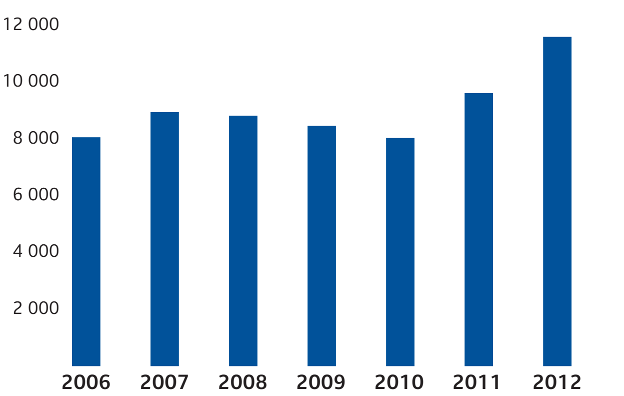
Upholding the highest levels of **integrity**

Review of performance

R11 501 million

headline earnings (2011: R9 530 million)

Headline earnings (Rm)



18.5%

return on equity
(2011: 18.4%)

1,7 million

new customers that had previously been unbanked

R1,2 billion

in transformational infrastructure lending in South Africa

Awards

Most Valuable South African Banking Brand

Brand finance South Africa Top 50 most valuable banking brands

Annual DealMakers Banking Awards 2012

Best Bank of the Year, South Africa

89,62 **out of 107**
transformation score
(2011: 92,47 out of 107)

54.4%
cost-to-income ratio (2011: 54.8%)

11.3%[1]
tier I capital adequacy ratio (2011: 10.7%)

>11 million
retail and business customers
(2011: >9,8 million)

9,48[2] **out of 10**
customer satisfaction survey result (2011: 9,40 out of 10)

0.89%
credit loss ratio (2011: 0.80%)

28 168
employees (2011: 28 422)

R84,5 million
corporate social investment expenditure
(2011: R76,8 million)

financed
R9,4 billion
of renewable energy projects in South Africa

12 **Equator Principle projects financed** (2011: 1)

1 Company.
2 Customer experience measurement survey result for branches.

2012 Newsweek Green Rankings

Ranked South Africa's greenest company

ACCA South Africa Awards

Best Sustainability Reporting Award in the Financial Sector

EMEA Finance

Best Local Bank in South Africa and the Best Local Investment Bank in South Africa

How we make money

	Business activity	Income statement impact	Risks arising from this activity
	AR For more detail refer to our financial review on page 14	AR For more detail refer to our financial review on pages 17 to 19	AR For more detail refer to our risk and capital management report starting on page 64
Income after credit impairments	We **lend money** to our customers and clients within acceptable levels of risk. This creates assets, which generate future income.	Interest income and credit impairment charges	Credit risk Interest rate risk Operational risk, including compliance, environmental and social risk
Income after credit impairments	We **source funding** in compliance with regulations, to enable lending. This creates liabilities, which generate future expenses.	Interest expense	Liquidity risk Interest rate risk Operational risk, including compliance risk
Income after credit impairments	We **provide transactional banking facilities** and **knowledge-based services** to our customers and clients.	Net fee and commission revenue	Operational risk, including compliance risk
Income after credit impairments	We **offer market access and risk mitigation products** to our clients to support their business requirements.	Trading revenue	Market risk Credit risk Operational risk
Income after credit impairments	We **earn revenue from a variety of other sources** that are linked to our core business activities.	Other revenue	Market risk Credit risk Insurance risk Operational risk
Expenses	We **invest in our people** as our most important competitive advantage.	Staff costs	Operational risk, including compliance and social risk
Expenses	We **invest in our operations**.	Other operating costs	Operational risk, including compliance and social risk

All our activities introduce business and reputational risk.

Income (or revenue) after credit impairments – **expenses** (or costs) including taxation = **net profit**

Net profit – **dividends** to shareholders ± other reserve movements = **retained equity** (which is reinvested to sustain and grow the business)

We lend to individual customers in the form of mortgage loans, instalment sale and finance leases on vehicles and other assets, and credit card facilities; and to corporate clients in the form of corporate lending facilities, structured finance, project finance and trade finance. Interest is charged on these loans using an interest rate determined by taking into account the cost of the money we lend, benchmark lending rates and the risk that the customer or client will not repay the loan. Deterioration in this risk, otherwise known as credit risk, is reflected in credit impairment charges in the group and company's income statements. By virtue of who we lend money to, we are also exposed to social and environmental risk.

We require funding for lending and investment activities. Funding is obtained from deposits placed by customers and other funders. The interest paid on these deposits depends on the term and size of the deposits and macroeconomic variables. The interest rates on the money we lend to customers and on the money deposited with us are not necessarily repriced at the same time and consist of both fixed rate and floating rate instruments. This results in interest rate risk. Demand deposits placed can be withdrawn at any time, which results in liquidity risk that could materialise if a significant portion of total deposits is withdrawn without the cash being available to settle these withdrawals, or if deposits being redeemed cannot be replaced with new deposits.

We earn net fee and commission revenue by providing transactional banking facilities to our individual customers, small and medium enterprises (SMEs) and corporate clients. These facilities include branches, ATMs, telephone banking, internet-based transactions such as online banking, and point-of-sale devices. We earn fees on knowledge-based services, which include corporate advisory and loan structuring activities as well as financial planning and insurance marketing and broking services.

Trading products include foreign exchange, commodity, credit, interest rate and equity instruments. Trading is predominantly related to client flows, rather than being proprietary, and is managed within the group's risk tolerance levels. It exposes us to market risk as market prices on these asset classes may increase or decrease due to external factors. This risk can be reduced through offsetting trades with counterparties and other clients. We earn revenue through the margins earned on accepting trading positions for clients and managing the net market risk trading exposure within our trading operations. To earn trading revenue, the group takes on and manages market risk, counterparty credit risk and operational risk arising from large and complex trading operations.

Other revenue includes underwriting profit and investment revenue from our short-term insurance operations, profit-sharing arrangements relating to our long-term insurance operations, as well as gains on property, private equity and strategic investment activities.

We invest in developing and retaining our staff in order to execute our strategy and deliver to our customers and clients.

We invest in information technology (IT) systems and infrastructure to deliver excellent service to our customers and clients, while managing our costs.

Our socioeconomic impact

R84,5 million
contribution to corporate social investment

granted **R3,6 billion** in affordable housing loans of which around 80% to first-time home owners

>89 000 affordable housing loan accounts and during 2012 we financed 1 in 3 affordable houses in South Africa

R6,2 million inclusive banking customers (2011: R5,4 million)

36 720 distressed customers assisted through our credit customer assist function with a total outstanding loan obligation of around R11,9 billion

spent **R9,5 million on bursaries** to assist Standard Bank employees to further their careers

R15,1 million spent on consumer education

spent **R15 million** on projects to improve **energy efficiency**

ATMs boasted 96.6% availability

0% increase in 2013 bank charges for personal banking

Business structure

Group

Personal & Business Banking

provides banking and other financial services to individual customers and small- to medium-sized enterprises

Headline earnings

R6 980 million
(2011: R5 558 million)

What we offer

- mortgage lending
- instalment sale and finance leases
- card products
- transactional products
- lending products
- bancassurance.

Return on equity	Cost-to-income ratio	Credit loss ratio
23.8%	54.9%	1.27%
(2011: 22.9%)	(2011: 57.1%)	(2011: 1.34%)

Corporate & Investment Banking

provides corporate and investment banking services to governments, parastatals, larger corporates, financial institutions and international counterparties

Headline earnings

R5 094 million
(2011: R4 142 million)

What we offer

- global markets
- transactional products and services
- investment banking
- real estate.

Return on equity	Cost-to-income ratio	Credit loss ratio
22.1%	54.2%	0.19%
(2011: 23.5%)	(2011: 54.8%)	(2011: -0.12%)

Other services

include the results of centralised support functions (back office), including those functions that were previously embedded in the business segments. The direct costs of support functions are recharged to the business segments

Chief executive's review

The group will continue to adapt to prevailing market conditions by maintaining and growing its customer bases, pursuing new avenues in South Africa and helping to secure the sustainable future of the Standard Bank Group by investing in the markets in which we pursue opportunity.

The group demonstrated its enduring strength and resilience in 2012, stabilising SBG in a challenging business environment and providing the lion's share of the capital required for SBG's growth strategy in Africa. The group grew headline earnings 21% and return on equity (ROE) remained stable at 18.5%.

Operating environment

Economic growth in South Africa continued to be subdued as the primary sectors of the economy contracted further due to lower agricultural production and widespread strikes. Increases in the prices of basic goods and fuel, and persistently high levels of unemployment also took their toll. These factors, together with service delivery protests and serious labour unrest, culminating in the Marikana tragedy, contributed to the decision by three ratings agencies to downgrade South Africa's credit rating. Over the long run and on average, the price of raising capital depends, to a large extent, on the price of government debt which is strongly influenced by the sovereign ratings assigned by the major international ratings agencies, the sovereign ratings are based on whether the government will be able and willing to pay back its debt. This is influenced to a large extent by social and political issues and it, therefore, follows that Standard Bank has a legitimate and direct interest in policy issues in so far as they affect the sovereign rating. On the positive side, the banking sector benefited from improved household debt-to-disposable income ratios, growth in vehicle sales and a renewed appetite for credit from the corporate sector.

Overview

The South African banking industry is evolving constantly as it responds to the dual pressures of intense competition and increased regulatory compliance requirements. In this environment, our domestic operating units concentrated on defending their existing customer bases and developing additional revenue streams. Personal & Business Banking (PBB) expanded its domestic customer base and both PBB and Corporate & Investment Banking (CIB) achieved strong growth in transactional products and services, and lending activities.

PBB introduced a range of simple, convenient and value-adding new offerings to its customers and achieved significant growth in its transactional customer base and in the volume of transactions. PBB's leadership evolved during the year with the appointment of Funeka Montjane, the former head of PBB credit in South Africa, to succeed Peter Schlebusch as chief executive of PBB South Africa. Funeka is the first African woman to lead a major banking unit in South Africa. Peter led PBB South Africa with great distinction over the previous four years and has now been appointed chief executive of PBB across Africa.

CIB also performed well in South Africa, particularly in transactional banking, which is a key focus area for the bank. CIB grew its share of the public sector banking market, with notable new business including the transactional banking accounts of the Government Employees Pension Fund and the City of Johannesburg. The latter positions Standard Bank as a key partner in the economic transformation initiatives the city will implement over the next five years.

The group maintained its reputation as a stable and trustworthy organisation in the global banking and investment communities. An important gauge of our international standing was our ability to conclude a USD1,35 billion, 36-month term loan facility in London. These funds will be used for general corporate purposes, including trade-related financing, to support our expansion in Africa.

Strategy

As a strong domestic bank, able to leverage the advantages of its size and scope, the group is well positioned to take up the opportunities of a growing and transforming South African marketplace, notwithstanding the growth constraints in the domestic economy. Our strategy is to serve the full value chain of customers in our domestic operation – from the most basic to the most sophisticated financial services needs – and to maintain high standards of customer service and cost-effective delivery channels. We are proudly South African and African, and have deep local knowledge in this rapidly-growing region. As South Africans, a major part of our identity is our diversity and our connectedness to the wider world – and these are also sources of knowledge, experience and competitive advantage.

Furthermore, Standard Bank is fully integrated with the rest of SBG and plays a fundamental role in positioning the Standard Bank Group to capitalise on the faster pace of growth in the rest of Africa. The South African operation is the head office for our African ambitions and provides the springboard for SBG's strategy: the capacities developed in the domestic operation provide the foundation of knowledge and experience required in our markets in sub-Saharan Africa. We are also able to utilise the specialist knowledge within SBG for complex cross-border transactions and major natural resources deals in Africa. This sharing of intellectual capital is a key element of our competitive advantage.

Headline earnings

R11 501 million
(2011: R9 530 million)

Return on equity
18.5%
(2011: 18.4%)

Sim Tshabalala
Chief executive

As SBG's largest operating entity, SBSA continued to provide a large balance sheet on which to book deals executed in support of SBG's African strategy, using the macro prudential limit. This assisted us to continue to reduce capital utilisation in London. Approximately R22 billion of assets have been transferred to SBSA's balance sheet from entities outside South Africa.

We made significant progress in our efforts to strengthen our tier I capital ratio ahead of Basel Capital Accord (Basel) III requirements and achieved a ratio of 11.3% at the end of December 2012 compared to 10.7% in the prior year.

Delivering as a real economy bank

Standard Bank has a long standing commitment to, and significant expertise in, maintaining and deepening our social relevance in South Africa. We continued to contribute to the socioeconomic development of South Africa as a real economy bank, working to achieve wider financial inclusion and the democratisation of finance. We take great care to ensure that our lending is sustainable. We do not lend for unsustainable and unproductive consumption. Furthermore, we lend heavily for infrastructure and industrial development. In return, we derive sustainable long-term benefits from the business we conduct here. Some of our key focus areas in this regard are discussed below.

Responsible lending to customers

By extending credit to our customers we enable them to fulfil their needs for housing, transport and education, and we create the opportunity for them to start or build their own businesses. To ensure that our lending practices are responsible, we apply behaviour scoring to detect the early warning signs of customers in financial difficulty, such as the misuse of credit facilities. We assist customers when they get into financial difficulty by working with them to restructure their loans to provide short-term relief or longer-term solutions.

Over the past three years, we expanded our footprint in the unbanked and underbanked market in South Africa. Our inclusive banking offering is continuously adapted to meet the changing needs of this market and deliver a relevant customer experience. During the year, our inclusive banking segment launched the AccessBanking suite of banking solutions, run on our SAP platform, which offers a full set of banking products – savings accounts, credit cards and transactional banking accounts – that carry no monthly fee. The Access Account is, therefore, not a low-income account, but a high-value account, providing relevant banking services for more than 5,4 million customers with an income of up to R8 000 a month. We strengthened our low-cost distribution channels and streamlined our pricing structures. We optimised branch infrastructure where applicable, closing or downscaling unprofitable branches, aiming to achieve a low-cost branch network which is appropriate in size and location. We opened our 100th loan centre during the year, while we closed inactive access points. We also increased the number of our ATMs by 6% to 7 414. Sound governance practices and staff training have ensured that we meet the necessary regulatory requirements.

Part of being a full-service bank means that we also need to offer these customers credit. The unsecured inclusive banking book grew, albeit off a low base, from R2 billion to R3,7 billion at the end of 2012. It now represents 0.8% of PBB's loan book.

There have been concerns that the growth in unsecured lending could exacerbate already high levels of indebtedness in South Africa. We have worked hard to grow our unsecured lending book responsibly, lending mainly to our own transactional banking customers, using appropriate scorecards and risk appetite to ensure that customers are able to manage their debt, pricing correctly for the loans, and at the same time having a strong collections capability.

PBB's efforts to strengthen its relationships with transactional account holders and gain more insight into their needs and risk

Chief executive's review continued

profiles further supported responsible credit extension to customers. These deeper relationships enable us to assess the customer's circumstances better and to assist if they begin to encounter financial difficulty.

During 2012, we signed an industry Credit Accord agreement to promote responsible lending.

Enterprise development

In South Africa, small and medium enterprises (SMEs) contribute 45% of gross domestic product and 43% of the total wage bill. Access to finance remains an obstacle to further growth in this sector, largely because many SMEs lack collateral against which to borrow. We use an integrated enterprise development model that combines financial and business development support and access to market opportunities for SMEs in corporate supply chains, with a focus on black-owned and black women-owned businesses. Our aim is to use our enterprise development initiatives to help SMEs build a track record to enable them to qualify for funding.

During 2012, we provided loans to SMEs of over R540 million, excluding vehicle and asset finance. Our funding to small enterprises with a turnover of up to R10 million amounted to R14,5 billion. The growth of our black SME loan book was 36%, with funding of R6 billion being extended to this segment of the market in 2012. We also provided 108 entrepreneurs with business development support for funding purposes.

Agriculture funding

The agriculture sector is a cornerstone of the South African economy. It provides food security, creates jobs and stimulates rural development, as well as being a source of foreign exchange earnings. Our market share of this sector is 31% and the total agriculture book as at the end of December 2012 increased by 13.4% to R13,5 billion (2011: R11,9 billion), excluding agriculture vehicle and asset financing.

Our target for 2015 is to increase our share of the South African agriculture market to 35% and be the leading bank in the sector's transformation. To achieve this, we are developing the skills of our staff so they can offer specialist advice, extending our services to include vehicle and asset finance, short-term insurance and tools that help us grant credit in a responsible manner, while securing funding partnerships with governments and development finance institutions.

Renewable energy

We are working in partnership with a range of organisations to establish a renewable energy sector in South Africa. CIB in South Africa has a significant market share in financing renewable energy projects in South Africa, providing funding and underwriting commitments to successful bidders to the amount of R9,4 billion in 2012. We are active in advising, arranging finance for and funding renewable energy projects under the South African Government's Renewable Energy Independent Power Producer Procurement (REIPPP) Programme. Renewable energy projects currently represent a third of our project finance energy portfolio and include wind power, hydro and geothermal power stations. Projects in the first round will produce over a gigawatt of new energy for South Africa, will create nearly 6 000 construction jobs and will generate a saving of nearly a million tons of carbon a year to be traded in the international carbon credits market. In the just-completed second bid round, Standard Bank will fund projects that will together generate another 328 megawatts of clean power.

During 2012, we developed new commercial financing solutions to support the growth of low carbon and clean technology projects, which included expanding our programmatic clean development mechanism (CDM) product. This allows industrialised countries to reduce global emissions by investing in sustainable development projects that reduce greenhouse gas emissions in developing countries. Approved CDM projects can generate certified emission reduction units which are traded as carbon credits.

We play a leading role in developing CDM projects in Africa and are planning to establish a CDM operations centre in South Africa. We apply a range of quality criteria to the emission-reduction projects we finance or purchase carbon credits from, to ensure they deliver real and permanent emission reductions. We actively participated in a number of initiatives to help support carbon prices. A strong focus on cost control and innovative monitoring methods allowed us to continue financing new projects. Our target for 2012 was to support at least 75 CDM projects of which 65% were to be in Africa, which we only narrowly missed. Developing our CDM product gives us a competitive advantage and is an example of the innovation and cross-functionality across business units and locations of which we are capable.

Policy environment

Our strategy is dependent on an effective and enabling policy environment. We strongly support the National Development Plan (NDP), which was confirmed as the roadmap for South Africa's economic and human development in the President's State of the Nation address in February 2013. Our strategy responds to the NDP's key objectives of economic growth, job creation and improvements in vital basic services such as education and healthcare. We will support the government in implementing and executing the NDP as a matter of urgency because we believe it can be the catalyst that restores the momentum of economic growth and sets our country firmly on a path to a much more equitable and prosperous future.

By increasing capital and liquidity requirements, the new international banking regulations have changed the face of our industry. Basel III requires higher levels of capital to be held against large, complex transactions, particularly in investment banking. We welcome the clarity that the release of national discretion requirements brings. To manage the impact of the new rules on our profitability and ROE, as well as on our ability to meet the financial services needs of the emerging economies within our scope, we are making adjustments to our business model to become more focused on transactional banking, which is less capital-intensive and generates good annuity income. This will ensure our capital resources are employed most effectively in those areas where we can use our competitive advantage to the full in ensuring the group's long-run profitability.

Transformation

Transformation remains crucial to the sustainability of our markets in South Africa and to the competitive position of the bank. All our business units are implementing clear action plans to achieve their transformation targets. While the bank is performing well at junior and middle management levels, more work is required to achieve targets at the senior management level. The largest staff complement in the bank is within PBB in South Africa. 75% of junior staff, 60% of mid-level staff and almost 50% of senior staff are Black, Indian or Coloured. The executive committee is the most transformed in the local banking sector, with 60% of its members being female and almost two-thirds Black, Indian or Coloured.

The process to convert the voluntary status of the Financial Sector Charter (the charter) to that of a sector code in terms of the relevant legislation was concluded in principle at the end of 2011, with Standard Bank being an active participant in the process. The charter was officially gazetted as a code with an effective date of 26 November 2012. Under the code, the 'once empowered, always empowered' principle was approved with a condition that government, together with the Financial Services Sector Charter Council, monitor the dilution of black shareholding in the sector. A key, unique feature of the Financial Sector Code is the introduction of an extra element, bringing the elements to eight in total rather than seven as in the Generic Codes. The extra element, known as Access to Financial Services, aims to facilitate access to finance for black people and black-owned enterprises. We welcome the gazetting of the code and will continue to work hard to ensure that we are a well-empowered group in South Africa.

The year ahead

Our outlook for the South African economy remains cautious. We expect the banking environment to continue to be shaped by the pressures of heightened competition, increased regulation and a slow domestic economy. We are fully integrated with the rest of SBG and its African strategy, which provides exceptional growth opportunities.

We will continue to focus on areas where we believe we have a competitive advantage: transactional banking in PBB where we will maintain and work to grow our customer base; and corporate banking in CIB. We will seek new avenues of growth in South Africa and invest in the sustainable future of SBG in the markets in which we pursue opportunity. The focus on improving SBG's ROE will be maintained in the year ahead and SBSA, as the largest operating entity, will continue to drive its profitability going forward.

Executive committee

as at 31 December 2012

1 Sim Tshabalala (45)

Chief executive, SBSA

BA LLB (Rhodes), LLM (University of Notre Dame USA), HDip Tax (Wits), AMP (Harvard)

Sim is the incoming joint chief executive of SBG, current chief executive of SBSA, an executive director of SBG and SBSA, a director of Tutuwa Community Holdings and the chairman of the Banking Association of South Africa (BASA).

Sim joined the group in 2000 in the project finance division of Standard Corporate and Merchant Bank (SCMB, now known as CIB). From 2001 to 2006 he was managing director of Stanbic Africa, and from 2003 he served concurrently as deputy chief executive of PBB. He was appointed chief executive of PBB in 2006. In June 2008, he became chief executive of SBSA. In 2009, Sim was appointed deputy chief executive of SBG. Sim is a member of the large exposure credit committee.

2 Libby King (48)

Chief financial officer

BAcc (Wits), BCom (Wits), CA (SA)

Libby King joined the financial control department of SCMB in 1994, and was appointed head of department in 1998. In 2008, she was appointed chief operating officer of CIB, South Africa. In 2011, Libby was appointed chief financial officer, SBSA. Libby is a member of the large exposure credit committee.

3 Funeka Montjane (34)

Chief executive, PBB South Africa

BCom (Accounting) (Wits), BCom (Hons) (Wits), CA (SA), Masters of Commerce (University of Johannesburg)

Funeka Montjane joined SBSA in 2008 and was appointed chief financial officer of PBB South Africa. In 2010, she was appointed head of credit, PBB South Africa. In 2012, Funeka was appointed chief executive, PBB South Africa.

4 David Munro (41)

Chief executive, global CIB

BCom PDGA (UCT), CA (SA), AMP (Harvard)

In 2003, David Munro was appointed deputy chief executive, CIB South Africa and in 2006 was appointed chief executive, CIB South Africa. David was appointed global head, investment banking in 2009 and chief executive, global CIB in 2011. David is a member of the large exposure credit committee.

5 Richard Pantcheff (54)

Chief risk officer

BA (Oxon), MA (Oxon), ACIB

Richard Pantcheff joined the group in 2006 as chief credit officer for CIB South Africa and the rest of Africa. In 2007, he was appointed chief risk officer for these business units. Richard was appointed global chief credit officer in 2010 and chief risk officer, SBSA in 2012. Richard is a member of the large exposure credit committee.

6 Isabel Lawrence (44)

Group chief compliance officer

BA LLB (RAU), BA (Hons) (RAU), LLM in Banking Law (RAU)

Isabel Lawrence joined the group's legal division in 1998, where she was responsible for legal risk and transacting for PBB. Isabel was appointed as head, group legal division in 2003. In January 2012, Isabel was appointed group chief compliance officer.

7 Sharon Taylor (44)

Head, human resources

BCom (University of Natal), BCom (Hons) (Unisa)

Sharon Taylor joined the group's education and training division in 1991. In 2002, she was appointed as head, human resources for business banking. In 2005, she assumed responsibility for the human resource partnership in South Africa. In 2011, her responsibilities increased to include human resources for global investment banking. Sharon was appointed as head, human resources for South Africa in 2012.

Financial review

The results

The group delivered a strong set of results in 2012, demonstrating our strength and resilience. We lifted headline earnings to R11 501 million, an increase of 21% on the prior year, and our ROE remained stable at 18.5%.

Financial results and ratios

		Change %	2012	2011
ROE	%		**18.5**	18.4
Headline earnings	Rm	21	**11 501**	9 530
Headline earnings per ordinary share	cents	21	**19 169**	15 884
Tier I capital adequacy ratio[1]	%		**11.3**	10.7
Net asset value per share	cents	27	**116 242**	91 330
Non-interest revenue to total income	%		**46.6**	46.8
Credit loss ratio	%		**0.89**	0.80
Cost-to-income ratio	%		**54.4**	54.8

[1] Tier I capital adequacy ratio for SBSA.

Impact of the economic environment on key financial ratios

The table below sets out the key financial indicators (KFIs) that drive the earnings and ultimately the value of the group. The table also sets out the external economic factors influencing these value drivers (assuming no management action) and indicates how these economic factors influenced the group's performance in 2012 and their expected impact in 2013.

Economic statistics provided relate to South Africa.

Key financial indicator (KFI)	Economic factors that impact the KFIs	Economic factor in 2012	Impact of economic factor in 2012	Expected economic factor in 2013	Expected impact of economic factor on 2013 KFI
Growth in loans and advances	GDP growth	▲	▲	▲	▲
	Debt-to-disposable income level	▼	▲	▼	▲
	Interest rates	▼	▲	–	–
Net interest margin	Interest rates	▼	▼	–	–
Credit loss ratio	Debt-to-disposable income level	▼	▲	▼	▲
	Number of insolvencies and liquidations	▼	▲	▼	▲
	Collateral values	▲	▲	▲	▲
Growth in fee and commission revenue	GDP growth	▲	▲	▲	▲
	Inflation (CPI)	▲	▲	▲	▲
Growth in trading revenue	Market trading volumes	▲	▲	▲	▲
	Market price volatility	▼	▼	▼	▼
Growth in operating expenses	Inflation (CPI)	▲	▼	▲	▼
Effective tax rate	Corporate tax rates	–	–	–	–

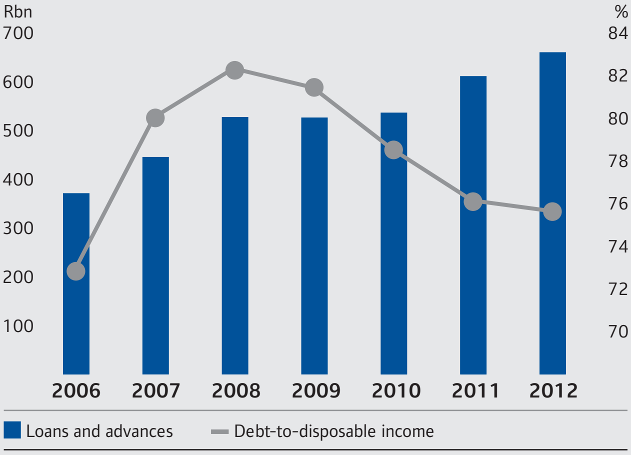
▲ Increase in economic factor/positive impact on group's performance. ▼ Decrease in economic factor/negative impact on group's performance.
– Neutral.

Growth in loans and advances

Loans and advances represent the largest asset class on the group's balance sheet. This asset class provides the group with its biggest source of revenue in the form of interest income and creates cross-selling opportunities in the form of transactional fees and insurance-related revenues. Growth in loans and advances within the risk levels accepted by the group is therefore essential to increasing revenue.

Growth in loans and advances in the personal market in particular is dependent on our customers' ability to repay debt. The **debt-to-disposable income ratio** provides a measure of the ability of households to service existing loans and assume further debt.

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



The graph above illustrates the noticeable rise in debt-to-disposable income levels up to 2008 that was consistent with the strong growth in loans and advances.

Subsequent to 2008, customers have started to rebuild their balance sheets as is evident from the gradual reduction in debt-to-disposable income levels from 2008 onwards.

Debt-to-disposable income levels are not expected to reduce significantly over the short to medium term. It is, however, expected that a slow improvement in disposable income levels will be positive for loan growth in 2013.

Net interest margin

The net interest margin represents the profit margin between the interest rate earned on lending products and investments, and the interest rate paid on deposits and other funding. Benchmark lending rates, such as the prime interest rate in South Africa, are key factors that cause variation in the net interest margin.

During times when prime interest rates decline, banks charge lower rates on prime-linked lending products such as home loans, vehicle and asset finance and card products. However, the interest paid on deposits in transactional accounts is not prime-linked and does not decline as much as the reduction in the interest rate earned on prime-linked lending products. This mismatch, referred to as a negative endowment impact, reduces the net interest margin.

When interest rates increase, the increase in the interest rate earned on the prime-linked lending products is greater than the increase in the interest rate paid on deposit balances in transactional accounts. This results in an increase in the net interest margin and is referred to as a positive endowment impact.

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

During 2012, interest rates in South Africa were at their lowest levels in 37 years, resulting in a negative endowment impact.

The endowment risk is partially hedged as and when it is considered appropriate, using derivative instruments such as swaps and interest rate swaptions.

Hedging strategies also factor in the partial offset of the endowment impact by a reduction in credit impairments due to lower interest rates. While the recent downturn in interest rates has negatively impacted net interest income, the group is well positioned for an upward rate cycle.

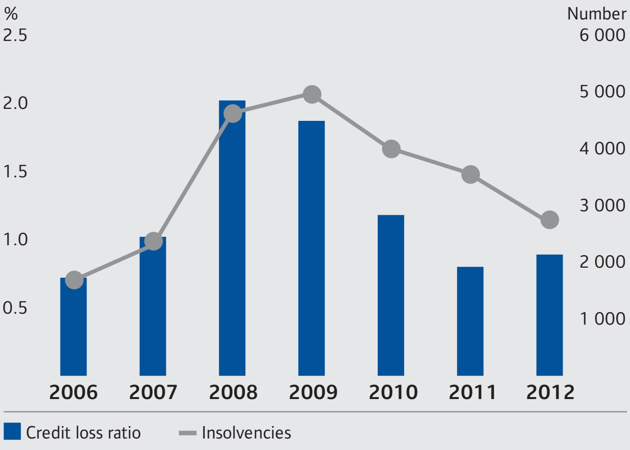
Credit loss ratio

The credit loss ratio is the credit impairment charge expressed as a percentage of the average group gross loans and advances balance and indicates the loss to the group resulting from the inability of customers to repay loans during the year. For every rand owed by customers, the group on average incurred a loss of 0,89 cents (2011: 0,80 cents).

Insolvencies and defaults recorded in the economy, as well as debt-to-disposable income levels described earlier, provide an indication of the stress that consumers and our clients experience. The graph on the next page illustrates the correlation between insolvencies and credit losses.

Financial review continued

Credit loss ratio and number of insolvencies



Growth in non-interest revenue

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

Growth in fee and commission revenue depends on transactional banking volumes, which are a function of economic activity and of the competitive environment for banking services. In addition, inflationary increases in the cost base are considered in determining increases in fee and commission tariffs. Modest increases in GDP and inflation should support growth in non-interest revenue for the future.

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

Growth in operating expenses

Inflation is one of the key external indicators that places upward pressure on operating expenses over an extended period. Numerous internal factors also affect the growth in operating expenses, such as growth in staff numbers, the attraction and retention of high quality staff, investments in branch and IT infrastructure and business volumes. Average consumer price index (CPI) inflation in South Africa increased from 5.0% in 2011 to 5.6% in 2012 and put slight upward pressure on cost growth.

The inflation rate in South Africa is expected to increase and will result in slight cost growth in 2013. The group will continue its focus on operational excellence to manage cost growth within acceptable levels.

Effective tax rate

Corporate tax rates remained mostly unchanged in most of the countries in which the group operates, although secondary tax on companies (STC) was abolished in 2012. No significant changes are anticipated in 2013.

Business unit performance

PBB delivered a strong set of results with headline earnings up 26% to R7,0 billion. This was predominantly due to growth in the loan book and increased pricing for risk, as well as higher merchant turnover, increased business online activity and higher transactional volumes. As a result, ROE improved to 23.8% from 22.9%.

CIB reported headline earnings of R5,1 billion, 23% higher than the prior year. This improvement was delivered mainly as a result of significant growth in net fee and commission revenue and investment banking loan growth.

The headline loss for other services was largely due to increased operational expenses incurred in respect of amortisation of core banking assets, professional fees and IT-related costs.

Business unit performance

		Headline earnings		ROE	
	Change %	**2012 Rm**	2011[1,2] Rm	**2012 %**	2011[1,2] %
PBB	26	**6 980**	5 558	**23.8**	22.9
CIB	23	**5 094**	4 142	**22.1**	23.5
Other services	(>100)	**(573)**	(170)		
Total	21	**11 501**	9 530	**18.5**	18.4

[1] Where reporting responsibility for individual cost centres and divisions within business units changes, the segmental analysis comparative figures are reclassified accordingly.
[2] 2011 reclassified, refer to annexure B – reclassifications on page 225.

Income statement analysis

The income statement or statement of financial performance reflects the revenue generated by the group as well as the costs incurred in generating that revenue for the year ended 31 December 2012.

Income statement

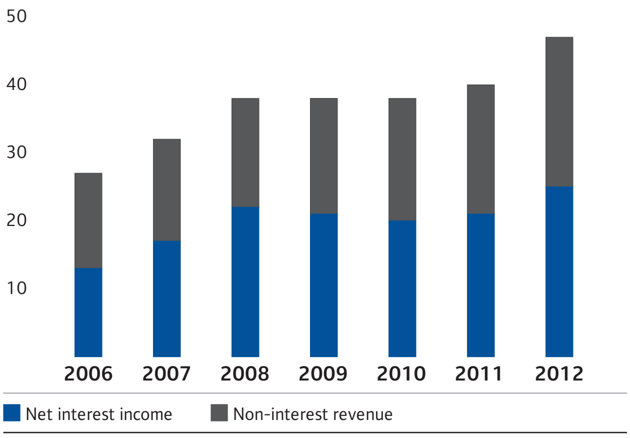
for the year ended 31 December 2012

	Change %	2012 Rm	2011[1] Rm
Net interest income	18	**25 249**	21 348
Interest income	12	**55 677**	49 714
Interest expense	7	**30 428**	28 366
Non-interest revenue	17	**22 032**	18 804
Net fee and commission revenue	12	**16 364**	14 582
Fee and commission revenue	12	**19 483**	17 355
Fee and commission expense	12	**3 119**	2 773
Trading revenue	(2)	**3 147**	3 220
Other revenue	>100	**2 521**	1 002
Total income	18	**47 281**	40 152
Credit impairment charges	25	**5 785**	4 623
Income after credit impairment charges	17	**41 496**	35 529
Revenue sharing agreements with group companies	>100	**1 642**	230
Income after revenue sharing agreements	13	**39 854**	35 299
Operating expenses	15	**25 106**	21 904
Staff costs	23	**13 289**	10 789
Other operating costs	6	**11 817**	11 115
Net income before goodwill impairment	10	**14 748**	13 395
Goodwill impairment	(100)		46
Net income before associates and joint ventures	10	**14 748**	13 349
Share of profits from associates and joint ventures	>100	**523**	83
Net income before indirect taxation	14	**15 271**	13 432
Indirect taxation	31	**974**	745
Profit before direct taxation	13	**14 297**	12 687
Direct taxation	(25)	**2 362**	3 167
Profit for the year	25	**11 935**	9 520
Attributable to non-controlling interests	10	**11**	10
Attributable to the ordinary shareholder	25	**11 924**	9 510
Basic earnings per ordinary share (cents)	25	**19 874**	15 851

[1] 2011 reclassified, refer annexure B – reclassifications on page 225.

Financial review continued

Income contribution (Rbn)



Net interest income

Net interest income increased 18% mainly as a result of growth in interest earning assets and higher margins. Margins improved due to repricing new business in the mortgage, business and personal term lending books to better reflect the risk and costs of anticipated regulatory changes, together with the increase in higher-margin unsecured lending. This was partly offset by the negative endowment effect of the 50 basis point cut in the prime interest rate in 2012.

Non-interest revenue

Non-interest revenue grew by 17% during the year with net fee and commission revenue up 12%. Trading revenue decreased by 2%, while other revenue was higher than in the prior year.

Net fee and commission revenue increased despite limited increases in account transaction fees. Card-based commission grew as a result of higher turnover volumes and the acquisition of several large merchant accounts during the year. Electronic banking revenue increased due to higher business online banking activity. Higher structuring, commitment and guarantee fees received also assisted growth in net fee and commission fee.

Trading revenue decreased mainly due to lower client flows and large trading counterparty provisions.

Other revenue includes the proceeds from the disposal of listed investments during the year. Insurance-related income increased as a result of a higher policy base and increased premiums although partially offset by higher claims due to a greater number of weather and fire-related incidents. Other revenue also benefited from fair value gains on the strategic investment portfolio during the year.

Credit impairment charges

For the year, credit impairments were 25% higher than the prior year at R5,8 billion and the credit loss ratio deteriorated to 0.89% (2011: 0.80%).

Higher specific impairments were raised in mortgage lending. During 2012, a review of specific and portfolio impairment methodologies in mortgage loans was undertaken.
A consequence of this was that more risk is now categorised under specific impairments rather than under portfolio impairments. This resulted in a release of R748 million from portfolio impairments and an increase of a similar amount under specific impairments.

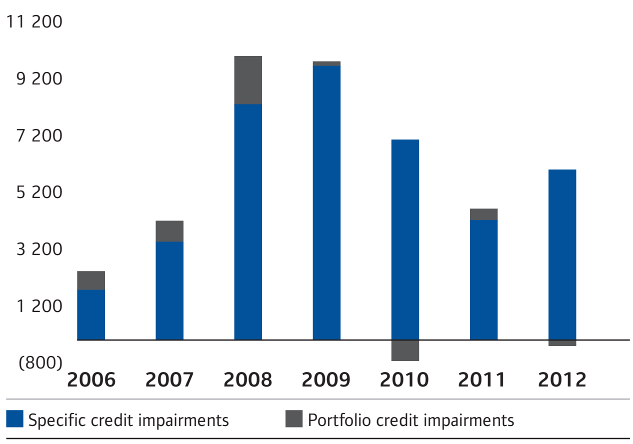
The impairment charge in personal unsecured lending (excluding card) increased by R686 million. This was a result of the increased incidence of default in the personal term loans book (loans to lower-income customers known as the inclusive banking book) and strong growth in the middle market segment. Scorecard thresholds for this type of lending have been raised and there has consequently been very little growth in the book since June 2012.

In CIB, additional specific provisions were raised against certain corporate exposures and higher portfolio provisions were required following the transfer of assets from Standard Bank Plc during the year.

Lower interest rates and the improvement in economic conditions assisted retail customers to service debt and this, coupled with improved management of early cycle delinquencies, resulted in a slower flow of new defaults into impaired loans. Non-performing loans as a percentage of gross loans and advances reduced from 4.1% in 2011 to 3.7% in 2012 with improvements across most PBB portfolios.

AR **A detailed analysis of performing and non-performing loans is provided in the risk and capital management report on page 81**

Credit impairment charges (Rbn)



Revenue sharing agreements with other group companies

SBG's African strategy is assisted by the regulatory macro prudential limit, which allows South African banks to keep up to 25% of their total liabilities in foreign assets. Approximately R22 billion of assets have been transferred to SBSA's balance sheet from entities outside South Africa, and R12 billion has been originated as part of the integrated investment banking business model. As a result of this integrated business model, there is a significant increase in payments made under revenue sharing agreements with other group companies.

Operating expenses

The group continues to invest in both staff and infrastructure in order to provide excellent customer service and deliver on our strategic priorities. We maintain a tight control on costs while investing for long-term growth.

Operating expenses

	Change %	**2012 Rm**	2011[1] Rm
Staff costs	23	**13 289**	10 789
Other operating expenses	6	**11 817**	11 115
Total operating expenses	15	**25 106**	21 904
Cost-to-income ratio (%)		**54.4**	54.8

[1] 2011 reclassified, refer annexure B – reclassifications on page 225.

The main contributor to the increase in operating costs was staff costs which grew 23% for the year due to annual salary increases together with higher temporary headcount as a result of our extended business hours and various change initiatives within the branch network. This was marginally offset by the 1% decrease in headcount.

Other operating expenses increased by 6% largely as a result of increased IT expenditure including higher consultancy and software license fees. Marketing costs grew due to new product and brand awareness campaigns.

Share of profit from associates and joint ventures

Banking activities' share of profit from associates and joint ventures grew to R523 million (2011: R83 million) primarily due to the reversal of prior year impairments following fair value gains on valuations and good equity earnings from associates.

Financial review continued

Balance sheet analysis

The balance sheet or statement of financial position reflects what the group owns, owes and the equity that is attributable to shareholders at 31 December 2012.

Statement of financial position

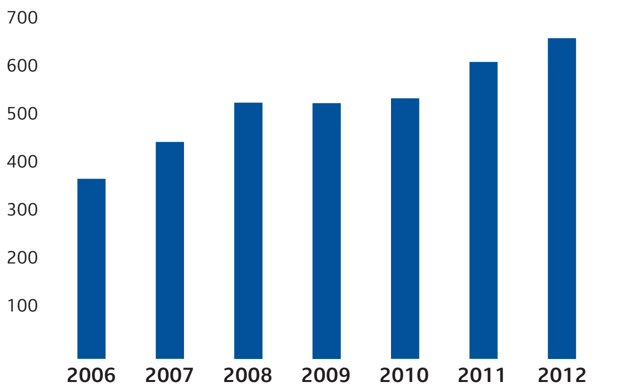
at 31 December 2012

	Change %	2012 Rm	2011 Rm
Assets			
Cash and balances with central banks	24	**25 926**	20 865
Derivative assets	(16)	**78 844**	93 422
Trading assets	45	**35 685**	24 626
Pledged assets	53	**5 706**	3 737
Non-current asset held for sale	100	**960**	
Financial investments	(4)	**76 679**	79 809
Loans and advances	8	**659 500**	611 165
Current tax asset	12	**191**	170
Deferred tax asset	(81)	**26**	138
Other assets	66	**17 821**	10 759
Interest in group companies, associates and joint ventures	(6)	**58 430**	62 099
Goodwill and other intangible assets	60	**10 350**	6 469
Property and equipment	6	**8 895**	8 430
Total assets	6	**979 013**	921 689
Equity and liabilities			
Equity	27	**69 805**	54 847
Equity attributable to the ordinary shareholder	27	**69 742**	54 795
Ordinary share capital	–	**60**	60
Ordinary share premium	29	**35 196**	27 230
Reserves	25	**34 486**	27 505
Non-controlling interest	21	**63**	52
Liabilities	5	**909 208**	866 842
Derivative liabilities	(17)	**81 744**	98 730
Trading liabilities	17	**15 953**	13 581
Deposit and current accounts	4	**717 944**	688 062
Current tax liability	>100	**2 940**	972
Deferred tax liability	(35)	**453**	702
Provisions and other liabilities	28	**17 573**	13 693
Subordinated debt	39	**22 400**	16 095
Liabilities to group companies	43	**50 201**	35 007
Total equity and liabilities	6	**979 013**	921 689

Total assets increased by 6% to R979 billion. The main contributors to this growth were an increase in loans and advances and trading assets.

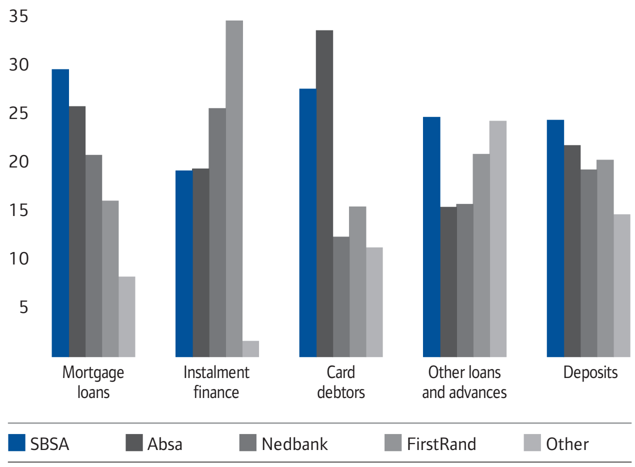
Total **loans and advances** were up 8%, with PBB reporting growth of 10% and CIB of 5%.

Loans and advances (Rbn)



Contributing to the increase in loans and advances in PBB was a 4% increase in mortgage loans due to improved affordability following the sustained low interest rate environment and slow growth in real property prices. The average lending rate for new business was prime plus 84 basis points, compared to prime plus 11 basis points in the prior year. Market share increased from 28.8% in 2011 to 29.5% in 2012. Other term loans increased mainly due to the increase in revolving credit accounts to middle market customers and growth in unsecured lending to customers who earn less than R8 000 a month (referred to as our inclusive banking loans book). Instalment sale and finance leases increased 17% due to growth in the passenger vehicle market supported by historically low interest rates improving affordability. Market share increased from 18.3% in 2011 to 19.1% in 2012. Card debtors reflected an increase of 18%. Good account and balance growth in card debtors.

South African market share analysis (%)



Source: BA 900

The 5% increase in loans and advances in CIB was mainly due to higher foreign currency lending and increased call loans to banks, partly offset by a decrease in other term loans.

Deposit and current accounts increased 4% or R30 billion, to R718 billion (2011: R688 billion). PBB deposits increased by R31,5 billion, mainly due to growth in the number of call deposit accounts, growth in current accounts in the government sector and higher average account balances in cash management deposits. Deposits and current accounts in CIB increased by R2,2 billion, mainly due to higher foreign currency balances and higher client working capital requirements.

Cash and balances with banks were up 24% to R26 billion as a result of holding additional South African Reserve Bank (SARB) interest-free deposits for capital reserving purposes.

Trading assets increased 45% to R36 billion largely due to an increase in short equity positions as well as higher bond and repurchase agreement trading positions.

Financial review continued

Derivative assets and liabilities decreased 16% and 17% respectively, mainly as a result of forex derivative assets and liabilities being lower than the prior year following a decline in client flows.

Subordinated debt increased by R6 billion or 39% predominantly due to the issue of new subordinated debt amounting to R9 billion, and this was partially offset by the redemption of a USD private placement of R355 million.

Liabilities to group companies increased by R15 billion, a 43% change, largely due to placements from SBG subsidiaries outside Africa.

Liquidity and capital management

The group maintained strong Basel II capital ratios during the year under review, attributable to internal capital generation and corporate actions. At 31 December 2012, SBSA's core tier I and tier I capital ratios were 11.3%, and our total capital ratio was 14.8%.

We achieved our objective to strengthen the group's capital position in the second half of 2012. This was done through risk-weighted asset optimisation initiatives and utilising internal sources of surplus group capital, mainly from the proceeds as a result of the sale of Standard Bank Argentina, to support the use of the group as the primary balance sheet of SBG. Additionally, the group successfully placed a record R9 billion of subordinated debt qualifying as Basel II compliant tier II instruments in the domestic bond market. In December 2012, the SARB published the amended Basel III regulations relating to banks after a consultative process. Our analysis of the regulations implies a reduction in the group's capital adequacy ratios under the proposed framework, but the group will remain adequately capitalised to meet the new Basel III requirements.

The group's overall liquidity position remains strong with liquidity buffers held for potential stressed conditions amounting to R76 billion at 31 December 2012 (excluding cash reserves across the group of an additional R32 billion). These levels of liquidity are prudent given the group's liquidity stress-testing philosophy and pending regulation. We continue to maintain a robust ratio of long-term funding at 25.6% of funding-related liabilities.

The group's most stable funding source, being retail deposits from PBB customers, was 9% higher than the prior year as the group maintained market share. CIB also demonstrated its ability to attract transactional banking customers with cash management deposits increasing by 7% compared to December 2011.

A number of key debt capital market and term loan funding transactions were executed, taking advantage of pockets of relatively well-priced liquidity as investor appetite for capital markets issuance remained robust. The group successfully placed R10 billion of senior debt in the domestic bond market and raised USD1,9 billion in syndicated loans and through the Euro Medium Term Note programme from the international bank loan and capital markets, including USD1,35 billion in a single three-year loan in May 2012.

AR **A detailed analysis of capital management is provided in the risk and capital management report on pages 71 to 75**

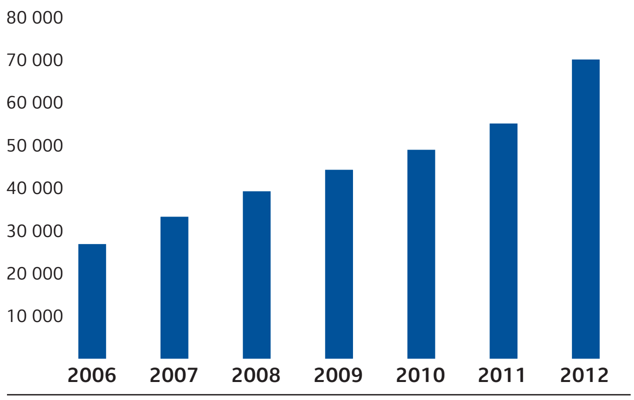
Seven-year review

Statement of financial position

	CAGR[1] %	**2012 Rm**	2011 Rm	2010 Rm	2009 Rm	2008 Rm	2007 Rm	2006 Rm
Group								
Assets								
Cash and balances with central banks	15	**25 926**	20 865	18 181	14 470	13 547	14 286	11 058
Financial investments, pledged and trading assets	13	**118 070**	108 172	95 248	83 867	86 341	71 814	57 423
Non-current asset held for sale	100	**960**						
Loans and advances	10	**659 500**	611 165	536 188	525 500	527 253	445 356	370 066
Derivative and other assets	10	**96 882**	104 489	111 370	81 212	121 816	54 494	55 572
Interest in group companies, associates and joint ventures	4	**58 430**	62 099	63 013	77 998	103 095	88 960	47 296
Goodwill and other intangible assets	61	**10 350**	6 469	4 410	2 913	1 997	1 450	592
Property and equipment	21	**8 895**	8 430	7 906	5 141	4 281	3 574	2 829
Total assets	10	**979 013**	921 689	836 316	791 101	858 330	679 934	544 836
Equity and liabilities								
Equity	17	**69 805**	54 847	48 704	44 027	39 003	33 049	26 655
Equity attributable to the ordinary shareholder	17	**69 742**	54 795	48 662	44 027	39 003	33 049	26 655
Non-controlling interest	100	**63**	52	42				
Liabilities	10	**909 208**	866 842	787 612	747 074	819 327	646 885	518 181
Deposit and current accounts	10	**717 944**	688 062	608 089	574 460	604 796	524 733	399 758
Derivative, trading and other liabilities	6	**118 663**	127 678	123 952	106 369	159 791	95 667	85 751
Subordinated debt	13	**22 400**	16 095	15 683	15 814	11 809	12 985	10 862
Liabilities to group companies	15	**50 201**	35 007	39 888	50 431	42 931	13 500	21 810
Total equity and liabilities	10	**979 013**	921 689	836 316	791 101	858 330	679 934	544 836

[1] CAGR refers to compound annual growth rate for the period 2006 to 2012.

Ordinary shareholder's equity – group (Rm)



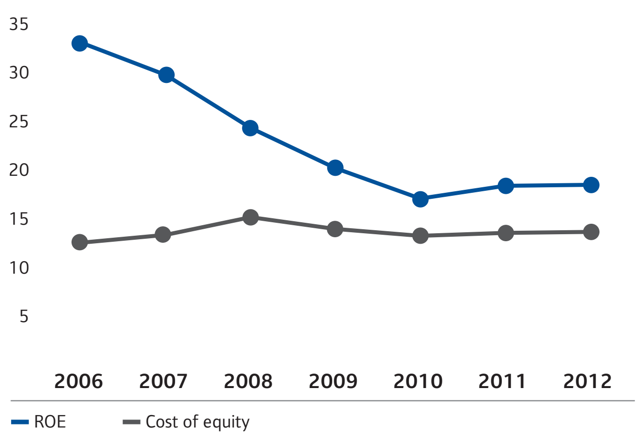
Seven-year review continued

Income statement

	CAGR %	2012 Rm	2011[1] Rm	2010 Rm	2009 Rm	2008 Rm	2007 Rm	2006 Rm
Group								
Net interest income	12	**25 249**	21 348	20 185	21 474	21 828	17 130	12 817
Interest income	6	**55 677**	49 714	51 601	67 420	83 846	53 696	39 550
Interest expense	2	**30 428**	28 366	31 416	45 946	62 018	36 566	26 733
Non-interest revenue	8	**22 032**	18 804	18 329	17 489	16 346	15 388	13 818
Total income	10	**47 281**	40 152	38 514	38 963	38 174	32 518	26 635
Credit impairment charges	16	**5 785**	4 623	6 352	9 831	10 015	4 196	2 414
Income after credit impairment charges	9	**41 496**	35 529	32 162	29 132	28 159	28 322	24 221
Revenue sharing agreements with group companies	100	**1 642**	230					
Income after revenue sharing agreements	9	**39 854**	35 299	32 162	29 132	28 159	28 322	24 221
Operating expenses	11	**25 106**	21 904	21 375	18 214	17 044	15 976	13 273
Net income before goodwill impairment	5	**14 748**	13 395	10 787	10 918	11 115	12 346	10 948
Goodwill impairment			46					
Net income	5	**14 748**	13 349	10 787	10 918	11 115	12 346	10 948
Share of profits/(losses) from associates and joint ventures	15	**523**	83	124	(104)	165	267	221
Net income before indirect taxation	5	**15 271**	13 432	10 911	10 814	11 280	12 613	11 169
Indirect taxation	13	**974**	745	856	582	600	610	476
Profit before direct taxation	5	**14 297**	12 687	10 055	10 232	10 680	12 003	10 693
Direct taxation	(1)	**2 362**	3 167	2 147	2 120	1 968	2 689	2 546
Profit for the year	7	**11 935**	9 520	7 908	8 112	8 712	9 314	8 147
Attributable to non-controlling interest	100	**11**	10	50				
Attributable to the ordinary shareholder	7	**11 924**	9 510	7 858	8 112	8 712	9 314	8 147

[1] 2011 reclassified, refer to annexure B – reclassifications on page 225.

Financial performance – group (%)

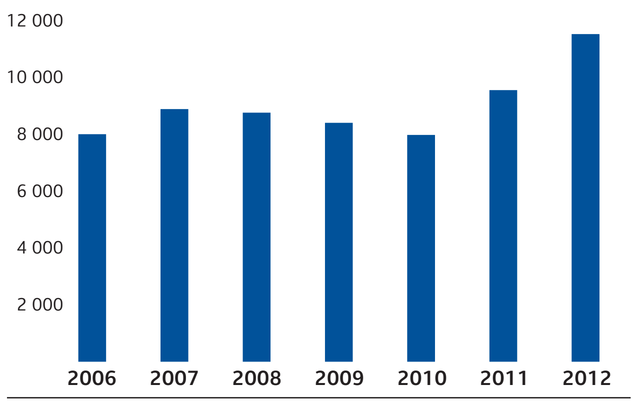


Statistics, returns and capital adequacy

	CAGR %	2012	2011	2010	2009	2008	2007	2006
Group								
Headline earnings (Rm)	6	**11 501**	9 530	7 954	8 380	8 737	8 863	7 980
Share statistics								
Number of ordinary shares in issue (thousands)								
Weighted average		**59 997**	59 997	59 997	59 997	59 997	59 997	59 997
End of period		**59 997**	59 997	59 997	59 997	59 997	59 997	59 997
Share statistics per ordinary share (cents)								
Basic earnings	7	**19 874**	15 851	13 097	13 521	14 520	15 524	13 579
Headline earnings	6	**19 169**	15 884	13 257	13 967	14 562	14 772	13 301
Dividends	(17)	**4 163**	12 335	4 167	9 167	6 000	17 084	12 834
Net asset value	17	**116 242**	91 330	81 108	73 382	65 008	55 085	44 427
Selected returns and ratios								
ROE (%)		**18.5**	18.4	17.1	20.2	24.3	29.7	33.0
Non-interest revenue to total income (%)[1]		**46.6**	46.8	47.6	44.9	42.8	47.3	51.9
Average ordinary shareholder's equity to average total assets (%)		**6.6**	5.9	5.7	5.0	4.7	4.9	4.9
Loan-to-deposit ratio (%)		**91.9**	88.8	88.2	91.5	87.2	84.9	92.6
Cost-to-income ratio (%)[1]		**54.4**	54.8	55.3	46.9	44.5	48.7	49.4
Credit loss ratio (%)		**0.89**	0.80	1.18	1.87	2.02	1.02	0.72
Effective tax rate (%)		**21.8**	29.1	27.5	25.0	22.8	26.2	27.1
Headline earnings per employee (rand)	8	**408 300**	335 304	261 679	284 126	294 542	286 810	264 378
Number of employees	(1)	**28 168**	28 422	30 396	29 494	29 663	30 902	30 184

[1] 2011 restated due to the reclassification in annexure B on page 225.

Headline earnings – group (Rm)



Seven-year review continued

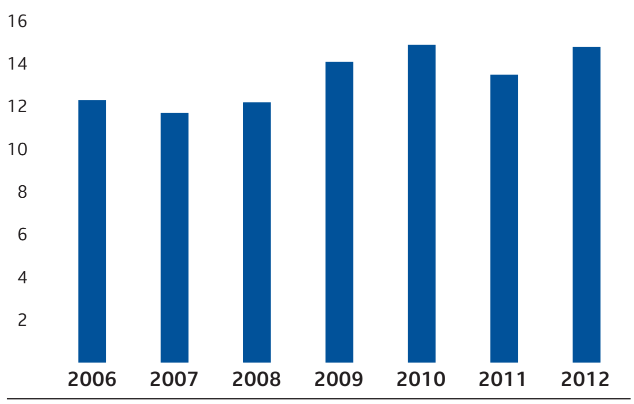
Statistics, returns and capital adequacy continued

	CAGR %	2012	2011	2010	2009	2008	2007	2006
Company								
Capital adequacy[1]								
Risk-weighted assets (Rm)	8	**499 819**	430 484	368 262	367 839	358 752	340 929	306 620
Tier I capital (Rm)[2]	14	**56 539**	46 214	42 172	38 946	33 344	28 922	25 620
Total capital (Rm)[2]	12	**73 813**	58 284	54 965	51 853	43 826	40 042	37 752
Tier I capital adequacy ratio (%)		**11.3**	10.7	11.5	10.6	9.3	8.5	8.4
Total capital adequacy ratio (%)		**14.8**	13.5	14.9	14.1	12.2	11.7	12.3
Headline earnings (Rm)	6	**11 180**	9 489	7 697	8 121	8 728	8 885	7 911
Return on average risk-weighted assets (%)		**2.4**	2.4	2.1	2.2	2.5	2.7	2.9
Rand exchange rates at 31 December								
US dollar	3	**8,48**	8,09	6,64	7,37	9,31	6,81	7,05
Sterling	(0)	**13,71**	12,48	10,29	11,88	13,64	13,64	13,80
Euro	3	**11,18**	10,46	8,87	10,61	13,02	10,00	9,29
Market indicators at 31 December								
SA prime overdraft rate (%)		**8.5**	9.0	9.0	10.5	15.0	14.5	12.5
JSE All Share Index	8	**39 250**	31 986	32 119	27 666	21 509	28 958	24 915
JSE Banks Index	7	**53 362**	41 178	40 985	36 675	30 566	35 876	36 121

[1] Basel II was implemented on 1 January 2008. Capital adequacy numbers relating to the financial years from 2008 are shown on a Basel II basis, all other comparative numbers are on a Basel I basis.

[2] The unappropriated profit has been included for the purposes of calculating the capital adequacy ratios, see page 73 of the risk and capital management report for more information.

Total capital adequacy ratio – company (%)



Corporate governance statement

Introduction

This statement sets out the governance framework adopted by the board of directors (the board) which is derived from the governance framework adopted by SBG. Good corporate governance remains integral to the way we operate. Our commitment to operating in an ethical and transparent manner and staying accountable to our stakeholders is resolute.

In line with SBG's governance framework, the board subscribes to the principles of the King Report on Corporate Governance for South Africa 2009 (King Code) and continued to implement its recommendations as appropriate.

Continuing director education remained a focus with training sessions incorporated into the board's annual schedule. The topics covered in the 2012 programme included recovery and resolution plans, transactional products and services, and executive remuneration. Recovery and resolution plans are a response to a call that has been made on all jurisdictions to put into place an ongoing recovery and resolution planning process to reduce the potential for failure as part of the supervisory process. These sessions were aimed at equipping directors with skills to discharge their duties and obligations, and to ensure we remain appraised of local and international developments.

With the rate at which new and changing regulations are being implemented, the complexities of managing regulatory compliance have increased. The board, with management's assistance, has continued to stay abreast of all the regulatory developments which impact or have a potential to impact our operations.

Progress during 2012 included:

- redrafting and adopting the company's memorandum of incorporation (MOI), in line with the South African Companies Act 71 of 2008 (the Companies Act)
- staying abreast of local and international corporate governance best practices through ongoing research
- monitoring and, where appropriate, adopting regulatory developments such as the new Financial Sector Code and the Financial Services Board's (FSB) Treating Customers Fairly (TCF) initiative
- appointing an additional non-executive director, with international banking experience in line with the board's succession plans
- introducing a secure online portal to enable directors to access board papers electronically as they become available
- evaluating the board and its committees' performance, with the assistance of independent consultants, Korn/Ferry International, and developing an action plan to address the gaps identified.

The programme for 2013 includes:

- continuing to implement the board's succession plans regard being had to, among others, diversity and the need to ensure balance
- rolling out director education on relevant topics including TCF, Basel III and its implications on our operations, recovery and resolution plans and an in-depth analysis of our IT strategy
- continue to monitor financial and operating performance and risk.

The board

Role and composition

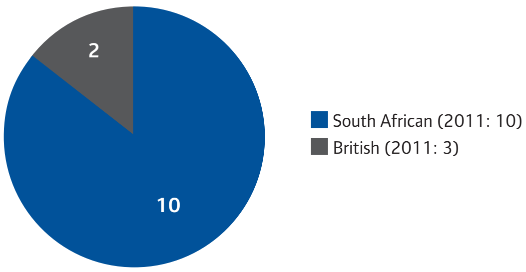
The board is the highest decision-making body and is ultimately responsible for governance. The board is responsible to shareholders for setting economic, social and environmental direction through strategic objectives and key policies. It monitors the implementation thereof through structured reporting systems including its various subcommittees.

For 2012, SBSA had a unitary board structure comprising 15 directors, 10 (67%) of whom are independent non-executive directors, two (13%) of whom are non-executive directors and three (20%) of whom are executive directors (the SBG chief executive, the SBSA chief executive and the SBG financial director).

With the appointment of Peter Sullivan to the board in January 2013 and the implementation of executive succession plans in March 2013, the unitary board structure comprises 17 directors, of whom 11 (65%) are independent non-executive directors, two (13%) are non-executive directors and four (22%) are executive directors (joint SBG chief executive officer, the SBSA chief executive, the SBG financial director and the SBG chief operating officer).

The board considers diversity of views and experiences an essential part of ensuring that all aspects of strategies and plans are fully considered.

Mix of non-executive director nationalities
as at 31 December 2012 (number)



Sam Jonah KBE, Ghanaian, was a non-executive director in 2011.

Corporate governance statement continued

The composition of the board ensures there is a balance of power, so no individual or group can dominate board processes or decision-making, and stimulates robust challenge and debate. The non-executive directors bring different perspectives to board deliberations, and the constructive challenging of the views of executive directors and management is encouraged.

The board operates on the understanding that sound governance practices are fundamental to earning the trust of stakeholders, which is critical to sustaining performance and preserving shareholder value. The board's collective experience and expertise provides a balanced mix of attributes that enables it to fulfil its duties and responsibilities. The board monitors performance continually in relation to agreed strategic objectives and associated targets.

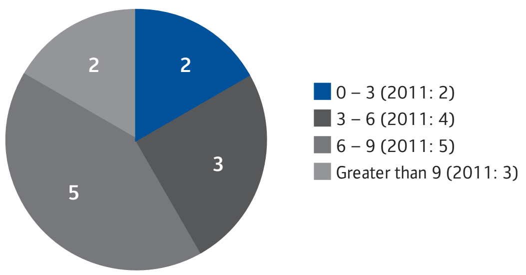
AR Directors' qualifications and brief curricula vitae are provided on pages 42 to 45

Independent non-executive directors

The directors' affairs committee evaluates the independence of board members for board approval. Independence is determined according to the definitions in the King Code, which include the number of years a director has served on the board. An annual review, in terms of an agreed methodology, is conducted of all directors who have served longer than nine years.

In this respect, the board has concluded that Doug Band continues to be independent both in character and judgement, notwithstanding tenure. Saki Macozoma and Cyril Ramaphosa are not considered to be independent due to their respective interests in the group's strategic empowerment partners, Safika and Shanduka. All other non-executive directors are independent.

Length of tenure of non-executive directors
as at 31 December 2012 (years)



Chairman and chief executive

The chairman is an independent non-executive director, and the roles of chairman and chief executive are separate, with their responsibilities clearly defined. The chairman is responsible for leading the board and ensuring its effectiveness. The chief executive is responsible for the execution of SBSA's strategy and its day-to-day business, supported by the executive committee which he chairs.

Appointment policy

The board regularly reviews the nominations and appointments policy, which is aligned with applicable legislation and regulations. These include, but are not limited to, the requirements of the Companies Act, South African Banks Act 94 of 1990 (Banks Act) and JSE Listings Requirements. The policy sets out the process for nominating and appointing directors and key executives. In making an appointment, the board takes cognisance of the knowledge, skills, experience and other commitments of the candidate, as well as other attributes considered necessary for directorship. The board also considers the need for appropriate demographic and gender representation. Candidates are subject to a fit-and-proper questionnaire, as required by the Banks Act.

In terms of the nominations and appointments policy, management requires permission to accept external board appointments, which is only granted in exceptional circumstances. This reduces potential conflicts of interest and helps ensure that management devotes sufficient time and focus to SBSA's business.

Induction and ongoing education

On appointment, directors receive the group's governance manual containing all relevant governance information such as founding documents, mandates, governance structures, significant reports, relevant legislation and policies. One-on-one meetings and site visits are scheduled with management to introduce new directors to the company and its operations.

Ongoing director education remains a focus. The directors are kept abreast of all applicable legislation and regulations, changes to rules, standards and codes, as well as relevant sector developments that could affect the group and its operations. The directors' education programme continued to focus on business issues and additional time was scheduled outside of board meetings for sessions on pertinent issues. Topics covered included recovery and resolution plans, transactional products and services, and executive remuneration. In addition, three non-executive directors attended the Gordon Institute of Business Science (GIBS) Banking Board Leadership Programme.

The group secretary is responsible for the induction and ongoing education of directors.

Access to information and resources

There is ongoing engagement between executive management and the board. External auditors are invited to attend audit committee and risk and capital management committee meetings. Non-executive directors meet without the executive directors in closed sessions at each board meeting. Directors have unrestricted access to management and company information, as well as the resources to carry out their duties and responsibilities. This includes access to external specialist advice, at SBSA's expense, in terms of the board approved policy on independent professional advice.

Succession planning

Succession planning is a key focus and the directors' affairs committee continually considers the composition of the board and its committees. This review, based on the group's strategic objectives, is aimed at ensuring that the board is able to meet the current and future needs of the company. Retaining board members with considerable experience is seen as imperative in ensuring continuity and maintaining appropriate levels of oversight. The board's future needs are considered on an ongoing basis to ensure adequate succession planning.

One of the areas identified in the 2011 board evaluation process was the need to strengthen the board's expertise in international banking. The board mandated the directors' affairs committee to oversee a selection process that culminated in the appointment of Peter Sullivan to the board on 15 January 2013. Peter was previously chief executive officer of Standard Chartered Bank (Africa) and executive director and chief executive officer of Standard Chartered (Hong Kong).

With the implementation of the carefully planned succession plan, the board announced Jacko Maree's retirement as chief executive of SBG and resignation as an executive director of SBSA on 7 March 2013. At the same time, Ben Kruger, incoming joint SBG chief executive and Peter Wharton-Hood, SBG chief operating officer, were appointed as executive directors to the SBSA board.

The board is satisfied that the current leadership pipeline available to SBSA and the ongoing work being done to strengthen it, provide adequate succession depth to lead SBSA through the next phase of growth.

At the annual general meeting (AGM) on 30 May 2012, Sir Paul Judge and Sam Jonah KBE retired from office in terms of the MOI and did not stand for re-election. Cyril Ramaphosa is, in line with the provisions of the MOI, due to retire by rotation at SBSA's AGM on 29 May 2013. He has advised the group that he will not be standing for re-election. The chairman and board extend their appreciation to these directors for their immense contribution over the years.

Strategy

The board is responsible for SBSA's strategic direction. Management presents SBSA's strategy annually for the board's approval. The board ensures the strategy is aligned with the group's values and performance targets, and monitors its implementation in relation to the group's risk profile.

Financial performance is monitored by way of, among others, quarterly management reports.

In line with banking regulations, the board decides on SBSA's corporate governance and risk management objectives for the year ahead. The directors' affairs committee and the relevant risk committees monitor performance against governance and risk objectives respectively, and reports are submitted to the board. Self-assessment is conducted annually to establish whether SBSA has achieved these objectives.

Ethics and organisational integrity

The board aims to provide effective and ethical leadership and ensures that its conduct and that of management is aligned to the group's code of ethics (the code). The board subscribes to the group's values and the code. The group's code is designed to empower employees and enable effective decision-making at all levels of the business according to defined ethical principles and values.

The code of ethics is available on SBG's website as follows:
www.standardbank.com/ethics.aspx

The group is a member of the Ethics Institute of South Africa which has certified that the group's code meets the highest standards of international best practice. The code is aligned with and supported by other group policies and procedures, and supports compliance with the relevant industry regulations and laws.

Ethical incidents are reported through the ethics and fraud hotline, the financial crime control unit, the human resources department, the ethics mailbox, business unit ethics officers and line managers. An independent service provider operates a confidential and anonymous hotline on behalf of the group. Awareness building and training is provided throughout the organisation to ensure employees are aware of the ethics reporting options available to them. The group's values and code have been incorporated in the global leadership centre foundation leadership and team leader training programmes.

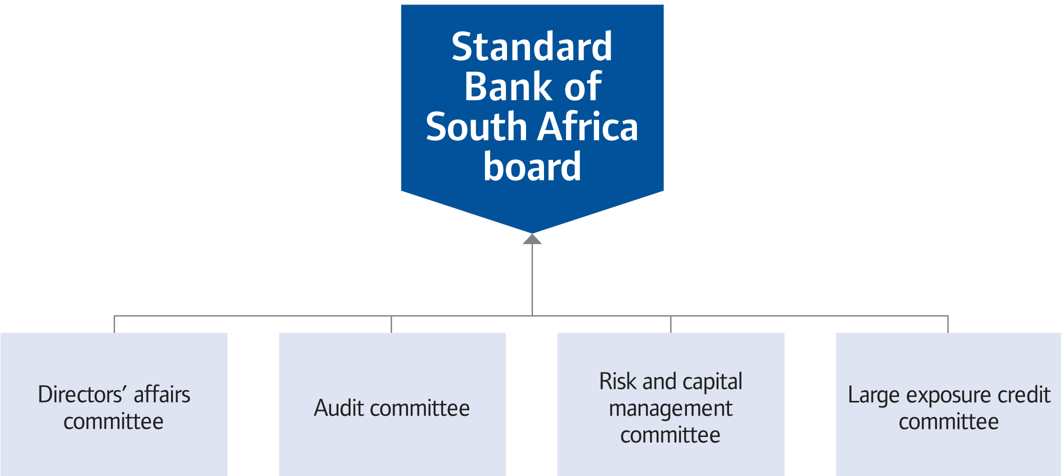
The ethics line contact methods are as follows:
Hotline SA only: 0800 113 443
Hotfax SA only: 0800 200 796
Hotfax international: +27 12 543 1547
Hotmail international: fraud@kpmg.co.za

Ethics and fraud hotline web-based report:
www.surveys.kpmg.com/mmi/2wZTS4P/Link.html

Each business unit has an ethics officer who is responsible for building awareness of the code and providing guidance on individual ethical concerns that staff may raise.

Corporate governance statement continued

Standard Bank launched a Protection of Personal Information (PoPi) programme in 2011 to ensure compliance with PoPi once it is introduced as law. An information protection culture assessment was conducted during 2012, to measure employee perception and attitude in this regard. The assessment has provided the basis for a structured approach across the group to handling personal information in line with PoPi legislation and which also supports key elements of our values and code of ethics.



Delegation of authority

The board retains effective control through a governance framework that provides for delegation of authority. In discharging its duties, the board delegates authority to relevant board committees and the chief executive with clearly defined mandates and authorities, although the board retains its accountability. The board has reviewed and approved the annual financial statements, for publication, on 6 March 2013.

Board committees facilitate the discharge of board responsibilities and provide in-depth focus on specific areas. Each committee has a mandate, which the board reviews at least annually. Each mandate sets out the role, responsibilities, scope of authority, composition, terms of reference and procedures.

AR **A summary of each subcommittees' key terms of reference, key focus areas in 2012 and the year ahead is set out on pages 31 to 36**

The board delegates authority to the chief executive to manage the business and affairs of SBSA. The executive committee assists the chief executive in the day-to-day management of the affairs of SBSA, subject to statutory parameters and the limits on the delegation of authority to the chief executive. The governance office monitors board-delegated authorities.

AR **The composition of the group executive committee is set out on pages 12 to 13**

Board and committees as at 31 December 2012

Summary of key terms of reference, focus areas and the year ahead

<table>
<tr><th>Board</th><th>Summary of key terms of reference</th></tr>
<tr><td rowspan="3">Chairman
Fred Phaswana[1]

Members
Doug Band[1]
Richard Dunne[1]
Thulani Gcabashe[1]
Koosum Kalyan[1]
Saki Macozoma[2]
Jacko Maree[3,4]
Kgomotso Moroka[1]
Chris Nissen[1]
Cyril Ramaphosa[2]
Simon Ridley[3]
Myles Ruck[1]
Lord Smith of Kelvin, Kt[1]
Sim Tshabalala[5]
Ted Woods[1]</td><td>■ provides effective leadership based on an ethical foundation
■ agrees and monitors SBSA's strategy and objectives
■ reviews the corporate governance and risk and capital management processes
■ delegates relevant authority to the chief executive
■ determines the terms of reference and procedures of all board committees, reviews the board's and committees' performance annually and reviews their reports and minutes
■ ensures that the audit committee is effective and independent
■ reviews and monitors the performance of the chief executive and executive management
■ ensures consideration is given to succession planning for the board, chief executive and executive management
■ considers the remuneration of non-executive directors, based on the SBG remuneration committee's (remco) proposals, and makes recommendations to the shareholder for approval
■ ensures that an adequate budget and planning process exists, measures performance against budgets and plans, and approves annual budgets for the group
■ considers and approves the annual financial statements and the annual report, results, dividend announcements and notice to the shareholder
■ ensures that an effective and robust risk management process is in place that is linked to strategy, performance and sustainability
■ monitors stakeholder relations
■ approves significant acquisitions, mergers, takeovers, divestments of operating companies, equity investments and new strategic alliances
■ assumes ultimate responsibility for financial and IT governance, operational and internal systems of control, and ensures adequate reporting on these by respective committees.</td></tr>
<tr><td>Summary of key focus areas for 2012</td></tr>
<tr><td>■ redrafted and adopted SBSA's MOI in line with the Companies Act requirements
■ reviewed the company's strategy and plans up to 2016
■ implemented executive and board succession plans culminating in the appointment of an additional non-executive director with international banking experience
■ kept abreast of regulatory changes in the different jurisdictions in which the group operates
■ monitored and, where appropriate, adopted regulatory developments
■ rolled out a standard corporate governance framework for key subsidiaries
■ ensured that the board continued to provide effective leadership and that the executive team was sufficiently empowered
■ reviewed the effectiveness of the board committees and compliance with mandates
■ conducted a board evaluation exercise and utilised the report as a tool for improving board performance.</td></tr>
</table>

[1] Independent non-executive director.
[2] Non-executive director.
[3] Executive director.
[4] Retired on 7 March 2013.
[5] Chief executive.

Corporate governance statement continued

Board continued	The year ahead
	■ monitoring the financial performance against approved plans and budgets to ensure sustainable profitability ■ ensuring that there is adequate management succession depth across the group ■ implementing the board's succession plans, regard being had to, among others, diversity and appropriate balance between executive and non-executive directors ■ continuing to embed IT governance ■ embedding the board's governance framework ■ continuing to promote a culture of collaboration, transparency and accountability that is based on a sound ethical foundation.

Directors' affairs committee	Summary of key terms of reference
Chairman Fred Phaswana[1] **Members** Doug Band[1] Thulani Gcabashe[1] Saki Macozoma[2] Cyril Ramaphosa[2]	To assist the board in: ■ evaluating the adequacy, efficiency and appropriateness of the governance framework and practices across the group ■ establishing director induction and training programmes ■ approving the board evaluation methodology ■ nominating directors as part of succession planning ■ ensuring corporate governance best practice and statutory compliance ■ reviewing and approving allocations in respect of the black ownership initiative.
	Summary of key focus areas for 2012
	■ recommended a proposal to strengthen the credit governance process by inviting non-executive directors to participate in certain credit decision-making processes ■ reviewed proposed non-executive director candidates and recommended a director for appointment to the board ■ reviewed the changes made to the directors and prescribed officers' dealings in securities policy to align with the Companies Act and revised credit governance process ■ monitored local and international corporate governance trends and legislation including revisions to the United Kingdom (UK) Code, gender equality and amendments to the JSE Listings Requirements ■ considered the items of non-compliance in terms of the King Code ■ approved the nomination of seven new small and medium enterprises (SMEs) and awarded 20 000 participation rights in the black economic empowerment ownership initiative (Tutuwa) scheme to each SME ■ considered executive succession plans.
	The year ahead
	■ implement action plans arising from the board and committee evaluations ■ monitor local and international corporate governance trends that may impact the group ■ implement the board succession plans ■ assess the effectiveness and functioning of the board and its committees.

1 Independent non-executive director.
2 Non-executive director.

Audit committee	Summary of key terms of reference
Chairman Richard Dunne[1,2] **Members** Thulani Gcabashe[1,3] Lord Smith of Kelvin, Kt[1,4] Ted Woods[1,5]	Combined assurance model ■ ensures the group applies a combined assurance model to provide a coordinated approach to all assurance activities. Financial reporting and financial control ■ reviews the group's interim and audited financial statements, summarised financial information and all financial information in the annual report ■ evaluates the adequacy and effectiveness of SBSA's accounting policies and all proposed changes in accounting policies and practices ■ satisfies itself of the expertise, resources and experience of the finance function and the expertise of the chief financial officer ■ reviews the basis for the going concern determination ■ reviews the effectiveness of financial management including the management of financial risks, the quality of internal accounting control systems and reports produced, including financial reporting risks and internal financial controls ■ reviews the impact of new financial systems, tax and litigation matters on financial reporting. External audit ■ reviews and approves the group external audit plan ■ assesses the independence and effectiveness of the external auditors on an annual basis ■ oversees the appointment of external auditors, their terms of engagement and fees ■ reviews significant differences of opinion between external auditors and management ■ reviews the external auditors' management reports covering deviations from and weaknesses in accounting and operational controls, and ensures that management takes appropriate action to satisfactorily resolve issues ■ reviews and pre-approves annually the policy for using external auditors for non-audit work. Internal audit and financial crime ■ reviews, approves and monitors the internal audit plan ■ reviews and approves the internal audit mandate, as per the board's delegated authority ■ considers and reviews the internal auditors' significant findings and managements' response ■ evaluates annually the role, independence and effectiveness of the internal audit function in the overall context of the group's risk management system ■ monitors the maintenance of proper and adequate accounting records and the overall financial and operational environment. Annual report ■ recommends the annual report for the board's approval ■ evaluates management's judgements and reporting decisions in relation to the annual report and ensures that all material disclosure is included ■ reviews forward-looking statements, financial and sustainability information. Risk management ■ reviews the minutes of the risk and capital management committee, noting all significant financial and non-financial risks that may impact the annual report ■ considers any significant matters raised at risk and capital management committee meetings.

[1] Independent non-executive director.
[2] Appointed 3 December 2009.
[3] Appointed 1 May 2008.
[4] Appointed 1 January 2009.
[5] Appointed 22 May 2008.

Corporate governance statement continued

Audit committee continued

Summary of key terms of reference

Information technology

- ensures the use of relevant technology and techniques to improve audit coverage and audit efficiency
- oversees IT risk in relation to financial reporting.

Summary of key focus areas in 2012

- reviewed the financial information published by the group, including the content of the annual report and recommended the annual report to the board for approval
- evaluated accounting issues that affected SBSA
- reviewed, approved and monitored the external audit, internal audit and compliance plans
- reviewed current and upcoming tax legislation including Transfer Pricing, Securities Transfer Tax and the Foreign Account Tax Compliance Act
- monitored the group's internal control framework, noting that a group internal finance control governance forum had been established by finance to bolster the current internal controls framework
- considered reports from internal audit, compliance and financial crime control, and monitored responses from management, where required
- considered the Companies Act requirements in respect of assessing the independence of external auditors
- monitored compliance with relevant legislation, including Regulation 40(4) of the Banks Act requiring directors to report annually to the Registrar of Banks on the status of internal controls, any material malfunctions and the going concern determination
- approved the audit committee report for inclusion in the annual report
- reviewed and approved non-audit fees submitted as per the policy on non-audit services. The chairman of the audit committee approved, on a case by case basis, significant services outside the scope of the pre-approved audit plan, which were then ratified by the committee

AR **The fees for audit and non-audit services are set out on page 185 of the annual financial statements**

- reviewed minutes of the risk capital management committee
- reviewed management reports on IT strategy, including key IT projects
- held closed sessions with external auditors and the head of internal audit.

AR **Further details on the committee's fulfilment of its statutory obligations are set out on pages 116 and 117**

The year ahead

- continue to monitor internal financial controls and key accounting developments that are likely to impact the group
- monitor the activities of external audit, internal audit, compliance and financial crime control as they pertain to the regulatory and internal control environment of the group
- monitor the SARB's flavour-of-the-year topics, including the impact of Basel 2.5 and Basel III on SBSA's business models and strategy, recovery planning, anti-money laundering and combating the financing of terrorism controls.

<table>
<tr><th>Risk and capital management committee</th><th>Summary of key terms of reference</th></tr>
<tr><td rowspan="5">Chairman
Myles Ruck[1]

Members
Doug Band[1]
Richard Dunne[1]
Saki Macozoma[2]
Fred Phaswana[1]
Ted Woods[1]</td><td>■ ensures independent risk and capital functions are established
■ reviews the risk management framework and provides assurance to the board
■ approves risk disclosure in published reports
■ monitors all risk types
■ approves all risk governance standards and relevant policies
■ approves the internal capital adequacy assessment process (ICAAP), including stress testing scenarios and results, capital buffers and risk appetite
■ ensures IT policies are established and implemented to ensure effective management of information assets
■ monitors and evaluates significant IT investment and expenditure
■ ensures that the group and individual entities are adequately capitalised.</td></tr>
<tr><td>Summary of key focus areas in 2012</td></tr>
<tr><td>■ considered strategic risk overviews from the chief risk officer (CRO) on events and risks that had occurred or were emerging, which were expected to have a direct or indirect impact on the group’s operations and markets
■ considered management presentations on unsecured lending
■ considered reports from management that covered key risks including credit, equity, compliance, country, capital and liquidity, market, operational and insurance risk
■ approved risk governance standards
■ considered the SARB’s flavour-of-the-year topics at special risk and capital management meetings where topics included the liquidity recovery plan, capital recovery plan and the business continuity plan
■ considered and approved the risk appetite statement for the group’s banking operations
■ considered and approved the macroeconomic scenarios that would be used in the budget 2013 group stress testing
■ recommended the ICAAP to the board for approval
■ reviewed the impact of the proposed Basel III SARB capital and liquidity ratios on SBSA
■ received regular updates from the chief information officer on the status of all material IT projects and expenditure
■ reviewed minutes of the SBG risk oversight committee (GROC), the key risk oversight management committee, and received regular summaries from the CRO on important points raised at GROC
■ approved the operational risk advanced measurement approach (AMA).

AR Further details on this committee are set out in the risk and capital management report starting on page 64</td></tr>
<tr><td>The year ahead</td></tr>
<tr><td>■ consider the risk profile of the group to ensure the group is managed within risk appetite relative to the strategy
■ monitor the capital adequacy of the group and review the impact of significant transactions on capital
■ monitor IT strategy and management of objectives as delegated by the board.</td></tr>
</table>

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

Corporate governance statement continued

Large exposure credit committee	Summary of key terms of reference
Chairman Myles Ruck[1] **Members** Doug Band[1] Carel Buitendag[2] Libby King[2] Ben Kruger[2] Jacko Maree[3,4] David Munro[2] Richard Pantcheff[2] Fred Phaswana[1] Roselyne Renel[2] Simon Ridley[4] Sim Tshabalala[4,5] Jeremy Walker[2]	■ ensures compliance with the requirements of the Banks Act Regulations (Regulations) in respect of large exposures as defined to the extent and on the basis as set out in its mandate ■ approves the counterparty and portfolio definitions of large exposures for the purposes of the committee and the methodology for the determination thereof ■ approves all counterparty and non-bank portfolio large exposures as required in terms of the SARB's requirements which are subsequently ratified by the board at the next board meeting. **Summary of key focus areas for 2012** ■ considered management reports recommending the approval and annual renewals of large exposures as defined in the Regulations ■ approved the committee's mandate. **The year ahead** ■ continue to discharge the board's responsibility in respect of large exposures ■ continue to monitor and ensure compliance with the Regulations.

1 Independent non-executive director.
2 Management.
3 Retired on 7 March 2013.
4 Executive director.
5 Chief executive, SBSA.

Board and committee meetings

Six board meetings were held during 2012, with one meeting dedicated to reviewing the bank's strategy.

Board of directors – meeting attendance

	Board (including strategy and SARB)	Audit committee	Risk and capital management committee	Directors' affairs committee	SBSA large exposure committee
Number of meetings held	6	8	5	5	5
Attendance					
Chairman					
TMF Phaswana[1]	6		4	5	4
Deputy chairman					
SJ Macozoma[2]	6		5	5	
Independent non-executive directors					
DDB Band	6		5	5	5
RMW Dunne	6	8	5		
TS Gcabashe[3]	6	7		4	
KP Kalyan	6				
KD Moroka	6				
AC Nissen	6				
MJD Ruck	6		5		4
Lord Smith of Kelvin, Kt	6	8			
EM Woods	6	8	5		
Non-executive directors					
MC Ramaphosa	6			5	
Executive directors					
JH Maree[4]	6				5
SP Ridley	6				5
SK Tshabalala[5]	6				3

1 Independent non-executive director.
2 Non-executive director.
3 Appointed to the directors' affairs committee on 7 March 2012.
4 SBG chief executive and director until 7 March 2013.
5 Chief executive.

Corporate governance statement continued

Board and committee effectiveness and evaluation

The board measures its effectiveness in a number of ways. Its performance and that of its subcommittees is assessed annually by the external auditors against the relevant mandates. Findings are reported to the directors' affairs committee. The board and respective committees consider each of the detailed reviews and feedback is provided to the board. The evaluation of board and committee mandates conducted in 2012 identified no material concerns.

Independent consultants, Korn/Ferry International, were engaged in 2012 to assist the board in evaluating the effectiveness of its committees by way of a confidential online questionnaire that was completed by main board and committee members. The areas covered included:

- agenda and terms of reference
- effectiveness of information sharing
- effectiveness and quality of debate
- follow-through and accountability for actions
- overall performance
- feedback to, and interaction with, the main board.

The results of this evaluation revealed that all board committees were working well and their performance fully met the board's expectations. An area identified as requiring improvement was the level of engagement and debate between the board and the committees.

The performance of the chairman and chief executive is assessed annually, and their remuneration is determined accordingly.

Group secretary

The group secretary ensures that the board remains cognisant of its duties. In addition to guiding the board on discharging its responsibilities, the group secretary keeps the board abreast of relevant changes in legislation and governance best practice. The group secretary also oversees the induction of new directors, as well as the ongoing education of directors.

To enable the board to function effectively, all directors have full and timely access to information that may be relevant in the proper discharge of their duties. This includes information such as corporate announcements, investor communications and other developments that may affect the group and its operations. All directors have access to the services of the group secretary.

Loren Wulfsohn (BCom) (LLB) (LLM Banking & Stock Exchange Law) was the group secretary from 2002 until her resignation on 31 October 2012. Zola Stephen (BProc) (LLB) was appointed group secretary on 1 November 2012, having joined the group in August 2012.

Prior to joining the group, Zola spent 13 years at Transnet in various roles. In her last role, she was a member of the group executive committee responsible for legal, corporate and public affairs, company secretariat and corporate governance and group compliance. Zola served as group secretary from 2005 to 2009 and is therefore well experienced in corporate governance.

In line with the JSE Listings Requirements the board has assessed the competence, qualifications and experience of the group secretaries and concluded that they were competent to carry out their duties.

The steps taken to arrive at this conclusion included,

- a review of the competence, qualifications and experience of both group secretaries
- an extensive recruitment process to seek and hire the newly appointed group secretary.

The board is satisfied that an arm's length relationship exists between it and the group secretary owing to the following reasons:

- neither Loren Wulfsohn nor Zola Stephen are members of the board
- the group secretary is not involved in the day-to-day operations of the group but ensures that good corporate governance is practiced by the group
- the board is responsible for appointing the group secretary and similarly, her removal shall be a matter for the board
- the group secretary is not a prescribed officer of the group.

Codes, regulation and compliance

Complying with all applicable legislation, regulations, standards and codes is integral to the group's culture and imperative to achieving its strategy. The board delegates responsibility for compliance to management and monitors this through the compliance function. The regulatory and legislative oversight committee assesses the impact of proposed legislation and regulation. Material regulatory issues are escalated to the risk oversight committee and the risk and capital management committee.

Oversight of compliance risk management is delegated to the audit committee which reviews and approves the mandate of the group chief compliance officer, who reports on a quarterly basis on, among others, the status of compliance risk management in the group, significant areas of non-compliance, as well as providing feedback on interaction with regulators. Internal audit reviews and audits the compliance function as well as the compliance policy and governance standards.

Code of banking practice

A Code of Banking Practice endorsed by the members of BASA, of which Standard Bank is a member, safeguards the interests of consumers. The revised Code of Banking Practice came into effect on 1 January 2012 and is based on four key principles, namely fairness, transparency, accountability and reliability. These principles resonate with the group's values and will assist in ensuring that the FSB's TCF framework is met when it becomes effective in 2014. TCF seeks to create a more meaningful focus on the fair treatment of customers.

SR **An update on the work performed by the group to achieve TCF compliance can be found in SBG's sustainability report**

Codes of conduct

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

Standard Bank is regulated by various codes of conduct in terms of the Financial Advisory and Intermediary Services Act 37 of 2002. This act regulates financial service providers who render advice and/or provide intermediary services to clients in relation to certain financial products.

Companies Act

Memorandum of incorporation

The progress made during 2012 in implementing the requirements of the Companies Act included obtaining shareholders' approval of SBSA's MOI at its AGM held on 30 May 2012.

Prescribed officers

The directors' affairs committee confirmed the definition of prescribed officers as those key executives who are responsible for and have control over major business lines and participate in strategic decisions relating to those business lines. Based on this definition there were no changes to the prescribed officers for SBSA for 2012. Besides the executive directors namely Jacko Maree, SBG chief executive, Sim Tshabalala, chief executive of SBSA, and Simon Ridley, SBG financial director, the group's prescribed officers are:

- Ben Kruger, who was deputy SBG chief executive and is responsible for the two major business lines, CIB and PBB, and for optimising client relationships and revenue generation across the banking group
- Peter Wharton-Hood, who was deputy SBG chief executive and is SBG's chief operating officer responsible for operations, IT and group enabling functions across the group.

With effect from 7 March 2013, Ben Kruger and Peter Wharton-Hood were appointed as executive directors of SBSA.

The King Code

The group continues to apply the principles of the King Code which adopts an 'apply or explain' principle whereby a reasonable explanation of not applying the principles of the King Code is required.

AIR **The board was satisfied with the group's compliance in this regard and that the instances of non-compliance have been considered and explained in SBG's annual integrated report on page 111**

IT governance

The board is responsible for ensuring that prudent and reasonable steps have been taken with regard to IT governance, including aligning the IT strategy with the group's strategic objectives and performance targets. The audit and the risk and capital management committees assist the board in discharging its duties in this respect. The strategic technology and operations forum, chaired by the chief operating officer, is tasked with IT governance and oversight, and is supported in its duties by several management committees focused on specific aspects of IT governance.

The chief operating and chief information officers provide regular updates to the audit and risk and capital management committees on the status of all material IT projects and expenditure as well as other IT governance-related matters. During 2012, a results management office and a four-tier IT investment management structure were established with the group strategic technology and operations forum providing ultimate oversight. In addition, consolidating service delivery and enterprise architecture IT operations across the group has strengthened IT governance further.

AIR **Further information on IT implementations for the year can be found in SBG's annual integrated report on page 42**

The board is comfortable with the overall focus and effectiveness of IT governance, which in collaboration with audit and risk functions will ensure that good IT governance practices continue to be strengthened in 2013.

Corporate governance statement continued

Connecting with our stakeholders

The group's relevance to the markets and societies in which it operates depends on continued and meaningful engagement with all our stakeholders. The group's stakeholder management approach involves the application of the organisation's resources to build and maintain good relationships with stakeholders. This helps the group to understand the expectations of society, minimise reputational risk and form strong partnerships, all of which support commercial sustainability.

The board recognises the importance of promoting mutual understanding between the group and its stakeholders through effective engagement. Board meetings include the consideration of stakeholder engagement as a standing item. A quarterly stakeholder engagement report collates input from the group's business units, for review and discussion at board level. At a group level, the stakeholder relations management unit is tasked with ensuring consistent engagement with the group's various stakeholders. A government engagement committee, established in 2011, coordinates the group's interactions with government stakeholders in South Africa, with a particular focus on policy and regulatory advocacy and public sector business development. We intend to broaden the mandate of this committee in 2013 to cover all key stakeholders.

The group aims to resolve stakeholder disputes in the most beneficial manner. The group has a robust dispute resolution process in place, which involves a well-developed complaints management process and an internal customer dispute adjudicator. Every effort is made to arbitrate rather than to resort to legal action.

Numerous stakeholder engagement initiatives took place during the year.

More information on these initiatives can be found in the SBG sustainability report, available at www.standardbank.com/sustainability

SR **Issues raised by stakeholders and SBG's response can be found on pages 18 and 19 of the SBG sustainability report**

Sustainability

The 2012 sustainability report aims to present a balanced analysis of SBG's sustainability performance in relation to issues that are relevant and material to the group and its stakeholders. The Global Reporting Initiative's (GRI) G3 Sustainability Reporting Guidelines informs the preparation of the report, and the GRI Financial Services Sector Supplement indicators are disclosed. Our sustainability reporting consists of a succinct sustainability report and a more detailed website version which covers:

- an overview of the group's sustainability performance in 2012
- an overview of stakeholder interaction during the year
- material issues affecting the group
- performance indicators and relevant statistical information.

Building on the group's non-financial disclosure in its past annual reports, the group has aimed to continue improving disclosure of non-financial information on the issues that are material to stakeholders and the group's long-term sustainability.

Stakeholders are encouraged to visit our sustainability website at www.standardbank.com/sustainability, which provides more detail on SBG's sustainability performance

This website is updated annually, and articles of interest are posted throughout the year.

Transformation

Monitoring transformation initiatives and matters relating to broad-based black economic empowerment (BBBEE) are key agenda items of SBG's social and ethics committee. Compliance with current and evolving legislation and related regulations such as the charter, the Department of Trade and Industry Codes of Good Practice for BBBEE (dti codes) and the Employment Equity Act 55 of 1998 will continue to be important focus areas of the committee. In addition, the Financial Sector Code of Good Practice was gazetted by the Minister of Trade and Industry in November 2012. We will report against the new code from 2013.

Standard Bank continued to perform well against the dti codes, although more aggressive targets in respect of employment equity and preferential procurement presented a particular challenge. An accredited black economic empowerment (BEE) verification agency conducted an independent assessment of Standard Bank's BEE performance in terms of the dti codes at the end of 2012.

AR **Standard Bank retained its status as a level two value-adding contributor, with an overall score of 89.62, detailed on pages 49 to 50**

SR **Further detail on the group's transformational progress is contained in SBG's sustainability report, starting on page 24**

Going concern

The board considers and assesses the going-concern basis in the preparation of the annual financial statements at yearend. At the interim reporting period, a similar process is followed to enable the board to consider whether or not there is sufficient reason for this conclusion to be affirmed. In addition, the board considers the solvency and liquidity requirements in line with the provisions of the Companies Act.

AR **The board's conclusion regarding the going concern of the group can be found in the director's responsibility for financial reporting on page 115**

Political party contributions

As part of the group's commitment to support South Africa's democratic processes, the group makes financial contributions to political parties. In terms of the group's policy, agreed by the board in 2005, funds are distributed based on the Independent Electoral Commission's funding formula. In line with this formula, Standard Bank makes annual donations to political parties in proportion to their representation in the National Assembly. Parties are required to submit a written report to Standard Bank outlining how they have used the previous year's donation. The funding policy is reviewed after every general election. In 2010, the board confirmed its commitment to political party funding for the 2010 to 2014 election cycle. The total allocation to political parties for this cycle is R13,5 million, with R2,1 million donated in 2012.

Remuneration

AR **The remuneration of the board and prescribed officers can be found in annexure F starting on page 234**

Board of directors

as at 31 December 2012

1 Fred Phaswana (68)

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

Appointed 2009

Fred Phaswana is chairman of SBG and SBSA. He is also chairman of the South African Institute of International Affairs and a non-executive director on the board of Naspers.

Fred was previously regional president of BP Africa and chairman of Anglo American South Africa, Anglo Platinum, Transnet, Ethos Private Equity, the South African Energy Association and the advisory board of the Cape Town Graduate School of Business. He is former vice-chairman of World Wildlife Fund South Africa and Business Leadership South Africa, and was the honorary president of the Cape Town Press Club.

Committee memberships

– directors' affairs committee (chairman)
– risk and capital management committee
– large exposure credit committee

2 Sim Tshabalala (45)

BA LLB (Rhodes), LLM (University of Notre Dame USA), HDip Tax (Wits), AMP (Harvard)

Joined the group in 2000, appointed to exco in 2001

Sim is the incoming joint chief executive of SBG, current chief executive of SBSA, an executive director of SBG and SBSA, a director of Tutuwa Community Holdings and the chairman of BASA.

Sim joined the group in 2000 in the project finance division of SCMB. From 2001 to 2006 he was managing director of Stanbic Africa, and from 2003 he served concurrently as deputy chief executive of PBB. He was appointed chief executive of PBB in 2006. In June 2008, he became chief executive of SBSA. In 2009, Sim was appointed deputy chief executive of SBG.

Committee memberships

– large exposure credit committee

3 Doug Band (68)

BCom (Wits), CA (SA)

Appointed 1995

Doug Band is an independent non-executive director of SBG and SBSA. He currently serves as a director of Bidvest Group, Gymnogene Investments and MIH Holdings. Previously, Doug served as managing director of CNA Gallo, chief executive of Argus Holdings Group and chairman and chief executive of Premier Group.

Committee memberships

– directors' affairs committee
– risk and capital management committee
– large exposure credit committee

4 Richard Dunne (64)

CTA (Wits), CA (SA)

Appointed 2009

Richard Dunne is an independent non-executive director of SBG and SBSA. He currently serves on the boards of Anglo American Platinum, AECI and Tiger Brands, and was previously the chief operating officer of Deloitte, South Africa.

Committee memberships

– audit committee (chairman)
– risk and capital management committee

5 Thulani Gcabashe (55)

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

Appointed 2003

Thulani Gcabashe is an independent non-executive director of SBG and SBSA. He is currently chairman of Imperial Holdings and executive chairman of Built Environment Africa Capital. He serves on the boards of MTN-Zakhele and Passenger Rail Agency of South Africa. Previously, he was chief executive of Eskom and a director of the National Research Foundation.

Committee memberships

– directors' affairs committee
– audit committee

6 Koosum Kalyan (57)

BCom (Hons) (Durban-Westville)

Appointed 2007

Koosum Kalyan is an independent non-executive director of SBG and SBSA. She is chairman of Edgo Merap and a director of AOS Orwell (Nigeria), MTN Group, Omega Risk Solutions, Hayleys Energy Services, Petmin Mining, and South African Mint Company and South African Bank Note Company, both subsidiaries of SARB.

Koosum was previously senior business development manager at Shell International Exploration and Production in London, general manager for Shell Southern Africa, senior economist at the Chamber of Mines and economist at the Electricity Commission of Victoria, Melbourne Australia.

7 Saki Macozoma (55)

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

Appointed 1998

Saki Macozoma is joint deputy chairman of SBG and a non-executive director of SBSA. He is chairman of Liberty Holdings, Stanlib, Tshipi é Ntle Manganese Mining, Ntsimbintle Mining and Safika Holdings. He is a director of VW South Africa and various Safika subsidiaries including Tutuwa Strategic Holdings 2. He is the current president of Business Leadership South Africa.

Committee memberships

– directors' affairs committee
– risk and capital management committee

Board of directors continued

8 Jacko Maree (57)

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

Appointed 1995

Retired 7 March 2013[1]

Jacko Maree was chief executive of SBG and a director of SBSA, Liberty Holdings, Stanbic Africa Holdings and Stanbic IBTC Bank. He is a director of Standard Bank Plc and a member of the board of the Institute of International Finance.


8

9 Kgomotso Moroka (58)

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

Appointed 2003

Kgomotso Moroka is an independent non-executive director of SBG and SBSA. She is chairman of Gobodo Forensic & Investigative Accounting and is a director of Multichoice South Africa Holdings, Netcare and South African Breweries.

Kgomotso is a senior advocate. She has acted as a judge in the Witwatersrand Local Division and was past chairperson of Advocates for Transformation (Johannesburg branch). She is currently a trustee of the Nelson Mandela Children's Fund, Project Literacy, the Market Theatre, the Apartheid Museum and Tswaranang Legal Advocacy Centre.


9

10 Chris Nissen (54)

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

Appointed 2003

Chris Nissen is an independent non-executive director of SBG and SBSA. He is chairman of Cape Empowerment and Ascension Properties and a director of Woolworths.


10

11 Cyril Ramaphosa (60)

BProc (Unisa)

Appointed 2004

Cyril Ramaphosa is a non-executive director of SBG and SBSA. He is chairman of Shanduka Group, Auram Restaurants Company (t/a McDonalds SA), the Bidvest Group and MTN Group. He is co-chairman of Macsteel Services Centre SA and Mondi Plc.

Cyril is a director of Alexander Forbes Equity Holdings, Kangra Coal, SABMiller Plc, TBWA Hunt Lascaris and Tutuwa Strategic Holdings 1.

Committee memberships

– directors' affairs committee


11

[1] On 7 March 2013 Jacko Maree retired as the chief executive of SBG and resigned from the SBG, SBSA, Liberty Holdings, Stanbic Africa Holdings and Stanbic IBTC Bank boards of directors.

12 Simon Ridley (57)

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

Appointed 2005

Simon Ridley is an executive director of SBG and SBSA. He serves as a director of Standard International Holdings, Stanbic Africa Holdings and SBIC Investments, as well as Tutuwa Staff Holdings and Tutuwa Community Holdings. In addition, Simon is SBG's financial director.

Committee memberships

– large exposure credit committee

12

13 Myles Ruck (57)

BBusSc (Cape Town), PMD (Harvard)

Appointed 2006

Myles Ruck is an independent non-executive director of SBG and SBSA. He is director of Industrial and Commercial Bank of China (Argentina), Aveng, Mr Price Group and Thesele Group.

Myles was previously chief executive of SCMB, deputy chief executive of SBG and chief executive of Liberty Group.

Committee memberships

– risk and capital management committee (chairman)

– large exposure credit committee (chairman)

13

14 Lord Smith of Kelvin, Kt (68)

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

Appointed 2003

Lord Smith is an independent non-executive director of SBG and SBSA. He is chairman of Scottish and Southern Energy, The Weir Group, 2014 Glasgow Commonwealth Games Organising Committee and UK Green Investment Bank.

Lord Smith was formerly chairman and chief executive of Morgan Grenfell Private Equity, chief executive of Morgan Grenfell Asset Management and vice chairman of Deutsche Asset Management. He has also held a number of other positions in the financial services industry and is past president of the Institute of Chartered Accountants of Scotland.

Committee memberships

– audit committee

14

15 Ted Woods (66)

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

Appointed 2007

Ted Woods is an independent non-executive director of SBG and SBSA. He was previously chairman of Deutsche Securities, South Africa.

Committee memberships

– audit committee

– risk and capital management committee

15

Note: On 15 January 2013, Peter Sullivan was appointed as a director on the SBG and SBSA boards. On 7 March 2013, Ben Kruger and Peter Wharton-Hood were appointed as directors on the SBG and SBSA boards.

Sustainability report

Sustainability as an integral part of our business strategy

Our approach is to proactively embed sustainability thinking into our business processes: from environmental and social screening on corporate lending and project finance, to savings, insurance and transactional products for individuals at all phases of their lives. We enable people to improve their quality of life and enhance their financial security. We facilitate economic growth and job creation, and assist in financing infrastructure and development as well as designing financial products that help resolve global challenges such as energy and food security, resource depletion and climate change. The success of our customers, clients and stakeholders guarantees future business and underpins our own sustainability.

Ultimate accountability and responsibility for sustainable development rests with the board. Through the group's governance structures, this responsibility is delegated to appropriate board and management committees.

The SBG social and ethics committee reports directly to the board. The committee's mandate is to guide and monitor:

- matters relating to social and economic development
- economic transformation activities and performance against targets for the group
- labour and employment policies, practices and procedures
- environmental impacts
- consumer relationships
- ethical conduct.

For more information, refer to the SBG sustainability report available at www.standardbank.com/sustainability > approach > managing sustainable development

Our material issues

In formulating the group's strategy and determining its strategic priorities, the board considers the full range of issues that influence the sustainability of our business and that of the social, economic and physical environments in which we operate and which, in turn, have a direct impact on our future viability. An issue is material when it impacts our ability to remain commercially viable and socially relevant to the societies in which we operate. In particular, material issues are those that have a strong bearing on our stakeholders' assessments and decisions about the group's long-term sustainability and its commitment to their needs. We also take into consideration those factors that affect the financial stability and growth of economies, and in turn our own business. Our effectiveness in managing our material issues affects our ability to achieve our strategy. The inputs into identifying our material issues are:

- our code of ethics and values
- our strategy
- internal and external stakeholder engagement dialogues between executive management
- risk management and regulation
- global challenges and national priorities
- sustainability indices.

Our material issues are reviewed annually and are approved by SBG's executive committee. The diagram on the following page indicates the interrelatedness of our strategic objectives and material issues.

A sustainable strategy

We aim to build the leading African financial services organisation using all our competitive advantages to the full.

In formulating our strategy and determining our strategic priorities, we consider the full range of issues that influence the sustainability of our business and that of the social, economic and physical environments in which we operate and which, in turn, have a direct impact on our future viability.

Our material issues

are what we need to identify and manage to remain commercially viable and socially relevant in the long term

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

Our six strategic priorities

are what we need to do to execute our strategy in the medium term

01 Embed customer and client centricity

02 Inspire and motivate our people

03 Achieve operational excellence

04 Capitalise on our strategic partnership with ICBC[1]

05 Deliver as a relevant corporate citizen

06 Reshape our business to take account of trends in global legislation and regulation

Our social compact underpins our long-term sustainability

Standard Bank will contribute to the socioeconomic development of the countries in which we operate in a way which is consistent with the nature and size of our operations. We will provide financial services and products responsibly, bearing in mind the needs of society, our customers, our staff, our shareholders, the environment and future generations.

[1] Industrial and Commercial Bank of China Limited.

Sustainability report continued

Benchmarking

We participate in various indices to benchmark our economic, social and environmental performance against local and international banks to assist us in identifying areas for improvement. The results below indicate our performance in some of the key indices.

2012 JSE Socially Responsible Investment Index

Standard Bank has again been identified as a best performer, for the sixth consecutive year.

2012 Carbon Disclosure Project

Standard Bank scored 74% (2011: 74%).

Assurance

The King Code advocates that sustainability reporting and disclosure should be independently assured. The SBG sustainability report has been independently assured since 2005. The 2012 sustainability report has been assured by KPMG Services (Pty) Limited. Assurance was provided over 14 key performance indicators with seven of these indicators assured at a reasonable assurance level and the remaining seven at a limited assurance level.

The summarised sustainability information included on the following pages has been extracted from the SBG sustainability report and is a fair reflection thereof.

SR **For a comprehensive understanding of the assurance performed and our sustainability performance, refer to the SBG sustainability report on pages 97 and 98**

Stakeholder engagement

We build and maintain strategic relationships with a broad range of stakeholders, to enable proactive engagement, manage social expectations, minimise reputational risk and influence the business environment. We employ a range of channels and mechanisms to gather stakeholder feedback. The frequency of engagement varies according to the stakeholder group and the particular issue. We use a decentralised stakeholder engagement model, in which individual business units undertake stakeholder engagement activities appropriate to their particular areas.

Our stakeholder relations forum, comprising business unit managers and executives, meets every second month. It is responsible for facilitating a coordinated approach to stakeholder engagement activities across the group, and ensuring we communicate a consistent message based on our code of ethics, values and strategy.

We are proactive in identifying and responding to misalignments, conflicts and concerns between our actions and our stakeholders' expectations. In June 2012, Sim Tshabalala was appointed as the BASA chairman for a two-year period. In this role, Sim Tshabalala is responsible for engaging with government and relevant stakeholders, including the Minister of Finance, on behalf of the banking industry. Through BASA, we are part of the Presidential High-Level Dialogue on the Economy, which aims to promote job creation and reduce inequality through various public and private sector-led initiatives.

To assess government perceptions of Standard Bank, we recently commissioned a series of in-depth interviews with 15 senior policymakers and regulators. The interviews probed perceptions of Standard Bank's business performance, corporate leadership, products and services, staff experiences, social relevance, customer relationships, brand value, and vision and values. The research found that we are generally well rated, with an average score of 70% across the different indicators. Standard Bank is perceived as a successful business with impressive profitability, offering fairly good products and services. The research identified a number of areas in which Standard Bank needs to improve perceptions. These include:

- our approach to and communication on bank charges and fees
- the extent to which we are perceived as innovative
- communication of our social activities and contribution to socioeconomic development
- communication of our transformation initiatives
- the use of IT to simplify banking and offer high-quality services to customers.

Another example of our engagement with stakeholders is that with regulators. During 2012, the government reviewed and conducted an impact assessment of consumer credit policy and the National Credit Act 34 of 2005 (NCA). We fully supported the review of the NCA. All policies and legislation, despite the laudable objectives informing them, can result in unintended consequences and undesirable effects. While the NCA has led to profound reform in the consumer credit industry, it has also generated unintended outcomes that pose significant risk to banks. The functioning of the debt review system is a particular area of concern.

SR **Refer to the detailed table contained in the SBG sustainability report on pages 18 and 19 for a more comprehensive outline of our engagement with a broad range of stakeholders which sets out our stakeholder engagement during the year**

The following table sets out our stakeholder engagement during the year.

Our stakeholders

Government and regulators	Investors and analysts	Customers and clients
■ national government departments ■ regulatory bodies (national and international) ■ provincial level of government ■ municipalities.	■ shareholders ■ business community and associations ■ rating agencies ■ financial analysts.	■ customers and clients ■ Tutuwa beneficiaries ■ international development agencies.
Staff	**Communities we support**	**Other**
■ employees ■ trade unions ■ beneficiaries of Standard Bank general staff share trust.	■ sporting and art communities ■ young people in Standard Bank ■ sponsored schools, bursary and scholarship recipients ■ institutions of higher learning ■ research organisations and think tanks ■ environmental and community development non-governmental organisations (NGOs).	■ civil society organisations ■ suppliers ■ media.

Transformation

BEE is a national strategy that seeks to create an environment in which South Africans who were excluded from full participation in the economy under apartheid can engage fully in economic activity. It currently targets black South Africans with a specific emphasis on black women and black people with disabilities. Creating employment through BEE also promotes sustainable growth and social stability. Our approach to achieving meaningful transformation goes beyond meeting compliance targets, extending to embedding equity, fairness and diversity in our business culture. Successful transformation is critical to the group remaining competitive.

From 2003 to the end of 2008, financial service organisations in South Africa used the Financial Sector Charter and scorecard to drive and measure transformation efforts. However, as the charter had no legal standing in terms of the BBBEE Act 53 of 2003, the sector reverted to reporting under the generic Department of Trade and Industry (dti) scorecard for the period 2009 to 2012, while the process of aligning the charter to the dti requirements was underway.

The Financial Sector Code of Good Practice was gazetted late in 2012 and is binding on all financial institutions. The code assists the sector in implementing the BBBEE Act 53 of 2003. Given the timing of the code's gazetting, financial services companies were assessed against the generic dti codes for 2012. Under the generic dti codes, Standard Bank qualified favourably as a level two BBBEE contributor in a seven-level model, with a verified overall score of 89,62 out of 107. We will report against the new Financial Sector Code from 2013, which includes the unique financial sector elements of access to financial services and empowerment financing.

For 2012, we were measured against higher targets for employment equity and preferential procurement. The employment equity element of the codes is a specific area for improvement for Standard Bank. PBB, CIB and our group enabling functions have all developed employment equity plans and the chief executive of each business unit is accountable for implementation and meeting targets.

We set internal annual targets for employment equity and skills development to enable us to progress towards meeting the Financial Sector Code targets over time. Targets for preferential procurement, enterprise development and socioeconomic development are aligned to the dti targets. In 2012, we met the enterprise development and socioeconomic development targets, and achieved 19,46 against a target of 20 for preferential procurement. The new Financial Sector Code includes targets for the banking-specific components and these will be applicable from 2013.

Our targets are set annually during the budgeting process and are approved by the SBG social and ethics management committee. The SBG social and ethics committee provides board-level oversight and monitors our progress in meeting our transformation targets.

A comprehensive and consolidated BEE report is available online at www.standardbank.com/sustainability > socioeconomic > transformation

Sustainability report continued

Performance on dti codes scorecard elements

Category	Available points	Verified results 2012	2011
Ownership	23	**20,07**	20,18
Management and control	11	**8,32**	8,46
Employment equity	18	**9,96**	12,44
Skills development	15	**11,81**	12,02
Preferential procurement	20	**19,46**	19,37
Enterprise development	15	**15,00**	15,00
Socioeconomic development	5	**5,00**	5,00
Total score	107[1]	**89,62**	92,47

[1] Includes seven bonus points allocated for the ownership, management control and employment equity elements.

Employment equity

We are committed to creating a workforce that better reflects the country's demographics. Our employment equity plan has been developed in accordance with the requirements of the Employment Equity Act 55 of 1998, and sets out numerical targets and the strategies and initiatives we will implement to achieve these by 2014. Our focus for 2012 was to communicate and embed our new employment equity plan within the business units and to integrate employment equity into our human resource policies and practices. For 2012, each business unit was required to set employment equity targets for the representation of black people and women at all occupational levels.

Progress against targets is monitored and reported to the social and ethics management committee.

Targets we have not been able to meet include:

- black senior managers, although we have made progress towards meeting this target
- people with disabilities
- black women managers at middle and senior management levels, although we have met all targets for female representation across all management levels.

Socioeconomic development

Standard Bank recognises that the private sector plays a central role in the development of nations. Businesses are able to contribute to the investments required to stimulate economic development and mitigate the risks posed by global challenges. To this end we work to provide relevant financial services to marginalised communities, including financing and supporting small businesses and smallholder farmers. The financial services we supply to businesses support their ability to operate and grow, and create employment. In addition, we invest in infrastructure development, finance and advise governments, facilitate trade between markets, partner with organisations that lead global efforts to fight poverty and HIV/Aids, and aid in the distribution of donor funds. Our procurement spending and corporate social investment (CSI) also encourage economic and social development.

Responsible financial services

Our value of serving our customers requires that we treat our customers fairly and provide products, services and solutions that suit our customers' needs, provided that everything we do is based on sound business and governance principles.

In South Africa, various pieces of legislation have been implemented to ensure that consumers are treated with integrity, transparency and fairness. We also voluntarily endorse and subscribe to a number of codes of conduct and codes of good practice, and we provide ongoing consumer education to advise customers of their rights and the recourse they have to the Ombudsman for Banking Services (Banking Ombudsman) and the National Consumer Commissioner. We have an internal independent customer dispute adjudication office to assist with customer dispute resolution.

TCF aims to regulate market conduct in the South African financial services sector. Standard Bank has started developing suitable measures and putting governance structures in place to meet TCF requirements, with implementation currently scheduled for 2014. During 2012, we launched an internal TCF awareness campaign to inform employees on the six TCF pillars.

Through BASA, we collaborated with the FSB in analysing existing legislation such as the NCA and the Financial Services and Intermediary Services Act 37 of 2002, to identify overlaps, gaps and inconsistencies in relation to TCF.

Our internal procedures document, which governs the conduct and responsibilities of bank employees in South Africa, emphasises the importance of customer privacy and details the procedures to be observed regarding confidential information. During 2012, the total number of substantiated complaints received regarding breaches of customer privacy in South Africa was 330 (2011: 46). The increase is attributable to our branch and customer awareness campaigns undertaken in 2012.

Indebtedness

The supply of credit is critical to economic development and growth, and is a fundamental service that banks provide. We aim to always lend responsibly, in compliance with legislation and based on stringent affordability and credit-granting criteria. We apply a high-level credit standard across all our banking operations covering rehabilitation policies, debt management procedures and policies, collection scorecards and collection strategies.

It is imperative that we assist customers in making prudent choices about their debt, particularly in a financial environment characterised by slow economic growth and high unemployment and household debt levels. Ensuring that customers are able to afford and repay their debt is key to ensuring the quality of our lending book. We use information from credit bureaus and our own records to determine whether a customer can afford a loan. If we believe the loan is not reasonably affordable, the application is declined.

We use behaviour scoring to detect the early warning signs of customers in financial difficulty, such as the misuse of credit facilities. Customers who find themselves in financial difficulty can request that their loan be restructured to provide them with access to short-term cash flow relief to manage a temporary situation, facilitated by our credit rehabilitation unit. Where financial hardship requires a longer-term and more sustainable solution across multiple products, customers can apply for credit customer assist which takes a holistic view of a customer's debt, income and expenditure, and then restructures and consolidates loan repayments across their secured and unsecured products held with Standard Bank. In certain cases, where exposure is not too high, unsecured debt held with other financial institutions may be included in the consolidation at a more affordable rate.

At December 2012, 76 392 customers were under debt review, an increase of 15% from the beginning of the year. Of the customers who exited the debt review process during 2012, 37% were successfully rehabilitated while the remainder have been moved further along into the legal process. We only take the route of legal foreclosure as a last resort. During the year, we helped over 36 720 (2011: 11 485) distressed customers through our credit customer assist function, with a total outstanding loan obligation of around R11,9 billion (2011: R4,0 billion).

Home loans

From a home loans perspective, there have been low levels of house price growth over the past few years. It has become increasingly difficult for South Africans to use their homes as collateral for accessing credit. The depressed housing market in 2012 affected asset values and the behaviour of debtors. Despite this, our mortgage portfolio remains resilient and the non-performing loan portfolio has reduced year-on-year. In addition, the enhanced capabilities of our systems and processes, and revised business strategy, have resulted in improved performance of new business acquired, with a lower default rate experienced compared to business originated before 2009.

At December 2012, the total value of our home loan book was R288,7 billion, of which R64 billion was granted during the year, a 3.9% increase in loans granted in 2011. We have retained our position as the largest provider of residential mortgages in both affordable housing and mainstream residential property in South Africa, with a market share of 29.5% at December 2012.

Unsecured lending

The growth in unsecured lending was highlighted in the media during 2012, particularly the concern that this could create a debt spiral which could cripple already distressed households. Unsecured lending requires no security from a customer for a loan to be granted. In addition to banks, the unsecured lending sector includes micro-lenders and retailers of food, clothing and furniture that provide unsecured personal loans, overdrafts, credit cards and store cards. We apply strict credit and affordability measures to ensure that customers are able to manage their unsecured debt appropriately.

During the year, we increased our unsecured lending mostly to existing customers, for example those that have their primary transactional account with us. We believe that this enables us to better assess the customer's unique circumstances and assist them if they encounter financial difficulty, given our understanding of their financial behaviour. About four out of five unsecured loans granted are to our transactional customers. We apply prudent lending, monitoring and management activities to our unsecured lending book.

During 2012, we signed an industry credit accord agreement to promote responsible lending. The credit accord covers limiting the use of garnishee orders as a debt collection mechanism, developing a standard affordability assessment, relief measures for distressed customers, updating credit bureaus timeously and a consumer education fund to provide customers with better advice about credit.

Sustainability report continued

Pricing

We aim to ensure that our pricing is transparent and that our customers understand exactly what charges are incurred when they use our products and services. Our commitment to ensuring consistent communication on price changes remains a priority. When comparing banks, we encourage our customers to look at the total value proposition we offer and to transact using alternative cost effective self-service channels such as ATMs, internet banking, Business Online and the mobile channel. Further price reductions are also made possible through improving our processes, including the new core banking system across Africa and new procedures such as paperless account opening processes, where feasible.

Our pricing structure takes into account the value delivered to the customer, the cost of the transaction, the convenience of the service and competitor pricing. Our staff are trained on pricing options and are provided with tools to ensure that we sell the most appropriate products to our customers based on affordability and need.

In South Africa, PBB's fees and commission pricing committee is responsible for ensuring that a rigorous pricing approval process is in place. Previous engagement with our customers and sales staff indicated that banking is perceived as expensive and that our product offerings are too complicated. We have implemented a number of changes in response to this feedback, including launching the full-service BizLaunch account for start-up businesses, costing R3 a day, and consolidating the Classic, Achiever and Elite accounts into one personal account offering. This resulted in the pricing of the Elite account reducing by as much as 50%. We also introduced unlimited card purchases at points-of-sale on most of our bundled options.

For 2013, we are not increasing our pricing structure for our personal banking transactional customers for the second consecutive year. Business banking fees will increase by 4% in 2013. For our emerging market customers we launched the AccessAccount which has no monthly management fee and transaction fees that range from no charge to a maximum of R25. All branch transactions are charged at R25, however, our AccessAccount customers can transact at any AccessPoint for either R2 or R4 depending on the transaction.

Inclusive banking products in South Africa

About eight million economically active people in South Africa do not have access to a bank account. In extending financial services to the low-income market, we aim to provide a comprehensive and accessible suite of products through which customers can:

- store and transfer value through savings and transactional accounts
- protect value through insurance and assurance products
- access value through lending products.

Over the past three years, we have invested about R470 million in targeting the unbanked and underbanked market in South Africa. Our inclusive banking offering is continuously adapted to meet the growing sophistication in the needs of this market, by delivering a dignified and relevant customer experience. Challenges in servicing this market include increased competition, regulatory complexities, the number of cash-out facilities and addressing low account activity, as well as migrating customers to alternative low-cost channels.

During 2012, we simplified our product offering and successfully launched the AccessBanking product suite: AccessAccount, AccessSave, AccessLoan and AccessProtect. We strengthened our low-cost distribution channels to improve access to cash-in and cash-out facilities. We also simplified our marketing communication, increased our consumer education reach and streamlined our pricing structures. Sound governance practices and staff training have ensured that we meet related regulatory requirements.

Our long-term focus is to be the South African leader in financial inclusion through increasing our volumes and revenues while driving down our acquisition, origination and servicing costs. Success depends on strong customer acquisition and our target is to grow our number of inclusive banking customers to around 9,2 million and provide access to credit to over four million South Africans by 2015. During 2012, we acquired an average of 140 000 inclusive banking customers per month and granted loans to the value of R3,7 billion. At December 2012, the number of inclusive banking customers who held a transactional account stood at 6,2 million, representing 71% of our personal banking customer base in South Africa. Some 4,9 million inclusive banking customers are active (2011: 4,3 million).

Low-cost transactional and savings account

The AccessAccount is a full transactional account that offers pay-as-you-transact and bundled pricing options. There is no monthly management fee on the account and no minimum balance is required. Customers can receive salaries, wages and grants, deposit and withdraw money and make payments electronically and through debit orders and card swipes. The account is competitively priced and simple to understand, and offers added convenience through cellphone banking and other self-service channels. At December 2012, 996 870 new AccessAccounts had been opened.

The AccessAccount offers greater functionality and is more accessible than our previous inclusive banking products, which it replaces. E Plan, Mzansi Blue and Mobile Banking customers will be migrated to the AccessBanking product suite. The migration was enabled by our new core banking platform and will be completed in 2013.

AccessSave is a seven-day notice account that introduces the discipline of saving to the low-income market. The product was developed in partnership with Gateway Financial Innovations for Savings, a project funded by the Bill & Melinda Gates Foundation. At December 2012, we held 303 486 AccessSave accounts with a total value of R84 million. The AccessAccount and AccessSave products are available through our AccessPoints in local community shops, AccessBanking Centres and Standard Bank branches. Customers can also open accounts with our mobile agents. Shop owners who host AccessPoints are customers of the bank and benefit from a new source of revenue through commission earned on transactions and increased customer visits to their shops.

Our mobile sales agents are sourced from within local communities and from external recruitment companies. They are provided with around three weeks of sales training before they are able to open accounts and facilitate transactions.

Accessible personal loans

Access to finance is an important part of lifting our customers' quality of life. We continue to find responsible ways of lending to customers in the low-income market who require access to home loans, vehicle financing and personal loans. The AccessLoan has a short tenure and interest rates are fixed, which reduces the impact of deteriorating economic circumstances on customers' ability to pay instalments. An insurance component settles the loan in the event of retrenchment, disability or death.

At December 2012, we had originated 450 724 new AccessLoan accounts. Our loan exposure to this market is around R3,3 billion, of which 80% of our AccessLoan customers hold an AccessAccount with us. The credit worthiness of all applicants is assessed through their credit bureau and customer records, and our credit division monitors loan performance. Our sales agents advise customers on the repayment schedule. AccessLoans can be applied for at 100 Standard Bank AccessBanking centres across South Africa.

Consumer education

Providing financial literacy interventions to consumers is essential to our inclusive banking strategy given unbanked communities' unfamiliarity with formal financial services. Our programmes build an understanding of the terminology and suitability of financial products through face-to-face interactions using educators in schools, Standard Bank staff volunteers, facilitators and promoters. In 2012, 98% of our consumer education initiatives were delivered face-to-face through classroom-based learning. Content covers budgeting, savings, credit, insurance and the basics of banking. Our consumer education spend for 2012 in South Africa was R15,1 million (2011: R14,0 million).

Affordable housing

We are committed to increasing access to affordable housing finance, thereby helping to place families in safe and secure environments. Our approach is to finance quality affordable housing units priced between R250 000 and R550 000. The household income level for units we finance is generally between R5 500 and R15 000 a month. Our target is to grow our affordable housing loan book responsibly to R20 billion by 2015. We are on track to meet this target and currently have a 35% share of the affordable housing market in South Africa. A lack of credit records and high levels of indebtedness remain challenging. Assessing this market requires a somewhat different approach, so we will consider factors such as combined household income and the contributions other family members make towards expenses. We welcome the South African Government's revised subsidy scheme which is expected to benefit households that earn below R15 000 a month, further increasing access to home ownership.

During 2012, we financed R3,6 billion (2011: R3,3 billion) in affordable housing loans through approximately 18 237 home loans. Some 80% of this finance was disbursed to first-time home buyers.

Low-income earners who belong to pension and provident funds can enter into finance agreements with Standard Bank's Pension-backed Lending unit to buy, build or renovate a home. In 2012, this unit issued loans to the value of R413 million (2011: R382 million).

We are piloting a borrower education intervention for first-time home buyers on managing home ownership, their rights and obligations, and steps to take if they are unable to meet their monthly payment obligation. We also encourage customers to consider a valid will and life insurance to protect their families should the breadwinner die. During 2012, 205 people participated in this programme. The pilot will be used to develop a borrower education programme that will be compulsory for all first-time home buyers.

Affordable housing developments

We fund affordable housing developments which include the South African Government's subsidised housing, affordable and medium-income housing, rental housing, as well as social and commercial facilities. We also fund inner city redevelopments.

As a financing partner we provide solutions such as debt and equity funding to experienced developers and public sector entities. Challenges include escalating building costs and the

Sustainability report continued

availability and price of well located land with bulk services such as water, electricity and sewerage infrastructure in place. Added to this are long process delays due to complex legislation and regulation, and capacity constraints at provincial and municipal levels. To address these challenges, we work with property developers, local and international development finance institutions and government agencies to promote effective partnering in the housing value chain. Examples of this include our work with the National Housing Finance Corporation and the European Investment Bank to lower the cost of funding, and entering into land availability agreements with local and provincial governments to facilitate development.

We promote environmental considerations and alternative technologies such as solar water heaters in residential development projects. We also encourage passive design considerations such as the optimum use of public transport, easing pedestrian movement and proper orientation of residential units. At December 2012, 906 affordable housing units were completed with a further 743 units under construction. Financing for affordable housing developments amounted to R346 million. Over the next three years, our target is to provide development financing for a further 6 700 housing units.

Affordable housing developments

Extract: An example of Standard Bank's commitment to uplifting inner cities is 120 End Street, a residential and retail development project in Doornfontein, Johannesburg. Currently, the 120 End Street development project is the largest conversion of a disused commercial inner city building in the southern hemisphere.

Supporting small and medium enterprises (SMEs)

We use an integrated enterprise development model that combines financial and business development support and access to market opportunities for SMEs in corporate supply chains, with a particular focus on black-owned and black women-owned businesses. Our aim is to use our enterprise development initiatives to help SMEs build a track record which would then enable them to qualify for funding.

In 2012, we introduced a new command centre to streamline the SME loan application process through better turnaround times and faster response rates to applicants. During 2012, we provided loans to SMEs of over R540 million, excluding vehicle and asset finance. Our funding to small enterprises with a turnover of up to R10 million per annum amounted to R14,5 million, a 45% lending growth rate. The growth of our black SME loan book was 36% in 2012 and our exposure to this segment of the market is around R6 billion.

In 2012, a number of SMEs were financed through enterprise development interventions at the credit evaluation stage of the loan application process, with the total value of loans granted being around R19 million. Enterprise development beneficiaries new to Standard Bank with a turnover of between R150 000 and R5 million have grown approximately 20% year-on-year, with the average lending balances growing by around 14% in 2012. We also provided 108 entrepreneurs with business development support to enable them to access funding. This included black SMEs participating in our BEE initiative, Tutuwa. In 2012, we began matching our SME suppliers with opportunities in corporate supply chains. These businesses are supported where necessary with enterprise development support to ensure that they are able to effectively deliver against these new opportunities.

Collaboration between our enterprise development unit and our group vendor and procurement management unit is ongoing to assist our own SME supplier base to grow and increase their capacity to gain better market access, and ultimately gain access to financial services. We have identified 134 black-owned and black women-owned businesses from which we want to increase our procurement. Some 25 of these suppliers have been identified for business development support. We have set preferential procurement targets for all business areas, and once commodity areas within the bank have been identified, the enterprise development unit will facilitate access to finance for these SMEs so that they are able to increase their supply into these areas.

The failure rate of start-up businesses is notoriously high, with around two in every five small businesses failing in their first two years. In 2012, we launched BizLaunch, a full service banking product aimed at the start-up market. Value-added services and products have been included as part of the package to enable customers to manage their businesses more effectively. We partnered with accounting software company Pastel to offer start-up businesses free accounting solutions. At December 2012, more than 34 000 BizLaunch packages had been sold. Our BizConnect portal is a small enterprise web platform that provides SMEs with an avenue for finding new opportunities and includes content and tools to assist with maintaining and growing a business. During 2012, the portal garnered over 57 000 unique users with the majority of users originating from Cape Town, Durban, Johannesburg and Pretoria. It has also attracted more than 7 400 Twitter followers.

The BizDirect response centre is a dedicated business banking call centre that provides customers with faster and more convenient access to specialised consultants for service-related queries, as well as some transactional functions. Usage of the call centre has more than doubled since January 2012.

During 2012, we fine-tuned our micro-finance business model and tested the origination of this type of debt. We also focused on managing the quality of the existing book and associated collections, and we have implemented a credit and collections model which yields sustainable and predictable results. We ensure the quality of this book by assessing every loan on site to compensate for the lack of independently verifiable information on these informal businesses. We have developed a training intervention which is run locally in advance of loan disbursement, to equip the business owner with tools to assess the necessity of the loan and to understand the associated implications.

Our intention is to build this business into a separate not-for-profit institution which Standard Bank controls and the Tutuwa Community Trust capitalises. The bank will derive no income from the funds as all returns will be reinvested into the business. The institution will be incorporated in 2013.

Agriculture financing

Food scarcity is an ever-present threat to the world's seven billion people. If population growth forecasts of nine billion by 2050 are correct, food production will need to increase by approximately 70% with a total average annual net investment in developing world agriculture of USD83 billion (R681 billion). To sustainably increase yield, farmers require access to inputs such as seeds and fertilisers, improved land and water management systems and better market access, all of which require access to finance. As Africa has largely untapped agricultural resources, agriculture financing offers us the opportunity to develop innovative solutions for this sector.

The agriculture sector's ability to provide national food security, create jobs and stimulate rural development, as well as being a source of foreign exchange earnings, makes it a cornerstone of the South African economy. Our objective for 2015 is to increase our South African agriculture market share to 35% and be the leading bank in the sector's transformation. To achieve this, we are developing the skills of our staff so they can offer specialist advice and are improving our services through a holistic approach that includes vehicle and asset finance, short-term insurance and tools that help us grant credit in a responsible manner. At December 2012, our market share stood at 31% and the total agriculture book was R13,5 billion (2011: R11,9 billion), excluding agriculture vehicle and asset financing, an increase of 13.4%. The non-performing loan portion of the book remains sound at less than 2%. Credit balances exceeded lending growth, in line with our strategy to grow deposits. Our key achievement for 2012 was acquiring the business of the Free State Cooperative Limited with a turnover of R5 billion. This was the largest deal facilitated by PBB in the agriculture sector.

We seek to partner with governments and financial development institutions and interact with agribusinesses to find funding opportunities. We have strategic partnerships to cover loan origination. During 2012, we approved a R10 million loan to support the establishment of a pig farming project at the University of Fort Hare in the Eastern Cape. The farm will train potential managers and owners of piggeries, particularly black farmers, with the aim of expanding pork production in the region.

Our commitment to BEE in agriculture recognises the need for economically sustainable black commercial businesses in the sector to secure its growth and drive our profitability in this market. Our total black agriculture book is R496 million (2011: R374 million). We have committed a ringfenced line of credit to finance black small and medium farming enterprises and finance to the value of R30,3 million has been approved. Our target for 2013 is to increase this to R100 million. A structure is put in place for each deal that includes the farmer, Standard Bank and a management support agency. The support agencies assist with production, business and value chain management. This approach has improved our understanding of how to lower the risk of financing, which has enabled us to increase our reach in the unbanked segment of the agriculture market.

We are providing Grain South Africa with a financial solution to manage the agriculture recapitalisation programme on behalf of the Department of Rural Development and Land Reform. The programme aims to provide R200 million towards recapitalising around 140 black farmers in the Free State, Mpumalanga and North West provinces.

In 2010, we launched the Standard Bank Centre for Agribusiness Leadership and Development in partnership with the University of Stellenbosch to create skilled mentors that assist emerging farmers. This partnership also provides us with a platform to help shape policy and engage with industry leaders. During 2012, we contributed to the National Planning Commission and the land reform green paper, and attended ANC policy meetings. We also engaged with those leaders in farming who are responsible for 60% to 70% of production in South Africa. Topics discussed included transformation, leadership, business growth and supporting rural development.

During 2012, we partnered with TechnoServe, a United States-based non-profit economic development organisation, to assist 50 smallholder farmers in the Mutale Municipality. This programme aims to create and grow an economically viable fresh produce sector in the area by improving the business and technical skills of the farmers. We have invested R3,3 million

Sustainability report continued

in this initiative. Through our partnership with TechnoServe, 50 businesses are now beneficiaries of our enterprise development initiative.

Infrastructure financing

Developing power generation capacity and infrastructure is of key strategic importance for emerging economies.

Over the past decade, infrastructure development has contributed to over half the improved growth performance of the region. We aim to become a leader in funding infrastructure projects that create sustainable long-term solutions for Africa's people.

The Gautrain Project

Extract: The Gautrain is an 80 kilometre rapid rail train system which links Johannesburg, Pretoria and O.R. Tambo International Airport in South Africa. Standard Bank was joint lead arranger and underwriter to the Bombela Consortium, the concession company operating the R27 billion Gautrain Project.

Public sector banking

The public sector's ability to fulfil its mandate to deliver services to the electorate, to reduce poverty and champion economic development relies on the effective management of government revenue and expenditure. We focus on being an active partner to governments and our public sector unit combines a range of skills across the full spectrum of local, provincial and national government, education, healthcare and state enterprises, across Africa. We provide a comprehensive offering that includes transactional banking services, business lending and investments.

In South Africa, we have nationwide public sector business teams and our focus is to increase market share. Through our technological and financial platforms we are able to provide administrative and service delivery efficiencies to our public sector clients without compromising on the quality of our service. We provide banking services to some 20% of South Africa's more than 280 local and district municipalities and to a third of the country's provinces. During 2012, we were awarded the Eastern Cape provincial government account and the transactional banking business of the City of Johannesburg. We are now a primary banker to three of the eight declared metropolitan municipalities in the country.

When working with public sector organisations, we go beyond offering banking services. We have been helping the South African Local Government Association with initiatives to assist councillors and officials with understanding their oversight responsibilities within municipalities, and have worked with chief financial officers to facilitate the management of municipal balance sheets. Another key initiative is to assist municipal workers to achieve financial wellbeing, including training on budgeting and managing their finances.

Sustainability in the supply chain

Preferential procurement aims to ensure that black businesses in South Africa have access to markets, and the associated requirements remain a key consideration for Standard Bank. Our preferential procurement policy ensures that we have the governance practices in place to achieve the objectives of the dti codes which require that 70% of procurement spend be with BEE suppliers, from 50% previously. The dti has also set higher targets for procurement from black SMEs.

During 2012, we met all our internal targets for preferential procurement and scored 19,46 points out of a possible 20. Standard Bank is a level two BEE contributor and is classified as a value-adding supplier, a benefit that accrues to those that utilise the bank as a supplier. During 2012, Standard Bank's weighted procurement spend from BEE suppliers amounted to R11,7 billion. At December 2012, Standard Bank had 24% BEE-compliant vendors.

Our preferential procurement team is working to increase our procurement spend with black-owned and black women-owned suppliers. We also implement relevant supplier management practices such as set aside specific opportunities or preferable payment terms for these businesses to support their development. Standard Bank's weighted procurement spend with black SMEs was R1,6 billion, a 102% increase on 2011.

Empowerment financing

Targeted investment

Targeted investment refers to the financing of projects that address specific areas of economic development in South Africa, through debt financing, credit extension or equity investment. The South African Government announced during 2012 that local banks would share in the financing of R97 billion worth of deals over the next five years, directed at increasing black participation in the economy. Our early involvement will allow us to advise on and facilitate the structure of sustainable and value-adding deals. At December 2012, our targeted investments amounted to R11,0 billion (2011: R7,3 billion).

We provide debt and equity financing to public and private sector infrastructure projects that support social and economic activity in historically underserviced areas, increasing productivity and bringing them into the mainstream economy. Generally the infrastructure projects we facilitate include access to electricity, construction of roads and rail links, government head offices that often generate small enterprise trading activity in the vicinity, and water, sanitation and sewerage works.

A challenge facing transformational infrastructure is the ability of the state and private sector to structure sufficient standalone community-based projects, particularly given that public resources are already stretched. To help address this challenge we are focusing on increasing cooperation with development finance institutions and leveraging secondary market capital. For example, we have successfully made more capital available through packaging our renewable energy transactions in such a way that they can be sold down to asset management and life companies, providing access to additional liquidity. At December 2012, Standard Bank's total transformational infrastructure lending amounted to R1,2 billion (2011: R487 million). The increase is attributable to our origination activity.

BEE transaction financing

BEE transaction financing is the supply of debt financing and equity investments in BEE companies other than SMEs. Challenges include ensuring that the BEE companies funded are able to realise real value over an appropriate period of time, as well as the inability of BEE companies and individuals to contribute the requisite equity capital to the transaction. We focus on transactions that are fairly priced and can result in incremental economic value added. When interacting with our clients, we communicate the impact that Basel III will have on BEE financing, particularly the resulting higher capital charges. We are working with our clients to provide solutions that ensure that BEE transactions continue to be funded on a sustainable basis after the implementation of Basel III.

At December 2012, the empowerment deals financed by Standard Bank were in excess of R25,6 billion (2011: R22,0 billion). We regularly review the performance of the finance granted to a targeted investment project. Where the facility is found to be underperforming, we consult with the relevant parties to revise the facility's terms to ensure it meets its obligations and creates value for the BEE parties during and upon maturity of the financing granted.

Investing in communities

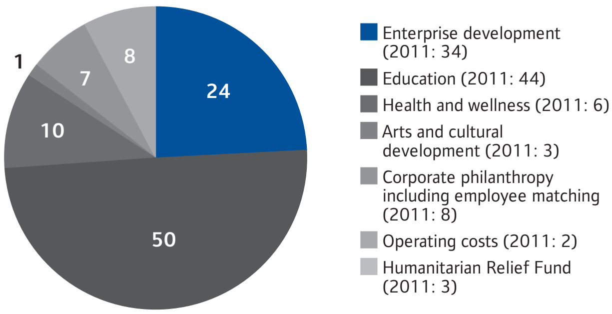
Through CSI, we apply our resources to address social issues that can be barriers to doing business.

Using a research-based approach to understand the socioeconomic needs of communities, we collaborate with government, other businesses and community organisations when making investment decisions. SBSA's total CSI spend in 2012 was R84,5 million (2011: R76,8 million), an increase of 10% compared to 2011.

We partner with various spheres of government to align our CSI contributions to national development objectives. We select credible social partners and projects that align to our business objectives and look for solutions that are replicable throughout our operating regions. Our key focus areas in South Africa are education, enterprise development, health and wellness, and employee community involvement.

Projects are measured against objectives and the targets set during the development of each project. Where organisations are not able to provide adequate reporting on their financial expenditure, we commission rigorous audits, and if discrepancies are found in their financial records, the organisation's services are terminated. The SBG social and ethics committee governs CSI at board level, with the social investment committee providing management-level oversight.

CSI spend (%)



Our people

For SBSA to achieve its business strategy, it needs talented people who deliver superior results. To support and enable our people to give their best, we provide an engaging and fulfilling environment with opportunities for personal and professional growth, maintain a competitive reward strategy and continuously enhance our people practices.

Key indicators

	2012	2011
Employee headcount	**28 168**	28 422
Women employees (%)	**62.3**	63.0
Employee turnover rate (%)	**11.5**	12.5
Skills development		
Total training spend (Rm)	**423**	358
Training spend as a percentage of staff costs (%)	**3.0**	3.2

To manage our people in a way that best supports our business strategy, we seek to:

- ensure that we have the right supply of people who can be matched to the right positions

Sustainability report continued

- develop capable leaders and deepen leadership succession pools
- enable our employees to contribute to business performance through personal development and learning
- create an engaging environment where high performance is expected and rewarded
- uphold sustainable employment practices
- positively impact the markets in which we operate through local hiring and being a committed and responsible employer.

Talent resourcing

We have streamlined our recruitment process to be more structured and effective, minimising our need for external recruitment partners. Our learnerships focus on recruiting candidates from the communities in which we operate.

Our graduate programmes are critical to our resourcing strategy as they are an important source of future leaders for the group. In 2012, there were 123 (2011: 131) participants from SBSA, 34% were women and 70% were black graduates.

Other initiatives have included the introduction of a development and mentorship framework for our 2012 graduates, the development of a programme to address the current shortage of specialist quantitative skills, and a new channel programme to build leadership capability at provincial level in South Africa. We also engage with university students in South Africa to attract talented graduates.

Leadership capability

During 2012, we focused on two key talent pools, namely the executive talent pool of individuals earmarked for key management roles and the emerging talent pool of people at an early stage of their careers but who have the potential to grow into management roles.

A key priority for 2012 was reviewing the content of our leadership programmes to ensure that they are flexible enough to accommodate varying business needs.

During 2012, 1 431 (2011: 656) leaders participated in formal training programmes, of which 72% were black.

Skills development

We have prioritised the following capabilities for skills development: sales and relationship management, local market knowledge, leadership skills, ability to drive scale, risk and regulatory expertise, and change management. In 2012, skills development spend was R423 million (2011: R358 million), of which R299 million (2011: R242 million) was spent on black employees.

Standard Bank also invests in skills development programmes (learnerships) for unemployed matriculants and university graduates in South Africa where we host learners and provide coaching, mentoring and training. In 2012, our banking operations hosted 100 (2011: 59) Kuyasa and Letsema learners. We also hosted 523 learners on Standard Bank learnerships.

Diversity and inclusion

Employees who reflect the diversity of the societies in which we operate understand and are better able to service diverse customers and clients, which contributes significantly to our continued success.

Targeted recruitment is a key component of creating a more equitable workforce. The current economic downturn has limited our recruitment activities, which has hampered our efforts. However, when we do recruit, we endeavour to appoint people from under-represented groups. During 2012, 83% (2011: 84%) of our external appointments at junior management level were black South Africans, with 71% (2011: 62%) and 44% (2011: 37%) at middle and senior management levels respectively.

While we aim for gender equity at all levels in the group, we are particularly engaging with and developing women in middle management roles to secure a pipeline for senior management and executive roles.

During 2012, we partnered with GIBS to develop and launch the Women in Leadership Programme, which aims to teach effective leadership skills to women in middle management roles. The programme consists of classroom-based lessons, coaching to assist in personal development and a bank-related project.

We are actively working to create an enabling environment that supports employees with disabilities, which requires that we continuously improve our ability to recruit, manage and develop them. At December 2012, 2.0% (2011: 2.2%) of our workforce declared that they have disabilities, with 0.7% (2011: 0.7%) of the total South African workforce being black people with disabilities.

Performance and reward

In 2012, we introduced a standardised performance management approach which aims to achieve consistent performance and growth over the long term by ensuring employees have a common understanding of the group's strategy and how it links to business unit and individual goals. It sets out the minimum expected performance requirements and empowers employees to be involved in managing their own performance and careers. This approach also aligns to the group's values as it introduces behavioural standards into performance reviews.

Employee benefits

Our benefit programmes provide core benefits such as medical and other insurance, and retirement benefits. In South Africa, we provide the same benefits to permanent full-time and part-time employees. Medical aid, disability cover, maternity leave and retirement benefits are not available to temporary workers. Each operation also has its own parental leave policy aligned to local legislation and market practice. In South Africa, the parental leave policy now includes fully-paid maternity and paternity leave for the legal adoption of children.

Sustainable employment practices

Employee wellness

We provide proactive and cost-effective health programmes and services to manage workplace health risks. Our long-term goal is to ensure that our health and wellness programmes are consistent across the group and relevant to individual operations. We have commenced a programme to screen 90% of Standard Banks' employees for health risks, such as cholesterol, glucose and blood pressure during the next three years. Voluntary HIV counselling and testing programmes also exist. Employees can then be referred to health management programmes.

All permanent employees in South Africa are members of Bankmed, our medical aid provider, unless they are registered as spousal dependents on other medical schemes. Bankmed members can sign up to Bankmed's Special Care HIV programme at no additional cost. We currently have 1 158 (2011: 1 037) employees and their dependents registered on the programme of which 868 (2011: 786) are women.

Absenteeism data is monitored and analysed to identify employees who may require support and assistance with health and wellness issues. Our absenteeism rates were 2.1% for 2012 (2011: 2.0%).

Formal policies and procedures are in place to manage employees who are temporarily or permanently incapacitated and unable to perform their duties for an extended period. Free and confidential independent counselling services are available to all employees, their partners and immediate families.

Creating a safe place to work

We value and protect the health and safety of our employees and people who may be affected by our business activities. Our management systems and procedures are effective at preventing safety hazards, ill health and occupational diseases and incidents. Being proactive on health and safety also reduces costs associated with absenteeism and contributes to a high performance culture.

We trained 2 145 (2011: 1 912) occupational health and safety officials in 2012, at a cost of R2,2 million (2011: R1,8 million).

Information technology

IT underpins our ability to operate and is therefore both a central enabler in achieving our strategy and a significant risk if systems become inoperative or unavailable. Our IT infrastructure must constantly evolve to meet changing business needs and plays a pivotal role in maintaining regulatory compliance and effectively managing risk. It is for these reasons that we continue to invest substantially in IT. In 2012, we spent R10,6 billion (2011: R10,1 billion).

Information technology and infrastructure

	2012	2011
IT spend (Rbn)	**10,6**	10,1
Branches	**721**	703
ATM's	**7 414**	7 006
Internet banking customers	**1 459 862**	1 092 389
Cellphone banking customers	**2 760 283**	1 306 679

Our IT strategy is to increase productivity through consolidating and standardising our IT infrastructure across the group.

CIB is investing in world-class systems to provide optimal service consistently across its operations. PBB continued to make strong progress in the year with its programme to replace legacy systems with a standardised core banking system.

We have various controls and processes in place to maintain the effective and efficient governance of our IT systems. The business case for any technology investment is thoroughly considered to ensure that our systems deliver on business objectives.

Maintaining service

In replacing our legacy systems, key challenges include running both old and new systems at the same time while the migration takes place, and ensuring the lowest possible impact from disruptions to the day-to-day operational systems. During the first half of the year, we experienced higher than anticipated systems outages and service disruptions in PBB. However, through focused interventions we have reduced the frequency of outages and regained acceptable levels of stability.

Key implementations during 2012

The primary IT focus in global markets was facilitating the operating of the rates and foreign exchange products across the SBSA balance sheet.

During 2012, we implemented two new releases on our core banking system in South Africa that have helped simplify our

Sustainability report continued

Inclusive Banking offerings from multiple products on multiple systems to a single suite of offerings on a single system. The first release enabled the launch of the AccessBanking suite of products and the second release will enable the migration of older products such as the Mzansi Blue and E Plan accounts into AccessBanking. This migration is set for completion in 2013.

Energy consumption

Although we expanded our IT infrastructure in 2012, we have reduced the amount of electricity consumed particularly by our data centres in South Africa, realising cost savings of R2,8 million despite an increase in the cost of electricity during the year. We achieved this through implementing new data centre cooling techniques and scaling down our Simmonds Street facility.

Operating infrastructure

Distribution network

A strategic priority is implementing a distribution network that enables the needs of our customers to be met in a convenient, safe, simple and affordable manner. Technology has made it possible for customers to manage their everyday banking online, on their mobile phone or through mechanisms such as ATMs. For this reason, this area of our business was a major focus in 2012. We encourage our customers to migrate to more convenient and cost-effective self-service channels through education and pricing incentives. Moving low-value services to these platforms also helps us focus on providing high-value services in our branches.

In 2011, we embarked on a four-year project to upgrade some 1 800 ATMs to the latest technology and at December 2012, 950 ATMs had been upgraded. We have introduced innovative payment services such as automated note accepting on 588 ATMs, which removes the need for envelopes to deposit money through an ATM. Our average ATM availability (uptime) was 96.6% (2011: 96.5%) against a target of 97%. During the year, we processed more than 455 million ATM transactions.

Our average internet banking uptime for 2012 was 99.9% and we started migrating Personal Current Account customers onto electronic statements as part of our programme to reduce paper use. E-statements are password protected and at December 2012, 456 016 customers were receiving electronic statements.

Building branches, particularly in underbanked areas, is expensive. We partner with retailers in these areas to offer our AccessPoint low-cost distribution channel. AccessPoints allow customers to transfer, deposit and withdraw money, buy airtime and electricity, make balance enquiries and use their card to pay for goods. At December 2012, we had 6 813 (2011: 9 716) AccessPoints, of which 85% (2011: 51%) were active.

Our AccessBanking centres give customers access to products such as AccessLoan, AccessAccount, AccessSave and Funeral Plan, and banking services such as bank statements, PIN resets, card replacements, stop and debit orders and cellphone banking registrations. These outlets are essentially tellerless branches located in convenient locations and offer extended operating hours. At December 2012, we had 100 (2011: 68) AccessBanking centres. Our AccessBanking centres achieved a customer experience score of 9,57 out of 10.

Innovation

Banking app

During 2012, we launched the Standard Bank transactional banking app for smartphones, which is free to download with no subscription fee.

Muvo card

The Muvo card was developed to meet the requirements of the National Department of Transport and is available to customers in eThekwini, KwaZulu-Natal, to pay for their bus fare on the PeopleMover bus service in Durban's city centre.

Instant Money

Instant Money is an ideal way to send money quickly and safely throughout South Africa without the need for a credit card or bank account. Customers can purchase Instant Money vouchers at a range of retail shopping partners or online. When purchasing the voucher, a customer can choose to load it onto their own or someone else's cellphone number. Using a secret PIN code the customer or recipient can trade the voucher for cash at any of the cash-out network points. Vouchers can be used to purchase goods in participating retail stores or goods online.

Green buildings

Standard Bank is a member of the Green Building Council of South Africa (GBCSA). This helps ensure that all our new buildings are designed, built and operated in an environmentally sustainable way. When designing new buildings, we consider the Greenstar SA building rating system that assesses the environmental impact of buildings, taking into account factors such as building management, the indoor environmental quality, the building's energy and water consumption, transportation, materials used, land use and site emissions.

Our new office building under development in Rosebank, Johannesburg, is targeting an 'as built' four-star rating, however, the preliminary design rating achieved five stars as determined by the GBCSA. The building is scheduled for completion in February 2013 with occupation commencing in May 2013. It will house around 5 000 client-facing employees and is expected to create economic spin-offs for retailers, restaurants and transport facilities in Rosebank.

The Rosebank building will be provided with 50% more fresh air than required by national building regulations, and approximately 60% of the office area will have a high level of natural daylight and a direct line of sight to the outdoors or into a sun-lit atrium.

It is the second building in South Africa to have a gas-powered tri-generation plant. The energy saving tri-generation plant, which cost around R40 million, has a production capacity of one megawatt of energy which will be used to light, heat and cool the building. The Rosebank office is expected to save about 10% to 15% in our energy costs. Energy efficient lighting systems and water efficient fittings and fixtures are used throughout, and the consumption of these resources will be effectively managed and monitored with metering and submetering systems. The building also has facilities to capture rain water, which will reduce our water demand from municipal facilities by around 50%. The building will have dedicated storage areas for the separation and collection of paper, glass, plastics and metals to facilitate recycling. During construction, ongoing waste management practices were adhered to with the aim of reusing or recycling 85% of the waste generated on site.

Environment

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

As a financial services group, our impacts on society and the environment can be both indirect, arising from the activities of our customers who we finance or provide products and services to, and direct from, our day-to-day operational activities. Our greatest opportunity to meaningfully impact on environmental concerns lies in our indirect impact, in that we are in a position to finance innovation and turn the climate challenge into market opportunities, lend responsibly to clients to ensure that social and environmental risks are mitigated, and finance products that assist our customers in reducing their own carbon footprint.

2012 highlights

- Involved in renewable energy projects in South Africa.
- Increased the scope of measurement for our electricity consumption to 100% of SBSA.
- Introduced a recycling initiative in our head office in Johannesburg.
- R9,4 billion debt funding under the South African Governments REIPPP Programme.
- Standard Bank's ECO$_2$Fleet tool won the Best Product under R1 million in the Green Supply Chain Awards.
- Standard Bank was ranked South Africa's 'greenest' company in the 2012 Newsweek Green Rankings. We ranked 21st globally in the financial sector category and 64th overall. Newsweek's Global Green Rankings focus on the largest 500 publicly traded companies worldwide. We scored 71,7 out of a possible 100 points.

Environmental and social risk management

Environmental and social risk screening evaluates a transaction's potential risks to the environment and society, and its impacts in its area of influence. We use two approaches to screen and process projects: the Equator Principles for project finance loans and an internally developed appraisal system for other financial product types. Our environmental and social appraisal system helps us identify risks associated with a client's ability to manage environmental and social issues, as well as those of the transaction itself such as the nature and value of the loan and the industry sector involved. It covers biodiversity considerations and human rights issues, including the rights of indigenous people and engagement with communities that may be affected by a transaction. The system is applied to all debt transactions in our CIB division.

Our supplier tendering process includes a sustainability questionnaire, which covers labour practices, human rights, social and environmental factors. During 2012, we set minimum environmental standards for all waste management, cleaning and hygiene, exterior and interior landscaping and pest control services procured.

We engage extensively in environmental, climate change and responsible finance policy debates internationally.

Climate finance and carbon trading

During 2012, we developed new commercial financing solutions to support the growth of low-carbon and clean technology projects, which included expanding our Programmatic CDM product.

Clean development mechanism

The CDM under the Kyoto Protocol is one of the biggest markets for carbon credits and is overseen by the United Nations. It allows industrialised countries to reduce global emissions by investing in sustainable development projects that reduce greenhouse gas emissions in developing countries. Approved CDM projects can generate certified emission reduction units which are traded as carbon credits.

We play a leading role in developing CDM projects in Africa and we are planning to establish a CDM operations centre in South Africa. We apply a range of quality criteria to the emission-reduction projects we finance or purchase carbon credits from, to ensure they deliver real and permanent emissions reductions. The current economic climate in Europe has caused heavy over-supply in the carbon markets and during 2012, carbon prices fell by approximately 80% as a result. This has made it extremely challenging to complete transactions and to support viable projects.

Sustainability report continued

Programmatic CDM registrations

Traditionally, smaller low-cost carbon emissions reduction projects would not have been able to access carbon credit revenue due to high transaction costs. In addition, the CDM executive board only issues carbon credits once a carbon-reducing activity is completed. Programmatic CDM is a new type of CDM registration which works as a collective mechanism for a range of smaller individual projects. An organisation that joins our Programmatic CDM avoids the cost of individually registering an energy efficiency project and will be able to generate carbon credits much sooner. Ultimately, this mechanism eliminates the cost and risk to an organisation of becoming more energy efficient.

We have established a number of Programmatic CDM registrations covering renewable energy, corporate and household energy efficiency, solar lighting, clean cook stoves, biomass generation and waste management projects. During 2012, we completed pre-registration audits on our entire Programmatic CDM portfolio and the programmes submitted to the United Nations Framework Convention on Climate Change for approval represented approximately 15 million tons of emissions abatement. We also provided Programmatic CDM solutions for over half of all renewable energy projects in South Africa.

Clean energy and energy efficiency

We are helping to establish a renewable energy sector in South Africa. We are active in advising, arranging finance for and funding renewable energy projects under the South African Government's REIPPP Programme. Renewable energy projects currently represent a third of our project finance energy portfolio and include wind power, hydro and geothermal power stations. At December 2012, we had increased our funding for renewable energy projects to R9,4 billion. This is for 11 wind and solar power projects in the first phase of the REIPPP Programme, representing an installed renewable energy capacity of 573 megawatts. We will provide comprehensive corporate and investment banking services to these clients and have taken an equity stake in four projects. Our debt funding is a third of the total R27 billion committed by banks, making us the largest investor.

For the second REIPPP Programme a total of 79 bids were received and 19 bidders were selected. Five of the bids we supported were selected, representing an installed renewable energy capacity of 328 megawatts and a total financing requirement of R6,1 billion. These projects will produce approximately 805 gigawatt hours of renewable energy a year.

Environmental products

In early 2012, we launched a carbon footprint measurement tool for our customers who operate vehicle fleets. Our fleet management unit provides consulting services to help these customers manage their fleets more efficiently and assists them in reducing their carbon emissions and costs associated with the running of their fleets. At December 2012, approximately 383 customers were using Standard Bank's ECO$_2$Fleet tool covering 34 433 vehicles. During 2012, ECO$_2$Fleet was used to streamline our own vehicle fleet. We removed all vehicles with a high carbon footprint from our trade vehicle pool and replaced them with vehicles that have a lower impact.

As a provider of home loans, we are in a position to encourage the installation of solar water heaters in the residential property market. As the high cost of solar water heaters is a barrier for the majority of homeowners, we assist customers through equity finance on their home loan facilities. We have also assessed the credentials of solar water heating suppliers who meet our criteria (including warranty periods) and are registered members of the Sustainable Energy Society of Southern Africa's Solar Water Heating Division. Due to the product quality, warranty and installation process provided by these suppliers, we are able to offer our customers more comprehensive insurance cover on their investment. We also encourage customers to switch to a solar water heater when we receive an insurance claim on a burst or damaged geyser.

Our direct impact

Our targets

We track and manage environment-related aspects of our operations such as energy, water, carbon emissions and waste management. In 2010, we set environmental targets for our South African operation using 2009 as a base year. During 2012, we focused on improving the rigour of our data collection for all environmental indicators and increasing the scope of measurement. For example in 2012, we increased the scope of measurement for our electricity consumption to 100% of our premises, including the data centres, branches and ATMs. Having a full scope enables us to track our progress more accurately. In 2013, we will work on extending the scope of our water, paper, waste and recycling data.

SR **More detail is included in the SBG sustainability report under the environment section starting on page 81**

Key indicators		**2012**	2011
Carbon equivalent[1,2]	metric tons	**412 089**	180 403
Total energy consumption of premises[2]	kilowatt hours	**369 094 656**	153 512 557
Diesel to operate generators	kilowatt hours	**799 709**	429 495
Electricity purchased: buildings[3]	kilowatt hours	**303 323 037**	125 422 308
Electricity purchased: ATMs	kilowatt hours	**15 309 968**	NA[4]
Electricity purchased: data centres[3]	kilowatt hours	**48 958 708**	27 139 508
Renewable energy sourced	kilowatt hours	**703 234**	521 246
Water consumption[5]	kilolitres	**319 055**	295 807
Paper consumed	tons	**3 336**	3 337
Paper recycled	tons	**653**	516
Total waste generated[1]	tons	**1 609**	1 196

1 Externally assured.
2 See below for a detailed explanation of these movements and the increased scope of our measurement in 2012.
3 Electricity consumption covers 100% of South African premises.
4 Not available.
5 Water consumption covers nine head office and regional buildings.

Carbon footprint

Our CO_2 equivalent for 2012 was 412 089 (2011: 180 403) metric tons, 128% higher than 2011. This was anticipated as during 2012 we focused on increasing our electricity measurement. This increased from 63% of main buildings in 2011 to 100% of all sites in South Africa, including our branch network and ATMs. Our calculation is based on metered data and the branch electricity footprint has been extrapolated from the average kilowatt hour profile of 150 metered branches.

Previously, the extent of our waste sorting was limited to staff disposing of confidential office paper in a dedicated recycling bin and other waste sorted at central locations, which provided limited recycling opportunities. During 2012, we introduced an internal recycling initiative where individual waste bins were removed from beneath desks and recycling stations introduced throughout the general office areas of our head office. Our employees now sort their waste into four categories: non-recyclable waste, recyclable packaging, white office paper and other recyclable paper such as magazines and boards. An extensive staff communication campaign was undertaken as part of the rollout, and cleaning staff were trained on the new recycling procedures. This has reduced waste to landfill, with a 31% increase in the collection of recyclable waste. The initiative has been well received by staff. Our intention is to expand the rollout of these recycling bins to other parts of the business in 2013.

A challenging aspect of measuring our waste generated for all group properties is that many of our operations are based in leased buildings or multi-tenanted buildings. In these situations, we are reliant on the landlord to provide waste management services. Efforts are underway to encourage landlords to assist with our waste objectives. An exception is hazardous e-waste, all of which is disposed of correctly and certificates obtained. During 2012, we generated 1 609 tons of waste, of which 43% was recycled.

Risk and capital management

Overview

Introduction

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

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

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

The group's two business lines are PBB and CIB.

Board responsibility

The board has ultimate responsibility for risk and capital management. Various committees within the governance structure enable the board to evaluate the risks faced by the group and the effectiveness of the group's management of these risks.

The board relies on quarterly reports from these committees, as well as periodic attestations by senior risk managers and internal audit, to satisfy itself that the group's risk management processes are fit-for-purpose and are operating effectively.

During the year under review, the business activities of the group have been managed within the board-approved risk appetite.

The board is satisfied that the group's risk management processes operated effectively in the period under review.

Reporting framework

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

Sections forming part of the audited 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:

- capital management, starting on page 71
- credit risk, starting on page 76
- liquidity risk, starting on page 91
- market risk, starting on page 98.

Basel II disclosures apply at a Standard Bank Group (the listed group) level only and not at an individual bank or banking group level.

Risk types

The risk types that the group is exposed to are defined below. The definitions are consistent with those used in the risk taxonomy, a key component of the risk framework.

Credit risk

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

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 the 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 their underwriting.
  - **Pre-settlement credit risk:** The EAD arising from unsettled forward and derivative transactions where the group is acting in a principal capacity or as a clearer. 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 countervalue.
- **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 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 their 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. Transfer and convertibility risk is an important element of cross-border country risk. Examples of transfer and convertibility events are exchange controls and foreign debt moratoria.

Liquidity risk

Liquidity risk arises when the group 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 roll over 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 market value, earnings (actual or effective) 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 variables.

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 line with 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.

Risk and capital management continued

Overview continued

Business risk

Business risk is the risk of loss due to operating revenues not covering operating costs and is usually caused by the following:

- inflexible cost structure
- market-driven pressures, such as decreased demand, increased competition or cost increases
- group-specific causes, such as a poor choice of strategy, reputational damage or the decision to absorb costs or losses to preserve reputation.

It includes strategic risk and post-retirement obligation risk.

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.

Post-retirement obligation risk

The risk arises because the estimated value of the pension or medical liabilities might increase, the market value of the fund's assets might decline or their investment returns might reduce.

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.

Risk management framework

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

- risk governance committees at a board and management level
- management organisation structure to support the three lines of defence model as described on page 68
- risk governance standards as described on page 69
- policies to support the risk governance standards.

Risk governance process

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 with participation by the senior executives of the group in all significant risk matters.

The governance committees are a key component of the risk management framework. They have clearly defined mandates and delegated authorities, which are reviewed regularly.

AR

As a general principle, risk management issues are dealt with at the appropriate GROC subcommittee, refer to page 67

Material issues are escalated to GROC, as are decisions requiring GROC approval. GROC evaluates reports provided to it by the GROC subcommittees and the CROs, together with specific deep drill reports. GROC, in turn, escalates material issues to the SBG/SBSA risk and capital management committee (GRCMC), as are decisions requiring GRCMC approval. The GRCMC accounts to the board in the same manner.

The primary communication up the hierarchy is undertaken by the relevant committee chairman. Wherever regulations require noting or approval by the board committee, the regulations overrule any internal processes.

A similar process is adopted in relation to the SBG/SBSA audit committee (GAC) where the reporting process commences at the level of the head of internal audit and the head of governance and assurance.

GROC subcommittees

There are 13 GROC subcommittees, as detailed in the committee structure below.

Subcommittee	Chairman
CIB credit governance committee	Roselyne Renel, chief risk officer, CIB
Asset and liability committee Subcommittee: group capital management committee	Simon Ridley, SBG financial director
Compliance committee	Isabel Lawrence, group chief compliance officer
Country risk management committee	Roselyne Renel, chief risk officer, CIB
Credit portfolio management committee[1]	Paul Smith, SBG chief risk officer
Equity risk committee[1]	Roselyne Renel, chief risk officer, CIB
Internal financial control governance committee	Simon Ridley, SBG financial director
Operational risk committee	Paul Rew, SBG head operational risk
Regulatory and legislative oversight committee	Sim Tshabalala, joint SBG chief executive, chief executive
Sanctions review committee	Sim Tshabalala, joint SBG chief executive, chief executive
Stress testing committee	Richard Pantcheff, group chief credit officer
Intragroup exposure committee	Simon Ridley, SBG financial director
PBB credit governance committee	Keith Fuller, chief risk officer, PBB

[1] Established in 2012.

Board committees

Board subcommittees responsible for effective risk management comprise the GAC, the GRCMC, 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 GAC reviews the group's financial position and makes 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 effectively and efficiently mitigate risks.

Minutes of the GRCMC meetings are tabled at the GAC meetings on a quarterly basis. In addition, the CRO provides quarterly strategic risk overviews to the GAC on significant matters relating to risk and capital management discussed at the GRCMC and GROC meetings. Furthermore, on a quarterly basis, the chairman of the GAC meets with the group chief compliance officer and chief audit officer, in the absence of management, to discuss the adequacy and effectiveness of the management of risks to which the group is exposed.

AR **Further details on the GAC's roles, responsibilities and membership can be found in the corporate governance statement on pages 33 and 34**

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
- approving the group's risk appetite statements and monitoring the group's risk profile
- monitoring and evaluating significant IT investment and expenditure.

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. It meets as required, with the requirements for a quorum being mandatory in terms of guidance from the SARB, and reports quarterly to the SBSA board through its chairman on all large exposures as defined in the regulations.

Risk and capital management continued

Overview continued

SBG model approval committee

The group model approval committee was established, effective 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. This committee reports to the board and the GRCMC through its chairman. This committee is supported by the PBB and CIB model approval subcommittees.

Management committees

SBG risk oversight committee

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

- risk appetite statements
- approval of macroeconomic scenarios for stress testing, stress testing results and scenario analyses
- 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
- ICAAP.

Three lines of defence model

The group adopts the three lines of defence model which reinforces segregation of duties between and independence of various control functions. 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.	■ finance function ■ risk management function ■ legal function ■ governance and assurance function excluding internal audit.	■ Internal audit function (administratively part of governance and assurance).
Responsibilities	■ measures, assesses and controls risks through the day-to-day activities of the business within the governance framework.	■ supports the governance framework ■ provides independent oversight of the first line of defence ■ reports to management and board governance committees.	■ supports the governance framework ■ provides independent assessment of first and second lines of defence ■ reports to GAC.

Second line of defence functions

The second line of defence functions comprise various 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 ▪ portfolio management ■ group tax function ■ group financial control function.	■ credit risk ■ country risk ■ market risk ■ operational risk, including business continuity and resilience ■ information risk management ■ integrated risk.	■ prudential, by geographic region ■ transactional, by product type.	■ governance office ■ financial crime control ■ sustainability management ■ compliance ■ occupational health and safety ■ physical security.

Each of these four functions has resources at both the centre and embedded within the business lines. The central resources provide a groupwide governance framework for the specific function. 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. Centre and embedded resources jointly address risk management at a legal entity level.

Third line of defence

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

Risk governance standards

The specialist second line of defence functions maintain risk governance standards for each major risk type to which the group is exposed. The risk governance 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.

All governance standards are applied consistently across the group and are approved by the GRCMC. Supporting policies and procedures are implemented by the management team and monitored by the embedded risk resources.

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

The group's approach to risk appetite

The following terms have specific meanings within the group.

- **Risk appetite:** An expression of the amount or type of risk an entity 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 both normal and a range of stress conditions. Risk appetite could be exceeded either as a result of an adverse economic event more severe than that envisaged under the range of stress conditions (passive), or as a result of a decision to increase the risk profile to accommodate market, client or portfolio requirements (active).
- **Risk tolerance:** The maximum amount or type of risk the group is prepared to tolerate above risk appetite for short periods of time on the understanding that management action is taken to get back within risk appetite.
- **Risk capacity:** The maximum amount of risk the group is able to support within its available financial resources.
- **Risk profile:** The amount or type of risk the group holds at a specified point in time.
- **Risk tendency:** The forward looking view of how the group's risk profile may change as a result of portfolio effects and/or changes in economic conditions. The changes in economic conditions may either be in the form of formally approved macroeconomic stress scenarios as part of the budgeting process or ad hoc stress scenarios.

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 material legal entity
- regularly reviewing and monitoring performance in relation to risk through quarterly board reports
- analysing risk tendency against risk appetite.

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 return. GROC recommends the level of risk appetite to both the GRCMC and the board.

Risk appetite at a group level is described by the following metrics which are supplemented by qualitative criteria:

- earnings at risk
- liquidity
- regulatory capital
- economic capital.

These metrics are converted into:

- portfolio limits, for example concentrations, credit loss ratios and value-at-risk (VaR)
- operational limits, for example, facilities by name
- desk-specific limits across the relevant risk types.

The group's approach to stress testing

Stress testing is a key management tool within the group and facilitates a forward-looking perspective of the organisation's risk profile or risk tendency. Stress tests are conducted at group, business line and material legal entity level.

Stress testing supports a number of business processes including:

- strategic planning and budgeting
- capital planning and management, and the setting of capital buffers
- liquidity planning and management
- informing the setting of risk tolerance
- providing a forward looking assessment of the impact of stress conditions on the risk profile
- identifying and proactively mitigating risks through actions such as reviewing and changing risk limits, limiting exposures and hedging
- facilitating the development of risk mitigation or contingency plans across a range of stressed conditions
- communicating with internal and external stakeholders.

Stress testing results inform decision-making at the appropriate management levels, including strategic business decisions of the board and senior management.

Risk and capital management continued

Overview continued

Groupwide macroeconomic stress testing is conducted regularly across all major risk types for a range of common scenarios. This allows the group to monitor its risk profile and risk tendency against its risk appetite. This groupwide stress testing is augmented by portfolio-specific stress testing and sensitivity analyses to identify the drivers of risk tendency and necessary actions to constrain risk.

The appropriateness of the macroeconomic stress scenarios and the severity of the relevant scenarios used for capital planning are approved by the GRCMC.

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.

Equity risk

The group has approval from the SARB to adopt the market-based approach for certain equity portfolios.

Operational risk

The group currently applies the standardised approach for operational risk. During 2012, the group calculated capital based on the AMA model for SBSA. This has been used for SBSA economic capital purposes, and for the parallel run for regulatory capital purposes. Provided the necessary approval is obtained from the SARB, SBSA will make use of the AMA for regulatory capital purposes.

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.

Capital management

Objectives

The group's capital management framework is designed to ensure that regulatory requirements are met at all times and that the group and its principal subsidiaries are capitalised in line with the risk profile, economic capital standards and target ratios approved by the board.

Audited

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

- **Strategic capital management function:** Key responsibilities are capital raising, advising on the dividend policy, facilitating capital allocation, risk-adjusted performance measurement (RAPM) and capital planning.
- **Portfolio analysis and reporting function:** Key responsibilities are to own and manage the regulatory and economic capital results (and the systems used to produce the results), capital budgeting, reporting and analysis, and standardising data management processes across functions within TCM.
- **CIB and PBB capital management functions:** Key responsibilities are to provide support on capital management matters such as deal pricing, key return measures and management of capital consumption against budgets.

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
  - the group's internal target capital adequacy ratios
  - the SARB's minimum ratios set in accordance with Basel II and future Basel III requirements.
- 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 group's dividend policy and dividend declarations while taking into consideration shareholder and regulatory expectations.
- Develop, review and approve short- to medium-term capital planning and stress testing.

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 adequacy is measured through three risk-based ratios, namely:

- core tier I
- tier I
- 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.

Risk and capital management continued

Capital management continued

These ratios represent 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. A portion of the group's risk-weighted assets are calculated using the standardised regulatory approach. Risk-weighted assets take the following into consideration:

- Both on- and off-balance sheet exposures are included in the group's overall credit risk-weighted assets.
- Risk-weighted assets for equity risk are modelled on the market-based and probability of default (PD)/loss given default (LGD) approaches.
- Capital requirements for market risk and operational risk are converted into risk-weighted assets for the purpose of determining total risk-weighted assets.
- Other assets are risk weighted in accordance with prescribed regulatory requirements.

Audited

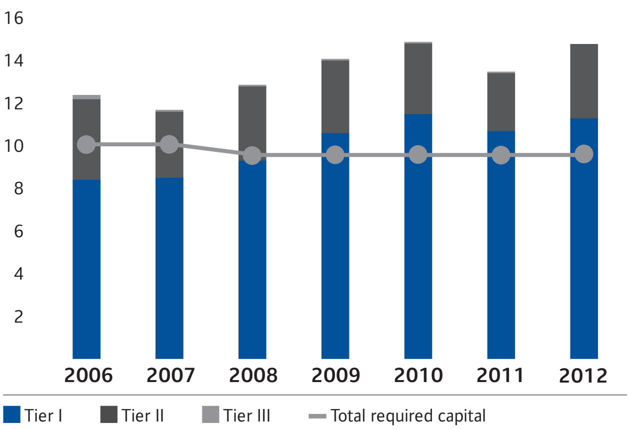
During the year ended 31 December 2012 and the comparative year ended 31 December 2011, the group complied with all externally imposed capital requirements.

The main requirements are those specified in the Banks Act and related regulations which are broadly consistent with the Basel II and Basel 2.5 guidelines issued by the Bank for International Settlements.

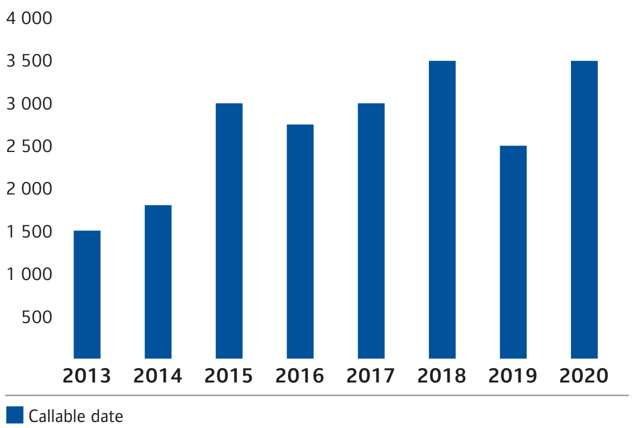
The group's tier I capital, including unappropriated profit, was R56,5 billion at 31 December 2012 (2011: R46,2 billion) and total capital, including unappropriated profit was R73,8 billion at 31 December 2012 (2011: R58,3 billion). The change in the group's capital was primarily due to an increase in retained earnings and the issuance of Basel II compliant tier II capital instruments. The group maintained a well-capitalised position based on core tier I, tier I and total capital adequacy ratios as set out below.

The group has a balanced tier II subordinated debt maturity profile. Ongoing focus on capital raising opportunities resulted in the successful issue of R9,2 billion of Basel II compliant tier II instruments in 2012, further bolstering the group's capital position and smoothing its debt maturity profile.

Capital adequacy (%)



SBSA tier II instrument maturity profile (Rm)



Capital adequacy ratios

	Basel II minimum regulatory requirement %	Target ratio %	Including unappropriated profits 2012 %	Including unappropriated profits 2011 %	Excluding unappropriated profits 2012 %	Excluding unappropriated profits 2011 %
Total capital adequacy ratio	9.5	11 – 12	**14.8**	13.5	**14.0**	13.2
Tier I capital adequacy ratio	7.0	9.0	**11.3**	10.7	**10.6**	10.4
Core tier I capital adequacy ratio	5.25		**11.3**	10.7	**10.6**	10.4

Basel II regulatory capital

	2012 Rm	2011 Rm
Tier I		
Issued primary capital and unimpaired reserve funds	**68 382**	53 757
Ordinary share capital and premium	**35 256**	27 290
Ordinary shareholders' reserves	**33 126**	26 467
Less: regulatory deductions	**(11 661)**	(7 115)
Goodwill and other intangible assets	**(10 307)**	(6 433)
Investment in regulated non-banking entities		(20)
Less: regulatory deductions – 50% deducted from tier I and tier II respectively	**(1 354)**	(662)
Future expected loss exceeding eligible provisions on an incurred loss basis[1]	**(1 352)**	(624)
Loans to special purpose entities (SPEs) (first loss credit enhancement)	**(2)**	(38)
Less: regulatory exclusions	**(3 932)**	(1 873)
Other reserves[2]	**(182)**	(428)
Unappropriated profit	**(3 750)**	(1 445)
	52 789	44 769
Tier II		
Issued secondary capital and reserves	**21 723**	15 086
Subordinated debt	**21 550**	14 878
General allowance for credit impairments	**173**	208
Less: regulatory deductions	**(4 449)**	(3 316)
Investment in banks' tier II subordinated debt instruments	**(3 095)**	(2 654)
Less: regulatory deductions – 50% deducted from tier I and tier II respectively	**(1 354)**	(662)
Future expected loss exceeding eligible provisions on an incurred loss basis[1]	**(1 352)**	(624)
Loans to SPEs (first loss credit enhancement)	**(2)**	(38)
	17 274	11 770
Tier III		
Subordinated debt		300
Total regulatory capital (excluding unappropriated profits)	**70 063**	56 839
Total capital requirement	**47 484**	40 896
Total risk-weighted assets	**499 819**	430 484

[1] Unaudited.
[2] Mainly the share-based payment reserve, cash flow hedging reserve, foreign currency translation reserve and available-for-sale reserve, (where applicable).

Audited

Risk and capital management continued

Capital management continued

Basel II risk-weighted assets and associated capital requirements

	2012		2011	
	Risk-weighted assets Rm	**Capital requirement[1] Rm**	Risk-weighted assets Rm	Capital requirement[1] Rm
Credit risk	**395 472**	**37 570**	335 215	31 845
Portfolios subject to the standardised approach[2]	**22 297**	**2 118**	16 647	1 581
Corporate	**19 650**	**1 867**	13 581	1 290
Sovereign	**112**	**11**		
Banks	**129**	**12**	83	8
Retail mortgages	**41**	**4**	548	52
Retail other[3]	**2 068**	**196**	2 086	198
Securitisation exposure	**297**	**28**	349	33
Portfolios subject to the AIRB approach	**359 480**	**34 151**	301 719	28 663
Corporate	**156 359**	**14 855**	131 736	12 515
Sovereign	**9 426**	**895**	9 857	936
Banks	**20 886**	**1 984**	15 927	1 513
Retail mortgages	**77 234**	**7 337**	70 785	6 725
Qualifying retail revolving exposure	**52 179**	**4 957**	37 632	3 575
Retail other[3]	**40 490**	**3 847**	32 441	3 082
Securitisation exposure	**2 906**	**276**	3 341	317
Other assets	**13 695**	**1 301**	16 849	1 601
Equity risk in the banking book	**14 431**	**1 371**	15 769	1 498
Portfolios subject to the market-based approach	**5 113**	**486**	6 322	601
Listed	**160**	**15**	94	9
Unlisted	**4 953**	**471**	6 228	592
Portfolios subject to the PD/LGD approach	**9 318**	**885**	9 447	897
Market risk	**21 099**	**2 005**	15 020	1 427
Portfolios subject to the standardised approach[2, 4]	**6 537**	**621**	8 624	819
Interest rate risk	**5 925**	**563**	7 584	720
Equity position risk	**61**	**6**	158	15
Foreign exchange risk	**528**	**50**	287	27
Commodities risk	**23**	**2**	595	57
Portfolios subject to the internal models approach[5]	**14 562**	**1 384**	6 396	608
Commodities	**1 084**	**103**	1 539	146
Forex	**6 158**	**585**	1 909	182
Interest rates	**10 000**	**950**	5 550	527
Equities	**11 996**	**1 140**	4 740	450
Diversification	**(14 676)**	**(1 394)**	(7 342)	(697)
Operational Risk				
Portfolios subject to the standardised approach[1]	**68 817**	**6 538**	64 480	6 126
Total risk-weighted assets/capital requirement	**499 819**	**47 484**	430 484	40 896

1 Capital requirement at 9.5% excludes bank specific add-ons and capital floor.
2 Portfolios on the standardised approach predominantly relate to 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.
4 Instruments on the standardised approach for general market risk relate to low-volume structured products and new products recently traded for which the SARB approval to adopt the internal model approach has not been granted. The standardised approach for interest rate risk incorporates all specific risk.
5 Portfolios subject to the internal models approach are all VaR-based portfolios.

Pro forma Basel III regulatory capital (including unappropriated profit)

	Basel III 2013 minimum regulatory requirement %	**Pro forma Basel III %**
Common equity tier I capital adequacy ratio	4.625	**10.6**
Tier I capital adequacy ratio	6.1875	**10.6**
Total capital adequacy ratio	9.5	**13.8**

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, and evaluation of new business and performance measurement.

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.

Economic capital of R47,6 billion (2011: R41,8 billion) is the amount of permanent capital that is required to support the group's economic risk profile. 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%.

Stress testing confirmed the availability of financial resources to meet the increased economic capital requirements.

Economic capital by risk type at end of the year

	2012 Rm	2011[1] Rm
Credit risk	**32 620**	28 307
Equity risk	**4 703**	4 992
Market risk	**707**	619
Operational risk	**4 859**	4 057
Business risk	**3 315**	3 211
Interest rate risk in the banking book	**1 389**	630
Total economic capital	**47 593**	41 816
Available financial resources	**68 800**	51 571
Capital coverage ratio (times)	**1.45**	1.23

[1] Restated. Refer to page 113.

The available financial resources of R68,8 billion (2011: R51,6 billion) cover the minimum economic capital requirement of R47,6 billion (2011: R41,8 billion) by a factor of 1.45 times (2011: 1.23 times), indicating that sufficient resources are available to cover all quantifiable risks.

Risk-adjusted performance measurement

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 ROE. Business units are held accountable to achieve their RAPM targets, ensuring that 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. The group's CoE is 13.7% (2011: 13.6%), derived as follows.

CoE = Risk-free rate + (Beta x equity risk premium)
13.7% = 7.5% + (0.88 x 7%).

The group strives to add positive economic value by generating returns in excess of CoE on a consistent basis.

Credit risk

Introduction

The group's credit risk comprises mainly wholesale and retail loans and advances together with the counterparty credit risk arising from derivative contracts entered into with our clients and market counterparties. Other sources of credit risk arise from trading activities, including debt securities, settlement balances with market counterparties, available for sale assets and reverse repurchase lending arrangements.

Credit risk management objectives are to:

- maintain a strong culture of responsible lending and a robust risk policy and control framework
- identify, assess and measure credit risk clearly and accurately across the group, from the level of individual facilities up to the total portfolio
- define, implement and continually re-evaluate our risk appetite under actual and scenario conditions
- monitor credit risk and adherence to agreed controls
- ensure that there is independent, expert scrutiny of credit risks, and their mitigation.

Primary responsibility for credit risk management resides within the group's business lines, supported by an independent group credit risk function operationally embedded in business units. 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 principal management committee responsible for the oversight of credit risk is GROC. The primary credit governance committees for both PBB and CIB report directly to GROC. These committees are responsible for credit risk and credit concentration risk decision-making, and delegation thereof to credit officers and forums within defined parameters. Key aspects of rating systems and credit risk models are approved by the PBB, CIB and group model approval committees, all of which are mandated by the board as designated committees. Regular model validation and reporting to these committees is undertaken by the independent central validation function.

The group dedicates considerable resources to gaining a clear and accurate understanding of credit risk across the business and ensuring that its balance sheet correctly reflects the value of the assets in accordance with International Financial Reporting Standards (IFRS).

Basel II: Use of internal estimates

The group's credit risk rating systems and processes differentiate exposures in order to highlight those with greater risk factors according to potential severity of loss. The group uses its own estimates of risk parameters for the calculation of RWA under the AIRB approach. Internal risk parameters are also used extensively in other risk management and business processes, including:

- setting risk appetite
- setting limits for concentration risk and counterparty limits
- credit approval and monitoring
- pricing transactions
- determining portfolio impairment provisions
- calculating regulatory capital
- calculating economic capital.

All exposures are measured in such a way as to ensure that both actual current exposure and potential future exposure are captured. Primary credit risk arising from debt exposure is measured in accordance with the accounting value for drawn down exposures, including accrued interest and gross of specific credit impairments, and a measure of the expectation of additional exposure which may arise at default. Pre-settlement risk is measured on a potential future exposure basis, taking into account implicitly the liquidity and explicitly the volatility of the reference asset or price of the instrument or product and the tenor of the exposure. To the extent that credit instruments giving rise to issuer risk are held on the banking book, they are measured as primary credit risk. Settlement risk is measured on a notional basis, assuming that the counter value will not be received. The daily settlement profile for the counterparty concerned should be the aggregate of all settlements due by the counterparty on that date, either on a gross or net basis, depending on whether the underlying agreements include netting or not.

Basel II: Internal ratings-based approach

All internal ratings-based (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.

Probability of default

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

Risk and capital management continued

Credit risk continued

Loss given default

LGD measures are related to customer type, product type, seniority of loan, country of risk and level of collateralisation. LGDs are estimated based on historic recovery data per category of LGD. A downturn LGD is used in the estimation of the capital charge and reflects the anticipated recovery rates and macroeconomic factors in a downturn period.

Exposure at 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 use more of their facilities as they approach default.

Model validation

IRB models are validated at initial development and at least annually thereafter by the central validation function. Validation techniques test the appropriateness and effectiveness of the models, and indicate if the model is fit-for-purpose.

In order for a model to be approved for implementation or ongoing use, model validation results are regularly presented to the model approval committees.

Corporates, sovereigns and banks portfolios

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. Creditworthiness is assessed based on a detailed individual assessment of the financial strength of the borrower.

Specialised lending portfolio

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.

For Basel purposes, the slotting approach has been adopted for certain specialised lending asset classes, and slotting criteria provided by the regulator are applied.

Project, object and commodity finance transactions are assessed using PD and LGD scorecards. 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 portfolio

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 are used together with the regulatory prescribed LGD of 90% and maturity factor of five years. Where no suitable model exists for the equity investment, the simple risk-weighted approach is adopted.

Retail portfolio

Retail mortgage exposures relate to mortgage loans to individuals and are a combination of both drawn and undrawn EADs. Qualifying revolving retail exposures (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.

Basel II: Credit portfolio analysis

AR **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 81**

Audited

Basel II: 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
- the underlying moveable assets financed under leases and instalment sales.

Audited

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

Guarantees and related legal contracts are often required, particularly in support of credit extension to groups of companies and weaker counterparties. Guarantor counterparties include banks, parent companies, shareholders and associated counterparties. Creditworthiness is established for the guarantor as for other counterparty credit approvals.

For derivative transactions, the group typically uses internationally recognised and enforceable International Swaps and Derivatives Association (ISDA) agreements, with a credit support annexure, where collateral support is considered necessary. Other credit protection terms may be stipulated, such as limitations on the amount of unsecured credit exposure acceptable, collateralisation if mark-to-market credit exposure exceeds acceptable limits, and/or termination of the contract if certain credit events occur, for example, the downgrade of the counterparty's public credit rating.

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. This risk is addressed by taking into consideration the high correlation between the default event and exposure to the counterparty when calculating the potential exposure and security margin requirements on these transactions.

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.

Basel II: Management of concentration risk

Credit concentration risk is the risk of loss to the group arising from an excessive concentration of exposure to a single counterparty, industry, market, product, financial instrument or type of security, country or region, or maturity. This concentration typically exists when a number of counterparties are engaged in similar activities and have similar characteristics that would cause their ability to meet contractual obligations to be similarly affected by changes in economic or other conditions.

The group maintains a portfolio of credit risk that is adequately diversified and avoids unnecessarily excessive concentration risks. Diversification is achieved through setting maximum exposure guidelines to individual counterparties. The group constantly reviews its concentration levels and sets maximum exposure guidelines to these. Excesses are reported to GROC and the GRCMC.

Basel II: Counterparty credit risk

Counterparty credit risk is managed according to the group credit risk governance standard, which also covers any other type of credit risk. All such credit risk limits are subject to annual review. Counterparty exposures are monitored against limits by the risk functions on a daily basis, and included in the calculation of economic capital demand.

The group is exposed to credit risk on derivative contracts, which arises as a result of counterparty credit risk and movements in the fair value of securities financing and over-the-counter (OTC) derivative contracts. The risk amounts reflect the aggregate replacement costs that would be incurred by the group in the event of counterparties defaulting on their obligations.

The group's exposure to counterparty risk is affected by the nature of the trades, the creditworthiness of the counterparty, and netting and collateral arrangements. Counterparty credit risk is measured in potential future exposure 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. Exposures are generally marked to market daily. Cash or near cash collateral is posted where contractually provided for.

Counterparty credit risk is subjected to explicit credit limits which are formulated and approved for each counterparty and economic group, with specific reference to its credit rating and other credit exposures.

Basel II: Securitisation

Securitisation is a transaction whereby the credit risk associated with an exposure, or pool of exposures, is tranched and where payments to investors in the transaction are dependent upon the performance of the exposure or pool of exposures. A traditional securitisation involves the transfer of the exposures being securitised to an SPE which issues securities. In a synthetic securitisation, the tranching is achieved by the use of credit derivatives and the exposures are not removed from the balance sheet of the originator.

The group uses SPEs to securitise customer loans and advances that it has originated in order to diversify its sources of funding for asset origination and for capital efficiency purposes. In addition, the group plays a secondary role as an investor in certain securitisation notes.

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. Moody's Investor Services and/or Fitch were appointed as rating agencies.

Risk and capital management continued

Credit risk continued

The transfer of assets to an SPE may give rise to the full or partial derecognition in the relevant company's financial statements of the financial assets concerned. Only in the event that derecognition is achieved are sales and any resultant gains on sales recognised in the company financial statements. Despite derecognition, some entities have been consolidated into the group's results. There were no securitisation activities during 2012 (2011: R1 363 million).

AR For further information, refer to note 6.4 in the annual financial statements on page 145

Roles fulfilled in securitising assets

Securitisation transactions	Originator	Investor	Servicer	Liquidity provider	Credit enhancement provider	Swap counterparty
Traditional securitisations						
Blue Granite 1	✓	✓	✓		✓	✓
Blue Granite 2	✓	✓	✓		✓	✓
Blue Granite 3	✓	✓	✓		✓	✓
Blue Granite 4	✓	✓	✓		✓	✓
Siyakha Fund	✓		✓		✓	✓
Asset-backed commercial paper programme						
Blue Titanium Conduit		✓		✓	✓	✓
Third party transactions		✓		✓	✓	✓

Securitisation transactions

	Asset type	Year initiated	Expected close	Rating agency	Assets securitised Rbn	Assets outstanding 2012 Rbn	Assets outstanding 2011 Rbn	Notes outstanding[1] 2012 Rbn	Notes outstanding[1] 2011 Rbn	Retained exposure[1,2] 2012 Rbn	Retained exposure[1,2] 2011 Rbn
Traditional securitisations					17,9	**11,1**	12,2	**12,2**	13,0	**5,5**	5,2
Blue Granite 1	Retail mortgages	2005	2032	Moody's and Fitch	4,6	**1,6**	1,9	**1,7**	2,1	**1,4**	1,6
Blue Granite 2	Retail mortgages	2006	2041	Moody's	2,8	**2,1**	2,1	**2,3**	2,3	**1,2**	1,2
Blue Granite 3	Retail mortgages	2006	2032	Moody's	3,0	**2,0**	2,3	**2,3**	2,5	**1,3**	1,3
Blue Granite 4	Retail mortgages	2007	2037	Moody's	5,1	**3,4**	3,8	**3,8**	3,9	**1,5**	1,1
Siyakha Fund	Retail mortgages	2007	2043	Fitch	2,4	**2,0**	2,1	**2,1**	2,2	**0,1**	
Asset-backed commercial paper programme											
Blue Titanium Conduit	Various	2002	N/A	Fitch	N/A	**4,4**	4,9	**4,5**	4,9	**0,3**	0,3
Total					17,9	**15,5**	17,1	**16,7**	17,9	**5,8**	5,5

[1] Capital plus accrued interest.
[2] Includes notes, 1st and 2nd loss sub-loans and notes held by Blue Titanium.

IFRS: Analysis of loans and advances

The tables on the pages that follow analyse the credit quality of loans and advances measured in terms of IFRS.

IFRS: 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

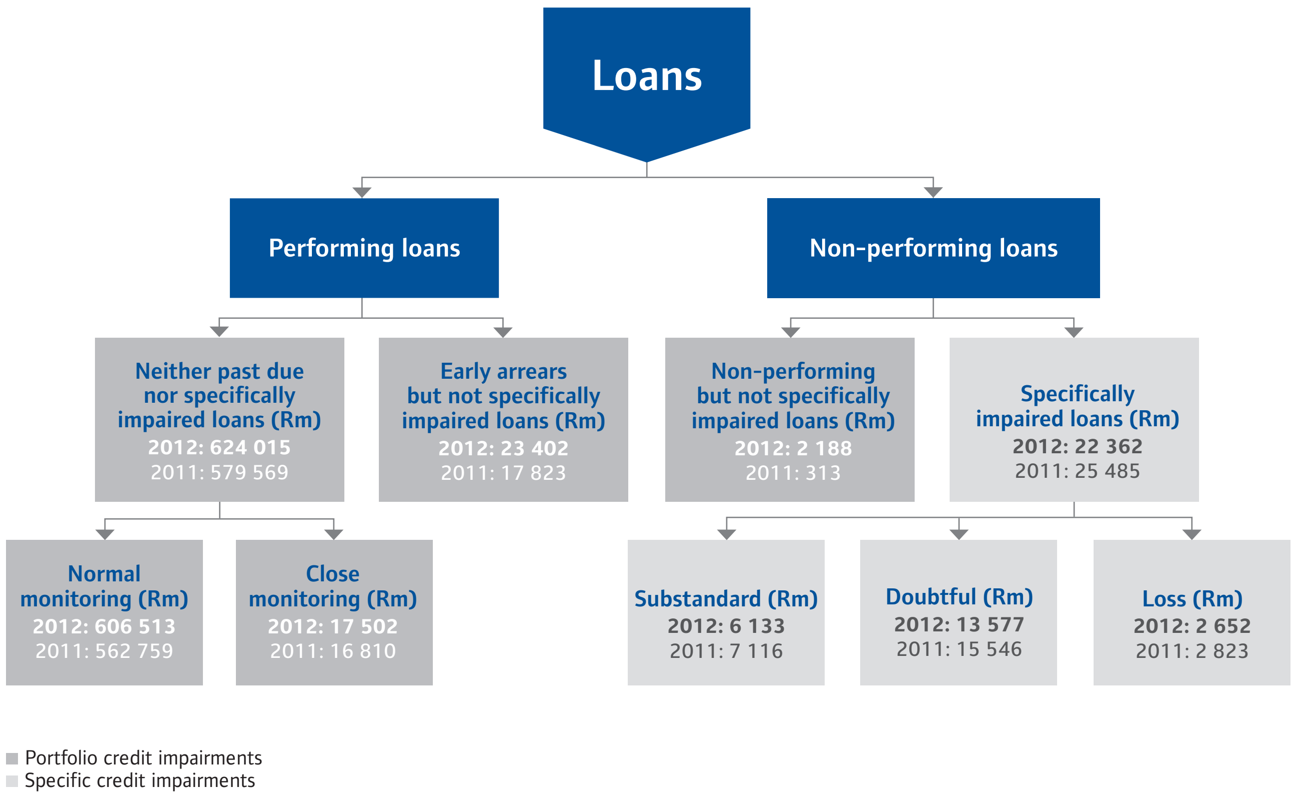
Non-performing loans are those loans for which:

- 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 the recoverability of discontinued 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.
- 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.



Risk and capital management continued

Credit risk continued

IFRS: Maximum exposure to credit risk by credit quality

Audited

	Gross advances total Rm	Performing loans: Neither past due nor specifically impaired — Normal monitoring Rm	Close monitoring Rm	Not specifically impaired — Early arrears Rm	Non-performing Rm
2012					
Personal & Business Banking	**435 434**	**373 561**	**17 502**	**23 397**	
Mortgage loans	288 701	246 369	11 401	15 549	
Instalment sale and finance leases	56 389	51 610	1 230	2 230	
Card debtors	23 604	19 484	2 721	529	
Other loans and advances	66 740	56 098	2 150	5 089	
Personal unsecured lending	29 660	23 906	558	3 310	
Business lending and other	37 080	32 192	1 592	1 779	
Corporate & Investment Banking	**239 161**	**235 580**		**5**	**2 188**
Corporate loans	201 197	198 573			1 991
Commercial property finance	37 964	37 007		5	197
Other services	**(2 628)**	**(2 628)**			
Gross loans and advances	**671 967**	**606 513**	**17 502**	**23 402**	**2 188**
Less:					
Impairments for loans and advances	(12 467)				
Net loans and advances	**659 500**				
Add the following other credit exposures:					
Cash and balances with central banks	25 926				
Derivatives	78 844				
Financial investments	76 679				
Trading assets	35 685				
Pledged assets	5 706				
Other financial assets	17 007				
Interest in financial instruments of group companies	55 670				
Total on-balance sheet exposure	**955 017**				
Off-balance sheet exposures					
Letters of credit and bankers' acceptances	7 843				
Guarantees	37 347				
Irrevocable unutilised facilities	91 666				
Commodities and securities lending transactions	4 511				
Total exposure to credit risk	**1 096 384**				

During December 2012, SBSA acquired a number of performing and non-performing loans from Standard Bank Plc, a fellow subsidiary of the Standard Bank Group Limited. For reporting purposes the performing loans have been categorised in this table in the same manner as it would have been classified by Standard Bank Plc. The non-performing loans have been classified and included as non-performing but not specifically impaired loans based on the non-performing status of the underlying loans acquired. The non-performing loans were acquired at fair value and hence no specific impairments are held against these loans at acquisition.

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 %
5 793	12 737	2 444	20 974	13 174	7 800	7 800	37	20 974	4.8
4 863	9 966	553	15 382	11 287	4 095	4 095	27	15 382	5.3
127	597	595	1 319	622	697	697	53	1 319	2.3
157	230	483	870	310	560	560	64	870	3.7
646	1 944	813	3 403	955	2 448	2 448	72	3 403	5.1
341	1 154	391	1 886	456	1 430	1 430	76	1 886	6.4
305	790	422	1 517	499	1 018	1 018	67	1 517	4.1
340	840	208	1 388	997	391	391	28	3 576	1.5
16	594	23	633	422	211	211	33	2 624	1.3
324	246	185	755	575	180	180	24	952	2.5
				(2)	2	2			
6 133	13 577	2 652	22 362	14 169	8 193	8 193	37	24 550	3.7

Risk and capital management continued

Credit risk continued

IFRS: Maximum exposure to credit risk by credit quality continued

Audited

		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 Rm	
2011						
Personal & Business Banking	397 500	338 702	16 775	17 642		
Mortgage loans	276 909	233 564	12 392	12 011		
Instalment sale and finance leases	48 154	43 656	982	1 902		
Card debtors	20 026	16 792	1 935	179		
Other loans and advances	52 411	44 690	1 466	3 550		
Personal unsecured lending	19 174	15 652	522	1 819		
Business lending and other	33 237	29 038	944	1 731		
Corporate & Investment Banking	227 309	225 676	35	181	313	
Corporate loans	189 534	188 934			49	
Commercial property finance[1]	37 775	36 742	35	181	264	
Other services	(1 619)	(1 619)				
Gross loans and advances	623 190	562 759	16 810	17 823	313	
Less:						
Impairments for loans and advances	(12 025)					
Net loans and advances	611 165					
Add the following other credit exposures:						
Cash and balances with central banks	20 865					
Derivatives assets	93 422					
Financial investments	79 809					
Trading assets	24 626					
Pledged assets	3 737					
Other financial assets	5 897					
Interest in financial instruments of group companies	59 330					
Total on-balance sheet exposure	898 851					
Off-balance sheet exposures						
Letters of credit and bankers' acceptances	7 307					
Guarantees	30 342					
Irrevocable unutilised facilities	67 641					
Commodities and securities lending transactions	9 012					
Total exposure to credit risk	1 013 153					

[1] Restated, refer to page 113.

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 %
6 946	14 644	2 791	24 381	17 119	7 262	7 262	30	24 381	6.1
6 269	12 138	535	18 942	15 291	3 651	3 651	19	18 942	6.8
82	599	933	1 614	699	915	915	57	1 614	3.4
136	227	757	1 120	312	808	808	72	1 120	5.6
459	1 680	566	2 705	817	1 888	1 888	70	2 705	5.2
147	848	186	1 181	284	897	897	76	1 181	6.2
312	832	380	1 524	533	991	991	65	1 524	4.6
170	902	32	1 104	835	269	269	24	1 417	0.6
4	525	22	551	404	147	147	27	600	0.3
166	377	10	553	431	122	122	22	817	2.2
7 116	15 546	2 823	25 485	17 954	7 531	7 531	30	25 798	4.1

Risk and capital management continued

Credit risk continued

IFRS: Ageing of loans and advances past due but not specifically impaired

Audited

	Less than 31 days Rm	31 – 60 days Rm	61 – 90 days Rm	Total Rm
2012				
Personal & Business Banking	**15 178**	**5 270**	**2 949**	**23 397**
Mortgage loans	**9 525**	**3 880**	**2 144**	**15 549**
Instalment sale and finance leases	**1 691**	**431**	**108**	**2 230**
Card debtors		**322**	**207**	**529**
Other loans and advances	**3 962**	**637**	**490**	**5 089**
Personal unsecured lending	**2 404**	**500**	**406**	**3 310**
Business lending and other	**1 558**	**137**	**84**	**1 779**
Corporate & Investment Banking[1]	**5**			**5**
Total	**15 183**	**5 270**	**2 949**	**23 402**
2011				
Personal & Business Banking	12 131	3 545	1 966	17 642
Mortgage loans	7 665	2 724	1 622	12 011
Instalment sale and finance leases	1 457	338	107	1 902
Card debtors		121	58	179
Other loans and advances	3 009	362	179	3 550
Personal unsecured lending	1 419	252	148	1 819
Business lending and other	1 590	110	31	1 731
Corporate & Investment Banking[1]	87	91	3	181
Total	12 218	3 636	1 969	17 823

[1] Relates to exposures from commercial property finance.

IFRS: Renegotiated loans and advances

Renegotiated loans and advances are exposures which have been refinanced, rescheduled, rolled over or otherwise modified following weaknesses in the counterparty's financial position, and where it has been judged that normal repayment will likely continue after the restructure. Loans renegotiated in 2012 that would otherwise be past due or impaired comprised R4,7 billion (2011: R4,5 billion). Renegotiated loans that have arisen from secured lending predominantly comprise mortgage loans amounting to 71% (2011: 84%) of this amount. Prior year amounts have been restated, refer to page 113.

IFRS: Collateral

Audited

The table on the following page 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.

Audited

Collateral includes:

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

Netting agreements, which do not qualify for offset under IFRS 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, 63% (2011: 65%) is fully collateralised. The R847 million (2011: R897 million) of retail accounts that lie within the 0% 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 90% (2011: 91%).

Of the group's total exposure, 34% (2011: 41%) is unsecured and mainly reflects exposures to well-rated corporate counterparties, bank counterparties and sovereign entities.

IFRS: Collateral

	Total exposure Rm	Unsecured Rm	Secured exposure Rm	Netting agreements Rm	Secured exposure after netting Rm	Collateral coverage Greater than 0% to 50% Rm	Collateral coverage Greater than 5% to 100% Rm	Collateral coverage Greater than 100% Rm
2012								
Corporate	373 040	159 091	213 949	15 055	198 894	65 804	112 353	20 737
Sovereign	81 834	76 644	5 190	986	4 204	545	2 120	1 539
Bank	128 041	36 260	91 781	50 036	41 745	21 213	14 533	5 999
Retail	411 179	64 491	346 688		346 688	847	87 925	257 916
Retail mortgage	290 477		290 477		290 477	847	31 714	257 916
Other retail	120 702	64 491	56 211		56 211		56 211	
Total	994 094	336 486	657 608	66 077	591 531	88 409	216 931	286 191

Add: Financial assets not exposed to credit risk	59 087
Add: Interest in financial instruments of group companies	55 670
Less: Impairments for loans and advances	(12 467)
Less: Unrecognised off-balance sheet items	(141 367)
Total exposure	955 017
Reconciliation to balance sheet	
Cash and balances with central banks	25 926
Derivative assets	78 844
Trading assets	35 685
Pledged assets	5 706
Financial investments	76 679
Loans and advances	659 500
Other financial assets	17 007
Interest in financial instruments of group companies	55 670
Total exposure	955 017

Audited

Risk and capital management continued

Credit risk continued

IFRS: Collateral continued

Audited

	Total exposure Rm	Unsecured Rm	Secured exposure Rm	Netting agreements Rm	Secured exposure after netting Rm	Collateral coverage: Greater than 0% to 50% Rm	Collateral coverage: Greater than 50% to 100% Rm	Collateral coverage: Greater than 100% Rm
2011								
Corporate	278 314	146 929	131 385	5 091	126 294	30 425	46 305	49 564
Sovereign	81 822	79 997	1 825	170	1 655	590	1 060	5
Bank	198 393	104 060	94 333	62 987	31 346	25 980	72	5 294
Retail	380 708	54 666	326 042		326 042	897	79 133	246 012
Retail mortgage[1]	278 744		278 744		278 744	897	31 835	246 012
Other retail	101 964	54 666	47 298		47 298		47 298	
Total[1]	939 237	385 652	553 585	68 248	485 337	57 892	126 570	300 875

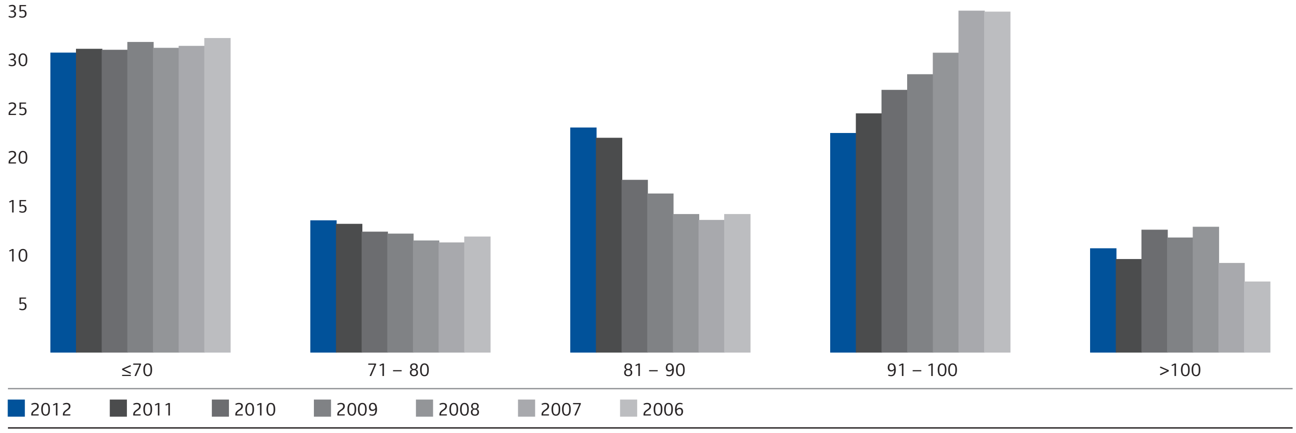
Add: Financial assets not exposed to credit risk	26 611
Add: Interest in financial instruments of group companies	59 330
Less: Impairments for loans and advances	(12 025)
Less: Unrecognised off-balance sheet items	(114 302)
Total exposure	898 851
Reconciliation to balance sheet	
Cash and balances with central banks	20 865
Derivative assets	93 422
Trading assets	24 626
Pledged assets	3 737
Financial investments	79 809
Loans and advances	611 165
Other financial assets	5 897
Interest in financial instruments of group companies	59 330
Total exposure	898 851

[1] Restated. Refer to page 113.

Analysis of the group's residential mortgage portfolio balance-to-value ratios

The balance-to-value (BTV) ratios of the group's residential mortgage loans portfolio are set out in the graphs below. The distributions are based on the loan balance as a function of the property value as at 31 December 2012.

Loan balance to initial property value (% of total book)



The positive decreasing trend in the 91 – 100% BTV band and corresponding increasing trend in the 81-90% BTV band is due to new business, which is being originated in the 81 – 90% band. The BTV is based on property valuation as at initial origination and does not consider the latest valuation. As a result, further advances have contributed to the marginal increase in the >100% BTV band.

Country 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 their 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. Transfer and convertibility risk is an important element of cross-border country risk. Examples of transfer and convertibility events are exchange controls and foreign debt moratoria.

The management of country risk is delegated by the GRCMC to GROC and then 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 managed 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 country risk grade (CR) rating scale, from CR1 to CR25. All countries to which the group is exposed are reviewed at least annually. In determining the ratings, extensive use is made of the group's network of operations, country visits and external information sources. The country risk function also rates sovereigns. Credit loan conditions and covenants are linked to country risk events.

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.

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

- political and commercial risk insurance
- co-financing with multilateral institutions
- structures to mitigate transferability and convertibility risk such as collection, collateral and margining deposits outside the jurisdiction in question.

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.

Liquidity risk

Introduction

The nature of banking and trading gives rise to continuous exposure to liquidity risk. The group's liquidity risk management framework is designed to measure and manage liquidity positions across both the corporate and retail sectors to ensure that payment obligations can be met by the group's legal entities, 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 market prices 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 group's daily operations or financial condition.

Basel III liquidity impact

From 2015, the group will be required to comply with the liquidity coverage ratio (LCR), a metric designed by the Basel Committee on Banking Supervision (BCBS) to measure a bank's ability to manage a sustained outflow of customer funds over the course of 30 days. The ratio is 'high quality liquid assets divided by net cash outflows' and a bank is expected to achieve a result of greater than 100% once LCR is fully implemented. The BCBS has outlined a staged approach towards implementation of LCR from 2015 to 2019.

From 2018, the group will also be required to comply with the net stable funding ratio (NSFR), a metric designed by the BCBS to ensure that the majority of term assets are funded by stable sources, such as capital, term borrowings or funds from stable sources such as operational and retail customers.

The group continues to take several steps to ensure compliance with the two liquidity metrics (namely the LCR and NSFR) within the Basel III specified timelines. Liquid asset buffers have been increased and liability products developed to reduce net cash outflows, where possible, to address the LCR requirement.

In May 2012, the SARB approved the provision of a committed liquidity facility available to banks to meet the LCR in terms of the Basel III liquidity framework. Recent updates to the LCR framework issued by Basel mean that the requirement for this facility will likely be later than originally envisaged.

Risk and capital management continued

Liquidity risk continued

The group continues to promote product development and initiatives that will extend the group's funding base and ensure compliance with the NSFR and awaits finalisation of that requirement.

Banks are required to submit semi-annual quantitative impact study reports to the Basel secretariat under the Basel liquidity framework which will continue through 2013.

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. The group has an asset and liability committee (ALCO) responsible for ensuring compliance with liquidity risk policies.

Liquidity and funding management

The group manages liquidity in accordance with applicable regulations within the group's risk appetite for liquidity risk.

As part of a comprehensive liquidity management process, the group distinguishes between tactical, structural and contingent liquidity risk. These three risk management categories are governed by a comprehensive internal governance framework to identify, measure and manage exposure to liquidity risk. 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 repurchase shortage levels
- monitor daily cash flow requirements
- manage short-term cash flows
- manage daily foreign currency liquidity
- set deposit rates in accordance with structural and contingent liquidity requirements as informed by the ALCO.

Structural (long-term) liquidity risk management:

- ensure a structurally sound balance sheet
- identify and manage structural liquidity mismatches
- determine and apply behavioural profiling
- manage long-term cash flows
- preserve a diversified funding base
- inform term funding requirements
- assess foreign currency liquidity exposures
- establish liquidity risk appetite
- ensure appropriate transfer pricing of liquidity costs.

Contingency liquidity risk management:

- monitor and manage early warning liquidity indicators
- establish and maintain contingency funding plans
- undertake regular liquidity stress testing and scenario analysis
- convene liquidity crisis management committees, if needed
- set liquidity buffer levels in accordance with anticipated stress events
- advise diversification of liquidity buffer portfolios.

Tools used to manage liquidity across all risk management categories:

- liquidity ratios
- market ratios.

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 quarterly 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 assessed for each legal entity and is derived from projected net asset growth which includes consideration of PBB and CIB asset growth, 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, tenor 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

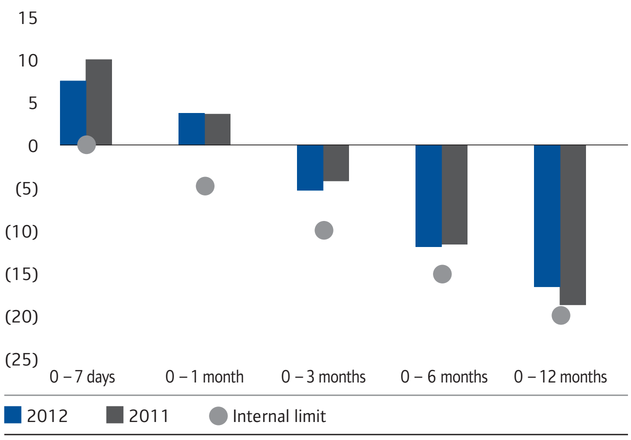
With actual cash flows typically varying significantly from the contractual position, behavioural profiling is applied to assets, liabilities and off-balance sheet commitments with an indeterminable maturity or drawdown period, as well as to certain liquid assets. Behavioural profiling assigns probable 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 behaviourally adjusted cumulative liquidity mismatch remains within the group's liquidity risk appetite.

In order to ensure ongoing compliance with statutory and internal risk management guidelines, certain short-term assets are profiled as long dated.

Behaviourally adjusted cumulative liquidity mismatch (%)



Audited

Maturity analysis of financial liabilities by contractual maturity

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

Derivative liabilities are included in the maturity analysis on a contractual, undiscounted basis when contractual maturities are essential for an understanding of the derivatives' future cash flows. Management 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.

Risk and capital management continued

Liquidity risk continued

Maturity analysis of financial liabilities by contractual maturity

Audited

	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
2012						
Financial liabilities						
Derivative financial instruments	81 743		12	14	63	81 832
Instruments settled on a net basis	64 783		15	16	69	64 883
Instruments settled on a gross basis	16 960		(3)	(2)	(6)	16 949
Trading liabilities	15 953					15 953
Deposit and current accounts	362 508	59 146	122 680	53 012	147 884	745 230
Subordinated debt			3 578	322	21 452	25 352
Other		13 552				13 552
Total	460 204	72 698	126 270	53 348	169 399	881 919
Off-balance sheet liabilities						
Letters of credit and bankers' acceptances	7 843					7 843
Guarantees	37 347					37 347
Irrevocable unutilised facilities	91 666					91 666
Commodities and securities borrowing transactions	5 849					5 849
Total	142 705					142 705
2011						
Financial liabilities						
Derivative financial instruments	98 728		12	12	33	98 785
Instruments settled on a net basis	68 987		12	12	25	69 036
Instruments settled on a gross basis	29 741				8	29 749
Trading liabilities	13 581					13 581
Deposit and current accounts	337 499	63 207	120 708	68 311	132 770	722 495
Subordinated debt			520	3 620	15 558	19 698
Other		10 896				10 896
Total	449 808	74 103	121 240	71 943	148 361	865 455
Off-balance sheet liabilities						
Letters of credit and bankers' acceptances	7 307					7 307
Guarantees	30 342					30 342
Irrevocable unutilised facilities	67 641					67 641
Commodities and securities borrowing transactions	5 275					5 275
Total	110 565					110 565

Refer to the annual financial statements for the contractual discounted maturities of financial assets and liabilities.

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 – South Africa

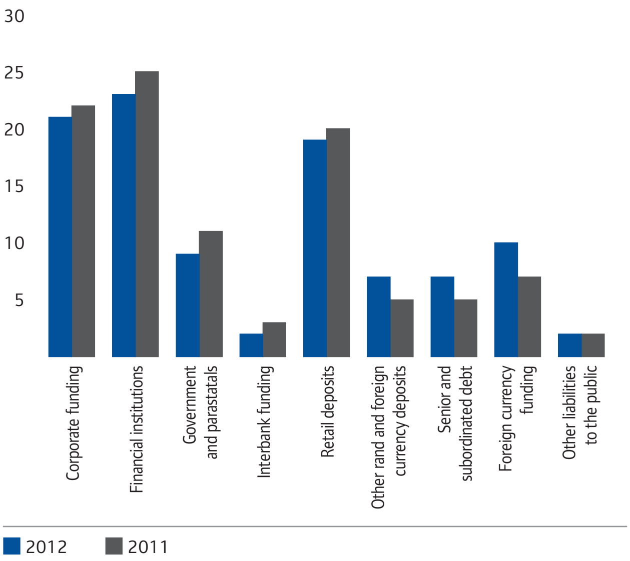
	2012 %	2011[1] %
Single depositor	**2.1**	3.2
Top 10 depositors	**10.3**	11.8

[1] Restated, refer to page 113.

Funding-related liabilities composition

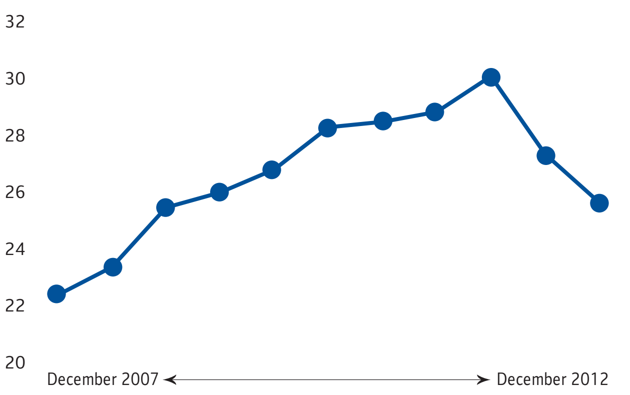
	2012 Rbn	2011[1] Rbn
Corporate funding	**166**	158
Financial institutions	**178**	182
Government and parastatals	**73**	76
Interbank funding	**13**	21
Retail deposits	**151**	139
Other rand and foreign currency deposits	**51**	38
Senior and subordinated debt	**55**	38
Foreign currency funding	**76**	51
Other liabilities to the public	**16**	11
Total funding-related liabilities	**779**	714

Funding-related liabilities composition (%)



A component of the funding strategy is to ensure sufficient contractual term funding is raised in support of term lending and to ensure adherence to the structural mismatch limits and guidelines. The long-term funding ratio is defined as those funding-related liabilities with a remaining maturity of greater than six months as a percentage of total funding-related liabilities. This definition is derived from the SARB filings in the South African market, not to be confused with NSFR which is greater than one year. The graph below illustrates the group's long-term funding ratio for the period 31 December 2007 to 31 December 2012. The group's long-term funding ratio was 25.6% (2011: 30.1%).

Long-term funding ratio (%)



Risk and capital management continued

Liquidity risk continued

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 management actions and operations, heightened and supplementary information requirements as well as various management actions available to address the crisis event. Detailed work around the contingency funding plans was completed and will continue in 2013 under the recovery plan required to be submitted by the board to the SARB.

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 group's funding profiles and liquidity positions. 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. From January 2013, the SARB returns will include measurement over a three-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 roll over. 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 plans to provide assurance as to the group's ability to maintain sufficient liquidity under adverse conditions. The results also inform target liquidity buffer positions. The bank's internal stress tests continue to be updated to align with pending Basel III requirements and also reflect new reporting requirements and annual review amendments.

Audited

Liquidity buffer

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

The table below provides a breakdown of the group's liquid marketable securities and foreign currency placements as at 31 December 2012 compared to the 31 December 2011 closing position. These portfolios are highly liquid and can be readily sold to meet liquidity requirements.

Total liquidity

	2012 Rbn	2011 Rbn
Total marketable assets	**72,4**	71,2
Other readily accessible liquidity	**3,4**	4,2
Total liquidity (in excess of prudential requirements)	**75,8**	75,4
Prudential requirements	**31,8**	31,4
Total liquidity	**107,6**	106,8

In addition to minimum requirements, total contingent liquidity holdings are informed by the results from liquidity stress testing as per Basel principles. Total liquidity (in excess of prudential requirements) increased to R75,8 billion as at 31 December 2012 (2011: R75,4 billion). The total amount of liquidity held remains adequate to meet all internal stress tests as well as various legal entity and group regulatory and prudential 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 SBG's significant banking subsidiaries can be found on the website, www.standardbank.com

The following table provides a summary of the major credit ratings.

Credit ratings

Long term	Fitch
Foreign currency issuer default rating	**BBB**
RSA sovereign ratings: foreign currency	**BBB**

	Moody's
Foreign currency deposit rating	**Baa1**
RSA sovereign ratings: foreign currency	**Baa1**

Credit ratings for the group are dependent on multiple factors including the sovereign rating, 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 result of collateralisation or termination event are generally conceded only to highly rated counterparties and, almost always, 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.

A reduction in these ratings could have an adverse effect on the group's access to liquidity sources and funding costs, may 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 and early termination associated with certain structured deposits.

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 R417 million (2011: R373 million). A two and three notch rating downgrade will reduce such thresholds by a further R159 million and R21 million respectively.

Conduits

The group provides standby liquidity facilities to two conduits, namely Blue Titanium Conduit and Thekwini Warehouse Conduit. These facilities, which totalled R7,6 billion as at 31 December 2012 (2011: R8,3 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.

Market risk

Introduction

The group's **key market risks** are categorised as follows:

- **Market risk in the trading book:** These risks result from the trading activities of the group where the primary focus is client facilitation in chosen markets. All trading activities are carried out within the group's CIB 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 book assets and liabilities. They include endowment risk associated with a downturn in the economic cycle, 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 and foreign-denominated cash exposures and accruals.

Organisational structure and governance

GROC and the board review and set the market risk governance standard annually in accordance with the group's stated risk appetite.

The market risk functions embedded in the business lines are independent of trading operations and accountable to ALCO. 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. All VaR limits require prior approval from ALCO. The central market risk function is accountable to ALCO.

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

Trading book market risk management

Measurement

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

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

Audited

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 level of 95%. The historical VaR results are calculated in four steps:

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

VaR models have been approved by the regulators for all South African trading units except for the structured product desk and specific risk on interest rates. Where the group has received internal model approval, a VaR using a confidence level of 99% and a 10-day holding period for both recent market conditions and a stress period is used to determine market risk regulatory capital.

Limitations of historical VaR are acknowledged globally and 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.

The Basel consultative paper on 'Fundamental trading book review' proposes further changes to counteract these limitations in addition to regulatory stress VaR which was implemented at the beginning of 2012.

Stop-loss triggers

Stop-loss triggers are used to protect the profitability of the global markets trading desks, and refer to cumulative or daily trading losses that prompt a review or close-out of positions in the trading book. These are monitored by market risk on a daily basis.

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 the year ended 31 December 2012 were within the stress loss scenarios.

Backtesting

The group backtests 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.

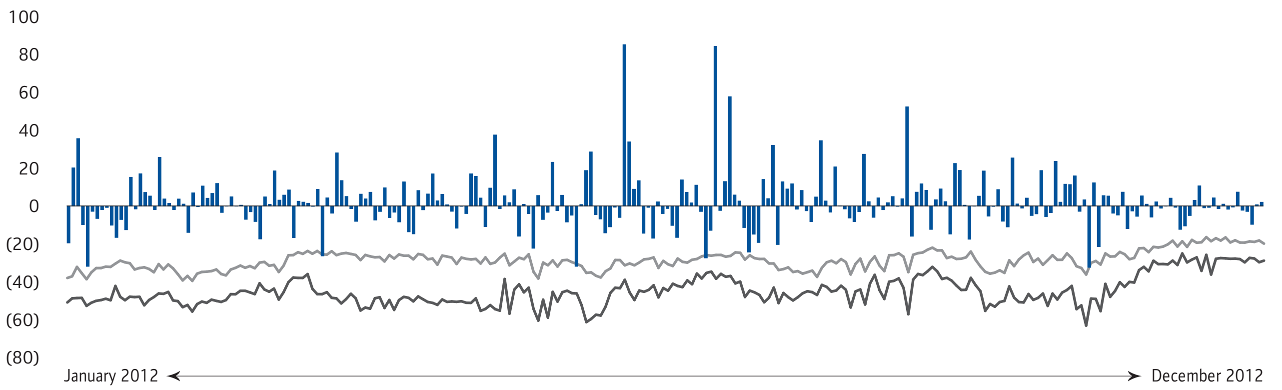
In this manner, characteristics of the VaR model are captured to ensure the accuracy of the VaR measurement and the effectiveness of hedges and risk-mitigation instruments, again within the limitations previously referred to. Regulators categorise a VaR model as green, amber or red and assign regulatory capital multipliers based on this categorisation.

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 the year ended 31 December 2012.

Risk and capital management continued

Market risk continued

Hypothetical income and VaR (Rm)



Specific business unit and product controls

Other market risk controls specific to individual business units include permissible instruments, concentration of exposures, gap limits, maximum tenor, stop loss triggers, price validation and balance sheet substantiation. In addition, only approved products that can be independently priced and properly processed are permitted to be traded.

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

Audited

VaR for the period under review

Trading book market risk exposures arise mainly from residual exposures from client transactions with limited trading for the group's own account. The table below shows the aggregated historical VaR for the group's trading positions by market variable. The maximum and minimum VaR amounts show the bands in which the values at risk fluctuated during the periods specified.

In general, the group's trading desks have run low levels of market risk throughout the year ended 31 December 2012, with average VaR being largely unchanged.

Trading book VaR analysis by market variable

Audited

	Normal VaR			
	Maximum[1] Rm	Minimum[1] Rm	Average Rm	Closing Rm
2012				
Commodities	**35,3**	**11,6**	**22,6**	**13,8**
Forex	**13,2**	**3,3**	**6,3**	**9,6**
Equities	**28,0**	**9,7**	**16,7**	**11,8**
Debt securities	**2,9**	**0,4**	**2,0**	**1,8**
Diversification benefit[2]			**(18,7)**	**(17,0)**
Aggregate	**42,0**	**16,6**	**29,0**	**20,0**
2011				
Commodities	4,8	0,8	1,9	1,4
Forex	11,2	1,9	4,7	4,8
Equities	24,9	8,2	15,7	20,3
Debt securities	45,2	11,0	18,9	24,0
Diversification benefit[2]			(15,6)	(14,6)
Aggregate	44,0	15,6	25,6	35,9

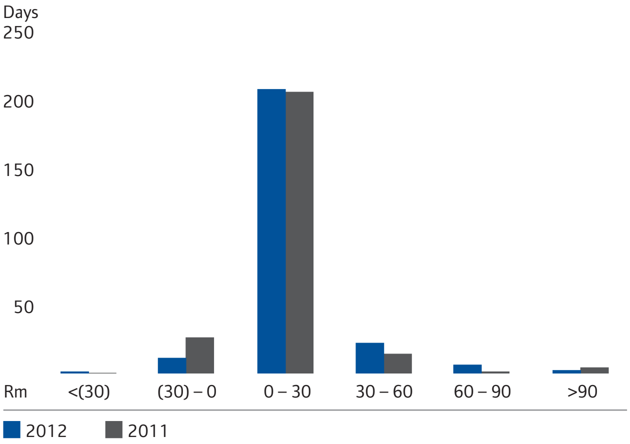
[1] The maximum and minimum VaR figures reported for each market variable do not necessarily occur on the same day. As a result, the aggregate VaR will not equal the sum of the individual market VaR values, and it is inappropriate to ascribe a diversification effect to VaR when these values may occur 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 for 2012 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 the year ended 31 December 2012, trading profit was positive for 238 out of 250 days (2011: 225 out of 251 days).

Distribution of daily trading profit or loss of trading units
(frequency days)



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 banking book earnings (net interest income and banking book mark-to-market profit or loss) 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 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 ALCO.

Interest rate risk measurement

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

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

Interest rate risk limits

Interest rate risk limits are set with respect to changes in forecast banking book earnings (net interest income and banking book mark-to-market profit or loss) 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 behavioural profiling (obtained through statistical analysis and, if required, expert judgement).

The interest rate sensitivity gap is lower in 2012 when compared to 2011. This implies that 2012 is less asset sensitive, however the 2012 balance sheet is more asset sensitive than the prior year, partially due to the lower rand interest rate environment causing an increase of the endowment base.

Interest rate sensitivity gap

		0 – 3 months	3 – 6 months	6 – 12 months	> 12 months
2012					
Interest rate sensitivity gap	Rm	**25 238**	**4 522**	**1 525**	**(31 285)**
Cumulative interest rate sensitivity gap	Rm	**25 238**	**29 760**	**31 285**	
Cumulative interest rate sensitivity gap as a percentage of total assets	%	**2.6**	**3.1**	**3.2**	
2011					
Interest rate sensitivity gap	Rm	20 627	12 271	5 669	(38 567)
Cumulative interest rate sensitivity gap	Rm	20 627	32 898	38 567	
Cumulative interest rate sensitivity gap as a percentage of total assets	%	2.2	3.6	4.2	

Risk and capital management continued

Market risk continued

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 liquid instruments in each legal entity's market. Depending on each market, eligible instruments include fixed rate bonds, fixed rate loans and derivative instruments such as swaps and interest rate swaptions. The interest rate view is formulated at ALCO following meetings of the monetary policy committee, or notable market developments.

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

Audited

Analysis of banking book interest rate sensitivity

The table below indicates the rand equivalent sensitivity of the group's banking book earnings (net interest income and banking book mark-to-market profit or loss) and other comprehensive income (OCI) in response to a parallel yield curve shock, before tax. Hedging transactions are taken into account while other variables are kept constant.

Assuming no management intervention, a downward 100 basis 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 2012 by R2,4 billion (2011: R1,7 billion).

Interest rate sensitivity analysis

Audited

		ZAR	USD	Euro	Other	Total
2012						
Increase in basis points		**200**	**100**	**100**	**100**	
Sensitivity of annual net interest income	Rm	**2 148**	**18**	**(16)**		**2 150**
Sensitivity of OCI	Rm	**34**	**41**		**(36)**	**39**
Decrease in basis points		**200**	**100**	**100**	**100**	
Sensitivity of annual net interest income	Rm	**(2 376)**	**(18)**	**16**		**(2 378)**
Sensitivity of OCI	Rm	**(52)**	**(41)**		**36**	**(57)**
2011						
Increase in basis points		200	100	100	100	
Sensitivity of annual net interest income	Rm	1 482				1 482
Sensitivity of OCI	Rm	115	(12)			103
Decrease in basis points		200	100	100	100	
Sensitivity of annual net interest income	Rm	(1 688)				(1 688)
Sensitivity of OCI	Rm	(115)	12			(103)

Audited

Equity investments

The equity risk committee 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.

Equity price risk sensitivity analysis

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

Market risk sensitivity of non-trading equity investments

	10% reduction Rm	Fair value Rm	10% increase Rm
2012			
Equity securities listed and unlisted	**2 445**	**2 717**	**2 989**
Impact on profit or loss	**(266)**		**266**
Impact on OCI	**(6)**		**6**
2011			
Equity securities listed and unlisted	2 817	3 130	3 443
Impact on profit or loss	(303)		303
Impact on OCI	(10)		10

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.

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, intragroup foreign-denominated debt, foreign-denominated cash exposures and foreign-denominated accruals.

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. 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 translation risk arising from consolidation of the group's foreign 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 OCI, with all other gains and losses on derivatives being reported in profit or loss.

Risk and capital management continued

Market risk continued

Audited

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 on page 100.

As indicated below, the impact of a 5% depreciation in foreign currency rates on the OCI and/or profit or loss of the group before tax is R6 million (2011: immaterial). 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
2012							
Sensitivity	%	**5**	**5**	**5**	**5**	**5**	**5**
Total net long position	Rm	**53**	**38**	**15**	**3**	**9**	**118**
Impact on profit or loss	Rm	**3**	**2**	**1**			**6**
2011							
Sensitivity	%	5	5	5	5	5	5
Total net long position[1]	Rm	2	8	8			18

[1] The total net long positions do not have a material impact on equity or profit or loss.

Operational risk

Introduction

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 line with general market convention, excluded from the definition of operational risk.

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 requirements for managing operational risk through the group operational risk governance standard. These requirements have been fully implemented and embedded across the group.

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 its business activities and critical processes to identify the key operational risks to which it is exposed, and assess the adequacy and effectiveness of its controls. For any area where management concludes that the level of residual risk is beyond an acceptable level, it is 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 impacts 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.

Risk and capital management continued

Operational risk continued

All incidents relating to the group are consolidated within a central group database, which is also integrated with risk and control self-assessments and indicators.

- **External data:** The group analyses external industry incidents and loss data through a combination of publicly available data and the confidential loss data available through our membership of the Operational Riskdata eXchange Association since 2011. This enhances the identification and assessment of risk exposures and provides additional data for scenario analysis purposes.
- **Scenarios:** 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. Scenarios are used for capital estimation purposes by the group.
- **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 functions. 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 groupwide operational risk policies and methodologies.
- In addition to the operational risk management function, there are individual focus areas on particular aspects of operational risk, including:
  - Specialist functions that are responsible for oversight of specific components of operational risk including compliance, legal, financial crime, information security and business continuity management.
  - A physical commodities specialist function that is based in Johannesburg, London and Singapore has been established to manage physical commodities transactions executed within the listed Standard Bank 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.
  - An internal financial controls framework has been established to ensure the robust control over balance sheet substantiation and other key financial controls.
  - Within the group's IT and operations functions, there are dedicated areas focused on the day to day management of operations control and IT risk.

Measuring operational risk

The group continues to calculate capital based on the standardised approach in accordance with the SARB approval granted in 2008. Provided that the necessary approval is obtained from the SARB, SBSA will make use of the AMA for regulatory capital purposes.

The group's internal model was used to calculate capital requirements under the AMA 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.

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 management
- financial crime control
- occupational health and safety.

Model risk

The term model refers to a quantitative method, system or approach that applies statistical, economic, financial, or mathematical principles and processes to translate input data into quantitative estimates. The group uses models to measure risk across the various risk types. Examples include credit grading, pricing, valuation and risk appetite metrics.

Model risk is the potential for adverse consequences from measurement, pricing and management decisions based on incorrect or inappropriate use of models. Incorrect or inappropriate use of models may arise from incorrect assumptions, incomplete information, inaccurate implementation and limited model understanding leading to incorrect conclusions by the user.

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

- All new models, both internal and external, are subject to validation and independent review in which the various components of a model and its overall functioning are evaluated to determine whether the model is performing as intended.
- The three lines of defence governance model is adopted, being model development, independent model validation and internal audit oversight functions.
- Appropriateness and fit-for-purpose use of models in technical forums is challenged.
- Model validation summaries that highlight model limitations and recommend improvements.
- Implementation of approved models into production systems is controlled.
- Model performance including requirements for an annual review process, is monitored on an ongoing basis.
- Data that is used as model inputs, which includes independent price testing of mark to market positions is reviewed and governed. Where this is not available, industry consensus services are used.
- Governance is achieved through committees with appropriate board and executive management members for material models, and through policies which deal with minimum standards, materiality, validation criteria, approval criteria, roles and responsibilities.
- Auditable, skilled and experienced pool of technically competent staff is maintained.

Taxation risk

In terms of the group tax policy, the group fulfils its responsibilities under tax law in each jurisdiction in which it operates, both in terms of domestic and international taxes with specific reference to transfer pricing principles across jurisdictions, 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 (CGT), 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. The group 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
- 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.

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

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

Risk and capital management continued

Operational risk continued

- copyright loss or contravention risk
- litigation risk
- anti-competitive behaviour risk.

The group has processes and controls in place to manage its legal risk. Failure to manage these 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 including those recommended by Basel. 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 a core risk management activity overseen by the GCCO. The GCCO has unrestricted access to the group chief executive and to the chairman of the GAC, thereby ensuring the function's independence.

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

The compliance structure has both decentralised and centralised components. The decentralised business unit compliance functions are managed by heads of compliance who report to the GCCO. The central function includes sanctions management, monitoring, conflicts control exchange control compliance, as well as central and business unit anti-money laundering and terrorist financing control functions. The regulatory services unit provides regulatory support to business. Our business compliance model includes dedicated compliance support and advisory services to business which is supplemented by training.

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

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
- staff training
- obligations to detect, prevent and report money laundering and terrorist financing.

Group minimum standards are implemented throughout the group. The group also subscribes to the principles of the Financial Action Task Force, an inter-governmental body developing and promoting policies to combat money laundering and terrorist financing, of which South Africa is a member country.

Sanctions management

The group actively manages the legal, regulatory, reputational and operational risks associated with doing business in jurisdictions or with clients that are subject to embargoes and/or sanctions imposed by relevant authorities. The group sanctions review committee supported by a sanctions desk, is responsible for providing advice on all sanctions-related matters in a fluid sanctions regime.

Compliance training

Employees are made aware of their responsibilities in terms of current and emerging legislative and regulatory requirements through ongoing training and awareness initiatives. Employees, including senior management, are made aware of their legislative responsibilities either through e-learning, face-to-face interventions or through targeted awareness campaigns. Training is key to embedding a culture of compliance in the group.

Regulatory change

The group aims to embed regulatory best practice in our operations in a way that balances the interests of various stakeholders, while supporting the long-term stability and growth in the markets where we have a presence.

The group operates in a highly regulated industry across multiple jurisdictions including the need to comply with legislation with extra-territorial reach. The group's regulator is the Bank Supervision Department (BSD) of the SARB. BSD supervises both the group and SBG, the listed entity, on a consolidated basis.

Our regulatory advocacy unit assesses the impact that emerging policy and regulation will have on the business. Our approach to regulatory advocacy is to engage with government policymakers, legislators and regulators in a constructive manner.

The group regulatory and legislative oversight committee enhances regulatory risk management by proactively considering the impacts of regulatory developments on the organisation and a new operating model for managing regulatory change has been developed.

South African financial services supervisory bodies include the South African 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. Regarding TCF, there are various ombuds serving the interests of the public, including the Consumer Commission established under the South African Consumer Protection Act 68 of 2008.

Regulatory developments inform the group's business planning processes. TCF, client confidentiality, and money laundering and terrorist financing control continue to be dominant focus areas.

Environmental and social risk

Environmental and social risk assessment and management deals with two aspects being those over which:

- we do not have control but which have potential to impact on our operations and those of our clients
- we have direct control such as waste management and the use of energy and water.

The group sustainability management unit develops the strategy, policy and management frameworks which enable the identification, management, monitoring and reporting of both of these aspects.

The uncontrolled aspects include threats to the global environment result from changing global climate and its impact on weather patterns, fresh water, infrastructure, economic growth and social resilience. 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. These 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.

All project finance deals will in future be screened for climate change risk and human rights impacts. This is in addition to the more traditional environmental and social risks which include those associated with occupational health and safety, relocation of communities and the impact on livelihoods of individuals.

In relation to the controllable aspects, energy use, water use, waste production and carbon emissions resulting from our operations are recorded within an environmental management system. This is used both for improving efficiency and reporting to key stakeholders. Environmental efficiency targets have been set.

From a governance perspective, the group's material issues are grouped into six broad categories which form the basis of engagement on sustainability issues with the group executive committee and the board. These are:

- sustainable long-term financial performance
- governance, regulation and stakeholder engagement
- sustainable and responsible financial services
- socioeconomic development
- a positive and consistent employee experience
- the environment.

AR **For further information, refer to the discussion on material issues on page 46**

Business continuity management and resilience

Business continuity management is defined as a holistic management process that identifies potential impacts that threaten the group and provides a basis for planning in mitigation to these operational impacts. It further 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 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.

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.

Risk and capital management continued

Operational risk continued

The group is developing an integrated recovery plan in response to the SARB's guidance notes issued in 2012. The integrated recovery plan comprises:

- a capital recovery plan
- a liquidity recovery plan
- a business recovery plan to ensure that core functions, products and services continue to operate in times of financial and operational distress.

In the case of the business recovery plan, the core functions include those which are crucial to the survival of SBSA and those necessary to avoid disruption of the financial system.

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 an information security management system inclusive of an information risk management framework, and promotes information risk management policies and practices across the group.

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.

The following information is discussed in terms of applicable regulations:

- From January 2012 to December 2012, the group has processed 24 (2011: 21) requests for access to information, of which 17 were granted, five denied, one withdrawn and one abandoned.
- The reasons for the denial of access were that the owners of the personal information declined to give consent for access to be given to the requestor and some requests fell outside the jurisdiction of the abovementioned act.

Financial crime control

Financial crime includes fraud, money laundering, violent crime and misconduct by staff, customers, suppliers, business partners, stakeholders and third parties. The group will not condone any instance of financial crime and where these instances arise, the group takes timely and appropriate remedial action.

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

The group's financial crime control unit is mandated by the GAC to provide capabilities which minimise the overall impact of financial crime on the group. This ensures the safety of our people and assets, and builds trust with our stakeholders.

The group's financial crime control function reports to the group head of governance and assurance. This function enables holistic view of the status and landscape of financial crime prevention, detection and response, including emerging threats. The group head of financial crime control has unrestricted access to executives and the chairperson of the GAC, thereby supporting the function's independence.

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. Group policies are being rolled out to all operations and the number of incidents being reported is reducing.

Business risk

Business risk is the risk of loss due to operating revenue not covering operating costs and is usually caused by the following:

- inflexible cost structures
- market-driven pressures, such as decreased demand, increased competition or cost increases
- group-specific causes, such as a poor choice of strategy, reputational damage or the decision to absorb costs or losses to preserve reputation.

It includes strategic risk and post-retirement obligation risk.

Business risk is governed by the group executive committee which is ultimately responsible for managing the costs and revenues of the group.

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

- Extensive due diligence during the investment appraisal process is performed, in particular for new acquisitions.
- New product processes per business line through which the risks and mitigating controls for new and amended products and services are tabled and discussed.
- Stakeholder management ensures favourable outcomes from external factors beyond the group's control.
- The profitability of product lines and customer segments is consistently monitored.
- Tight control is maintained over the group's cost base, 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.
- There is a strong focus in the budgeting process 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 members of management and non-executive board members.

Post-retirement obligation risk

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 operates both defined contribution plans and defined benefit plans, with the majority of its employees participating in defined contribution plans. 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. Refer to note 34 starting on page 198.

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 in a breakdown of trust, confidence or business relationships.

Safeguarding the group's reputation is of paramount importance. Each business line, 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. 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 line 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

Economic capital

The methodology for the calculation of business risk was amended in 2012 to more accurately reflect the underlying risk. The comparative was subsequently restated.

AR **Refer to page 75 for the restatement of economic capital**

Credit risk – IFRS

During the current year, the owner-occupied portion of commercial property finance was moved from CIB to PBB. Credit risk disclosures have been restated to reflect this reclassification between business units.

AR **Refer to page 84 for the restatement of IFRS credit risk tables**

Renegotiated loans

Renegotiated loans and advances have been restated to reflect the consistent application of the group's policy across all portfolios.

AR **Refer to page 86 for the restatement of the renegotiated loans disclosure**

Collateral

The source of CIB collateral data was changed during the year to better align with the group's other pillar 3 disclosures. CIB collateral data is now extracted directly from the group's Basel II and collateral systems, rather than from underlying trading systems.

AR **Refer to page 88 for the restatement of the collateral disclosure**

Depositor concentrations

The 2011 annual report provided the concentration figures solely in respect of the USD deposit book, reflecting the highest concentrations in the SBSA statement of financial position. However, in order to correctly reflect the group's aggregate concentration risk rather than the concentration in the most concentrated book, the group has reverted to using the total statement of financial position figures, represented in ZAR, for reporting purposes. The USD book on concentration at the end of 2012 was 17% amongst the top 10 depositors with a single depositor funding 7.4% (2011: 17% and 4.5% respectively).

AR **Refer to page 95 for the restatement of the depositor concentration disclosure**

Annual financial statements

Contents

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 chief financial officer, Libby King, BAcc (Wits), BCom (Wits), CA (SA). A summary of these results was made publicly available on 7 March 2013.

Directors' responsibility for financial reporting

In accordance with the Companies 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 group and company as at 31 December 2012, 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 and company. 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 and company assets.

Accounting policies supported by judgements, estimates and assumptions in compliance with IFRS are applied on the basis that the group and company 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 and company. Greater detail of these systems and controls, including the operation of the group's internal audit function, is provided in the corporate governance and the risk and capital management sections of this annual 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 and company'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 and company, has occurred during the year and up to the date of this report.

The directors have a reasonable expectation that the group and company will have adequate resources to continue in operational existence and as a going concern in the financial year ahead.

The 2012 annual financial statements which appear on pages 120 to 245 and specified sections of the risk and capital management report contained within pages 64 to 113, were approved by the board of directors on 6 March 2013 and signed on its behalf by:

Fred Phaswana
Chairman
6 March 2013

Sim Tshabalala
Chief executive
6 March 2013

Group secretary's certification

Compliance with the Companies Act 71 of 2008

In terms of the Companies Act and for the year ended 31 December 2012, I certify that The Standard Bank of South Africa Limited has filed all returns and notices required by the Companies Act with the Companies and Intellectual Property Commission and that all such returns and notices are true, correct and up to date.

Zola Stephen
Group secretary
6 March 2013

Report of the audit committee

This report is provided by the audit committee, in respect of the 2012 financial year of The Standard Bank of South Africa Limited, in compliance with section 94 of the Companies 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 Companies Act, the Banks Act and the King Code and is approved by the board of directors (board).

The committee is appointed by the board 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.

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 2012, 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
  - 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 principle 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 group and of the company as at the end of the financial year and the results of operations and cash flows for the financial year and considered the basis on which the group and the company 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
  - over the course of the year, met with the chief audit officer, chief compliance officer, the chief risk officer, the chief credit officer, the head of financial crime control, management and the external auditors
  - reviewed any significant legal and tax matters that could have a material impact on the financial statements
  - 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
- 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 Companies 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
  - reviewed and approved the annual compliance mandate and compliance plan.
- In respect of risk management and IT:
  - considered and reviewed reports from management on risk management, including fraud and IT risks as they pertain to financial reporting and the going concern assessment
  - 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
  - considered the appropriateness of the experience and expertise of the group financial director and concluded that these were appropriate.

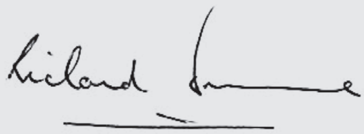
Independence of the external auditors

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
- the criteria specified for independence by the Independent Regulatory Board for Auditors and international regulatory bodies were met.

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

On behalf of the audit committee



Richard Dunne
Chairman, audit committee
6 March 2013

Directors' report

for the year ended 31 December 2012

Nature of business

The Standard Bank of South Africa Limited (SBSA) is a wholly owned subsidiary of Standard Bank Group Limited, a global banking group with African roots. SBSA is the single largest operating entity within the Standard Bank Group (SBG).

SBSA results

AR A general review of the business and operations is provided in the chief executive's review, starting on page 8

AR A financial review of the results of the group for the year is provided on pages 14 to 22

Property and equipment

There was no change in the nature of the fixed assets of SBSA or in the policy regarding their use during the year.

Share capital

Ordinary shares

During 2012, three ordinary shares (2011: two) were issued at a total premium of R7 966 million (2011: R2 000 million).

Directors' and prescribed officers' interest in shares

At the date of this report, no directors and prescribed officers held, directly and/or indirectly, interests in the company's ordinary issued share capital and preference share capital of SBSA.

Equity compensation plans

AR Information on options or rights granted to executive directors under the equity compensation plans is given in annexure F, starting on page 234

Directors' and prescribed officers' emoluments

AR Directors' and prescribed officers' emoluments are disclosed in annexure F, starting on page 234

AR Information relating to the determination of directors' and prescribed officers' emoluments, share incentive allocations and related matters is contained in annexure F, starting on page 234

Shareholder analysis

The company is a wholly owned subsidiary of Standard Bank Group Limited.

Dividends to shareholders

Ordinary shares

On 8 March 2012 a dividend of R3,2 billion was declared to the shareholder recorded at the close of business on 30 March 2012, and paid on 30 March 2012.

On 30 March 2012, a dividend of R1,4 billion was declared to the shareholder recorded at the close of business on 30 March 2012, and paid on 30 March 2012.

On 15 August 2012, a dividend of R98 million was declared to the shareholder recorded at the close of business on 31 August 2012, and paid on 31 August 2012.

On 6 March 2013, a dividend of 1 667 cents per share was declared to the shareholder registered on 2 April 2013, and to be paid on 2 April 2013.

Board of directors

There have been no changes in the directorate since the last annual report.

Group secretary and registered office

The group secretary is Zola Stephen. Zola Stephen was appointed on 1 November 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 company, has a beneficial interest, provided consulting and certain management services to the private equity division of SBSA for a five-year period until 31 December 2004. In terms of the agreement, in future years, he will receive a percentage of the proceeds from the sale of equity-related investments undertaken during the term of the above management services agreement.

AR Further details can be found in the directors' emoluments disclosure in annexure F, starting on page 234

Subsidiaries, associates and joint ventures

AR The interests in subsidiary, associates and joint venture companies, where considered material in the light of the group's financial position and results, are set out in annexure C, on page 226, and annexure D, starting on page 227 respectively

Contracts

Saki Macozoma, a director of the company, has an effective shareholding of 26.62% (2011: 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 2.39% (2011: 2.50%) in Liberty Holdings Limited (Liberty) and 1.34% (2011: 1.40%) in Standard Bank Group Limited. The group has an effective interest of 25.00% (2011: 20.33%) in Safika.

Cyril Ramaphosa, a director of the company, has a 29.63% (2011: 29.63%) shareholding in Shanduka, which is a member of the Tutuwa consortium. Shanduka holds an effective interest of 1.40% (2011: 1.44%) in Liberty and 0.90% (2011: 1.20%) in Standard Bank Group Limited. The group holds an effective interest of 12.90% (2011: 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 insurance committee annually to ensure they are 'fit-for-purpose' against the group's risk exposures.

Independent auditors' report

To the shareholder of The Standard Bank of South Africa Limited

We have audited the consolidated and separate annual financial statements of The Standard Bank of South Africa Limited set out on pages 120 to 245, which comprise the statements of financial position as at 31 December 2012, and the income statements, statements of other comprehensive income, statements of changes in equity and statements of cash flows for the year then ended, and the notes, comprising a summary of significant accounting policies and other explanatory information and specified sections of the risk and capital management report.

Directors' responsibility for the financial statements

The company's directors are responsible for the preparation and fair presentation of these consolidated and separate 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 consolidated and separate financial statements that are free from material misstatements, whether due to fraud or error.

Auditors' responsibility

Our responsibility is to express an opinion on these consolidated and separate 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 consolidated and separate financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the consolidated and separate financial statements present fairly, in all material respects, the consolidated and separate financial position of The Standard Bank of South Africa Limited as at 31 December 2012, and its consolidated and separate financial performance and its 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.

Other reports required by the Companies Act

As part of our audit of the consolidated and separate financial statements for the year ended 31 December 2012, we have read the directors' report, the report of the audit committee and the group secretary's certificate for the purpose of identifying whether there are material inconsistencies between these reports and the audited consolidated and separate financial statements. These reports are the responsibility of the respective preparers. Based on reading these reports we have not identified material inconsistencies between these reports and the audited consolidated and separate financial statements. However, we have not audited these reports and accordingly do not express an opinion on these reports.

KPMG Inc.
Registered Auditor

Per Peter MacDonald
Chartered Accountant (SA)
Registered Auditor
Director
6 March 2013

85 Empire Road
Parktown
2193

PricewaterhouseCoopers Inc.
Registered Auditor

Per Johannes Grosskopf
Chartered Accountant (SA)
Registered Auditor
Director
6 March 2013

2 Eglin Road
Sunninghill
2157

Statements of financial position

as at 31 December 2012

		Group		Company	
	Note	**2012 Rm**	2011 Rm	**2012 Rm**	2011 Rm
Assets					
Cash and balances with central banks	3	**25 926**	20 865	**25 926**	20 865
Derivative assets	4.7	**78 844**	93 422	**78 896**	93 445
Trading assets	5	**35 685**	24 626	**35 496**	24 440
Pledged assets	6.1	**5 706**	3 737	**5 706**	3 737
Non-current asset held for sale	7	**960**		**708**	
Financial investments	8	**76 679**	79 809	**76 690**	79 815
Loans and advances	9.1	**659 500**	611 165	**643 762**	593 597
Current tax asset	10	**191**	170	**191**	170
Deferred tax asset	10	**26**	138	**1**	108
Other assets	11.1	**17 821**	10 759	**16 920**	10 269
Interest in group companies, associates and joint ventures	12	**58 430**	62 099	**64 593**	66 940
Goodwill and other intangible assets	13	**10 350**	6 469	**10 307**	6 433
Property and equipment	14	**8 895**	8 430	**8 760**	8 306
Total assets		**979 013**	921 689	**967 956**	908 125
Equity and liabilities					
Equity		**69 805**	54 847	**68 381**	53 757
Equity attributable to the ordinary shareholder		**69 742**	54 795	**68 381**	53 757
Ordinary share capital	15.2	**60**	60	**60**	60
Ordinary share premium	16	**35 196**	27 230	**35 196**	27 230
Reserves		**34 486**	27 505	**33 125**	26 467
Non-controlling interest		**63**	52		
Liabilities		**909 208**	866 842	**899 575**	854 368
Derivative liabilities	4.7	**81 744**	98 730	**81 744**	98 727
Trading liabilities	17	**15 953**	13 581	**15 953**	13 581
Deposit and current accounts	18	**717 944**	688 062	**706 586**	674 147
Current tax liability	19	**2 940**	972	**2 933**	954
Deferred tax liability	19	**453**	702	**483**	710
Provisions and other liabilities	20.1	**17 573**	13 693	**16 911**	13 253
Subordinated debt	21	**22 400**	16 095	**22 400**	16 095
Liabilities to group companies	12.3	**50 201**	35 007	**52 565**	36 901
Total equity and liabilities		**979 013**	921 689	**967 956**	908 125

Income statements

for the year ended 31 December 2012

	Note	Group 2012 Rm	Group 2011[1] Rm	Company 2012 Rm	Company 2011[1] Rm
Net interest income		**25 249**	21 348	**25 196**	21 268
Interest income	26.1	**55 677**	49 714	**54 975**	48 838
Interest expense	26.2	**30 428**	28 366	**29 779**	27 570
Non-interest revenue		**22 032**	18 804	**21 394**	18 280
Net fee and commission revenue		**16 364**	14 582	**15 561**	13 843
Fee and commission revenue	26.3	**19 483**	17 355	**18 666**	16 601
Fee and commission expense	26.4	**3 119**	2 773	**3 105**	2 758
Trading revenue	26.5	**3 147**	3 220	**3 154**	3 211
Other revenue	26.6	**2 521**	1 002	**2 679**	1 226
Total income		**47 281**	40 152	**46 590**	39 548
Credit impairment charges	26.7	**5 785**	4 623	**5 751**	4 584
Income after credit impairment charges		**41 496**	35 529	**40 839**	34 964
Revenue sharing agreements with group companies	26.8	**1 642**	230	**1 642**	230
Income after revenue sharing agreements		**39 854**	35 299	**39 197**	34 734
Operating expenses		**25 106**	21 904	**24 511**	21 368
Staff costs	26.9	**13 289**	10 789	**13 057**	10 598
Other operating expenses	26.10	**11 817**	11 115	**11 454**	10 770
Net income before goodwill impairment		**14 748**	13 395	**14 686**	13 366
Goodwill impairment	26.11		46		39
Net income before associates and joint ventures		**14 748**	13 349	**14 686**	13 327
Share of profits/(losses) from associates and joint ventures	12.2	**523**	83	**155**	(26)
Net income before indirect taxation		**15 271**	13 432	**14 841**	13 301
Indirect taxation	28.1	**974**	745	**973**	745
Profit before direct taxation		**14 297**	12 687	**13 868**	12 556
Direct taxation	28.2	**2 362**	3 167	**2 266**	3 035
Profit for the year		**11 935**	9 520	**11 602**	9 521
Attributable to non-controlling interest		**11**	10		
Attributable to the ordinary shareholder		**11 924**	9 510	**11 602**	9 521
Basic earnings per ordinary share (cents)	30	**19 874**	15 851	**19 338**	15 869

[1] 2011 reclassified, refer annexure B – reclassifications on page 225.

Statements of other comprehensive income

for the year ended 31 December 2012

	Ordinary shareholder's equity Rm	Non-controlling interest Rm	Total equity Rm
2012			
Group			
Profit for the year	**11 924**	**11**	**11 935**
Other comprehensive (loss)/income after tax for the year[1]	**(251)**		**(251)**
Items that may be reclassified subsequently to profit or loss:			
Exchange differences on translating foreign operations	**40**		**40**
Net change in fair value on cash flow hedges	**159**		**159**
Realised fair value adjustments on cash flow hedges transferred to profit or loss	**(273)**		**(273)**
Net change in fair value of available-for-sale financial assets	**(177)**		**(177)**
Total comprehensive income for the year	**11 673**	**11**	**11 684**
Attributable to non-controlling interest		**11**	**11**
Attributable to the ordinary shareholder	**11 673**		**11 673**
2011			
Group			
Profit for the year	9 510	10	9 520
Other comprehensive income/(loss) after tax for the year[1]	317		317
Items that may be reclassified subsequently to profit or loss:			
Exchange differences on translating foreign operations	154		154
Net change in fair value on cash flow hedges	114		114
Realised fair value adjustments on cash flow hedges transferred to profit or loss	(12)		(12)
Net change in fair value of available-for-sale financial assets	61		61
Total comprehensive income for the year	9 827	10	9 837
Attributable to non-controlling interest		10	10
Attributable to the ordinary shareholder	9 827		9 827
2012			
Company			
Profit for the year	**11 602**		**11 602**
Other comprehensive (loss)/income after tax for the year[1]	**(252)**		**(252)**
Items that may be reclassified subsequently to profit or loss:			
Exchange differences on translating foreign operations	**39**		**39**
Net change in fair value on cash flow hedges	**159**		**159**
Realised fair value adjustments on cash flow hedges transferred to profit or loss	**(273)**		**(273)**
Net change in fair value of available-for-sale financial assets	**(177)**		**(177)**
Total comprehensive income attributable to the ordinary shareholder	**11 350**		**11 350**
2011			
Company			
Profit for the year	9 521		9 521
Other comprehensive income/(loss) after tax for the year[1]	316		316
Items that may be reclassified subsequently to profit or loss:			
Exchange differences on translating foreign operations	153		153
Net change in fair value on cash flow hedges	114		114
Realised fair value adjustments on cash flow hedges transferred to profit or loss	(12)		(12)
Net change in fair value of available-for-sale financial assets	61		61
Total comprehensive income attributable to the ordinary shareholder	9 837		9 837

[1] The income tax relating to each component of OCI is disclosed in note 28.2 starting on page 186.

Statements of cash flows

for the year ended 31 December 2012

	Note	Group 2012 Rm	Group 2011 Rm	Company 2012 Rm	Company 2011 Rm
Net cash flows from operating activities		**1 561**	10 357	**1 538**	10 270
Cash flow used in operations		**(22 289)**	(7 505)	**(22 367)**	(7 622)
Income before share of profit from associates and joint ventures		**14 748**	13 349	**14 686**	13 327
Adjusted for:		**(18 343)**	(16 225)	**(18 308)**	(16 181)
Amortisation and impairment of intangible assets	26.10	**508**	255	**507**	253
Credit impairment charges on loans and advances	26.7	**5 785**	4 623	**5 751**	4 584
Depreciation of property and equipment	26.10	**1 668**	1 442	**1 656**	1 436
Discount element recognised from credit impairment for loans and advances	26.1	**(726)**	(942)	**(713)**	(925)
Dividends included in trading revenue	26.5	**(7)**	(124)	**(7)**	(124)
Equity-settled share-based payments	26.9	**6**	6	**6**	6
Fair value adjustments on dated financial instruments	26.1	**152**	312	**124**	309
Impairments of associates	12.2	**(26)**	59		69
Indirect taxation	28.1	**(974)**	(745)	**(973)**	(745)
Interest expense[1]		**30 428**	28 366	**29 779**	27 570
Interest income[2,3]		**(55 103)**	(49 084)	**(54 385)**	(48 222)
Net movement in post-employment benefits		**(24)**	(271)	**(24)**	(271)
Profit on sale of property and equipment	26.10	**(30)**	(122)	**(29)**	(121)
Increase in income-earning assets	32.1	**(70 046)**	(87 582)	**(72 902)**	(89 791)
Increase in deposits and other liabilities	32.2	**51 352**	82 953	**54 157**	85 023
Dividends received[2]		**1 590**	1 651	**1 529**	1 587
Interest paid		**(30 782)**	(27 901)	**(30 133)**	(27 105)
Interest received[2,3]		**53 521**	47 556	**52 864**	46 759
Direct taxation paid	32.3	**(479)**	(3 444)	**(355)**	(3 349)
Net cash flows used in investing activities		**(6 180)**	(3 907)	**(6 156)**	(3 819)
Capital expenditure on					
– property and equipment	14	**(2 237)**	(2 065)	**(2 121)**	(1 953)
– intangible assets	13	**(4 234)**	(2 192)	**(4 226)**	(2 192)
Proceeds from sales of					
– property and equipment		**234**	263	**140**	259
– intangible assets		**30**	2	**30**	2
Net reduction in investment in associates and joint ventures[2]		**27**	85	**21**	65
Net cash flows used in financing activities		**9 640**	(3 920)	**9 640**	(3 920)
Proceeds from issue of share capital to shareholder	32.4	**7 966**	2 000	**7 966**	2 000
Subordinated debt issued		**9 220**	1 780	**9 220**	1 780
Subordinated debt redeemed		**(2 848)**	(2 000)	**(2 848)**	(2 000)
Dividends paid	32.5	**(4 698)**	(5 700)	**(4 698)**	(5 700)
Effects of exchange rate changes		**40**	154	**39**	153
Net increase in cash and cash equivalents		**5 061**	2 684	**5 061**	2 684
Cash and cash equivalents at the beginning of the year		**20 865**	18 181	**20 865**	18 181
Cash and cash equivalents at the end of the year	3	**25 926**	20 865	**25 926**	20 865

1 2011 group and company restated by R631 million. The non-cash flow movements on bonds were previously disclosed. Due to the fact that this has been removed, the net effect on the statements of cash flows is Rnil.
2 2011 group restated by R20 million. The net effect on the statement of cash flows is Rnil.
3 2011 reclassified, refer to annexure B – reclassifications on page 225.

Statements of changes in equity

for the year ended 31 December 2012

	Note	Ordinary share capital and premium Rm	Foreign currency translation reserve[1] Rm
Group			
Balance at 1 January 2011		25 290	(11)
Total comprehensive income for the year			154
Profit for the year			
Other comprehensive income after tax for the year			154
Transactions with the shareholder, recorded directly in equity		2 000	
Equity-settled share-based payment transactions			
Transfer of vested equity options			
Issue of share capital and share premium	15.2	2 000	
Dividends paid	31		
Balance at 31 December 2011		27 290	143
Balance at 1 January 2012		**27 290**	**143**
Total comprehensive income/(loss) for the year			**40**
Profit for the year			
Other comprehensive income/(loss) after tax for the year			**40**
Transactions with the shareholder, recorded directly in equity		**7 966**	
Equity-settled share-based payment transactions			
Transfer of vested equity options			
Issue of share capital and share premium	15.2	**7 966**	
Dividends paid	31		
Balance at 31 December 2012		**35 256**	**183**

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

[1] Refer to accounting policy 2 – *Foreign currency translations* starting on page 208.
[2] Refer to the cash flow hedges section in accounting policy 4 – *Financial instruments* on page 213.
[3] Refer to the available-for-sale financial assets section in accounting policy 4 – *Financial instruments* on page 212.
[4] Refer to accounting policy 17 – *Equity-linked transactions* starting on page 219.

All balances are stated net of applicable tax.

Cash flow hedging reserve[2] Rm	Available-for-sale reserve[3] Rm	Share-based payment reserve[4] Rm	Retained earnings Rm	Ordinary shareholder's equity Rm	Non-controlling interest Rm	Total equity Rm
(78)	209	17	23 235	48 662	42	48 704
102	61		9 510	9 827	10	9 837
			9 510	9 510	10	9 520
102	61			317		317
			(5 694)	(3 694)		(3 694)
		6		6		6
		(6)	6			
				2 000		2 000
			(5 700)	(5 700)		(5 700)
24	270	17	27 051	54 795	52	54 847
24	**270**	**17**	**27 051**	**54 795**	**52**	**54 847**
(114)	**(177)**		**11 924**	**11 673**	**11**	**11 684**
			11 924	**11 924**	**11**	**11 935**
(114)	**(177)**			**(251)**		**(251)**
		6	**(4 698)**	**3 274**		**3 274**
		6		**6**		**6**
				7 966		**7 966**
			(4 698)	**(4 698)**		**(4 698)**
(90)	**93**	**23**	**34 277**	**69 742**	**63**	**69 805**

Statements of changes in equity

for the year ended 31 December 2012

	Note	Ordinary share capital and premium Rm
Company		
Balance at 1 January 2011		25 290
Total comprehensive income for the year		
Profit for the year		
Other comprehensive income after tax for the year		
Transactions with the shareholder, recorded directly in equity		2 000
Equity-settled share-based payment transactions		
Transfer of vested equity options		
Issue of share capital and share premium	15.2	2 000
Dividends paid	31	
Balance at 31 December 2011		27 290
Balance at 1 January 2012		**27 290**
Total comprehensive income/(loss) for the year		
Profit for the year		
Other comprehensive income/(loss) after tax for the year		
Transactions with the shareholder, recorded directly in equity		**7 966**
Equity-settled share-based payment transactions		
Transfer of vested equity options		
Issue of share capital and share premium	15.2	**7 966**
Dividends paid	31	
Balance at 31 December 2012		**35 256**

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

[1] Refer to accounting policy 2 – *Foreign currency translation*s starting on page 208.
[2] Refer to the cash flow hedges section in accounting policy 4 – *Financial instruments* on page 213.
[3] Refer to the available-for-sale financial assets section in accounting policy 4 – *Financial instruments* on page 212.
[4] Refer to accounting policy 17 – *Equity-linked transactions* starting on page 219.

All balances are stated net of applicable tax.

Foreign currency translation reserve[1] Rm	Cash flow hedging reserve[2] Rm	Available-for-sale reserve[3] Rm	Share-based payment reserve[4] Rm	Retained earnings Rm	Ordinary shareholder's equity Rm
(36)	(78)	209	17	22 212	47 614
153	102	61		9 521	9 837
				9 521	9 521
153	102	61			316
				(5 694)	(3 694)
			6		6
			(6)	6	
					2 000
				(5 700)	(5 700)
117	24	270	17	26 039	53 757
117	**24**	**270**	**17**	**26 039**	**53 757**
39	**(114)**	**(177)**		**11 602**	**11 350**
				11 602	**11 602**
39	**(114)**	**(177)**			**(252)**
			6	**(4 698)**	**3 274**
			6		**6**
					7 966
				(4 698)	**(4 698)**
156	**(90)**	**93**	**23**	**32 943**	**68 381**

Accounting policy elections

The principal accounting policies applied in the presentation of the group and company's annual financial statements are set out below.

Basis of preparation

The consolidated and separate annual financial statements (annual financial statements) are prepared in accordance with IFRS as issued by the International Accounting Standards Board (IASB), its interpretations adopted by the IASB, the SAICA Financial Reporting Guides as issued by the Accounting Practices Committee, the Listings Requirements of the JSE Limited, and the Companies Act. The annual financial statements have been prepared on the historical cost basis except for the following material items in the statement of financial position:

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

The following principle accounting policy elections in terms of IFRS have been made with reference to the detailed accounting policies shown in brackets:

- regular way purchases and sales of financial assets are recognised and derecognised using trade date accounting (accounting policy 4)
- cumulative gains and losses recognised in OCI in terms of a cash flow hedge relationship are transferred from OCI and included in the initial measurement of the non-financial asset or liability (accounting policy 4)
- commodities acquired principally for the purpose of selling in the near future or generating a profit from fluctuations in price or broker-traders' margin are measured at fair value less cost to sell (accounting policy 4)
- jointly controlled entities are accounted for using the equity method (accounting policy 5)
- intangible assets and property and equipment are accounted for using the cost model (accounting policy 6 and 7)
- 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).

AR Refer to page 207 for the detailed accounting policies

Functional and presentation currency

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

Changes in accounting policies

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

Adoption of revised standards effective for the current financial year

The following revised IFRSs were adopted prospectively as of 1 January 2012:

- IFRS 1 *First-time Adoption of International Financial Reporting Standards* (revised 2010)
- IFRS 7 Financial Instruments: Disclosures – *Transfers of Financial Assets* (revised 2010).

Early adoption of revised standards

The following revised IFRSs have been early adopted as of 1 January 2012:

- IAS 1 *Presentation of Financial Statements* (2011 Improvements to IFRS)
- IAS 16 *Property, Plant and Equipment* (2011 Improvements to IFRS)
- IAS 32 *Financial Instruments: Presentation* (2011 Improvements to IFRS)
- IAS 34 *Interim Financial Reporting* (2011 Improvements to IFRS)
- IFRS 1 *First-time Adoption of International Financial Reporting Standards* (2011 Improvements to IFRS).

The revised IFRSs did not have any effect on the group and company's reported earnings or financial statement position but have affected the group and company's disclosures with no material impact on the accounting policies.

Notes to the annual financial statements

for the year ended 31 December 2012

1. Segment reporting

The principal business units for the group and company are as follows:

Business unit	Scope of operations
Personal & Business Banking	Banking and other financial services to individual customers and small- to medium-sized enterprises. Mortgage lending – residential accommodation loans mainly to personal market customers. Instalment sale and finance leases – finance of vehicles for personal market customers and finance of vehicles and equipment in the business market. Card products – credit card facilities to individuals and businesses (credit card issuing) and merchant transaction acquiring services (card acquiring). Transactional products – comprehensive suite of transactional, savings and investment products. This includes deposit taking activities, electronic banking and debit card facilities. Lending products – offered to both personal and business markets. Bancassurance – short-term and long-term insurance products comprising simple embedded products including homeowners' insurance, funeral cover, household contents and vehicle insurance and loan protection plans sold in conjunction with related banking products, financial planning and wealth services.
Corporate & Investment Banking	Corporate and investment banking services to governments, parastatals, larger corporates, financial institutions and international counterparties. Global markets – includes fixed income and currencies (FIC), commodities and equities. Transactional products and services – includes transactional banking, investor services and trade finance. Investment banking – includes advisory, debt products, structured finance, structured trade and commodity finance, debt capital markets and equity capital markets. Real estate – includes real estate finance and investment in real estate.
Other services	Includes the results of centralised support functions (back office), including those functions that were previously embedded in the business segments. The direct costs of support functions are recharged to the business segments.

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

Notes to the annual financial statements continued

for the year ended 31 December 2012

1. Segment reporting continued

	Personal & Business Banking	
	2012 Rm	2011[1] Rm
Group		
Net interest income	**19 006**	16 223
Interest income	**37 878**	33 856
Interest expense	**18 872**	17 633
Non-interest revenue	**14 811**	13 976
Net fee and commission revenue	**13 976**	13 386
Trading revenue	**(1)**	
Other revenue	**836**	590
Total income	**33 817**	30 199
Credit impairment charges/(reversals)	**5 540**	4 864
Income/(loss) after credit impairment charges	**28 277**	25 335
Revenue sharing agreements with group companies		
Income after revenue sharing agreements	**28 277**	25 335
Operating expenses	**18 779**	17 303
Staff costs	**4 494**	3 990
Other operating expenses/(recoveries)	**14 285**	13 313
Net income before goodwill impairment	**9 498**	8 032
Goodwill impairment		39
Net income before associates and joint ventures	**9 498**	7 993
Share of profits/(losses) from associates and joint ventures	**417**	105
Net income before indirect taxation	**9 915**	8 098
Indirect taxation	**249**	215
Profit/(loss) before direct taxation	**9 666**	7 883
Direct taxation	**2 542**	2 357
Profit/(loss) for the year	**7 124**	5 526
Attributable to non-controlling interest	**1**	(2)
Attributable to the ordinary shareholder	**7 123**	5 528
Headline earnings	**6 980**	5 558
Operating information		
Total assets	**435 456**	394 970
Total liabilities	**402 017**	369 895
Other information		
Interest in associates and joint ventures	**274**	806
Depreciation and amortisation	**885**	651
Impairments of intangible assets		

[1] Where reporting responsibility for individual cost centres and divisions within business units changes, the segmental analysis comparative figures are reclassified accordingly.
[2] 2011 numbers have been reclassified, refer to annexure B – reclassifications on page 225. This does not affect the statement of financial position.
[3] Certain functions within the group have been transferred into Other services 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, marketing, real estate and risk management.

Corporate & Investment Banking		Other services		Total	
2012 **Rm**	2011[1,2] Rm	**2012** **Rm**	2011[1,3] Rm	**2012** **Rm**	2011[1,2] Rm
5 912	5 035	**331**	90	**25 249**	21 348
21 875	16 954	**(4 076)**	(1 096)	**55 677**	49 714
15 963	11 919	**(4 407)**	(1 186)	**30 428**	28 366
7 148	5 596	**73**	(768)	**22 032**	18 804
3 144	2 181	**(756)**	(985)	**16 364**	14 582
3 167	3 102	**(19)**	118	**3 147**	3 220
837	313	**848**	99	**2 521**	1 002
13 060	10 631	**404**	(678)	**47 281**	40 152
435	(231)	**(190)**	(10)	**5 785**	4 623
12 625	10 862	**594**	(668)	**41 496**	35 529
1 642	230			**1 642**	230
10 983	10 632	**594**	(668)	**39 854**	35 299
6 233	5 688	**94**	(1 087)	**25 106**	21 904
1 491	898	**7 304**	5 901	**13 289**	10 789
4 742	4 790	**(7 210)**	(6 988)	**11 817**	11 115
4 750	4 944	**500**	419	**14 748**	13 395
	7				46
4 750	4 937	**500**	419	**14 748**	13 349
91	(22)	**15**		**523**	83
4 841	4 915	**515**	419	**15 271**	13 432
46	35	**679**	495	**974**	745
4 795	4 880	**(164)**	(76)	**14 297**	12 687
(311)	800	**131**	10	**2 362**	3 167
5 106	4 080	**(295)**	(86)	**11 935**	9 520
11	12	**(1)**		**11**	10
5 095	4 068	**(294)**	(86)	**11 924**	9 510
5 094	4 142	**(573)**	(170)	**11 501**	9 530
515 289	503 474	**28 268**	23 245	**979 013**	921 689
491 205	482 333	**15 986**	14 614	**909 208**	866 842
537	427		15	**811**	1 248
8	43	**1 283**	983	**2 176**	1 677
			20		20

Notes to the annual financial statements continued

for the year ended 31 December 2012

2. Key management assumptions

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

2.1 Credit impairment losses on loans and advances

Portfolio loan impairments

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

	Average loss emergence period		Sensitivity[1]	
	2012 Months	2011 Months	**2012 Rm**	2011 Rm
Personal & Business Banking	**3**	3	**264**	460
Mortgage loans	**3**	3	**58**	213
Instalment sale and finance leases	**3**	3	**61**	51
Card debtors	**3**	3	**32**	65
Other lending	**3**	3	**113**	131
Corporate & Investment Banking	**12**	6 – 12	**61**	53
			325	513

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

2. Key management assumptions continued

Specific loan impairments

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

	Expected time to recovery		Expected recoveries as a percentage of impaired loans		Impairment loss sensitivity[1]	
	2012 Months	2011 Months	**2012 %**	2011 %	**2012 Rm**	2011 Rm
Personal & Business Banking	**6 – 15**	6 –15	**63**	70	**132**	171
Mortgage lending	**15**	10	**73**	81	**113**	153
Instalment sale and finance leases	**6**	6	**47**	43	**6**	7
Card debtors	**15**	15	**36**	28	**3**	3
Other lending	**14**	14	**28**	30	**10**	8
Corporate & Investment Banking	**6**	6	**72**	76	**10**	8
			63	70	**142**	179

[1] Sensitivity is based on the effect of a one percentage point increase in the value of the estimated recovery on the value of the specific 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 2012 was a profit of R605 million (2011: R511 million profit).

Additional disclosures on fair value measurements of financial instruments are set out in note 23 starting on page 172.

2.3 Impairment of available-for-sale equity investments

The group and company 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 and company 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 and sector performance, changes in technology, and operational and financing cash flows.

Had the declines of financial instruments with fair values below cost been considered significant or prolonged, the group and company would have suffered an additional loss of R34 million (2011: R34 million) in its financial statements, being the transfer of the negative revaluations within available-for-sale reserves to profit or loss.

Notes to the annual financial statements continued

for the year ended 31 December 2012

2. Key management assumptions continued

2.4 Securitisations and special purpose entities

The group sponsors the formation of SPEs primarily for the purpose of allowing clients to hold investments, for asset securitisation transactions and for buying or selling credit protection. As it can sometimes be difficult to determine whether the group should consolidate an SPE, it makes judgements about its exposure to the risks and rewards, as well as its ability to make operational decisions for the SPE in question. In arriving at judgements, these factors are considered both jointly and separately. The basis of determining which SPEs are consolidated will change in future financial reporting periods in terms of the requirements of IFRS 10 – *Consolidated Financial Statements*. Refer to accounting policies – annexure A.

The group consolidated SPEs with assets of R14 760 million (2011: R16 259 million) and net losses of R47 million (2011: R5 million profit).

AR Further details regarding these SPEs can be found in annexure C on page 226

2.5 Held-to-maturity investments

The group and company follows the guidance of IAS 39 *Financial Instruments: Recognition and Measurement* (IAS 39) on classifying non-derivative financial assets with fixed or determinable payments and fixed maturity as held-to-maturity. This classification requires judgement of the group and company's ability to hold such investments to maturity. If the group and company fail to hold these investments to maturity other than for specific defined circumstances, it will be required to classify the entire category as available-for-sale. The investments would be measured at fair value and not amortised cost. If the entire category of held-to-maturity investments were tainted in this way, the carrying value would increase by R1 527 million (2011: R2 812 million) for the group and R1 523 million (2011: R2 812 million) for the company, with a corresponding entry in OCI.

2.6 Computer software intangible assets

Direct computer software development costs that are clearly associated with an identifiable and unique system, which will be controlled by the group and company 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 2012 amounted to R10 307 million (2011: R6 433 million) for the group and the company.

2.7 Income taxes

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

2.8 Financial risk management

The group and company's risk management policies and procedures are disclosed in the risk and capital management section of the annual report, starting on page 64. All IFRS 7 information included in the financial risk management section as set out on page 64 forms part of the audited annual financial statements as indicated in the risk report.

2.9 Other

The nature of other assumptions or other estimation uncertainty for pensions and other post-employment benefits and for group share incentive schemes (GSIS) are disclosed in note 34 and annexure E, respectively.

		Group		Company	
		2012 Rm	2011 Rm	**2012 Rm**	2011 Rm
3.	**Cash and balances with central banks**				
	Coins and bank notes	**10 450**	8 187	**10 450**	8 187
	Balances with central banks	**15 476**	12 678	**15 476**	12 678
		25 926	20 865	**25 926**	20 865

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

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 and company 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, credit, interest rate, commodity and equity exposures. Derivative instruments used by the group and company in both trading and hedging activities include swaps, options, forwards, futures and other similar types of instruments based on foreign exchange rates, interest rates, credit risk and the prices of commodities and equities.

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

The fair value of all derivatives is recognised in the statement of financial position and is only netted to the extent that there is both a legal right to 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 and company are as follows:

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

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

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

Notes to the annual financial statements continued

for the year ended 31 December 2012

4. Derivative instruments continued

4.2 Derivatives held-for-trading

The group and company trades derivative instruments on behalf of its clients and for its own positions. The group and company transacts derivative contracts to address client demand, both as a market maker in the wholesale markets and in structuring tailored derivatives for clients. The group and company 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 used to hedge foreign currency risks on behalf of clients and for the group and company's own positions. Foreign exchange derivatives primarily consist of foreign exchange forwards, foreign exchange futures and foreign exchange options.

4.2.2 Interest rate derivatives

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

4.2.3 Commodity derivatives

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

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 clients and for the group and company's own positions. Credit derivatives primarily consist of credit default swaps.

4.2.5 Equity derivatives

Equity derivatives are used to address client equity demands and to take proprietary positions for the group and company's own account. 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 and company enters into derivative transactions, which are designated and qualify as either fair value or cash flow hedges for recognised assets or liabilities or highly probable forecast transactions. Derivatives designated as hedging instruments consist of:

4.3.1 Derivatives designated as fair value hedges

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

4.3.2 Derivatives designated as cash flow hedges

The group and company uses currency swaps, forwards, exchange traded currency options and interest rate swaps to mitigate against changes in cash flows of certain variable rate debt. The group and company 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.

4. Derivative instruments continued

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 inputs 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 and company's accounting policies (refer to accounting policy 4 – *Financial Instruments*).

4.5 Fair values

The fair value of a derivative financial instrument represents, for a quoted instrument, the quoted market price and, for an unquoted instrument, the present value of the positive and/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 yearend.

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 exchange 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 position and should be used only as a means of assessing the group and company's participation in derivative contracts.

Notes to the annual financial statements continued
for the year ended 31 December 2012

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	Notional amount Rm
2012							
Group							
Derivatives held-for-trading							
Foreign exchange derivatives	(1 364)	(668)	(7)	(2 039)	13 573	(15 612)	1 253 812
Forwards	(520)	(693)	(7)	(1 220)	8 909	(10 129)	1 213 518
Futures	(1)	2		1	5	(4)	7 935
Options	(843)	23		(820)	4 659	(5 479)	32 359
Interest rate derivatives	(227)	409	(179)	3	60 366	(60 363)	3 199 967
Bond options	(579)	(82)		(661)	1 876	(2 537)	115 174
Caps and floors	(27)	4	17	(6)	39	(45)	18 944
Forwards	(44)	53		9	913	(904)	1 036 280
Options	5			5	20	(15)	67 819
Swaps	524	411	(277)	658	57 264	(56 606)	1 940 240
Swaptions	(106)	23	81	(2)	254	(256)	21 510
Commodity derivatives	195	(338)		(143)	1 534	(1 677)	35 000
Forwards	254	(268)		(14)	1 406	(1 420)	29 720
Futures	(8)			(8)	18	(26)	950
Options	(51)	(70)		(121)	110	(231)	4 330
Credit derivatives							
Credit default swaps	(465)	547	(306)	(224)	1 217	(1 441)	70 180
Equity derivatives	(765)	(181)		(946)	1 609	(2 555)	146 156
Forwards	(262)	(19)		(281)	109	(390)	3 269
Futures	(2)	(1)		(3)	39	(42)	12 494
Index options	(83)	(166)		(249)	1 016	(1 265)	121 427
Options	(113)	(92)		(205)	295	(500)	4 850
Swaps	(308)	97		(211)	139	(350)	1 705
Other	3			3	11	(8)	2 411
Total derivative (liabilities)/ assets held-for-trading	(2 626)	(231)	(492)	(3 349)	78 299	(81 648)	4 705 115
Derivatives held-for-hedging							
Derivatives designated as fair value hedges	189	146		335	375	(40)	83 165
Cross currency interest rate swaps		162		162	162		838
Interest rate swaps	189	(16)		173	213	(40)	82 327
Derivatives designated as cash flow hedges	167	(53)		114	170	(56)	7 652
Currency swaps	170			170	170		6 199
Equity forwards	(3)	(6)		(9)		(9)	303
Interest rate swaps		(47)		(47)		(47)	1 150
Total derivative assets/(liabilities) held-for-hedging	356	93		449	545	(96)	90 817
Total derivative (liabilities)/assets	(2 270)	(138)	(492)	(2 900)	78 844	(81 744)	4 795 932

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	Notional amount Rm
2011							
Group							
Derivatives held-for-trading							
Foreign exchange derivatives	(2 611)	(1 831)	137	(4 305)	23 094	(27 399)	912 515
Forwards	(2 773)	(974)	137	(3 610)	18 910	(22 520)	888 563
Futures	2			2	3	(1)	4 336
Options	160	(857)		(697)	4 181	(4 878)	19 616
Interest rate derivatives	(224)	1 649	(617)	808	65 569	(64 761)	4 147 446
Bond options	34	(245)		(211)	2 272	(2 483)	158 798
Caps and floors	(22)	6	26	10	87	(77)	79 512
Forwards	(285)	(266)	811	260	2 551	(2 291)	1 617 149
Options	(1)	3		2	9	(7)	3 823
Swaps	16	2 151	(1 516)	651	60 375	(59 724)	2 267 958
Swaptions	34		62	96	275	(179)	20 206
Commodity derivatives	(116)	(191)		(307)	2 755	(3 062)	14 721
Forwards	1	(171)		(170)	2 172	(2 342)	13 391
Futures	1			1	45	(44)	52
Options	(118)	(20)		(138)	538	(676)	1 278
Credit derivatives	(1 164)	(277)	34	(1 407)	278	(1 685)	47 476
Credit default swaps	(1 164)	496	34	(634)	278	(912)	46 716
Credit linked notes		(773)		(773)		(773)	760
Equity derivatives	(334)	(291)		(625)	1 150	(1 775)	140 321
Forwards	(69)	23		(46)	84	(130)	2 449
Futures	6	2		8	44	(36)	14 347
Index options	(326)	(249)		(575)	480	(1 055)	114 575
Options	50	(171)		(121)	289	(410)	7 051
Swaps	4	104		108	108		1 899
Other	1			1	145	(144)	
Total derivative (liabilities)/ assets held-for-trading	(4 449)	(941)	(446)	(5 836)	92 846	(98 682)	5 262 479
Derivatives held-for-hedging							
Derivatives designated as fair value hedges	2		(1)	1	2	(1)	26 352
Currency futures	2			2	2		17
Interest rate swaps			(1)	(1)		(1)	26 335
Derivatives designated as cash flow hedges	520	7		527	574	(47)	16 499
Currency swaps	509			509	509		5 264
Equity forwards	11			11	11		85
Interest rate swaps		7		7	54	(47)	11 150
Total derivative assets/ (liabilities) held-for-hedging	522	7	(1)	528	576	(48)	42 851
Total derivative (liabilities)/assets	(3 927)	(934)	(447)	(5 308)	93 422	(98 730)	5 305 330

Notes to the annual financial statements continued

for the year ended 31 December 2012

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	Notional amount Rm
2012							
Company							
Derivatives held-for-trading							
Foreign exchange derivatives	(1 364)	(668)	(7)	(2 039)	13 573	(15 612)	1 253 812
Forwards	(520)	(693)	(7)	(1 220)	8 909	(10 129)	1 213 518
Futures	(1)	2		1	5	(4)	7 935
Options	(843)	23		(820)	4 659	(5 479)	32 359
Interest rate derivatives	(175)	409	(179)	55	60 418	(60 363)	3 200 692
Bond options	(527)	(82)		(609)	1 928	(2 537)	115 899
Caps and floors	(27)	4	17	(6)	39	(45)	18 944
Forwards	(44)	53		9	913	(904)	1 036 280
Options	5			5	20	(15)	67 819
Swaps	524	411	(277)	658	57 264	(56 606)	1 940 240
Swaptions	(106)	23	81	(2)	254	(256)	21 510
Commodity derivatives	195	(338)		(143)	1 534	(1 677)	35 000
Forwards	254	(268)		(14)	1 406	(1 420)	29 720
Futures	(8)			(8)	18	(26)	950
Options	(51)	(70)		(121)	110	(231)	4 330
Credit derivatives							
Credit default swaps	(465)	547	(306)	(224)	1 217	(1 441)	70 180
Equity derivatives	(765)	(181)		(946)	1 609	(2 555)	146 156
Forwards	(262)	(19)		(281)	109	(390)	3 269
Futures	(2)	(1)		(3)	39	(42)	12 494
Index options	(83)	(166)		(249)	1 016	(1 265)	121 427
Options	(113)	(92)		(205)	295	(500)	4 850
Swaps	(308)	97		(211)	139	(350)	1 705
Other	3			3	11	(8)	2 411
Total derivative (liabilities)/ assets held-for-trading	(2 574)	(231)	(492)	(3 297)	78 351	(81 648)	4 705 840
Derivatives held-for-hedging							
Derivatives designated as fair value hedges	173	162		335	375	(40)	72 691
Cross currency interest rate swaps		162		162	162		838
Interest rate swaps	173			173	213	(40)	71 853
Derivatives designated as cash flow hedges	167	(53)		114	170	(56)	7 652
Currency swaps	170			170	170		6 199
Equity forwards	(3)	(6)		(9)		(9)	303
Interest rate swaps		(47)		(47)		(47)	1 150
Total derivative assets/ (liabilities) held-for-hedging	340	109		449	545	(96)	80 343
Total derivative (liabilities)/assets	(2 234)	(122)	(492)	(2 848)	78 896	(81 744)	4 786 183

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	Notional amount Rm
2011							
Company							
Derivatives held-for-trading							
Foreign exchange derivatives	(2 611)	(1 831)	137	(4 305)	23 094	(27 399)	912 515
Forwards	(2 773)	(974)	137	(3 610)	18 910	(22 520)	888 563
Futures	2			2	3	(1)	4 336
Options	160	(857)		(697)	4 181	(4 878)	19 616
Interest rate derivatives	(221)	1 672	(617)	834	65 592	(64 758)	4 136 805
Bond options	34	(245)		(211)	2 272	(2 483)	158 798
Caps and floors	(22)	6	26	10	87	(77)	79 512
Forwards	(285)	(266)	811	260	2 551	(2 291)	1 617 149
Options	(1)	3		2	9	(7)	3 823
Swaps	19	2 174	(1 516)	677	60 398	(59 721)	2 257 317
Swaptions	34		62	96	275	(179)	20 206
Commodity derivatives	(116)	(191)		(307)	2 755	(3 062)	14 721
Forwards	1	(171)		(170)	2 172	(2 342)	13 391
Futures	1			1	45	(44)	52
Options	(118)	(20)		(138)	538	(676)	1 278
Credit derivatives	(1 164)	(277)	34	(1 407)	278	(1 685)	47 476
Credit default swaps	(1 164)	496	34	(634)	278	(912)	46 716
Credit linked notes		(773)		(773)		(773)	760
Equity derivatives	(334)	(291)		(625)	1 150	(1 775)	140 321
Forwards	(69)	23		(46)	84	(130)	2 449
Futures	6	2		8	44	(36)	14 347
Index options	(326)	(249)		(575)	480	(1 055)	114 575
Options	50	(171)		(121)	289	(410)	7 051
Swaps	4	104		108	108		1 899
Other	1			1	145	(144)	
Total derivative (liabilities)/ assets held-for-trading	(4 446)	(918)	(446)	(5 810)	92 869	(98 679)	5 251 838
Derivatives held-for-hedging							
Derivatives designated as fair value hedges	2	(1)		1	2	(1)	26 352
Currency futures	2			2	2		17
Interest rate swaps		(1)		(1)		(1)	26 335
Derivatives designated as cash flow hedges	520	7		527	574	(47)	16 499
Currency swaps	509			509	509		5 264
Equity forwards	11			11	11		85
Interest rate swaps		7		7	54	(47)	11 150
Total derivative assets/ (liabilities) held-for-hedging	522	6		528	576	(48)	42 851
Total derivative (liabilities)/assets	(3 924)	(912)	(446)	(5 282)	93 445	(98 727)	5 294 689

Notes to the annual financial statements continued

for the year ended 31 December 2012

4. Derivative instruments continued

4.8 Derivatives held-for-hedging

4.8.1 Derivatives designated as fair value hedges

	Group		Company	
	2012 Rm	2011 Rm	**2012 Rm**	2011 Rm
Gains/(losses) arising from fair value hedges				
On hedging instruments	**367**	312	**367**	312
On the hedged items attributable to the hedged risk	**(292)**	(274)	**(292)**	(274)

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 for the group and company is as follows:

	3 months or less Rm	More than 3 months but less than 1 year Rm	More than 1 year but less than 5 years Rm
2012			
Net cash outflow	**(3)**	**(52)**	**(70)**
2011			
Net cash inflow/(outflow)	12	(33)	54

Reconciliation of movements in the cash flow hedging reserve

	Group		Company	
	2012 Rm	2011 Rm	**2012 Rm**	2011 Rm
Balance at the beginning of the year	**24**	(78)	**24**	(78)
Amounts recognised directly in OCI before tax	**221**	158	**221**	158
Less: amounts released to profit or loss before tax				
Net interest Income	**(56)**	(5)	**(56)**	(5)
Other operating expenses	**(323)**	(12)	**(323)**	(12)
Plus: deferred tax	**44**	(39)	**44**	(39)
Balance at the end of the year	**(90)**	24	**(90)**	24

No hedge ineffectiveness was recognised in profit or loss for the group or company in 2012 or 2011.

There were no transactions for the group or company for which cash flow hedge accounting had to be discontinued in 2012 or 2011 as a result of highly probable cash flows that are no longer expected to occur.

4. Derivative instruments continued

4.9 Day one profit or loss

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

	Group		Company	
	2012 Rm	2011 Rm	**2012 Rm**	2011 Rm
Unamortised net profit at the beginning of the year	**438**	18	**438**	18
Additional net profit on new transactions	**105**	485	**105**	485
Recognised in profit or loss during the year	**(144)**	(65)	**(144)**	(65)
Unamortised net profit at the end of the year	**399**	438	**399**	438

5. Trading assets

	Group		Company	
	2012 Rm	2011 Rm	**2012 Rm**	2011 Rm
Listed	**19 174**	12 715	**18 986**	12 529
Unlisted	**16 511**	11 911	**16 510**	11 911
	35 685	24 626	**35 496**	24 440
Comprising:				
Government, municipality and utility bonds	**9 269**	9 284	**9 080**	9 097
Corporate bonds	**1 838**	2 668	**1 838**	2 668
Commodities	**7**	1 633	**7**	1 634
Collateral	**1 992**	1 732	**1 992**	1 732
Reverse repurchase and other collateralised agreements	**8 903**	5 200	**8 903**	5 200
Treasury bills	**877**	878	**877**	878
Floating rate notes	**995**	392	**995**	392
Listed equities[1]	**7 633**	608	**7 633**	608
Other instruments[1]	**4 171**	2 231	**4 171**	2 231
	35 685	24 626	**35 496**	24 440
Maturity analysis				
The maturities represent periods to contractual redemption of the trading assets recorded.				
Redeemable on demand	**1 671**	1 291	**1 671**	1 291
Maturing within 1 month	**9 344**	3 596	**9 344**	3 596
Maturing after 1 month but within 6 months	**4 935**	908	**4 935**	908
Maturing after 6 months but within 12 months	**949**	1 633	**949**	1 633
Maturing after 12 months	**11 146**	14 954	**10 957**	14 767
Undated	**7 640**	2 244	**7 640**	2 245
	35 685	24 626	**35 496**	24 440

[1] The 2011 balance of listed equities of R608 million was previously disclosed in other instruments and has now been separately disclosed.

Notes to the annual financial statements continued
for the year ended 31 December 2012

	Group 2012 Rm	Group 2011 Rm	Company 2012 Rm	Company 2011 Rm
6. Pledged assets				
6.1 Pledged assets				
Financial assets that may be repledged or resold by counterparties				
Government, municipality and utility bonds	**4 233**		**4 233**	
Commodity leases	**1 473**	3 737	**1 473**	3 737
	5 706	3 737	**5 706**	3 737
Maturity analysis				
The maturities represent periods to contractual redemption of the pledged assets recorded.				
Maturing after 1 month but within 6 months	**2 004**		**2 004**	
Maturing after 12 months	**2 229**		**2 229**	
Undated	**1 473**	3 737	**1 473**	3 737
	5 706	3 737	**5 706**	3 737

6.2 Total assets pledged

The total amount of financial assets that have been pledged as collateral for liabilities at 31 December 2012 is R6 809 million (2011: R12 615 million[1]).

The assets pledged by the group and company 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 and company has received securities that it is allowed to sell or repledge. The fair value of the financial assets accepted as collateral that the group and company is permitted to sell or repledge in the absence of default is R9 746 million (2011: R10 624 million).

The fair value of financial assets accepted as collateral that have been sold or repledged is Rnil (2011: Rnil[2]).

These transactions are conducted under terms that are customary to standard reverse repurchase agreements and securities borrowing activities.

[1] Following a review of the group's bond repurchase transactions in terms of IFRS and the group and company accounting policies, an amount of R3 900 million relating to bond repurchase transactions with the SARB had not previously been taken into account in determining the total financial assets that have been pledged as collateral for liabilities. As a result, the amount disclosed in 2011 was understated. The group and company believes that this restatement better reflects the nature of the underlying transactions. The restatement has no impact on the statements of financial position.

[2] As a result of the review of the group's bond repurchase transactions, it was determined that R10 624 million had been incorrectly included in the prior year disclosure. To ensure consistency across the group and company's financial statements, this amount has been restated.

6. Pledged assets continued

6.4 Assets transferred not derecognised

Securitisations

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

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

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

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

Group	Carrying amount of transferred assets Rm	Carrying amount of associated liabilities Rm	Fair value of transferred assets Rm	Fair value of associated liabilities Rm	Net fair value Rm
2012					
Mortgage loans	**11 113**	**7 193**	**10 985**	**7 193**	**3 792**
2011					
Mortgage loans	12 175	8 184	12 215	8 184	4 031

The interests and rights to the mortgage loans have been ceded as security for the associated liabilities, which have recourse only to the transferred assets.

The following table analyses the carrying amount of continuing involvement within securitisations:

Company	Carrying value Rm	Fair value Rm	Maximum exposure to risk Rm
2012			
Mortgage loans	**209**	**209**	**209**
2011			
Mortgage loans	152	152	152

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 and financial assets leased out to third parties. Risks to which the group remains exposed include credit and interest rate risk.

The following table presents details of other financial assets which have been sold or otherwise transferred, but which have not been derecognised in their entirety, and their associated liabilities.

Notes to the annual financial statements continued
for the year ended 31 December 2012

6. Pledged assets continued
6.4 Assets transferred not derecognised continued
Other assets transferred not derecognised continued

Group	Financial assets not derecognised				
	Carrying amount of transferred assets Rm	Carrying amount of associated liabilities Rm	Fair value of transferred assets[1] Rm	Fair value of associated liabilities[1] Rm	Net fair value[1] Rm
2012					
Pledged assets	**5 706**	**4 132**	**4 233**	**4 132**	**101**
Bonds	4 233	4 132	4 233	4 132	101
Commodities	1 473				
	5 706	**4 132**	**4 233**	**4 132**	**101**
2011					
Pledged assets	3 737				
Commodities	3 737				
	3 737				

Company	Financial assets not derecognised				
	Carrying amount of transferred assets Rm	Carrying amount of associated liabilities Rm	Fair value of transferred assets[1] Rm	Fair value of associated liabilities[1] Rm	Net fair value[1] Rm
2012					
Pledged assets	**5 706**	**4 132**	**4 233**	**4 132**	**101**
Bonds	4 233	4 132	4 233	4 132	101
Commodities	1 473				
	5 706	**4 132**	**4 233**	**4 132**	**101**
2011					
Pledged assets	3 737				
Commodities	3 737				
	3 737				

[1] Where the counterparty has recourse only to the transferred assets.

There were no instances during the year in which the group and company partially derecognised financial assets.

6.5 Assets transferred and derecognised
There were no instances during the year in which the group and company transferred and derecognised financial assets for which it had continuing involvement.

7. Non-current asset held for sale

RCS Investment Holdings Proprietary Limited (RCS)

The group and company has been a significant shareholder in RCS alongside The Foschini Group (TFG) since 2005. The group's current shareholding in RCS is 45%, with TFG holding 55%. The group and company has initiated a process to dispose of its investment in RCS during the course of the 2013 financial year. The group and company has accordingly classified its investment in RCS as a non-current asset held for sale in the statement of financial position in terms of IFRS 5 *Non-current Assets Held for Sale*. The investment's carrying value is measured in accordance with the group and company's accounting policies, which is the lower of carrying value and the fair value less cost to sell.

Details of non-current asset held for sale:

	Group 2012 Rm	Company 2012 Rm
Assets held for sale		
Interest in associates and joint ventures	**960**	**708**
Total assets held for sale	**960**	**708**

	Group		Company	
	2012 Rm	2011 Rm	**2012 Rm**	2011 Rm
8. Financial investments				
Short-term negotiable securities	**50 856**	53 153	**50 856**	53 153
Listed		532		532
Unlisted[1]	**50 856**	52 621	**50 856**	52 621
Other financial investments	**25 823**	26 656	**25 834**	26 662
Listed	**21 729**	21 796	**21 729**	21 796
Unlisted	**4 094**	4 860	**4 105**	4 866
	76 679	79 809	**76 690**	79 815
Comprising:				
Government, municipality and utility bonds	**22 980**	27 853	**22 980**	27 853
Corporate bonds	**13 064**	17 421	**13 064**	17 421
Listed equities	**402**	949	**402**	949
Unlisted equities	**2 299**	2 170	**2 305**	2 176
Mutual funds	**368**	1 005	**368**	1 005
Treasury bills	**36 138**	28 725	**36 138**	28 725
Other instruments	**1 428**	1 686	**1 433**	1 686
	76 679	79 809	**76 690**	79 815
Maturity analysis				
The maturities represent periods to contractual redemption of the financial investments recorded.				
Redeemable on demand	**1 005**	1 005	**1 005**	1 005
Maturing within 1 month	**8 671**	9 738	**8 671**	9 738
Maturing after 1 month but within 6 months	**27 819**	20 211	**27 820**	20 211
Maturing after 6 months but within 12 months	**11 791**	18 414	**11 791**	18 414
Maturing after 12 months	**24 293**	25 989	**24 293**	25 989
Undated	**3 100**	4 452	**3 110**	4 458
	76 679	79 809	**76 690**	79 815

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

Notes to the annual financial statements continued

for the year ended 31 December 2012

	Group		Company	
	2012 Rm	2011[1] Rm	**2012 Rm**	2011[1] Rm
9. Loans and advances				
9.1 Loans and advances net of impairments				
Loans and advances to banks	**69 999**	60 740	**70 033**	60 573
Call loans	**13 906**	5 588	**13 906**	5 588
Balances with banks	**56 093**	55 152	**56 127**	54 985
Loans and advances to customers	**589 501**	550 425	**573 729**	533 024
Gross loans and advances to customers	**601 968**	562 450	**586 229**	545 068
Mortgage loans	**288 816**	278 406	**277 753**	266 276
Instalment sale and finance leases (note 9.2)	**56 581**	48 445	**56 581**	48 445
Card debtors	**23 604**	20 026	**22 501**	18 973
Overdrafts and other demand lending	**37 014**	34 723	**37 024**	34 732
Term lending	**115 790**	113 096	**112 086**	109 041
Commercial property finance	**41 393**	40 707	**41 515**	40 554
Foreign currency lending	**38 770**	27 047	**38 769**	27 047
Credit impairments for loans and advances (note 9.3)	**(12 467)**	(12 025)	**(12 500)**	(12 044)
Specific credit impairments	**(8 193)**	(7 531)	**(8 251)**	(7 599)
Portfolio credit impairments	**(4 274)**	(4 494)	**(4 249)**	(4 445)
Net loans and advances	**659 500**	611 165	**643 762**	593 597
Comprising:				
Gross loans and advances	**671 967**	623 190	**656 262**	605 641
Less: credit impairments	**(12 467)**	(12 025)	**(12 500)**	(12 044)
Net loans and advances	**659 500**	611 165	**643 762**	593 597

The carrying value of loans and advances in the group and company increased by R407 million during the year (2011: reduced by R157 million) for fair value adjustments arising from risks subject to fair value hedging relationships.

Maturity analysis

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

	Group 2012 Rm	Group 2011[1] Rm	Company 2012 Rm	Company 2011[1] Rm
Redeemable on demand	**77 620**	83 056	**76 668**	82 453
Maturing within 1 month	**53 214**	47 017	**52 945**	46 322
Maturing after 1 month but within 6 months	**43 267**	52 968	**42 837**	51 787
Maturing after 6 months but within 12 months	**41 986**	46 095	**41 778**	44 117
Maturing after 12 months	**455 880**	394 054	**442 034**	380 962
Gross loans and advances	**671 967**	623 190	**656 262**	605 641

[1] A balance of R898 million was reclassified from loans and advances to banks to loans and advances to customers in order to align the counterparty to the underlying lending arrangements and to conform with the basis of disclosure in the current financial year.

	Group		Company	
	2012 Rm	2011 Rm	**2012 Rm**	2011 Rm
9. Loans and advances continued				
9.1 Loans and advances net of impairments continued				
Segmental analysis – industry				
Agriculture	**12 906**	11 902	**12 897**	11 896
Construction	**15 846**	18 536	**15 795**	18 480
Electricity	**2 024**	747	**2 023**	745
Finance, real estate and other business services	**137 209**	135 907	**134 548**	131 552
Individuals	**355 732**	324 980	**344 185**	312 428
Manufacturing	**23 055**	21 872	**22 365**	21 773
Mining	**29 429**	21 569	**29 415**	21 562
Transport	**9 299**	9 536	**8 962**	9 514
Wholesale	**46 975**	31 870	**46 933**	31 777
Other services	**39 492**	46 271	**39 139**	45 914
Gross loans and advances	**671 967**	623 190	**656 262**	605 641
Segmental analysis – geographic area				
The following table sets out the distribution of the loans and advances by geographic area where the loans are recorded.				
South Africa				
Eastern Cape	**24 360**	22 117	**23 726**	21 432
Free State	**15 409**	13 496	**15 130**	13 202
Gauteng	**319 720**	305 992	**310 640**	295 733
KwaZulu-Natal	**71 450**	67 129	**69 043**	64 687
Limpopo	**12 432**	10 834	**12 235**	10 639
Mpumalanga	**23 737**	19 481	**23 288**	19 005
North West	**13 561**	12 504	**13 308**	12 250
Northern Cape	**6 566**	6 047	**6 467**	5 938
Western Cape	**86 503**	84 631	**84 203**	81 802
Other countries	**98 229**	80 959	**98 222**	80 953
Gross loans and advances	**671 967**	623 190	**656 262**	605 641
9.2 Instalment sale and finance leases				
Gross investment in instalment sale and finance leases	**66 101**	56 211	**66 101**	56 211
Receivable within 1 year	**21 674**	19 624	**21 674**	19 624
Receivable after 1 year but within 5 years	**44 301**	36 506	**44 301**	36 506
Receivable after 5 years	**126**	81	**126**	81
Unearned finance charges	**(9 520)**	(7 766)	**(9 520)**	(7 766)
Net investment in instalment sale and finance leases	**56 581**	48 445	**56 581**	48 445
Receivable within 1 year	**17 830**	16 631	**17 830**	16 631
Receivable after 1 year but within 5 years	**38 651**	31 752	**38 651**	31 752
Receivable after 5 years	**100**	62	**100**	62

Notes to the annual financial statements continued
for the year ended 31 December 2012

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 to customers, by class:

	Mortgage loans Rm	Instalment sale and finance leases Rm	Card debtors Rm	Other loans and advances Rm	Corporate lending Rm	Commercial property finance Rm	Total Rm
2012							
Group							
Specific impairments							
Balance at the beginning of the year	**3 651**	**915**	**808**	**1 888**	**147**	**122**	**7 531**
Impaired accounts written off	**(2 452)**	**(834)**	**(840)**	**(1 360)**	**(102)**	**(39)**	**(5 627)**
Discount element recognised in interest income	**(540)**	**(39)**	**(57)**	**(90)**			**(726)**
Net impairments raised[1]	**3 436**	**642**	**649**	**2 012**	**166**	**97**	**7 002**
Exchange and other movements		**13**					**13**
Balance at the end of the year	**4 095**	**697**	**560**	**2 450**	**211**	**180**	**8 193**
Portfolio impairments							
Balance at the beginning of the year	**1 386**	**441**	**428**	**1 558**	**518**	**163**	**4 494**
Net impairments (released)/raised[1]	**(697)**	**24**	**61**	**212**	**222**	**(42)**	**(220)**
Balance at the end of the year	**689**	**465**	**489**	**1 770**	**740**	**121**	**4 274**
Total	**4 784**	**1 162**	**1 049**	**4 220**	**951**	**301**	**12 467**
2011							
Group							
Specific impairments							
Balance at the beginning of the year	4 343	1 395	1 107	2 450	405	162	9 862
Impaired accounts written off	(2 593)	(1 086)	(945)	(1 757)	(370)	(133)	(6 884)
Discount element recognised in interest income	(686)	(65)	(89)	(102)			(942)
Net impairments raised[1]	2 587	671	735	1 297	109	93	5 492
Exchange and other movements					3		3
Balance at the end of the year	3 651	915	808	1 888	147	122	7 531
Portfolio impairments							
Balance at the beginning of the year	979	589	510	1 314	704		4 096
Net impairments raised/(released)[1]	407	(148)	(82)	242	(6)	(13)	400
Exchange and other movements				2	(180)	176	(2)
Balance at the end of the year	1 386	441	428	1 558	518	163	4 494
Total	5 037	1 356	1 236	3 446	665	285	12 025

[1] Net impairments raised/(released) less recoveries of amounts written off in previous years as well as credit recovery on off-balance sheet exposure, equals income statement impairment charges (note 26.7) on page 184.

9. Loans and advances continued

9.3 Credit impairments for loans and advances continued

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

	Mortgage loans Rm	Instalment sale and finance leases Rm	Card debtors Rm	Other loans and advances Rm	Corporate lending Rm	Commercial property finance Rm	Total Rm
2012							
Company							
Specific impairments							
Balance at the beginning of the year	3 608	918	776	1 887	288	122	7 599
Impaired accounts written off	(2 428)	(837)	(811)	(1 360)	(102)	(39)	(5 577)
Discount element recognised in interest income	(527)	(39)	(57)	(90)			(713)
Net impairments raised[1]	3 392	652	617	2 012	166	97	6 936
Exchange and other movements		6					6
Balance at the end of the year	4 045	700	525	2 449	352	180	8 251
Portfolio impairments							
Balance at the beginning of the year	1 351	441	413	1 559	514	167	4 445
Net impairments (released)/raised[1]	(681)	24	68	213	222	(42)	(196)
Balance at the end of the year	670	465	481	1 772	736	125	4 249
Total	4 715	1 165	1 006	4 221	1 088	305	12 500
2011							
Company							
Specific impairments							
Balance at the beginning of the year	4 277	1 396	1 081	2 450	404	162	9 770
Impaired accounts written off	(2 570)	(1 084)	(928)	(1 757)	(225)	(133)	(6 697)
Discount element recognised in interest income	(668)	(65)	(89)	(103)			(925)
Net impairments raised[1]	2 569	671	712	1 297	109	93	5 451
Balance at the end of the year	3 608	918	776	1 887	288	122	7 599
Portfolio impairments							
Balance at the beginning of the year	948	589	494	1 315	702		4 048
Net impairments raised/(released)[1]	403	(148)	(81)	242	(6)	(13)	397
Exchange and other movements				2	(182)	180	
Balance at the end of the year	1 351	441	413	1 559	514	167	4 445
Total	4 959	1 359	1 189	3 446	802	289	12 044

[1] Net impairments raised/(released) less recoveries of amounts written off in previous years as well as credit recovery on off-balance sheet exposure, equals income statement impairment charges (note 26.7) on page 184.

Notes to the annual financial statements continued

for the year ended 31 December 2012

9. Loans and advances continued

9.3 Credit impairments for loans and advances continued

The segmental analysis of specific impairments by industry:

	Group		Company	
	2012 Rm	2011 Rm	**2012 Rm**	2011 Rm
Agriculture	**197**	199	**197**	199
Construction	**419**	46	**418**	46
Electricity	**3**	2	**2**	2
Finance, real estate and other business services	**447**	666	**446**	665
Individuals	**6 053**	5 729	**5 984**	5 667
Manufacturing	**225**	275	**223**	273
Mining	**13**	10	**13**	10
Transport	**62**	52	**62**	51
Wholesale	**344**	49	**343**	49
Other services	**430**	503	**563**	637
	8 193	7 531	**8 251**	7 599

10. Current and deferred tax assets

	Group 2012 Rm	Group 2011 Rm	Company 2012 Rm	Company 2011 Rm
Current tax asset	**191**	170	**191**	170
Deferred tax asset	**26**	138	**1**	108
	217	308	**192**	278

10.1 Deferred tax analysis

	Group 2012 Rm	Group 2011 Rm	Company 2012 Rm	Company 2011 Rm
Accrued interest receivable	**4**	4		
Assessed losses	**23**	3		
Assets on lease	**(344)**	(459)	**(345)**	(459)
Depreciation	**(425)**	(32)	**(424)**	(31)
Derivatives[1]	**(2 427)**	(2 302)	**(2 442)**	(2 309)
Fair value adjustments on financial instruments	**(99)**	(215)	**(98)**	(218)
Impairment charges on loans and advances	**636**	527	**622**	508
Deferred income[2]	**1 019**	761	**1 019**	761
Share-based payments	**384**	218	**384**	218
Other differences[1,2]	**802**	931	**802**	928
Deferred tax closing balance	**(427)**	(564)	**(482)**	(602)
Deferred tax asset	**26**	138	**1**	108
Deferred tax liability	**(453)**	(702)	**(483)**	(710)

[1] The 2011 balance of other differences included a balance of R710 million relating to derivatives. This amount has now been separately disclosed within derivatives.
[2] The 2011 balance of deferred income of R575 million was previously disclosed within other differences and is now separately disclosed.

10. Current and deferred tax assets continued

10.2 Deferred tax reconciliation

	Group 2012 Rm	Group 2011 Rm	Company 2012 Rm	Company 2011 Rm
Deferred tax balance at the beginning of the year	**(564)**	290	**(602)**	265
Originating/(reversing) temporary differences for the year:	**137**	(854)	**120**	(867)
Assessed losses	**20**	2		
Assets on lease	**115**	(24)	**114**	(24)
Depreciation	**(393)**	(6)	**(393)**	(6)
Derivatives	**(125)**	(370)	**(133)**	(378)
Fair value adjustments of financial instruments[1]	**116**	(144)	**120**	(140)
Impairment charges on loans and advances	**109**	(203)	**114**	(203)
Deferred income[2]	**258**	575	**258**	575
Share-based payments	**166**	(36)	**166**	(36)
Other differences[2]	**(129)**	(648)	**(126)**	(655)
Deferred tax balance at the end of the year	**(427)**	(564)	**(482)**	(602)
Temporary differences for the year comprise:				
Recognised in other comprehensive income	**73**	(50)	**73**	(50)
Recognised in profit or loss	**64**	(804)	**47**	(817)
	137	(854)	**120**	(867)

[1] Included in the fair value adjustments of financial instruments is a deferred tax charge of R73 million (2011: R50 million) relating to OCI. The R73 million (2011: R50 million) is made up of R44 million (2011: R39 million) relating to fair value adjustments on cash flow hedges and R29 million (2011: R11 million) relating to fair value adjustments on available-for-sale investments.

[2] The 2011 balance of deferred income of R575 million was previously disclosed within other differences and is now separately disclosed.

With effect from 1 April 2012, STC was abolished and replaced by Dividends Tax, which is a withholding tax on shareholders.

Notes to the annual financial statements continued

for the year ended 31 December 2012

		Group		Company	
		2012 Rm	2011 Rm	**2012 Rm**	2011 Rm
11.	**Other assets**				
11.1	**Summary**				
	Trading settlement assets[1]	**13 002**	7 525	**12 826**	602
	Items in the course of collection	**325**	346	**325**	346
	Post-employment benefits (note 11.2)	**784**	753	**784**	753
	Property developments[2]	**262**	29	**57**	29
	Properties in possession[3]	**515**	540	**515**	540
	Other debtors[1,2,3]	**2 933**	1 566	**2 413**	7 999
		17 821	10 759	**16 920**	10 269
11.2	**Post-employment benefits**				
	Balance at the beginning of the year	**753**	467	**753**	467
	Net movement for the year	**31**	286	**31**	286
	Balance at the end of the year	**784**	753	**784**	753

1 The 2011 balance of other debtors included a balance of R3 447 million relating to trading settlement assets. This amount has now been separately disclosed within trading settlement assets.
2 The 2011 balance of property developments of R29 million was previously disclosed in other debtors and has now been separately disclosed.
3 The 2011 balance of properties in possession of R540 million was previously disclosed in other debtors and has now been separately disclosed.

AR Details on post-employment benefits are provided in note 34 starting on page 198

		Group		Company	
		2012 Rm	2011 Rm	**2012 Rm**	2011 Rm
12.	**Interest in group companies, associates and joint ventures**				
	Interest in group companies (note 12.1)	**57 619**	60 851	**64 435**	66 209
	Interest in associates and joint ventures (note 12.2)	**811**	1 248	**158**	731
		58 430	62 099	**64 593**	66 940
12.1	**Interest in group companies**				
	Holding company				
	Indebtedness to the group/company	**146**	131	**146**	131
	Interest in subsidiary companies			**6 233**	4 875
	Shares at cost			**85**	84
	Indebtedness to the company			**6 148**	4 791
	Interest in fellow banking subsidiary companies				
	Indebtedness to the group/company	**57 473**	60 720	**58 056**	61 203
		57 619	60 851	**64 435**	66 209
	Comprising:				
	Shares at cost			**85**	84
	Derivative assets	**5 247**	4 894	**5 274**	4 921
	Trading assets	**13 860**	12 106	**13 860**	12 106
	Loans and advances	**37 156**	42 949	**43 016**	46 628
	Other	**1 356**	902	**2 200**	2 470
		57 619	60 851	**64 435**	66 209

12. Interest in group companies, associates and joint ventures continued

12.2 Interest in associates and joint ventures

	Group 2012 Rm	Group 2011 Rm	Company 2012 Rm	Company 2011 Rm
Carrying value at the beginning of the year	**1 248**	1 309	**731**	891
Share of profits	**385**	155		
Reversal of impairments of associates[1]	**138**		**155**	
Reversal of impairments/(impairments) of private equity associates included in non-interest revenue	**26**	(59)		(69)
Disposal of associate – carrying value	**(37)**	(145)	**(55)**	(99)
Loss on disposal of associate	**(15)**	(72)	**(15)**	(26)
Disposal of associate – fair value	**(22)**	(73)	**(40)**	(73)
Acquisitions	**36**	8	**35**	8
Distribution of profit	**(25)**	(20)		
Reclassified as held for sale (note 7)	**(960)**		**(708)**	
Carrying value at the end of the year	**811**	1 248	**158**	731
Comprising:				
Cost of investments	**234**	1 133	**206**	1 133
Share of reserves	**803**	776		
Impairments	**(226)**	(661)	**(48)**	(402)
Carrying value at the end of the year	**811**	1 248	**158**	731
Share of profits	**385**	155		
Reversal of impairments of associates[1]	**138**		**155**	
Loss on disposal		(72)		(26)
Share of profits/(losses) from associates and joint ventures	**523**	83	**155**	(26)

[1] The recoverable amounts utilised to calculate the reversal of impairments were based on price-earnings valuations. The average price-earnings ratios of comparable entities were utilised with adjustments made for the liquidity of the entities' shares.

There are no significant restrictions on the ability of associates and joint ventures to transfer funds to the group and company in the form of cash dividends or repayments of loans or advances.

AR Associates and joint ventures are listed in annexure D on pages 227 to 228

Notes to the annual financial statements continued

for the year ended 31 December 2012

	Group 2012 Rm	Group 2011 Rm	Company 2012 Rm	Company 2011 Rm
12. Interest in group companies, associates and joint ventures continued				
12.2 Interest in associates and joint ventures continued				
Key financial information of associates and joint ventures				
Statement of financial position				
Non-current assets	**5 318**	4 912	**5 318**	4 912
Current assets	**1 566**	5 417	**1 567**	5 417
Non-current liabilities	**(1 775)**	(4 037)	**(1 775)**	(4 037)
Current liabilities	**(1 242)**	(1 649)	**(1 242)**	(1 649)
Income statement				
Total income	**4 253**	5 066	**4 253**	5 066
Total expense	**(3 972)**	(4 821)	**(3 972)**	(4 821)
Total profit or loss	**281**	246	**281**	246
12.3 Liabilities to group companies				
Indebtedness by the group/company to:				
Ultimate holding company	**56**	1 907	**56**	1 907
Subsidiaries			**2 421**	1 984
Fellow banking subsidiaries	**50 145**	33 100	**50 088**	33 010
	50 201	35 007	**52 565**	36 901
Comprising:				
Derivative liabilities	**3 062**	3 027	**3 114**	3 027
Deposit and current accounts	**46 544**	31 719	**48 914**	33 688
Other	**595**	261	**537**	186
	50 201	35 007	**52 565**	36 901
13. Goodwill and other intangible assets				
Goodwill (note 13.1)	**40**	36		
Other intangible assets (note 13.2)	**10 310**	6 433	**10 307**	6 433
	10 350	6 469	**10 307**	6 433
13.1 Goodwill				
Goodwill on subsidiaries				
Cost at the beginning of the year	**82**	36	**39**	
Acquisitions	**4**	46		39
Cost at the end of the year	**86**	82	**39**	39
Accumulated impairment at the beginning of the year	**(46)**		**(39)**	
Goodwill impairment charge		(46)		(39)
Accumulated impairment at the end of the year	**(46)**	(46)	**(39)**	(39)
Carrying amount	**40**	36		

13. Goodwill and other intangible assets continued

13.1 Goodwill continued

13.1.1 Group

	2012 Gross goodwill Rm	2012 Accumulated impairment Rm	2012 Net goodwill Rm	2011 Gross goodwill Rm	2011 Accumulated impairment Rm	2011 Net goodwill Rm
Goodwill comprises:						
eCentric Switch	**36**		**36**	36		36
Halberg Guss South Africa	**7**	**(7)**		7	(7)	
MTN Mobile Money	**39**	**(39)**		39	(39)	
LC Golf SA (Pty) Ltd	**4**		**4**			
	86	**(46)**	**40**	82	(46)	36

13.1.2 Company

	2012 Gross goodwill Rm	2012 Accumulated impairment Rm	2012 Net goodwill Rm	2011 Gross goodwill Rm	2011 Accumulated impairment Rm	2011 Net goodwill Rm
Goodwill comprises:						
MTN Mobile Money	**39**	**(39)**		39	(39)	
	39	**(39)**		39	(39)	

13.2 Other intangible assets

13.2.1 Group

	2012 Cost Rm	2012 Accumulated amortisation and impairment Rm	2012 Net book value Rm	2011 Cost Rm	2011 Accumulated amortisation and impairment Rm	2011 Net book value Rm
Summary						
Computer software	**12 161**	**1 854**	**10 307**	7 784	1 351	6 433
Other intangible assets	**17**	**14**	**3**	13	13	
Total	**12 178**	**1 868**	**10 310**	7 797	1 364	6 433

	2011 Net book value Rm	Additions[1] Rm	Disposals[2] Rm	Amortisation Rm	Impairments Rm	2012 Net book value[3] Rm
Movement						
Computer software	6 433	**4 411**	**(30)**	**(507)**		**10 307**
Other intangible assets		**4**		**(1)**		**3**
Total	6 433	**4 415**	**(30)**	**(508)**		**10 310**

1 During 2012, R185 million (2011: R124 million) of interest was capitalised.
2 Included in the 2012 disposal balance is an amount of R21 million relating to transfers to property and equipment.
3 Includes work in progress of R5 059 million (2011: R3 768 million) for which amortisation has not yet commenced.

Notes to the annual financial statements continued
for the year ended 31 December 2012

13. Goodwill and other intangible assets continued
13.2 Other intangible assets continued
13.2.1 Group continued

	2010 Net book value Rm	Additions[1] Rm	Disposals Rm	Amortisation Rm	Impairments Rm	2011 Net book value[2] Rm
Movement						
Computer software	4 372	2 316	(2)	(233)	(20)	6 433
Other intangible assets	2			(2)		
Total	4 374	2 316	(2)	(235)	(20)	6 433

13.2.2 Company

	2012			2011		
	Cost Rm	**Accumulated amortisation and impairment Rm**	**Net book value Rm**	Cost Rm	Accumulated amortisation and impairment Rm	Net book value Rm
Summary						
Computer software	**12 161**	**1 854**	**10 307**	7 784	1 351	6 433
Total	**12 161**	**1 854**	**10 307**	7 784	1 351	6 433

	2011 Net book value Rm	**Additions[1] Rm**	**Disposals[3] Rm**	**Amortisation Rm**	**Impairments Rm**	**2012 Net book value[2] Rm**
Movement						
Computer software	6 433	**4 411**	**(30)**	**(507)**		**10 307**
Total	6 433	**4 411**	**(30)**	**(507)**		**10 307**

	2010 Net book value Rm	Additions[1] Rm	Disposals Rm	Amortisation Rm	Impairments Rm	2011 Net book value[2] Rm
Movement						
Computer software	4 372	2 316	(2)	(233)	(20)	6 433
Total	4 372	2 316	(2)	(233)	(20)	6 433

[1] During 2012, R185 million (2011: R124 million) of interest was capitalised.
[2] Includes work in progress of R5 059 million (2011: R3 768 million) for which amortisation has not yet commenced.
[3] Included in the 2012 disposal balance is an amount of R21 million relating to transfers to property and equipment.

There are no significant intangible assets to which titles are restricted or which are pledged as security for liabilities.

14. Property and equipment

14.1 Group

	2012 Cost Rm	2012 Accumulated depreciation Rm	2012 Net book value Rm	2011 Cost Rm	2011 Accumulated depreciation Rm	2011 Net book value Rm
Summary						
Property						
Freehold	**2 702**	**316**	**2 386**	2 108	301	1 807
Leasehold	**2 120**	**613**	**1 507**	1 892	382	1 510
	4 822	**929**	**3 893**	4 000	683	3 317
Equipment						
Computer equipment	**6 611**	**3 960**	**2 651**	6 060	3 494	2 566
Motor vehicles	**336**	**170**	**166**	349	176	173
Office equipment	**570**	**289**	**281**	537	270	267
Furniture and fittings	**3 420**	**1 516**	**1 904**	3 419	1 312	2 107
	10 937	**5 935**	**5 002**	10 365	5 252	5 113
Total	**15 759**	**6 864**	**8 895**	14 365	5 935	8 430

	2011 Net book value Rm	Additions[1,2] Rm	Disposals Rm	Depreciation Rm	2012 Net book value[3] Rm
Movement					
Property					
Freehold	1 807	**673**	**(72)**	**(22)**	**2 386**
Leasehold	1 510	**258**	**(17)**	**(244)**	**1 507**
	3 317	**931**	**(89)**	**(266)**	**3 893**
Equipment					
Computer equipment	2 566	**1 082**	**(39)**	**(958)**	**2 651**
Motor vehicles	173	**68**	**(27)**	**(48)**	**166**
Office equipment	267	**100**	**(28)**	**(58)**	**281**
Furniture and fittings	2 107	**156**	**(21)**	**(338)**	**1 904**
	5 113	**1 406**	**(115)**	**(1 402)**	**5 002**
Total	8 430	**2 337**	**(204)**	**(1 668)**	**8 895**

[1] During 2012, R79 million interest was capitalised (2011: R42 million).
[2] Included in additions, is an amount of R21 million that has been transferred from intangible assets.
[3] Includes work in progress of R1 865 million (2011: R1 270 million) for which depreciation has not yet commenced.

Notes to the annual financial statements continued

for the year ended 31 December 2012

	2010 Net book value Rm	Additions[1] Rm	Disposals Rm	Depreciation Rm	2011 Net book value[2] Rm
14. Property and equipment continued					
14.1 Group					
Movement					
Property					
Freehold	1 342	517	(36)	(16)	1 807
Leasehold	1 688	5		(183)	1 510
	3 030	522	(36)	(199)	3 317
Equipment					
Computer equipment	2 574	833	(14)	(827)	2 566
Motor vehicles	242	69	(87)	(51)	173
Office equipment	254	67		(54)	267
Furniture and fittings	1 806	616	(4)	(311)	2 107
	4 876	1 585	(105)	(1 243)	5 113
Total	7 906	2 107	(141)	(1 442)	8 430

1 During 2012, R79 million interest was capitalised (2011: R42 million).
2 Includes work in progress of R1 865 million (2011: R1 270 million) for which depreciation has not yet commenced.

	2012			2011		
	Cost Rm	**Accumulated depreciation Rm**	**Net book value Rm**	Cost Rm	Accumulated depreciation Rm	Net book value Rm
14.2 Company						
Summary						
Property						
Freehold	**2 659**	**316**	**2 343**	2 039	301	1 738
Leasehold	**2 120**	**612**	**1 508**	1 892	382	1 510
	4 779	**928**	**3 851**	3 931	683	3 248
Equipment						
Computer equipment	**6 546**	**3 915**	**2 631**	6 004	3 457	2 547
Motor vehicles	**315**	**161**	**154**	334	169	165
Office equipment	**507**	**285**	**222**	506	266	240
Furniture and fittings	**3 412**	**1 510**	**1 902**	3 412	1 306	2 106
	10 780	**5 871**	**4 909**	10 256	5 198	5 058
Total	**15 559**	**6 799**	**8 760**	14 187	5 881	8 306

14. Property and equipment
continued

14.2 Company

	2011 Net book value Rm	Additions[1,2] Rm	Disposals Rm	Depreciation Rm	2012 Net book value[3] Rm
Movement					
Property					
Freehold	1 738	632	(5)	(22)	2 343
Leasehold	1 510	259	(17)	(244)	1 508
	3 248	891	(22)	(266)	3 851
Equipment					
Computer equipment	2 547	1 073	(39)	(950)	2 631
Motor vehicles	165	61	(27)	(45)	154
Office equipment	240	41	(2)	(57)	222
Furniture and fittings	2 106	155	(21)	(338)	1 902
	5 058	1 330	(89)	(1 390)	4 909
Total	8 306	2 221	(111)	(1 656)	8 760

	2010 Net book value Rm	Additions[1] Rm	Disposals Rm	Depreciation Rm	2011 Net book value[3] Rm
Movement					
Property					
Freehold	1 340	450	(36)	(16)	1 738
Leasehold	1 688	5		(183)	1 510
	3 028	455	(36)	(199)	3 248
Equipment					
Computer equipment	2 565	818	(14)	(822)	2 547
Motor vehicles	235	65	(85)	(50)	165
Office equipment	253	41		(54)	240
Furniture and fittings	1 804	616	(3)	(311)	2 106
	4 857	1 540	(102)	(1 237)	5 058
Total	7 885	1 995	(138)	(1 436)	8 306

1 During 2012, R79 million interest was capitalised (2011: R42 million).
2 Included in additions, is an amount of R21 million that has been transferred from intangible assets.
3 Includes work in progress of R1 865 million (2011: R1 270 million) for which depreciation has not yet commenced.

A register of freehold land and buildings is available for inspection at the registered office of the company.

There is no significant property or equipment to which title is restricted or which is pledged as security for liabilities.

14.3 Valuation

The fair value of completed freehold property, based on valuations undertaken during 2011 by valuers registered under the Valuers Act 23 of 1982, was estimated at R1 344 million (2011: R1 429 million) for the group and R1 301 million (2011: R1 360 million) for the company.

Notes to the annual financial statements continued
for the year ended 31 December 2012

		Group		Company	
		2012 Rm	2011 Rm	**2012 Rm**	2011 Rm
15.	**Ordinary share capital**				
15.1	**Authorised**				
	80 000 000 (2011: 80 000 000) ordinary shares of R1 each.	**80**	80	**80**	80
	1 000 000 000 (2011: 1 000 000 000) non-redeemable, non-cumulative, non-participating preference shares of R0,01 each.	**10**	10	**10**	10
		90	90	**90**	90
15.2	**Issued**				
	59 997 126 (2011: 59 997 123) ordinary shares of R1 each.	**60**	60	**60**	60
	During the year, three (2011: two) ordinary shares of R1 each were issued at a total premium of R7 966 million[1] (2011: R2 000 million) per ordinary share.				
		60	60	**60**	60
15.3	**Unissued shares**				
	20 002 874 (2011: 20 002 877) ordinary shares of R1 each are under the general authority of the directors, whose authority expires at the annual general meeting to be held on 29 May 2013.	**20**	20	**20**	20
	1 000 000 000 (2011: 1 000 000 000) non-redeemable, non-cumulative, non-participating preference shares of R0,01 each are under the general authority of the directors, whose authority expires at the annual general meeting to be held on 29 May 2013.	**10**	10	**10**	10
		30	30	**30**	30
16.	**Ordinary share premium**				
	Share premium on issue of shares[1]	**35 196**	27 230	**35 196**	27 230

[1] The current share premium consists of capital injections to SBSA from the holding company, Standard Bank Group Limited, to ensure that SBSA continues to comply with regulatory capital requirements.

17. Trading liabilities

	Group 2012 Rm	Group 2011 Rm	Company 2012 Rm	Company 2011 Rm
Listed	**3 044**	5 978	**3 044**	5 978
Unlisted	**12 909**	7 603	**12 909**	7 603
	15 953	13 581	**15 953**	13 581
Comprising:				
Government, municipality and utility bonds	**714**	2 794	**714**	2 794
Collateral	**2 388**	2 764	**2 388**	2 764
Repurchase agreements and other collateralised agreements	**12 800**	7 413	**12 800**	7 413
Other instruments	**51**	610	**51**	610
	15 953	13 581	**15 953**	13 581
Maturity analysis				
The maturities represent periods to contractual redemption of the trading liabilities recorded.				
Repayable on demand	**1 232**	169	**1 232**	169
Maturing within 1 month	**12 635**	7 279	**12 635**	7 279
Maturing after 1 month but within 6 months	**166**	135	**166**	135
Maturing after 6 months but within 12 months		2 113		2 113
Maturing after 12 months	**1 920**	3 885	**1 920**	3 885
	15 953	13 581	**15 953**	13 581

Notes to the annual financial statements continued

for the year ended 31 December 2012

	Group 2012 Rm	Group 2011[1] Rm	Company 2012 Rm	Company 2011[1] Rm
18. Deposit and current accounts				
Deposits from banks	**78 453**	78 812	**78 453**	78 813
Deposits from banks and central banks	**77 047**	77 385	**77 047**	77 386
Deposits from banks under repurchase agreements and other collateralised agreements	**1 406**	1 427	**1 406**	1 427
Deposits from customers	**639 491**	609 250	**628 133**	595 334
Current accounts	**73 914**	66 737	**73 914**	66 737
Cash management deposits	**103 899**	94 916	**103 899**	94 916
Card creditors	**1 452**	1 387	**1 452**	1 387
Call deposits	**131 518**	125 267	**131 519**	125 267
Savings accounts	**19 699**	19 795	**19 699**	19 795
Term deposits	**205 367**	215 806	**201 200**	210 072
Negotiable certificates of deposit	**75 905**	62 549	**75 905**	62 549
Repurchase agreements and other collateralised agreements	**38**	1 007	**38**	1 007
Securitisation issuances	**7 192**	8 183		
Other funding	**20 507**	13 603	**20 507**	13 604
Deposit and current accounts	**717 944**	688 062	**706 586**	674 147

The carrying value of deposit and current accounts in the group and company was increased by R621 million (2011: increased by R293 million) for fair value adjustments arising from risks subject to fair value hedging relationships.

Maturity analysis

The maturities represent periods to contractual redemption of the deposit and current accounts recorded.

	Group 2012 Rm	Group 2011[1] Rm	Company 2012 Rm	Company 2011[1] Rm
Repayable on demand	**362 508**	337 481	**362 509**	337 484
Maturing within 1 month	**55 796**	62 007	**53 197**	59 504
Maturing after 1 month but within 6 months	**114 375**	115 920	**110 690**	110 763
Maturing after 6 months but within 12 months	**48 349**	63 622	**48 349**	63 469
Maturing after 12 months	**136 916**	109 032	**131 841**	102 927
	717 944	688 062	**706 586**	674 147

[1] A balance of R14 045 million was reclassified from deposit and current accounts from customers to deposit and current accounts from banks in order to align the counterparty to the underlying lending arrangements and to conform with the basis of disclosure in the current financial year.

	Group		Company	
	2012 Rm	2011 Rm	**2012 Rm**	2011 Rm
19. Current and deferred tax liabilities				
Current tax liability	**2 940**	972	**2 933**	954
Deferred tax liability	**453**	702	**483**	710
	3 393	1 674	**3 416**	1 664
20. Provisions and other liabilities				
20.1 Summary				
Trading settlement liabilities	**5 953**	4 283	**5 953**	4 283
Items in the course of transmission	**802**	106	**828**	143
Provision for post-employment benefits (note 20.2)	**644**	637	**644**	637
Cash-settled share-based payment liability (annexure E)	**981**	777	**981**	777
Deferred bonus scheme (DBS) (annexure E)	**175**	137	**175**	137
Deferred bonus scheme 2012 (DBS 2012) (annexure E)	**185**		**185**	
Staff-related accruals	**2 551**	2 453	**2 542**	2 436
Other liabilities, accruals and provisions	**6 282**	5 300	**5 603**	4 840
	17 573	13 693	**16 911**	13 253
20.2 Provision for post-employment benefits				
Balance at the beginning of the year	**637**	622	**637**	622
Net provision raised	**7**	15	**7**	15
Balance at the end of the year	**644**	637	**644**	637

AR **Details of post-employment benefits are provided in note 34 starting on page 198**

Notes to the annual financial statements continued
for the year ended 31 December 2012

21. Subordinated debt

	Date issued	Rate %	Callable date
Unsecured, subordinated, redeemable bonds[2]			
Group and company			
Redeemable in 2012[3] (SBK 10) (Tier III)	2007/11/19	JIBAR[4] + 0.675	
Redeemable in 2017[3] (USA private placement)	2007/07/31[5]	LIBOR[6] + 0.88 and 6.44[7]	2012/07/31
Redeemable in 2018 (SBK 8)	2006/04/10	8.20[7]	2013/04/10[8]
Redeemable in 2019 (SBKI 11)	2009/04/09	CPI indexed[9]	2014/04/10[8]
Redeemable in 2020 (SBK 7)	2005/05/24	9.63[7]	2015/05/24[8]
Redeemable in 2021 (SBK 12)	2009/11/24	10.82[7]	2016/11/24[8]
Redeemable in 2021 (SBK 13)	2009/11/24	JIBAR[4] + 2.20	2016/11/24[8]
Redeemable in 2022 (SBK 15)	2012/01/23	JIBAR[4] + 2.00	2017/01/23
Redeemable in 2022 (SBK 14)	2011/01/01	9.66[7]	2017/12/01[8]
Redeemable in 2023 (SBK 16)	2012/03/15	JIBAR[4] + 2.10	2018/03/15
Redeemable in 2023 (SBK 9)	2006/04/10	8.40[7]	2018/04/10[8]
Redeemable in 2024 (SBK 17)	2012/07/30	JIBAR[4] + 2.20	2019/07/30
Redeemable in 2024 (SBK 19)	2012/10/24	JIBAR[4] + 2.20	2019/10/24
Redeemable in 2025 (SBK 18)	2012/10/24	JIBAR[4] + 2.35	2020/10/24
Total subordinated debt			

1 The difference between the carrying and notional value represents transaction costs included in the initial carrying amounts, 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 2012.
4 JIBAR is the three-month floating Johannesburg interbank agreed rate.
5 Bonds issued in US dollars (USD355 million) redeemable on 31 July 2017, divided into two categories:
Category A – USD230 million bearing interest at 6.44% compounding semi-annually, switching to LIBOR plus 1.88% on 31 July 2012.
Category B – USD125 million at LIBOR plus 0.88%, switching to LIBOR plus 1.88% on 31 July 2012.
6 LIBOR is the London interbank offered rate for three-month USD 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 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.

Rate after call date %	Notional value LCm	**Carrying value 2012[1] Rm**	**Notional value 2012 Rm**	Carrying value 2011[1] Rm	Notional value 2011 Rm
	ZAR300			302	300
LIBOR[6] + 1.88	USD355			2 925	2 548
JIBAR[4] + 1.50	ZAR1 500	**1 528**	**1 500**	1 528	1 500
RY[10] of 7.25	ZAR1 800	**2 414**	**1 800**	2 206	1 800
JIBAR[4] + 1.97	ZAR3 000	**3 033**	**3 000**	3 033	3 000
JIBAR[4] + 3.90	ZAR1 600	**1 618**	**1 600**	1 618	1 600
JIBAR[4] + 4.20	ZAR1 150	**1 159**	**1 150**	1 159	1 150
CPI indexed[9] + 2.36	ZAR1 220	**1 236**	**1 220**		
CPI indexed[9] + 2.69	ZAR1 780	**1 795**	**1 780**	1 795	1 780
CPI indexed[9] + 2.42	ZAR2 000	**2 005**	**2 000**		
JIBAR[4] + 1.68	ZAR1 500	**1 529**	**1 500**	1 529	1 500
JIBAR[4] + 2.20	ZAR2 000	**2 024**	**2 000**		
JIBAR[4] + 2.20	ZAR500	**507**	**500**		
JIBAR[4] + 2.35	ZAR3 500	**3 552**	**3 500**		
		22 400	**21 550**	16 095	15 178

Notes to the annual financial statements continued

for the year ended 31 December 2012

22. Classification of assets and liabilities

Accounting classifications and fair values

The table below sets out the group's classification of financial assets and liabilities, and their fair values.

Group	Note	Held-for-trading[1] Rm	Designated at fair value Rm
2012			
Assets			
Cash and balances with the central bank	3		
Derivative assets	4.7	**78 844**	
Trading assets	5	**35 685**	
Pledged assets	6.1	**5 706**	
Non-current asset held for sale	7		
Financial investments	8		**62 521**
Loans and advances to banks	9.1		**2 044**
Loans and advances to customers	9.1		**362**
Interest in group companies, associates and joint ventures	12	**19 107**	
Other financial assets			
Other non-financial assets			
		139 342	**64 927**
Liabilities			
Derivative liabilities	4.7	**81 744**	
Trading liabilities	17	**15 953**	
Deposits from banks	18		**1 720**
Deposits from customers	18		**40 195**
Subordinated debt	21		
Liabilities to group companies	12.3	**3 062**	
Other financial liabilities			
Other non-financial liabilities			
		100 759	**41 915**
2011			
Assets			
Cash and balances with the central bank	3		
Derivative assets	4.7	93 422	
Trading assets	5	24 626	
Pledged assets	6.1	3 737	
Financial investments[4]	8	542	64 990
Loans and advances to banks[5]	9.1	63	1 525
Loans and advances to customers[5]	9.1		2 028
Interest in group companies, associates and joint ventures	12	17 000	
Other financial assets			
Other non-financial assets			
		139 390	68 543
Liabilities			
Derivative liabilities	4.7	98 730	
Trading liabilities	17	13 581	
Deposits from banks[5]	18		2 352
Deposits from customers[4,5,6]	18		50 056
Subordinated debt	21		
Liabilities to group companies	12.3	3 027	
Other financial liabilities			
Other non-financial liabilities			
		115 338	52 408

[1] Includes derivative assets or liabilities held-for-hedging. Refer to note 4.7 starting on page 138.
[2] Includes financial assets and liabilities for which the carrying value has been adjusted for changes in fair value due to designated hedged risks.
[3] Carrying value has been used where it approximates fair value, excluding non-financial instruments. Refer to the fair value section in accounting policy 4 – *Financial instruments* on page 211 for a description on how fair values are determined.
[4] Included in the restated comparative information is the restatement of financial assets of R2 763 million from the designated at fair value category to the held-to-maturity category and financial liabilities of R2 357 million from the designated at fair value category to the amortised cost category. These restatements reflect the original intention of management and the underlying nature of the financial instruments. The restatement had no impact on the group's income statement or reserves.

Held-to-maturity Rm	Loans and receivables[2] Rm	Available-for-sale Rm	Other amortised cost[2] Rm	Other non-financial assets/ liabilities Rm	Total carrying amount Rm	Fair value[3] Rm
	25 926				**25 926**	**25 926**
					78 844	**78 844**
					35 685	**35 685**
					5 706	**5 706**
				960	**960**	
12 698		**1 460**			**76 679**	**78 206**
	67 955				**69 999**	**70 426**
	589 139				**589 501**	**588 080**
	36 563			**2 760**	**58 430**	**55 670**
	17 007				**17 007**	**17 007**
				20 276	**20 276**	
12 698	**736 590**	**1 460**		**23 996**	**979 013**	
					81 744	**81 744**
					15 953	**15 953**
			76 733		**78 453**	**78 438**
			599 296		**639 491**	**639 393**
			22 400		**22 400**	**22 977**
			46 544	**595**	**50 201**	**49 606**
			13 552		**13 552**	**13 552**
				7 414	**7 414**	
			758 525	**8 009**	**909 208**	
	20 865				20 865	20 865
					93 422	93 422
					24 626	24 626
					3 737	3 737
11 878		2 399			79 809	82 621
	59 152				60 740	61 634
	548 397				550 425	549 897
	42 330			2 769	62 099	59 308
	5 897				5 897	5 897
				20 069	20 069	
11 878	676 641	2 399		22 838	921 689	
					98 730	98 730
					13 581	13 581
			76 460		78 812	64 768
			559 194		609 250	623 724
			16 095		16 095	16 490
			31 721	259	35 007	34 748
			10 896		10 896	10 896
				4 471	4 471	
			694 366	4 730	866 842	

5 2011 balances reclassified in order to align the counterparty to the underlying lending arrangements and to conform with the basis of disclosure in the current financial year.

6 During the previous financial year, comparative amounts for deposits from customers were reclassified from other amortised cost to the designated at fair value category to be consistent with the classification of such amounts that were reported in the prior financial year (2011). During the current financial year (2012) it was determined that such reclassification was incorrect. These amounts were deposits from customers for which fair value hedge adjustments had been recognised, and hence such amounts should have rather remained classified as amortised cost together with its fair value hedge adjustment. The fair value adjustments, which were historically classified in the designated at fair value category, should rather have been classified within the amortised cost category. Accordingly, in order to adjust for the previous incorrect reclassification, an amount of R28 822 million has been reclassified from designated at fair value to other amortised cost. The reclassification reflects the original intention of management and is in accordance with IFRS. No adjustments to the carrying value of the deposits from customers arose as a result of the reclassification.

Notes to the annual financial statements continued

for the year ended 31 December 2012

22. Classification of assets and liabilities continued

Accounting classifications and fair values continued

The table below sets out the company's classification of financial assets and liabilities, and their fair values.

Company	Note	Held-for-trading[1] Rm	Designated at fair value Rm
2012			
Assets			
Cash and balances with the central bank	3		
Derivative assets	4.7	**78 896**	
Trading assets	5	**35 496**	
Pledged assets	6.1	**5 706**	
Non-current asset held for sale	7		
Financial investments	8		**62 528**
Loans and advances to banks	9.1		**2 044**
Loans and advances to customers	9.1		**362**
Interest in group companies, associates and joint ventures	12	**19 134**	
Other financial assets			
Other non-financial assets			
		139 232	**64 934**
Liabilities			
Derivative liabilities	4.7	**81 744**	
Trading liabilities	17	**15 953**	
Deposits from banks	18		**1 720**
Deposits from customers	18		**40 147**
Subordinated debt	21		
Liabilities to group companies	12.3	**3 114**	
Other financial liabilities			
Other non-financial liabilities			
		100 811	**41 867**
2011			
Assets			
Cash and balances with the central bank	3		
Derivative assets	4.7	93 445	
Trading assets	5	24 440	
Pledged assets	6.1	3 737	
Financial investments[4]	8	542	64 996
Loans and advances to banks[5]	9.1	63	1 525
Loans and advances to customers[5]	9.1		2 028
Interest in group companies, associates and joint ventures	12	17 026	
Other financial assets			
Other non-financial assets			
		139 253	68 549
Liabilities			
Derivative liabilities	4.7	98 727	
Trading liabilities	17	13 581	
Deposits from banks[5]	18		2 352
Deposits from customers[4,5,6]	18		50 042
Subordinated debt	21		
Liabilities to group companies	12.3	3 027	
Other financial liabilities			
Other non-financial liabilities			
		115 335	52 394

1 Includes derivative assets or liabilities held-for-hedging. Refer to note 4.7 starting on page 138.
2 Includes financial assets and liabilities for which the carrying value has been adjusted for changes in fair value due to designated hedged risks.
3 Carrying value has been used where it approximates fair value, excluding non-financial instruments. Refer to the fair value section in accounting policy 4 – *Financial instruments* on page 211 for a description on how fair values are determined.
4 Included in the restated comparative information is the restatement of financial assets of R2 763 million from the designated at fair value category to the held-to-maturity category and financial liabilities of R2 357 million from the designated at fair value category to the amortised cost category. These restatements reflect the original intention of management and the underlying nature of the financial instruments. The restatement had no impact on the group's income statement or reserves.

Held-to-maturity Rm	Loans and receivables[2] Rm	Available-for-sale Rm	Other amortised cost[2] Rm	Other non-financial assets/ liabilities Rm	Total carrying amount Rm	Fair value[3] Rm
	25 926				**25 926**	**25 926**
					78 896	**78 896**
					35 496	**35 496**
					5 706	**5 706**
				708	**708**	
12 702		**1 460**			**76 690**	**78 213**
	67 989				**70 033**	**70 408**
	573 367				**573 729**	**573 092**
	43 225			**2 234**	**64 593**	**62 359**
	16 779				**16 779**	**16 779**
				19 400	**19 400**	
12 702	**727 286**	**1 460**		**22 342**	**967 956**	
					81 744	**81 744**
					15 953	**15 953**
			76 733		**78 453**	**78 438**
			587 986		**628 133**	**628 035**
			22 400		**22 400**	**22 977**
			48 914	**537**	**52 565**	**52 028**
			12 931		**12 931**	**12 931**
				7 396	**7 396**	
			748 964	**7 933**	**899 575**	
	20 865				20 865	20 865
					93 445	93 445
					24 440	24 440
					3 737	3 737
11 878		2 399			79 815	82 627
	58 985				60 573	61 470
	530 996				533 024	532 559
	47 608			2 306	66 940	65 129
	5 800				5 800	5 800
				19 486	19 486	
11 878	664 254	2 399		21 792	908 125	
					98 727	98 727
					13 581	13 581
			76 461		78 813	64 768
			545 292		595 334	609 800
			16 095		16 095	16 490
			33 688	186	36 901	36 715
			10 488		10 488	10 488
				4 429	4 429	
			682 024	4 615	854 368	

5 2011 balances reclassified in order to align the counterparty to the underlying lending arrangements and to conform with the basis of disclosure in the current financial year.

6 During the previous financial year, comparative amounts for deposits from customers were reclassified from other amortised cost to the designated at fair value category to be consistent with the classification of such amounts that were reported in the prior financial year (2011). During the current financial year (2012) it was determined that such reclassification was incorrect. These amounts were deposits from customers for which fair value hedge adjustments had been recognised, and hence such amounts should have rather remained classified as amortised cost together with its fair value hedge adjustment. The fair value adjustments, which were historically classified in the designated at fair value category, should rather have been classified within the amortised cost category. Accordingly, in order to adjust for the previous incorrect reclassification, an amount of R28 822 million has been reclassified from designated at fair value to other amortised cost. The reclassification reflects the original intention of management and is in accordance with IFRS. No adjustments to the carrying value of the deposits from customers arose as a result of the reclassification.

Notes to the annual financial statements continued

for the year ended 31 December 2012

23. Financial instruments measured at fair value

23.1 Group

23.1.1 Fair value hierarchy of instruments measured at fair value

The table below analyses financial instruments carried at fair value, by level of fair value hierarchy. The different levels are based on the extent that available market data is used in the calculation of the fair value of the financial instruments. The levels have been defined as follows:

Level 1 – fair value is based on quoted market prices (unadjusted) in active markets for identical instruments.

Level 2 – fair value is determined through valuation techniques based on observable inputs, either directly, such as quoted prices, or indirectly, such as 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 value is determined through valuation techniques using significant unobservable inputs. This category includes all instruments where the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments where significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

	Level 1 Rm	Level 2 Rm	Level 3 Rm	Total Rm
2012				
Assets				
Derivative assets	66	77 295	1 483	78 844
Trading assets	17 266	18 153	266	35 685
Pledged assets	4 834	872		5 706
Financial investments	9 329	52 089	2 563	63 981
Loans and advances to banks		2 044		2 044
Loans and advances to customers		362		362
Interest in group companies	4 657	12 887	1 563	19 107
	36 152	163 702	5 875	205 729
Comprising:				
Held-for-trading				139 342
Designated at fair value				64 927
Available-for-sale				1 460
				205 729
Liabilities				
Derivative liabilities	107	80 269	1 368	81 744
Trading liabilities	783	15 170		15 953
Deposits from banks	2	1 718		1 720
Deposits from customers	3 690	36 505		40 195
Liabilities to group companies		3 062		3 062
	4 582	136 724	1 368	142 674
Comprising:				
Held-for-trading				100 759
Designated at fair value				41 915
				142 674

23. Financial instruments measured at fair value continued

23.1 Group continued

23.1.1 Fair value hierarchy of instruments measured at fair value continued

	Level 1 Rm	Level 2 Rm	Level 3 Rm	Total Rm
2011				
Assets				
Derivative assets	320	91 116	1 986	93 422
Trading assets	10 324	14 096	206	24 626
Pledged assets	3 737			3 737
Financial investments[1]	15 844	49 639	2 448	67 931
Loans and advances to banks	63	1 525		1 588
Loans and advances to customers		2 028		2 028
Interest in group companies	2 484	14 516		17 000
	32 772	172 920	4 640	210 332
Comprising:				
Held-for-trading				139 390
Designated at fair value				68 543
Available-for-sale				2 399
				210 332
Liabilities				
Derivative liabilities	125	96 850	1 755	98 730
Trading liabilities	2 808	10 773		13 581
Deposits from banks		2 352		2 352
Deposits from customers[1]	3 449	46 607		50 056
Liabilities to group companies		3 027		3 027
	6 382	159 609	1 755	167 746
Comprising:				
Held-for-trading				115 338
Designated at fair value				52 408
				167 746

[1] 2011 reclassified to reflect the presentation consequences of the reclassifications as explained in note 22 starting on page 168.

Notes to the annual financial statements continued

for the year ended 31 December 2012

23. Financial instruments measured at fair value continued

23.1 Group continued

23.1.2 Reconciliation of level 3 financial assets

The table below sets out the reconciliation of financial assets that are measured at fair value based on inputs that are not based on observable market data (level 3):

	Derivative assets Rm	Trading assets Rm	Financial investments Rm	Loans and advances to customers Rm	Interest in group companies Rm	Total Rm
Balance at 1 January 2011	567	220	2 385	42		3 214
Total gains/(losses) included in profit or loss:	1 660	(14)	348	(42)		1 952
Interest income				(42)		(42)
Trading revenue	1 660	(14)				1 646
Other revenue			348			348
Originations and purchases	22		21			43
Sales			(6)			(6)
Settlements[1]	(244)		(71)			(315)
Transfers into level 3[2]	9					9
Transfers out of level 3[3]	(28)		(229)			(257)
Balance at 31 December 2011	1 986	206	2 448			4 640
Balance at 1 January 2012	**1 986**	**206**	**2 448**			**4 640**
Total (losses)/gains included in profit or loss:	**(1 120)**	**60**	**267**		**1 563**	**770**
Trading revenue	**(1 120)**	**60**			**1 563**	**503**
Other revenue			**267**			**267**
Originations and purchases	**21**		**337**			**358**
Sales			**(353)**			**(353)**
Settlements[1]	**596**		**(60)**			**536**
Transfers out of level 3[3]			**(76)**			**(76)**
Balance at 31 December 2012	**1 483**	**266**	**2 563**		**1 563**	**5 875**

[1] Derivative fair values represent the net present value of positive and/or negative future cash flows. Settlements may increase or decrease the carrying value of derivative assets.

[2] During 2011, the valuation inputs of certain financial assets became unobservable. The fair values were transferred into level 3.

[3] During 2011 and 2012, the valuation inputs of certain level 3 financial assets became observable. The fair values were transferred into level 2.

23. Financial instruments measured at fair value continued

23.1 Group continued

23.1.3 (Losses)/gains for the year included in profit or loss for level 3 financial assets held at the end of the year

	Derivative assets Rm	Trading assets Rm	Financial investments Rm	Loans and advances to customers Rm	Interest in group companies Rm	Total Rm
2012						
Trading revenue	**(1 120)**	**60**			**1 563**	**503**
Other revenue			**267**			**267**
Total	**(1 120)**	**60**	**267**		**1 563**	**770**
2011						
Interest income				(42)		(42)
Trading revenue	1 660	(13)				1 647
Other revenue			142			142
Total	1 660	(13)	142	(42)		1 747

23.1.4 Reconciliation of level 3 financial liabilities

The table below sets out the reconciliation of financial liabilities that are measured at fair value based on inputs that are not based on observable market data (level 3):

	Derivative liabilities Rm	Deposits from customers Rm	Total Rm
Balance at 1 January 2011	570	449	1 019
Total losses/(gains) included in profit or loss – trading revenue	1 453	(12)	1 441
Total gains included in other comprehensive income	(16)		(16)
Issuances and sales	21		21
Settlements[1]	(494)	(68)	(562)
Transfers into level 3[2]	221		221
Transfers out of level 3[3]		(369)	(369)
Balance at 31 December 2011	1 755		1 755
Balance at 1 January 2012	**1 755**		**1 755**
Total losses included in profit or loss – trading revenue	**165**		**165**
Issuances and sales	**56**		**56**
Settlements[1]	**(608)**		**(608)**
Balance at 31 December 2012	**1 368**		**1 368**

23.1.5 Losses for the year included in profit or loss for level 3 financial liabilities held at the end of the year

	Derivative liabilities Rm	Deposits from customers Rm	Total Rm
2012			
Trading revenue	**164**		**164**
Total	**164**		**164**
2011			
Trading revenue	1 453		1 453
Total	1 453		1 453

[1] Derivative fair values represent the net present value of positive and/or negative future cash flows. Settlements may increase or decrease the carrying value of derivative liabilities.
[2] During 2011, the valuation inputs of certain financial assets became unobservable. The fair values were transferred into level 3.
[3] During 2011, the valuation inputs of certain level 3 financial assets became observable. The fair values were transferred into level 2.

Notes to the annual financial statements continued
for the year ended 31 December 2012

23. Financial instruments measured at fair value continued
23.1 Group continued
23.1.6 Sensitivity of fair value of level 3 financial instruments

The fair value of level 3 financial instruments is determined using valuation techniques which incorporate assumptions that are not supported by prices from observable current market transactions in the same instruments and are not based on available observable market data. Such assumptions include risk premiums, liquidity discount rates, credit risk, volatilities and correlations. Changes in these assumptions could affect the reported fair values of these financial instruments.

The fair value of level 3 financial instruments is determined using valuation techniques which incorporate assumptions based on unobservable inputs and are subject to management judgement. Although the group believes that its estimates of fair values are appropriate, changing one or more of these assumptions to reasonably possible alternative values could impact the fair value of the financial instruments. The table below indicates the valuation techniques and main assumptions used in the determination of the fair value of the level 3 financial instruments. The table further indicates the effect that a change in one or more of the inputs to a reasonably possible alternative assumption would have on profit or loss and OCI (where applicable) at the reporting date, where the change in the input would change the fair value of the financial instrument significantly. The changes in the inputs that have been used in the analysis below have been determined taking into account several considerations such as the nature of the instrument and the market within which the instrument is transacted.

			Effect on profit or loss	
	Valuation basis/ technique	**Main assumptions**	**Favourable Rm**	**(Unfavourable) Rm**
2012				
Derivative instruments	Discounted cash flow model, Black-Scholes model	Discount, liquidity discount, risk-free and volatility rates	**107**	**(106)**
Trading assets	Discounted cash flow model	Discount and liquidity discount rates	**15**	**(15)**
Financial investments	Discounted cash flow model, earnings multiple, sustainable earnings	Discount and liquidity discount rates, earnings multiple	**224**	**(208)**
Interest in group companies, associates and joint ventures	Discounted cash flow model	Discount and liquidity discount rates	**2**	**(2)**
Total			**348**	**(331)**
2011				
Derivative instruments	Discounted cash flow model, Black-Scholes model	Discount, liquidity discount, risk-free and volatility rates	215	(215)
Trading assets	Discounted cash flow model	Discount and liquidity discount rates	19	(19)
Financial investments	Discounted cash flow model, earnings multiple, sustainable earnings	Discount and liquidity discount rates, earnings multiple	211	(202)
Total			445	(436)

23. Financial instruments measured at fair value continued

23.2 Company

23.2.1 Fair value hierarchy of instruments measured at fair value

	Level 1 Rm	Level 2 Rm	Level 3 Rm	Total Rm
2012				
Assets				
Derivative assets	**66**	**77 347**	**1 483**	**78 896**
Trading assets	**17 078**	**18 152**	**266**	**35 496**
Pledged assets	**4 834**	**872**		**5 706**
Financial investments	**9 329**	**52 090**	**2 569**	**63 988**
Loans and advances to banks		**2 044**		**2 044**
Loans and advances to customers		**362**		**362**
Interest in group companies	**2 603**	**14 968**	**1 563**	**19 134**
	33 910	**165 835**	**5 881**	**205 626**
Comprising:				
Held-for-trading				**139 232**
Designated at fair value				**64 934**
Available-for-sale				**1 460**
				205 626
Liabilities				
Derivative liabilities	**107**	**80 269**	**1 368**	**81 744**
Trading liabilities	**783**	**15 170**		**15 953**
Deposits from banks	**2**	**1 718**		**1 720**
Deposits from customers	**3 677**	**36 470**		**40 147**
Liabilities to group companies		**3 114**		**3 114**
	4 569	**136 741**	**1 368**	**142 678**
Comprising:				
Held-for-trading				**100 811**
Designated at fair value				**41 867**
				142 678
2011				
Assets				
Derivative assets	320	91 139	1 986	93 445
Trading assets	10 138	14 096	206	24 440
Pledged assets	3 737			3 737
Financial investments[1]	15 844	49 639	2 454	67 937
Loans and advances to banks	63	1 525		1 588
Loans and advances to customers		2 028		2 028
Interest in group companies	2 483	14 543		17 026
	32 585	172 970	4 646	210 201
Comprising:				
Held-for-trading				139 253
Designated at fair value				68 549
Available-for-sale				2 399
				210 201

[1] 2011 reclassified to reflect the presentation consequences of the reclassifications as explained in note 22 starting on page 168.

Notes to the annual financial statements continued

for the year ended 31 December 2012

23. Financial instruments measured at fair value continued

23.2 Company continued

23.2.1 Fair value hierarchy of instruments measured at fair value

	Level 1 Rm	Level 2 Rm	Level 3 Rm	Total Rm
Liabilities				
Derivative liabilities	125	96 847	1 755	98 727
Trading liabilities	2 808	10 773		13 581
Deposits from banks		2 352		2 352
Deposits from customers[1]	3 435	46 607		50 042
Liabilities to group companies		3 027		3 027
	6 368	159 606	1 755	167 729
Comprising:				
Held-for-trading				115 335
Designated at fair value				52 394
				167 729

23.2.2 Reconciliation of level 3 financial assets

The table below sets out the reconciliation of financial assets that are measured at fair value based on inputs that are not based on observable market data (level 3):

	Derivative assets Rm	Trading assets Rm	Financial investments Rm	Loans and advances to customers Rm	Interest in group companies Rm	Total Rm
Balance at 1 January 2011	567	220	2 385	42		3 214
Total gains/(losses) included in profit or loss:	1 660	(14)	348	(42)		1 952
Interest income				(42)		(42)
Trading revenue	1 660	(14)				1 646
Other revenue			348			348
Originations and purchases	22		27			49
Sales			(6)			(6)
Settlements[2]	(244)		(71)			(315)
Transfers into level 3[3]	9					9
Transfers out of level 3[4]	(28)		(229)			(257)
Balance at 31 December 2011	1 986	206	2 454			4 646
Balance at 1 January 2012	**1 986**	**206**	**2 454**			**4 646**
Total (losses)/gains included in profit or loss:	**(1 120)**	**60**	**267**		**1 563**	**770**
Trading revenue	**(1 120)**	**60**			**1 563**	**503**
Other revenue			**267**			**267**
Originations and purchases	**21**		**337**			**358**
Sales			**(353)**			**(353)**
Settlements[2]	**596**		**(60)**			**536**
Transfers out of level 3[4]			**(76)**			**(76)**
Balance at 31 December 2012	**1 483**	**266**	**2 569**		**1 563**	**5 881**

[1] 2011 reclassified to reflect the presentation consequences of the reclassifications as explained in note 22.
[2] Derivative fair values represent the net present value of positive and/or negative future cash flows. Settlements may increase or decrease the carrying value of derivative assets.
[3] During 2011, the valuation inputs of certain financial assets became unobservable. The fair values were transferred into level 3.
[4] During 2011 and 2012, the valuation inputs of certain level 3 financial assets became observable. The fair values were transferred into level 2.

23. Financial instruments measured at fair value continued

23.2 Company continued

23.2.3 (Losses)/gains for the year included in profit or loss for level 3 financial assets held at the end of the year

	Derivative assets Rm	Trading assets Rm	Financial investments Rm	Loans and advances to customers Rm	Interest in group companies Rm	Total Rm
2012						
Trading revenue	**(1 120)**	**60**			**1 563**	**503**
Other revenue			**267**			**267**
Total	**(1 120)**	**60**	**267**		**1 563**	**770**
2011						
Interest income				(42)		(42)
Trading revenue	1 660	(13)				1 647
Other revenue			142			142
Total	1 660	(13)	142	(42)		1 747

23.2.4 Reconciliation of level 3 financial liabilities

The table below sets out the reconciliation of financial liabilities that are measured at fair value based on inputs that are not based on observable market data (level 3):

	Derivative liabilities Rm	Deposits from customers Rm	Total Rm
Balance at 1 January 2011	554	449	1 003
Total losses/(gains) included in profit or loss – trading revenue	1 453	(12)	1 441
Issuances and sales	21		21
Settlements[1]	(494)	(68)	(562)
Transfers into level 3[2]	221		221
Transfers out of level 3[3]		(369)	(369)
Balance at 31 December 2011	1 755		1 755
Balance at 1 January 2012	**1 755**		**1 755**
Total losses included in profit or loss – trading revenue	**165**		**165**
Originations and purchases	**56**		**56**
Settlements[1]	**(608)**		**(608)**
Balance at 31 December 2012	**1 368**		**1 368**

23.2.5 Losses for the year included in profit or loss for level 3 financial liabilities held at the end of the year

	Derivative liabilities Rm	Deposits from customers Rm	Total Rm
2012			
Trading revenue	**164**		**164**
Total	**164**		**164**
2011			
Trading revenue	1 453		1 453
Total	1 453		1 453

[1] Derivative fair values represent the net present value of positive and/or negative future cash flows. Settlements may increase or decrease the carrying value of derivative liabilities.
[2] During 2011, the valuation inputs of certain financial assets became unobservable. The fair values were transferred into level 3.
[3] During 2011, the valuation inputs of certain level 3 financial assets became observable. The fair values were transferred into level 2.

Notes to the annual financial statements continued

for the year ended 31 December 2012

23. Financial instruments measured at fair value continued

23.2 Company continued

23.2.6 Sensitivity of fair value of level 3 financial instruments

The fair value of level 3 financial instruments is determined using valuation techniques which incorporate assumptions that are not supported by prices from observable current market transactions in the same instruments and are not based on available observable market data. Such assumptions include risk premiums, liquidity discount rates, credit risk, volatilities and correlations. Changes in these assumptions could affect the reported fair values of these financial instruments.

The fair value of level 3 financial instruments is determined using valuation techniques which incorporate assumptions based on unobservable inputs and are subject to management judgement. Although the company believes that its estimates of fair values are appropriate, changing one or more of these assumptions to reasonably possible alternative values could impact the fair value of the financial instruments. The table below indicates the valuation techniques and main assumptions used in the determination of the fair value of the level 3 financial instruments. The table further indicates the effect that a change in one or more of the inputs to a reasonably possible alternative assumption would have on profit or loss and OCI (where applicable) at the reporting date, where the change in the input would change the fair value of the financial instrument significantly. The changes in the inputs that have been used in the analysis below have been determined taking into account several considerations such as the nature of the instrument and the market within which the instrument is transacted.

			Effect on profit or loss	
	Valuation basis/ technique	Main assumptions	Favourable Rm	(Unfavourable) Rm
2012				
Derivative instruments	Discounted cash flow model, Black-Scholes model	Discount, liquidity discount, risk-free and volatility rates	**107**	**(106)**
Trading assets	Discounted cash flow model	Discount and liquidity discount rates	**15**	**(15)**
Financial investments	Discounted cash flow model, earnings multiple, sustainable earnings	Discount and liquidity discount rates, earnings multiple	**224**	**(208)**
Interest in group companies, associates and joint ventures	Discounted cash flow model	Discount and liquidity discount rates	**2**	**(2)**
Total			**348**	**(331)**
2011				
Derivative instruments	Discounted cash flow model, Black-Scholes model	Discount, liquidity discount, risk-free and volatility rates	215	(215)
Trading assets	Discounted cash flow model	Discount and liquidity discount rates	19	(19)
Financial investments	Discounted cash flow model, earnings multiple, sustainable earnings	Discount and liquidity discount rates, earnings multiple	211	(202)
Total			445	(436)

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

24.1 Loans and advances

The maximum exposure to credit risk for loans and advances designated at fair value through profit or loss for the group and company is R2 406 million (2011: R3 553 million).

The maximum exposure to credit risk is reduced by R73 million (2011: R680 million) by using credit derivatives and similar instruments.

The cumulative gains or losses due to credit risk is negligible (2011: negligible). The change in fair value of the designated loans and advances that is attributable to changes in credit risk is determined as the amount of change in fair value that is not attributable to changes in market conditions.

24.2 Financial liabilities

The fair value movement of financial liabilities attributable to changes in credit risk cumulative to date is R113 million gain (2011: negligible) for the group and company.

The change in fair value of the designated financial liabilities attributable to changes in credit risk has been calculated by reference to the change in credit risk implicit in the market value of the group and company's senior notes.

The amount that would contractually be required to pay at maturity for financial liabilities designated at fair value through profit or loss for the group is R44 046 million (2011: R46 860 million[1]) and for the company is R43 998 million (2011: R46 846 million[1]), R2 130 million higher (2011: R5 548 million lower) for the group and company than the carrying amount.

[1] An amount of R28 822 million was reclassified from designated at fair value to other amortised cost for deposits from customers, as explained in note 22 starting on page 168.

	Group		Company	
	2012 Rm	2011 Rm	**2012 Rm**	2011 Rm
25. Contingent liabilities and commitments				
25.1 Contingent liabilities				
Letters of credit and banker's acceptances	**7 843**	7 307	**8 075**	8 311
Guarantees	**37 347**	30 342	**37 347**	30 752
	45 190	37 649	**45 422**	39 063
Loan commitments of R91 666 million (2011: R67 641 million) in the group and company that are irrevocable over the life of the facility or are revocable only in response to material adverse changes are included in the risk and capital management section on page 82.				
25.2 Capital commitments				
Contracted capital expenditure	**1 315**	2 200	**1 315**	2 200
Capital expenditure authorised but not yet contracted	**5 153**	4 749	**5 153**	4 749
	6 468	6 949	**6 468**	6 949

The expenditure will be funded from internal resources.

Notes to the annual financial statements continued
for the year ended 31 December 2012

	Group 2012 Rm	Group 2011 Rm	Company 2012 Rm	Company 2011 Rm
25. Contingent liabilities and commitments continued				
25.3 Operating lease commitments				
The future minimum lease payments under non-cancellable operating leases are:				
Properties				
Within 1 year	**904**	831	**904**	827
After 1 year but within 5 years	**1 353**	1 898	**1 353**	1 884
After 5 years	**205**	266	**205**	266
	2 462	2 995	**2 462**	2 977
Equipment				
Within 1 year		22		22
After 1 year but within 5 years		21		21
		43		43

These commitments comprise a number of separate operating leases in relation to property and equipment, none of which is individually significant to the group or company.

25.4 Legal proceedings

In the conduct of its ordinary course of business, the group and company 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 and company has adequate insurance programmes and provisions in place to meet such claims.

	Group 2012 Rm	Group 2011 Rm	Company 2012 Rm	Company 2011 Rm
26. Income statement information				
26.1 Interest income[1]				
Interest on loans and advances and investments	**53 520**	47 557	**52 864**	46 758
Unwinding of discount element of credit impairments for loans and advances (note 9.3)	**726**	942	**713**	925
Fair value adjustments on dated financial instruments	**(152)**	(312)	**(124)**	(309)
Dividends on dated securities	**1 583**	1 527	**1 522**	1 464
	55 677	49 714	**54 975**	48 838
All interest income reported above with the exception of R3 005 million (2011: R2 809 million[2]) for the group and R3 033 million (2011: R2 799 million) for the company relates to financial assets not carried at fair value through profit or loss.				
26.2 Interest expense				
Current accounts	**122**	130	**122**	129
Savings and deposit accounts	**9 883**	10 135	**9 905**	10 154
Foreign finance creditors	**828**	620	**829**	620
Subordinated debt	**1 841**	1 519	**1 841**	1 518
Other interest-bearing liabilities	**17 754**	15 962	**17 082**	15 149
	30 428	28 366	**29 779**	27 570

All interest expense reported above with the exception of R577 million (2011: R1 795 million[2]) for the group and R541 million (2011: R1 793 million[2]) for the company, relates to financial liabilities not carried at fair value through profit or loss.

[1] 2011 reclassified, refer to annexure B – reclassifications on page 225.
[2] 2011 restated to reflect the effect of the transfer of financial investments and customer deposits from designated at fair value to held to maturity and amortised cost respectively.

26. Income statement information continued

	Group 2012 Rm	Group 2011 Rm	Company 2012 Rm	Company 2011 Rm
26.3 Fee and commission revenue[1]				
Account transaction fees	**8 114**	8 119	**8 114**	8 118
Card-based commission	**3 911**	3 386	**3 516**	3 017
Knowledge-based fees and commission	**741**	420	**740**	420
Electronic banking fees	**1 838**	1 689	**1 838**	1 689
Insurance – fees and commission	**1 536**	1 210	**561**	509
Foreign currency service fees	**679**	596	**679**	596
Documentation and administration fees	**841**	623	**829**	612
Other	**1 823**	1 312	**2 389**	1 640
	19 483	17 355	**18 666**	16 601
All fee and commission revenue reported above relates to financial assets or liabilities not carried at fair value through profit or loss for the group and company.				
26.4 Fee and commission expense				
Account transaction fees	**878**	920	**878**	920
Card-based commission	**1 117**	866	**1 103**	851
Electronic banking fees	**528**	506	**528**	506
Insurance – fees and commission	**361**	322	**361**	322
Documentation and administration fees	**92**	82	**92**	82
Other	**143**	77	**143**	77
	3 119	2 773	**3 105**	2 758
All fee and commission expense reported above relates to financial assets or liabilities not carried at fair value through profit or loss for the group and company.				
26.5 Trading revenue[1]				
Commodities	**308**	238	**308**	238
Foreign exchange	**1 765**	1 751	**1 765**	1 751
Credit	**658**	579	**658**	579
Interest rates	**491**	281	**533**	272
Equities	**(182)**	221	**(217)**	221
Other	**107**	150	**107**	150
	3 147	3 220	**3 154**	3 211
Interest and dividend income included in trading revenue:				
Net interest income		116		116
Dividend income	**7**	124	**7**	124
	7	240	**7**	240

[1] 2011 reclassified, refer to annexure B – reclassifications on page 225.

Notes to the annual financial statements continued

for the year ended 31 December 2012

		Group		Company	
		2012 Rm	2011 Rm	**2012 Rm**	2011 Rm
26.	**Income statement information continued**				
26.6	**Other revenue**				
	Banking and other[1]	**1 727**	688	**1 884**	914
	Property-related revenue	**70**	(262)	**71**	(264)
	Insurance – bancassurance income	**744**	578	**744**	578
	Net losses on financial instruments designated at fair value through profit or loss	**(20)**	(2)	**(20)**	(2)
		2 521	1 002	**2 679**	1 226
26.7	**Credit impairment charges**				
	Net credit impairments raised for loans and advances	**6 782**	5 518	**6 740**	5 848
	Recoveries on loans and advances previously written off	**(997)**	(895)	**(989)**	(1 264)
		5 785	4 623	**5 751**	4 584
	Comprising:				
	Net specific credit impairment charges	**6 005**	4 597	**5 947**	4 187
	Specific credit impairment charges (note 9.3)	**7 002**	5 492	**6 936**	5 451
	Recoveries on loans and advances previously written off	**(997)**	(895)	**(989)**	(1 264)
	Portfolio credit impairment (reversals)/charges (note 9.3)	**(220)**	400	**(196)**	397
	Credit recovery on off-balance sheet exposure		(374)		
		5 785	4 623	**5 751**	4 584
26.8	**Revenue sharing agreements with group companies**				
	Revenue sharing agreements[2]	**1 642**	230	**1 642**	230
		1 642	230	**1 642**	230
26.9	**Staff costs[2]**				
	Salaries and allowances	**12 596**	10 753	**12 364**	10 562
	Equity-linked transactions (annexure E)	**693**	36	**693**	36
	Equity-settled share-based payments	**6**	6	**6**	6
	Cash-settled share-based payments	**436**	(38)	**436**	(38)
	Deferred bonus scheme (DBS)	**66**	68	**66**	68
	Deferred bonus scheme 2012 (DBS 2012)	**185**		**185**	
		13 289	10 789	**13 057**	10 598

[1] Included in banking and other for the company is dividend income from subsidiaries of R235 million (2011: R295 million).
[2] 2011 reclassified, refer annexure B – reclassifications on page 225.

26. Income statement information continued

26.10 Other operating expenses

	Group		Company	
	2012 Rm	2011[1] Rm	**2012 Rm**	2011[1] Rm
Amortisation – intangible assets (note 13)	**508**	235	**507**	233
Auditors' remuneration	**110**	118	**106**	114
Audit fees – current year	**89**	98	**85**	93
Audit fees – prior year	**(10)**	(1)	**(10)**	
Fees for other services	**31**	21	**31**	21
Communication expenses	**887**	757	**865**	748
Depreciation (note 14)	**1 668**	1 442	**1 656**	1 436
Property, comprising:				
– freehold	**22**	16	**22**	16
– leasehold	**244**	183	**244**	183
Equipment, comprising:				
– computer equipment	**958**	827	**950**	822
– motor vehicles	**48**	51	**45**	50
– office equipment	**58**	54	**57**	54
– furniture and fittings	**338**	311	**338**	311
Impairments – intangible assets (note 13)		20		20
Information technology	**2 875**	2 585	**2 859**	2 563
Operating lease charges	**1 376**	1 285	**1 366**	1 276
Premises	**699**	726	**698**	725
Professional fees	**1 076**	911	**1 058**	894
Profit on sale of property and equipment	**(30)**	(122)	**(29)**	(121)
Other expenses	**2 648**	3 158	**2 368**	2 882
	11 817	11 115	**11 454**	10 770

26.11 Goodwill impairment

	Group		Company	
	2012 Rm	2011[1] Rm	**2012 Rm**	2011[1] Rm
Goodwill impairment charge on subsidiaries (note 13)		46		39

[1] 2011 reclassified, refer to annexure B – reclassifications on page 225.

27. Emoluments of directors and prescribed officers

Refer to annexure F starting on page 234.

Notes to the annual financial statements continued
for the year ended 31 December 2012

		Group 2012 Rm	Group 2011 Rm	Company 2012 Rm	Company 2011 Rm
28.	**Taxation**				
	Indirect taxation (note 28.1)	**974**	745	**973**	745
	Direct taxation (note 28.2)	**2 362**	3 167	**2 266**	3 035
		3 336	3 912	**3 239**	3 780
28.1	**Indirect taxation**				
	Value added tax	**859**	639	**859**	639
	Duties and other	**4**	11	**3**	11
	Skills development levy (net of recoveries)	**111**	95	**111**	95
		974	745	**973**	745
28.2	**Direct taxation**				
	Current year	**3 902**	3 127	**3 809**	3 035
	South African normal tax	**3 931**	2 335	**3 821**	2 232
	South African deferred tax	**(187)**	651	**(166)**	661
	Deferred secondary tax on companies	**123**	155	**119**	156
	Foreign normal and withholding tax	**(1)**	(22)	**(1)**	(22)
	Capital gains tax	**36**	8	**36**	8
	Prior years	**(1 540)**	40	**(1 543)**	
	South African normal tax	**(1 540)**	42	**(1 543)**	
	South African deferred tax		(2)		
		2 362	3 167	**2 266**	3 035

The aggregate current and deferred tax relating to items charged or credited to OCI for the group and company amounted to a credit of R73 million (2011: R50 million charge).

28. Taxation continued

28.2 Direct taxation continued

Income tax recognised in other comprehensive income

The table below sets out the amount of income tax relating to each component in OCI:

	Group			Company		
	Before tax Rm	Tax benefit/ (expense) Rm	Net of tax Rm	Before tax Rm	Tax benefit/ (expense) Rm	Net of tax Rm
2012						
Exchange differences on translating foreign operations	**40**		**40**	**39**		**39**
Net change in fair value on cash flow hedges	**221**	**(62)**	**159**	**221**	**(62)**	**159**
Realised fair value adjustments on cash flow hedges transferred to profit or loss	**(379)**	**106**	**(273)**	**(379)**	**106**	**(273)**
Change in fair value of available-for-sale financial assets	**(249)**	**12**	**(237)**	**(249)**	**12**	**(237)**
Realised fair value adjustments of available-for-sale financial assets transferred to profit or loss	**43**	**17**	**60**	**43**	**17**	**60**
	(324)	**73**	**(251)**	**(325)**	**73**	**(252)**
2011						
Exchange differences on translating foreign operations	154		154	153		153
Change in fair value on cash flow hedges	158	(44)	114	158	(44)	114
Realised fair value adjustments on cash flow hedges transferred to profit or loss	(17)	5	(12)	(17)	5	(12)
Net change in fair value of available-for-sale financial assets	72	(11)	61	72	(11)	61
	367	(50)	317	366	(50)	316

Future tax relief

The group has estimated tax losses of R776 million (2011: R163 million) which are available for set-off against future taxable income, for which a deferred tax asset was recognised. These deferred tax asset balances were offset against deferred tax liabilities, refer to annexure A – accounting policy 14 – *Tax* starting on page 218.

Notes to the annual financial statements continued

for the year ended 31 December 2012

	Group 2012 %	Group 2011 %	Company 2012 %	Company 2011 %
28. Taxation continued				
28.2 Direct taxation continued				
South African tax rate reconciliation				
Total taxation charge for the year as a percentage of net income before indirect taxation	**22**	29	**22**	28
Value added tax, duties and skills development levy	**(6)**	(6)	**(7)**	(6)
STC	**(1)**	(1)	**(1)**	(1)
Corporate tax charge for the year as a percentage of profit before indirect taxation	**15**	22	**14**	21
The charge for the year has been reduced/(increased) as a consequence of:				
Dividends received	**5**	6	**6**	6
Other non-taxable income	**1**	2	**1**	2
Other permanent differences	**(3)**	(2)	**(3)**	(1)
Prior year tax adjustments	**10**		**10**	
Standard rate of South African tax	**28**	28	**28**	28

	2012 Gross Rm	2012 Tax Rm	2012 Non-controlling interest Rm	2012 Net Rm	2011 Gross Rm	2011 Tax Rm	2011 Non-controlling interest Rm	2011 Net Rm
29 Headline earnings								
Group								
Profit for the year	**14 297**	**(2 362)**	**(11)**	**11 924**	12 687	(3 167)	(10)	9 510
Headline earnings adjustable items (reversed)/added	**(433)**	**10**		**(423)**	16	4		20
Goodwill impairment – IAS 36					46			46
Profit on sale of property and equipment – IAS 16	**(30)**	**(2)**		**(32)**	(122)	10		(112)
Impairment of intangible assets – IAS 36					20	(6)		14
Transactions with associates – IAS 28 and IFRS 3	**(153)**			**(153)**	72			72
Realisation of available for-sale assets – IAS 39	**(250)**	**12**		**(238)**				
Headline earnings	**13 864**	**(2 352)**	**(11)**	**11 501**	12 703	(3 163)	(10)	9 530

	2012			2011		
	Gross Rm	**Tax Rm**	**Net Rm**	Gross Rm	Tax Rm	Net Rm
29. Headline earnings continued						
Company						
Profit for the year	**13 868**	**(2 266)**	**11 602**	12 556	(3 035)	9 521
Headline earnings adjustable items (reversed)/added	**(432)**	**10**	**(422)**	(36)	4	(32)
Goodwill impairment – IAS 36				39		39
Profit on sale of property and equipment – IAS 16	**(29)**	**(2)**	**(31)**	(121)	10	(111)
Impairment of intangible assets – IAS 36				20	(6)	14
Transactions with associates – IAS 28 and IFRS 3	**(153)**		**(153)**	26		26
Realisation of available-for-sale assets – IAS 39	**(250)**	**12**	**(238)**			
Headline earnings	**13 436**	**(2 256)**	**11 180**	12 520	(3 031)	9 489

Headline earnings is calculated in accordance with Circular 3/2012 *Headline Earnings* issued by the South African Institute of Chartered Accountants at the request of the JSE Limited. The circular allows for the inclusion in headline earnings of any gains or losses on the sale of ring-fenced private equity joint ventures or associates that are held by a banking institution.

AR **Refer to annexure D on page 228 for the required disclosure in terms of the circular**

	Group		Company	
	2012	2011	**2012**	2011
30. Earnings per share				
The calculations of basic earnings and headline earnings per ordinary share are as follows[1]:				
Basic earnings (Rm)	**11 924**	9 510	**11 602**	9 521
Headline earnings (Rm) (note 29)	**11 501**	9 530	**11 180**	9 489
Weighted average number of ordinary shares in issue (thousands)	**59 997**	59 997	**59 997**	59 997
Basic earnings per ordinary share (cents)	**19 874**	15 851	**19 338**	15 869
Headline earnings per ordinary share (cents)	**19 169**	15 884	**18 634**	15 816

[1] Basic earnings per ordinary share equals diluted earnings per share as there are no potential dilutive ordinary shares in issue.

Notes to the annual financial statements continued

for the year ended 31 December 2012

	Group		Company	
	2012 Rm	2011 Rm	**2012 Rm**	2011 Rm
31. Dividends				
Ordinary dividends				
Dividend No. 129 of 2 500 cents per share paid on 1 April 2011 to the shareholder registered on 31 March 2011		1 500		1 500
Dividend No. 130 of 1 167 cents per share paid on 3 March 2011 to the shareholder registered on 2 March 2011		700		700
Dividend No. 131 of 500 cents per share paid on 3 March 2011 to the shareholder registered on 2 March 2011		300		300
Dividend No. 132 of 1 167 cents per share paid on 2 April 2011 to the shareholder registered on 1 April 2011		700		700
Dividend No. 133 of 2 500 cents per share paid on 31 August 2011 to the shareholder registered on 30 August 2011		1 500		1 500
Dividend No. 134 of 1 667 cents per share paid on 9 September 2011 to the shareholder registered on 8 September 2011		1 000		1 000
Dividend No. 135 of 5 334 cents per share paid on 30 March 2012 to the shareholder registered on 30 March 2012	**3 200**		**3 200**	
Dividend No. 136 of 2 333 cents per share paid on 30 March 2012 to the shareholder registered on 30 March 2012	**1 400**		**1 400**	
Dividend No. 137 of 163 cents per share paid on 31 August 2012 to the shareholder registered on 31 August 2012	**98**		**98**	
	4 698	5 700	**4 698**	5 700

On 6 March 2013 the following dividend was declared:

Dividend No. 138 of 1 667 cents per share payable on 2 April 2013, to the shareholder registered on 2 April 2013, bringing the total dividends declared in respect of 2012 to 4 163 cents per share (2011: 12 335 cents per share).

	Group 2012 Rm	Group 2011 Rm	Company 2012 Rm	Company 2011 Rm
32. Statements of cash flows notes				
32.1 Increase in income-earning assets				
Financial investments	**2 924**	(349)	**2 919**	(355)
Trading assets	**(11 059)**	(10 801)	**(11 056)**	(10 987)
Pledged assets	**(1 969)**	(1 702)	**(1 969)**	(1 702)
Loans and advances	**(53 546)**	(78 970)	**(55 327)**	(80 058)
Net derivative assets	**(2 566)**	8 195	**(2 592)**	8 144
Interest in group companies	**3 232**	853	**1 774**	(66)
Other assets	**(7 062)**	(4 808)	**(6 651)**	(4 767)
	(70 046)	(87 582)	**(72 902)**	(89 791)
32.2 Increase in deposits and other liabilities				
Deposit and current accounts	**29 882**	79 974	**32 439**	81 217
Trading liabilities	**2 372**	4 550	**2 372**	5 512
Liabilities to group companies	**15 194**	(4 881)	**15 664**	(5 008)
Other liabilities	**3 904**	3 310	**3 682**	3 302
	51 352	82 953	**54 157**	85 023
32.3 Direct taxation paid				
Current and deferred tax at the beginning of the year	**(1 366)**	(1 593)	**(1 386)**	(1 650)
Recognised in profit or loss	**(2 362)**	(3 167)	**(2 266)**	(3 035)
Deferred capital gains tax recognised in OCI	**73**	(50)	**73**	(50)
Current and deferred tax at the end of the year	**3 176**	1 366	**3 224**	1 386
	(479)	(3 444)	**(355)**	(3 349)
32.4 Proceeds from issue of share capital to shareholder				
Ordinary share capital and share premium	**7 966**	2 000	**7 966**	2 000
	7 966	2 000	**7 966**	2 000
32.5 Dividends paid				
Dividends to ordinary shareholder	**4 698**	5 700	**4 698**	5 700
	4 698	5 700	**4 698**	5 700

Notes to the annual financial statements continued

for the year ended 31 December 2012

33. Related party transactions

33.1 Parent

SBSA is a wholly owned subsidiary of Standard Bank Group Limited.

33.2 Subsidiaries

AR Details of effective interest, investments in and loans to material subsidiaries are disclosed in annexure C on page 226

33.3 Associates and joint ventures

AR Details of effective interest, investments in and loans to associates and joint ventures are disclosed in annexure D on pages 227 to 228

33.4 Key management personnel

Key management personnel has been defined as both SBSA and Standard Bank Group Limited board of directors and prescribed officers effective for 2012 and both SBSA and Standard Bank Group Limited board of directors and executive committees effective for 2011. Non-executive directors are included in the definition of key management personnel as required by IAS 24 *Related Party Disclosures*. The definition of key management includes the close family members of key management personnel and any entity over which key management exercises control or joint control. Close family members are those family members who may be expected to influence, or be influenced by, that person in their dealings with SBSA. They may 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.

	2012 Rm	2011 Rm
Key management compensation		
Salaries and other short-term benefits paid	**64**	70
Post-employment benefits	**4**	4
IFRS 2 value of share options and rights expensed[1]	**77**	30
	145	104

[1] The 2011 expense, previously determined as an equity-settled share-based payment expense, was restated to reflect the cash-settled share-based payment expense for the share options and rights. The expense has been restated to conform to the basis of presentation for the current year and has been determined in accordance with the company and group's accounting policies. The restatement had no effect on the group and company's profit and loss.

The transactions below are entered into in the normal course of business.

	2012 Rm	2011 Rm
Loans and advances		
Loans outstanding at the beginning of the year	**27**	50
Change in key management structures	**(3)**	(21)
Loans granted during the year	**22**	19
Loans repaid during the year	**(26)**	(21)
Loans outstanding at the end of the year	**20**	27
Net interest earned	**2**	2

Loans include mortgage loans, instalment sale and finance leases, diners and credit cards. No specific impairments have been recognised in respect of loans granted to key management (2011: Rnil). The mortgage loans and instalment sale and finance leases are secured by the underlying assets. All other loans are unsecured.

	2012 Rm	2011 Rm
Deposit and current accounts		
Deposits outstanding at the beginning of the year	**129**	527
Change in key management structures	**9**	(429)
Net deposits received during the year	**(25)**	31
Deposits outstanding at the end of the year	**113**	129
Net interest expense	**3**	2

Deposits includes cheque, current and savings accounts.

33. Related party transactions continued

33.4 Key management personnel continued

	2012 Rm	2011 Rm
Investment products		
Balance at the beginning of the year	**160**	1 062
Change in key management structures	**(4)**	(897)
Investments placed during the year	**95**	42
Investments repaid during the year	**(70)**	(47)
Balance at the end of the year	**181**	160
Net investment return credited	**26**	7
Third party funds under management		
Fund value at the beginning of the year	**386**	480
Change in key management structures	**3**	(119)
Net deposits including commission and other transaction fees	**111**	25
Fund value at the end of the year	**500**	386
Other fees		
Financial consulting fees and commission	**6**	9
Shares and share options held		
Aggregate details of SBG shares and share options held by key management personnel		
Shares beneficially owned (number)	**12 687 950**	11 930 971
Share options held (number)	**6 340 871**	6 201 500

Notes to the annual financial statements continued

for the year ended 31 December 2012

	Holding company		Subsidiaries		Fellow subsidiaries[1]	
	2012 Rm	2011 Rm	**2012 Rm**	2011 Rm	**2012 Rm**	2011 Rm
33. Related party transactions continued						
33.5 Holding company, subsidiaries and fellow subsidiaries						
Assets						
Group						
Assets outstanding at the beginning of the year	**131**	131			**60 720**	61 573
Net movement for the year	**15**				**(3 247)**	(853)
Assets outstanding at the end of the year	**146**	131			**57 473**	60 720
Interest income earned for the group					**973**	1 100
Non-interest revenue earned for the group					**1 255**	258
Company						
Assets outstanding at the beginning of the year	**131**	131	**4 791**	3 805	**61 203**	62 135
Net movement for the year	**15**		**1 357**	986	**(3 147)**	(932)
Assets outstanding at the end of the year	**146**	131	**6 148**	4 791	**58 056**	61 203
Interest income earned for the company			**356**	256	**1 123**	1 296
Non-interest revenue earned for the company			**617**	372	**1 019**	186
The loans issued to subsidiaries and fellow subsidiaries are repayable on demand. Interest is charged based on the group and company's internal funding rate. The loans are unsecured.						
Liabilities						
Group						
Liabilities outstanding at the beginning of the year	**1 907**	4 510			**41 886**	42 288
Net movement for the year	**(1 851)**	(2 603)			**18 004**	(402)
Liabilities outstanding at the end of the year	**56**	1 907			**59 890**	41 886
Interest expense for the group	**(76)**	(135)			**(601)**	(382)
Company						
Liabilities outstanding at the beginning of the year	**1 907**	4 510	**1 984**	2 078	**40 957**	41 273
Net movement for the year	**(1 851)**	(2 603)	**437**	(94)	**17 593**	(316)
Liabilities outstanding at the end of the year	**56**	1 907	**2 421**	1 984	**58 550**	40 957
Interest expense for the company	**(76)**	(135)	**(124)**	(93)	**(600)**	(380)

[1] Includes both banking and insurance fellow subsidiaries.

	Deposit and current accounts		Fees received		Net interest paid	
	2012 Rm	2011 Rm	**2012 Rm**	2011 Rm	**2012 Rm**	2011 Rm
33. Related party transactions continued						
33.5 Holding company, subsidiaries and fellow subsidiaries continued						
Banking arrangements						
Liberty and its subsidiaries make use of banking facilities provided by the company.						
Deposit and current accounts						
Liberty	**37**	18			**37**	10
Liberty subsidiaries	**3 066**	2 294	**37**	33	**48**	42
	3 103	2 312	**37**	33	**85**	52

Information technology outsourcing arrangement

Liberty partially outsources its IT services to the company in terms of various agreements until 30 April 2021. Fees charged for 2012 amounted to R19 million (2011: R28 million).

Software development

The company has contracted Liberty to develop a commission and specific customer information system. Fees associated with this development have been recognised over five years with the completion date in 2011. An annual renewable contract is now in place for an annual maintenance fee of R2,5 million. 2012 fees paid are R6 million (2011: R5 million), including the annual maintenance fee.

Operating leases

Lease income

Liberty leases a Pretoria property from the company in terms of a lease entered into on 22 December 1999 for a period of 13,5 years terminating on 31 May 2013. Lease escalations are fixed at 12% per annum. Total lease receipts for 2012 were R112 million (2011: R100 million).

Lease expense

The company leases several properties from Liberty, including 50% of its head office at 5 Simmonds Street, Johannesburg, and various retail branches in shopping centres. These leases are governed by numerous separate lease agreements. Total lease payments for 2012 were R74 million (2011: R68 million).

Bancassurance

Liberty has entered into joint venture bancassurance agreements with the company for the manufacture, sale and promotion of insurance, investment and health products through the company's African distribution capability. New business insurance premium income in respect of this business in 2012 amounted to R5 984 million (2011: R5 404 million). In terms of the agreements, Liberty's group subsidiaries pay joint venture profit shares to various operations of the company. The amounts to be paid are in most cases dependent on source and type of business and are paid along geographical lines. Income recognised for the year amounted to R775 million (2011: R608 million).

During 2010 Liberty and the company conducted a detailed review of the existing bancassurance agreement and agreed with effect from 1 January 2011 to expand the scope thereof to include asset management, investment and health products in addition to the insurance products. The agreements are evergreen agreements with a 24-month notice period for termination, but neither party may give notice of termination until February 2013.

Notes to the annual financial statements continued

for the year ended 31 December 2012

33. Related party transactions continued

33.5 Holding company, subsidiaries and fellow subsidiaries continued

Insurance

Certain insured risks for Liberty are included in the SBG insurance programme. These include cover for crime, fraud and professional indemnity, directors' and officers' and asset all risks insurance. The proportionate share of premiums charged to Liberty by SBG for 2012 is R14 million (2011: R16 million).

Asset management fees

Asset management fees of R11 million (2011: R11 million) were paid to STANLIB Asset Management Limited by The Standard Bank Group Retirement Fund (SBGRF).

Dividend purchase agreement

In May 2007, Liberty entered into a dividend purchase agreement with the company. In terms of this agreement, the rights to dividend income from certain share investments were acquired by the company. The cost of the rights to dividends was Rnil million (2011: R58 million).

Utilisation of the Standard Bank Group Leadership Centre

The Standard Bank Group Leadership Centre offers various leadership courses that Liberty utilises for certain employees. Income amounted to Rnil million (2011: R17 million).

Commission received from Liberty

The company received commission from Liberty for policies sold through the company's various distribution channels. Commission received for the year to 31 December 2012 is R802 million (December 2011: R696 million).

Advisory fees received in respect of bond issue

During 2012, Liberty issued two R1 000 million bonds. The company received R10 million as advisory fees in respect of the bond issuances.

Transfer pricing agreements for 2011 and 2012

The company entered into various transfer pricing and revenue sharing agreements (agreements) with other group entities, specifically Standard Bank Plc (SB Plc). These agreements have all been entered into on an arm's length basis in accordance with the pricing principles contained in the Organisation of Economic Cooperation and Development (OECD) Guidelines and relevant domestic legislation. The nature of the agreements are such that the related parties' relevant functions, assuming relevant risks and owning relevant assets in the day-to-day business activities of the company and group, are compensated on an arm's length basis. The integrated business model, in relation to functional, risk and asset profile and in accordance with the nature of the agreement, resulted in payments being made by both SBSA and SB Plc during the 2012 and 2011 financial years.

The following amounts were recognised in the group and company income statements for the agreements:

	2012 Rm	2011 Rm
Revenue sharing agreements	**1 642**	230
Other operating expenses	**746**	1 169
Net effect of transfer pricing agreements	**2 388**	1 399

At 31 December 2012, an amount of R123 million is owed to SBSA by SB Plc (2011: R148 million owed by SBSA to SB Plc).

Asset transfers

During the financial year the company and group purchased loans of R7 270 million (2011: R17 653 million) from SB Plc. The agreement for the purchase of the loans was concluded at fair value.

AR **The purchased loans are all third party loans and have been classified and accounted for in terms of accounting policy 4 – *Financial instruments,* refer to annexure A starting on page 209**

33. Related party transactions continued

33.5 Holding company, subsidiaries and fellow subsidiaries continued

Guarantee transactions

As part of the risk management process, a number of collateralised financial guarantee transactions have been entered into with SB Plc, of which R290 million (2011: R225 million) remains outstanding as at 31 December 2012. Under the transaction, the company and group provides financial guarantees to SB Plc and places a deposit for the value of the loan exposure which is assigned as collateral for the obligations under the guarantee contract. Under IFRS, the deposit is recognised in the statement of financial position as part of interest in group companies. Guarantee fees are accrued over the life of the transaction in terms of accounting policy 4 – *Financial instruments,* refer to annexure A starting on page 209.

33.6 Transactions with a shareholder of the parent

The following transactions took place between SBSA and ICBC, a 20.1% (2011:20.1%) shareholder:

	2012 Rm	2011 Rm
Revenue		
Trading revenue	**42**	29
Net interest income	**30**	41
Total revenue earned	**72**	70
Deposits		
Deposits outstanding at the beginning of the year	**1 276**	953
Deposits (repaid)/received during the year	**(821)**	323
Deposits outstanding at the end of the year	**455**	1 276

33.7 Other contracts

Saki Macozoma, a director and deputy chairman of the company, has an effective shareholding of 26.62% (2011: 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 2.39% (2011: 2.50%) in Liberty Holdings and 1.34% (2011: 1.40%) in Standard Bank Group Limited. SBG has an effective interest of 25.00% (2011: 20.33%) in Safika.

Cyril Ramaphosa, a director of the company, has an effective shareholding of 29.63% (2011: 29.63%) in Shanduka, which is a member of the Tutuwa consortium. Shanduka holds effective interests of 1.40% (2011: 1.44%) in Liberty Holdings and 0.90% (2011: 1.20%) in Standard Bank Group Limited. SBG holds an effective interest of 12.90% (2011: 13.00%) in Shanduka.

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 company for a five-year period until 31 December 2004. In terms of the agreement, in future years, he will receive a percentage of the proceeds from the sale of equity-related investments undertaken during the term of the above management services agreement.

33.8 Post-employment benefit plans

Details of transactions between the company and the group's post-employment benefit plans are listed below:

	2012 Rm	2011 Rm
Fee income	**11**	32
Deposits held with the company	**41**	407
Interest paid	**2**	198
Value of assets under management	**6 369**	8 404
Investments held in bonds and money market instruments	**605**	845
Number of ordinary SBG shares held (thousands)	**4 695**	1 448

Notes to the annual financial statements continued
for the year ended 31 December 2012

	Group		Company	
	2012 Rm	2011 Rm	**2012 Rm**	2011 Rm
34. Post-employment benefits				
Amounts recognised as assets in the statement of financial position (note 11.2)				
Retirement fund (note 34.1)	**784**	445	**784**	445
Post-employment healthcare benefits – provider fund (note 34.2)		308		308
	784	753	**784**	753
Amounts recognised as liabilities in the statement of financial position (note 20.2)				
Post-employment healthcare benefits-medical aid (note 34.2)	**644**	637	**644**	637
	644	637	**644**	637

The total amount recognised as an expense for the defined contribution plan amounted to R518 million (2011: R509 million).

34.1 Retirement fund

Membership of the group and company's principal defined contribution fund, the SBGRF exceeds 95% of SBSA's permanent staff. The fund, one of the 10 largest in South Africa, is a defined contribution fund governed by the Pension Funds Act 24 of 1956 (Pension Funds Act). Member-elected trustees represent 50% of the trustee board. The assets of the fund are held independently.

The fund is subject to a statutory financial review by actuaries at an interval of not more than three years. The latest full actuarial valuation was performed on 31 December 2012 and, in the opinion of the actuary, the fund is considered to be financially sound. The next actuarial valuation is to be performed on 31 December 2015.

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, that portion of the 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 assets and liabilities of the Provider Fund were transferred by way of a Section 14 transfer in terms of the Pension Funds Act, as amended, into the SBGRF.

	Group		Company	
	2012 Rm	2011 Rm	**2012 Rm**	2011 Rm
34. Post-employment benefits continued				
34.1 Retirement fund continued				
The determination of the amounts recognised in the statement of financial position in respect of the retirement fund is as follows:				
Present value of funded obligations	**23 762**	20 791	**23 762**	20 791
Fair value of plan assets	**(25 685)**	(21 889)	**(25 685)**	(21 889)
Surplus	**(1 923)**	(1 098)	**(1 923)**	(1 098)
Unrecognised actuarial gains	**1 139**	653	**1 139**	653
Included in other assets in the statement of financial position	**(784)**	(445)	**(784)**	(445)
Unrecognised actuarial gains or losses are deferred and fully recognised in profit or loss over a period not exceeding the estimated service lives of the employees.				
Movement in the present value of funded obligations				
Balance at the beginning of the year	**20 791**	20 306	**20 791**	20 306
Current service cost and interest cost	**2 525**	2 225	**2 525**	2 225
Contributions paid by employees	**511**	502	**511**	502
Actuarial gains/(losses)	**1 042**	(240)	**1 042**	(240)
Benefits paid	**(1 968)**	(2 002)	**(1 968)**	(2 002)
Transfer in of provider fund liability[1]	**861**		**861**	
Balance at the end of the year	**23 762**	20 791	**23 762**	20 791
Movement in the fair value of plan assets				
Balance at the beginning of the year	**21 889**	22 053	**21 889**	22 053
Expected return on plan assets	**1 984**	1 804	**1 984**	1 804
Contributions received	**1 028**	1 011	**1 028**	1 011
Actuarial losses/(gains)	**1 488**	(977)	**1 488**	(977)
Benefits paid	**(1 968)**	(2 002)	**(1 968)**	(2 002)
Transfer in of provider fund assets[1]	**1 264**		**1 264**	
Balance at the end of the year	**25 685**	21 889	**25 685**	21 889

[1] The assets and liabilities of the Provider Fund were transferred by way of a Section 14 transfer in terms of the Pension Funds Act, as amended, into the SBGRF.

Notes to the annual financial statements continued

for the year ended 31 December 2012

	Group		Company	
	2012 Rm	2011 Rm	**2012 Rm**	2011 Rm
34. Post-employment benefits continued				
34.1 Retirement fund continued				
Plan assets consist of the following:				
Cash	**1 027**	1 180	**1 027**	1 180
Equities	**12 329**	10 667	**12 329**	10 667
Bonds	**7 962**	6 368	**7 962**	6 368
Property and other	**4 367**	3 674	**4 367**	3 674
	25 685	21 889	**25 685**	21 889
Plan assets include Rnil million (2011: R19 million) of property held by the group and company.				
The group expects to pay R518 million in contributions to the SBGRF in 2013 (2012: R518 million).				
The amounts recognised in profit or loss are determined as follows:				
Current service cost	**619**	522	**619**	522
Interest cost	**1 906**	1 703	**1 906**	1 703
Return on plan assets	**(1 984)**	(1 804)	**(1 984)**	(1 804)
Net actuarial gain recognised during the year	**(55)**	(114)	**(55)**	(114)
Curtailment cost		(28)		(28)
Included in staff costs	**486**	279	**486**	279
Actual return on plan assets	**3 472**	827	**3 472**	827

The expected long-term rate of return is based on the expected long-term returns on equities, cash, bonds and properties (where applicable). The split between the individual asset categories is considered in setting these assumptions. Adjustments are made to reflect the effect of expenses.

Historical information

	2012 Rm	2011 Rm	2010 Rm	2009 Rm	2008 Rm
Group and company					
Present value of funded obligation	**23 762**	20 791	20 306	19 378	19 349
Fair value of plan assets	**(25 685)**	(21 889)	(22 053)	(21 110)	(19 349)
Surplus	**(1 923)**	(1 098)	(1 747)	(1 732)	
Experience adjustments arising on plan liabilities	**1 042**	(240)	(227)	(1 596)	4 959
Experience adjustments arising on plan assets	**1 488**	(977)	(586)	78	(4 908)

34. Post-employment benefits continued

34.2 Post-employment healthcare benefits

The following post-employment healthcare benefits are provided to employees:

Provider fund

A post-employment healthcare benefit fund provides eligible employees, who were in service on 29 February 2000, with a lump sum benefit on retirement enabling them to purchase an annuity to be applied towards their post-employment healthcare costs. This benefit is prefunded in a provident fund and replaced the subsidy arrangement that was in place prior to this. Any shortfall in the payment to be made by these employees towards their healthcare costs subsequent to retirement is the responsibility of the employee. The last statutory actuarial valuation was performed on 1 April 2010 and reflected an excess in the fund. The assets and liabilities of the Provider Fund were transferred by way of a Section 14 transfer in terms of the Pension Funds Act, as amended, into the SBGRF and are no longer disclosed separately.

Post-employment medical aid

The liability represents a post-employment healthcare benefit scheme that covers all employees who retired before 1 March 2000. The liability is unfunded and is valued every year using the projected unit credit method. The latest full statutory actuarial valuation was performed as at 31 December 2012. The next actuarial valuation will be performed on 31 December 2013.

	Group		Company	
	2012 Rm	2011 Rm	**2012 Rm**	2011 Rm
The amounts recognised in the statement of financial position in respect of post-employment healthcare benefits are determined as follows:				
Present value of unfunded defined benefit obligation	**644**	637	**644**	637
Present value of funded defined benefit obligation – Provider Fund		861		861
Total present value of defined benefit obligations	**644**	1 498	**644**	1 498
Fair value of plan assets – Provider Fund		(1 264)		(1 264)
Unfunded shortfall	**644**	234	**644**	234
Unrecognised actuarial gains – Provider Fund		95		95
Included in the statement of financial position	**644**	329	**644**	329

Notes to the annual financial statements continued

for the year ended 31 December 2012

	Group 2012 Rm	Group 2011 Rm	Company 2012 Rm	Company 2011 Rm
34. Post-employment benefits continued				
34.2 Post-employment healthcare benefits continued				
Comprising:				
Provider fund		(308)		(308)
Post-employment medical aid	**644**	637	**644**	637
	644	329	**644**	329
Movement in the present value of defined benefit obligations				
Balance at the beginning of the year	**1 498**	1 316	**1 498**	1 316
Current service cost and interest cost	**53**	141	**53**	141
Actuarial losses	**5**	165	**5**	165
Benefits paid	**(51)**	(124)	**(51)**	(124)
Transfer out of provider fund liability[1]	**(861)**		**(861)**	
Balance at the end of the year	**644**	1 498	**644**	1 498
Movement in the fair value of plan assets				
Balance at the beginning of the year	**1 264**	1 340	**1 264**	1 340
Expected return on plan assets		117		117
Actuarial losses		(122)		(122)
Benefits paid		(71)		(71)
Transfer out of provider fund assets[1]	**(1 264)**		**(1 264)**	
Balance at the end of the year		1 264		1 264
Plan assets consist of the following:				
Cash		249		249
Equities		499		499
Government bonds		397		397
Property and other		119		119
Balance at the end of the year		1 264		1 264
Plan assets include Rnil (2011: Rnil) of investments in SBG equity instruments.				
The group and company expects to pay Rnil million in contributions to post-employment healthcare benefit plans in 2013 (2012: R52 million).				
The amounts recognised in profit or loss are determined as follows:				
Current service cost		31		31
Interest cost	**53**	110	**53**	110
Expected return on plan assets		(117)		(117)
Net actuarial gains recognised in the year	**5**	(12)	**5**	(12)
Included in staff costs	**58**	12	**58**	12
Actual return on plan assets		(5)		(5)

[1] The assets and liabilities of the Provider Fund were transferred by way of a Section 14 transfer in terms of the Pension Funds Act, as amended, into the SBGRF.

34. Post-employment benefits continued

34.2 Post-employment healthcare benefits continued

Assumed medical inflation rates have a significant effect on the amounts recognised in profit or loss. A one percentage point change in the medical inflation rate would have the following effects on amounts recognised in 2012 and 2011:

	2012		2011	
	1% increase Rm	**1% decrease Rm**	1% increase Rm	1% decrease Rm
Sensitivity analysis for post-employment medical aid fund				
Group and company				
Effect on the aggregate of the current service cost and interest cost	**5**	**(4)**	5	(4)
Effect on the defined benefit obligation	**58**	**(50)**	56	(49)

Historical information

	2012 Rm	2011 Rm	2010 Rm	2009 Rm	2008 Rm
Group and company					
Present value of defined benefit obligations	**644**	1 498	1 316	1 213	1 100
Fair value of plan assets		(1 264)	(1 340)	(1 237)	(1 103)
Unfunded shortfall/(surplus)	**644**	234	(24)	(24)	(3)
Experience adjustments arising on plan liabilities		(165)	(166)	(112)	89
Experience adjustments arising on plan assets		(122)	91	91	(276)

Notes to the annual financial statements continued

for the year ended 31 December 2012

34. Post-employment benefits continued

34.2 Post-employment healthcare benefits continued

The principal actuarial assumptions used for accounting purposes were:

	Retirement fund[1] %	Provider fund[2] %	Post-employment medical aid %
2012			
Discount rate	**Nominal Government Bond Yield curve**		**7.99**
Return on investments	**8.20%-Yield Government Bonds at a term equivalent to the discounted mean term of the liabilities**		**7.99**
Salary/benefit inflation	**Inflation rates plus 1%**		
CPI inflation	**Difference between nominal and index linked bond yield curves**		
Medical inflation			**6.66**
Provider benefit escalation	**Inflation rates plus 2%**		
Pension increase in allowance	**Inflation rates**		
Remaining service life of employees (years)	**12,21**		
2011			
Discount rate	8.76	8.76	8.76
Return on investments	8.76	8.76	8.76
Salary/benefit inflation	7.37	8.37	
CPI inflation	6.37	6.37	6.37
Medical inflation			7.42
Remaining service life of employees (years)	12,94	16,48	

1 The assumptions used in determining the defined benefit obligation and the fair value of plan assets in SBGRF have changed from 2011 to 2012.

2 The assets and liabilities of the Provider Fund were transferred by way of a Section 14 transfer in terms of the Pension Fund Act, 1956 as amended, into the SBGRF.

35. Financial assets previously reclassified from held-for-trading to loans and receivables at amortised cost

Financial assets were reclassified from held-for-trading to loans and receivables for which there was a clear change of intent to hold the assets for the foreseeable future rather than to exit or trade in the short term. No assets were reclassified during the current and previous year.

	Group		Company	
	2012[1] Rm	2011 Rm	**2012 Rm**	2011 Rm
Carrying value of reclassified financial assets at the end of the year	**531**	1 383	**1 020**	973
Fair value of reclassified financial assets at the end of the year	**597**	1 409	**1 085**	998

A fair value gain after tax of R65 million (2011: R49 million gain) for the group and R63 million (2011: R40 million gain) for the company would have been recognised in 2012 had this reclassification not been affected.

The following amounts were recognised in net interest income post reclassification of the financial assets:

	Group		Company	
	2012[1] Rm	2011 Rm	**2012 Rm**	2011 Rm
Net interest income	**45**	49	**46**	39

[1] The carrying value and fair value of reclassified financial assets decreased as a result of financial assets in Blue Titanium, a subsidiary of the group, maturing during 2012.

Notes to the annual financial statements continued

for the year ended 31 December 2012

36. Business acquisitions

	2012
LC Golf SA (Pty) Ltd	
Date of acquisition	**19 December 2012**
Percentage of voting equity instruments acquired (%)	**100**
Contribution to revenue since acquisition (Rm)	**nil**
Contribution to net profit before tax since acquisition (Rm)	**nil**
Contribution to revenue if acquisition occurred on 1 January 2012 (Rm)	**50**
Contribution to net profit before tax if acquisition occurred on 1 January 2012 (Rm)	**(246)**

	2012 Fair value Rm
LC Golf SA (Pty) Ltd	
Other assets	**5**
Property developments	**205**
Property and equipment	**6**
Deposit and current accounts	**(205)**
Provisions and other liabilities	**(10)**
Net asset value	**1**
Goodwill[1] (note 13.1)	**4**
Total purchase consideration paid	**5**
Cost of acquisition	**5**
Cash consideration paid	**5**
Less: Cash and cash equivalents in subsidiary acquired	
Cash outflow on acquisition	**5**

[1] Goodwill represents the premium paid for control.

With effect from 19 December 2012, SBSA acquired 100% of LC Golf SA (Pty) Ltd and its subsidiaries, Pearl Valley Golf Estates (Pty) Limited and Novelway Investments (Pty) Limited.

Pearl Valley Golf Estates (Pty) Limited is a golf estate which also offers rental accommodation and residential sales. Novelway Investments (Pty) Limited is a non-operating company that holds undeveloped property assets that form part of SBSA's total security package in respect of a term loan previously granted to Pearl Valley Golf Estates (Pty) Limited.

The primary reason for the business combination was to recoup financing previously extended to the group of companies acquired.

Annexure A – detailed accounting policies

1. Basis of consolidation

Subsidiaries

The annual financial statements of subsidiaries are consolidated from the date on which the group[1] 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.

The proportion of comprehensive income and changes in equity allocated to the group and non-controlling interests are determined on the basis of the group's present ownership interest in the subsidiary.

The accounting policies of subsidiaries that are consolidated by the group conform to these policies.

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

SPEs 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. An SPE, 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.

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 business combinations prior to 1 January 2010 were capitalised as part of the consideration transferred. Transaction costs for business combinations 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.

[1] For purposes of annexure A, all references to group, include the company as well (unless otherwise indicated).

Annexure A – detailed accounting policies continued

Identifiable assets acquired, 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 sum of the consideration transferred (including contingent consideration), the value of non-controlling interest recognised and the acquisition date fair value of any previously held equity interest in the subsidiary over the fair value of identifiable net assets acquired is recorded as goodwill and accounted for in terms of accounting policy 6 – *Intangible assets*.

If the sum of the consideration transferred (including contingent consideration), 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 identifiable net assets acquired, the difference, referred to as a gain from a bargain purchase, is recognised directly in profit or loss.

When a business combination occurs in stages, the previously held equity interest is remeasured to fair value at the acquisition date and any resulting gain or loss is recognised in profit or loss.

Transactions with non-controlling interests

Transactions with non-controlling interests that do not result in the gain or loss of control, are accounted for as transactions with equity holders of the group. For purchases of additional interests from non-controlling interests, the difference between the purchase consideration and the group's proportionate share of the subsidiary's additional net asset value acquired is accounted for directly in equity. 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

A common control transaction is defined as a business combination in which all of the combining entities (subsidiaries) are ultimately controlled by the same party both before and after the business combination, and control is not transitory.

The cost of an acquisition of a subsidiary under common control is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange. Any costs directly attributable to the acquisition are recognised in reserves. On acquisition the carrying values of assets and liabilities are not restated to fair value. The acquirer incorporates assets and liabilities at their pre-combination carrying amounts.

Any excess or deficit of the purchase price over the pre-combination carrying amounts is adjusted directly in equity. Any differences to the values of the subsidiary's underlying assets and liabilities compared to those presented by the ultimate holding company and adjustments to achieve harmonisation of accounting policies will be adjusted on consolidation. Under this approach comparative financial results are not restated.

The principles of when control arises are the same as those for interests in subsidiaries where the acquisition method of accounting is applied.

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).

These annual financial statements are presented in South African rand, which is the functional and presentation currency of SBSA.

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, intangible assets and fair value adjustments arising on acquisition) are translated at the closing rate on the reporting date
- income and expenses are translated at average exchange rates for the month, to the extent that such average rates approximate actual rates
- all resulting foreign exchange differences are accounted for directly in a separate component of 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 yearend exchange rates, are recognised in profit or loss (except when recognised in OCI as part of qualifying cash flow hedges and 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 rate 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 intragroup 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 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 is reclassified to the non-controlling interests in that foreign operation.

3. Cash and cash equivalents

Cash and balances with central banks comprise coins and bank notes, and balances with central banks. Cash and cash equivalents presented in the statement of cash flows consist of cash 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 always categorised as held-for-trading.

Subsequent to initial recognition, the financial instruments' fair values are remeasured at each reporting date. All gains and losses, including interest and dividends arising from changes in fair value are recognised in profit or loss as trading revenue within non-interest revenue with the exception of derivatives that are designated and effective as hedging instruments (refer to Derivative financial instruments and hedge accounting).

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

The group designates certain financial assets and liabilities, other than those classified as held-for-trading, as at fair value through profit or loss when:

- this designation eliminates or significantly reduces an accounting mismatch that would otherwise arise. Under this criterion, the main classes of financial instruments designated by the group are loans and advances to banks and customers and financial investments. The designation significantly reduces measurement inconsistencies that would have otherwise arisen. For example where the related derivatives

Annexure A – detailed accounting policies continued

were treated as held-for-trading and the underlying financial instruments were carried at amortised cost

- groups of financial assets, financial liabilities or both are managed, and their performance evaluated, on a fair value basis in accordance with a documented risk management or investment strategy, and reported to the group's key management personnel on a fair-value basis. Under this criterion, certain private equity, short-term insurance and other investment portfolios have been designated at fair value through profit or loss, or
- financial instruments contain one or more embedded derivatives that significantly modify the instruments' cash flows.

The fair value designation is made on initial recognition and is irrevocable. Subsequent to initial recognition, the fair values are remeasured at each reporting date. Gains and losses arising from changes in fair value are recognised in interest income (interest 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.

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 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).

Available-for-sale financial assets are impaired when there has been a significant or prolonged decline in the fair value of the financial asset below its cost. The cumulative fair value adjustments previously recognised in OCI on the impaired financial assets are reclassified to profit or loss.

Reversals of impairments on equity available-for-sale financial assets are recognised in OCI.

Interest income, calculated using the effective interest 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.

Financial liabilities at amortised cost

Financial liabilities that are neither held for trading nor designated at fair value are measured at amortised cost.

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.

Derivatives or any financial instrument designated at fair value through profit or loss shall not be reclassified out of their respective categories.

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, this initial difference, commonly referred to as day one profit or loss, is recognised in profit or loss immediately. If non-observable market data is used as part of the input to the valuation models 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. Depending on the nature of the instrument and availability of market observable inputs, 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.

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 other applicable valuation techniques. These include the use of recent arm's length transactions, discounted cash flow analyses, pricing models and other 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 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 loans takes into account 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

Annexure A – detailed accounting policies continued

assesses for impairment. Loans that are individually assessed for impairment and for which an impairment loss is 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 (time period between the loss trigger events and the date on which the group identifies the losses). 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 (including loans that have been written off), 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 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.

The effective interest rate of renegotiated loans that have not been derecognised (described under the heading "Derecognition of financial instruments"), is redetermined based on the loan's renegotiated terms.

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 has 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 the asset and the liability 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".

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 recognised in profit or loss as trading revenue.

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 measured at amortised cost, 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 is recognised in the cash flow hedging reserve. The ineffective part of any changes in fair value is recognised immediately in profit or loss as trading revenue.

Amounts recognised in OCI are transferred to profit or loss in the periods in which the hedged forecast cash flows affect profit or loss. However, when the forecast transaction that is hedged results in the recognition of a non-financial asset or a non-financial liability, the cumulative gains or losses recognised previously in OCI are transferred and included in the initial measurement of the cost of the asset or liability.

If the derivative expires, is sold, terminated, exercised, no longer meets the criteria for cash flow hedge accounting, or the designation is revoked, then hedge accounting is discontinued. The cumulative gains or losses recognised in OCI remain in OCI until the forecast transaction is recognised in the case of a non-financial asset or a non-financial liability, or until the forecast transaction affects profit or loss in the case of a financial asset or a financial liability. If the forecast transaction is no longer expected to occur, the cumulative gains and losses recognised in OCI are immediately 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 that includes a subsidiary, the group reattributes a proportionate share of the cumulative amounts recognised previously in the foreign currency hedge of net investment reserve to non-controlling interests. For all other partial disposals, a proportionate share of the foreign currency hedge of net investment reserve is reattributed 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, or at the option of the shareholder are classified as financial liabilities or compound

Annexure A – detailed accounting policies continued

financial instruments (instruments with debt and equity components). All other preference shares are classified as equity instruments. 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 when dividends are declared.

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 contracts 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, the asset is derecognised 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 asset or liability is replaced by another with the same counterparty on substantially different terms, or the terms of an existing financial asset or liability are substantially modified, such an exchange or modification is treated as a derecognition of the original asset or liability and the recognition of a new asset or liability, with the difference in the respective carrying amounts being recognised in profit or loss.

In all other instances, the renegotiated asset or liability's effective interest rate is redetermined taking into account the renegotiated terms.

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 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 or generating a profit from fluctuations in price or broker-traders' margin are measured at fair value less cost to sell and are reported as trading assets. All changes in fair value less cost to sell are recognised in trading revenue in the period of the change.

Forward contracts to purchase or sell commodities, where net settlement occurs or where physical delivery occurs and the commodities are held to settle another derivative contract, are recognised as derivative financial instruments and measured at fair value. All changes in fair value are recognised in trading revenue in the period of the change.

5. Interest in associates and joint ventures

Associates and jointly controlled entities

Associates are those entities in which the group has significant influence, but not control, over the financial and operating policies. Significant influence generally accompanies, but is not limited to, a shareholding of between 20% and 50% of the voting rights.

A jointly controlled entity is one where a contractual arrangement establishes joint control over the economic activity of the entity.

Interests in associates and jointly controlled entities are accounted for using the equity method and are measured in the consolidated statement of financial position at an amount that reflects the group's share of the net assets of the associate or jointly controlled entity (including goodwill).

Equity accounting involves recognising the investment initially at fair value, including goodwill, and subsequently adjusting the carrying value for the group's share of the associates' and jointly controlled entities' income and expenses and OCI. Equity accounting of losses in associates and jointly controlled entities is restricted to the interests in these entities, including unsecured receivables or other commitments, unless the group has an obligation or has made payments on behalf of the associate or jointly controlled entity. Unrealised intragroup 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.

Investments in associates and jointly controlled entities are accounted for at cost less impairment losses in the company's annual financial statements.

Jointly controlled operations

Jointly controlled operations exist where two or more venturers combine their operations, resources or expertise to market or distribute jointly a particular product. Each venturer recognises the assets it controls, the liabilities and expenses that it incurs, and its share of the gains and losses in respect of its interest in the joint venture.

6. Intangible assets

Goodwill

Goodwill represents the excess of the consideration transferred 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 5 – *Interest in associates and joint ventures*). Goodwill is allocated to cash-generating units (not larger than operating segments of the group as defined) and is 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.

Annexure A – detailed accounting policies continued

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 (2 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 yearend 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 yearend and adjusted, if necessary. There have been no changes in the estimated useful lives from those applied in the previous financial year.

7. Property and equipment

Equipment and owner-occupied properties

Equipment, furniture, vehicles and other tangible assets are measured at cost less accumulated depreciation and accumulated impairment losses. Cost includes expenditure that is directly attributable to the acquisition of the asset. Where significant parts of an item of property or equipment have different useful lives, they are accounted for as separate items (major components) of property and equipment.

Costs that are subsequently incurred are included in the asset's related 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 yearend.

The estimated useful lives of tangible assets are typically as follows:

Buildings	40 years
Computer equipment	3 to 5 years
Motor vehicles	4 to 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 and depreciation methods from those applied in the previous financial year.

8. Property developments

Property developments are stated at the lower of cost or net realisable value. Cost is assigned by specific identification and includes the cost of acquisition and where applicable, development and borrowing costs during development. When development is completed borrowing costs and other charges are expensed as incurred.

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 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 or a more representative basis where applicable over the lease term. When an operating lease is terminated before the lease period has expired, any payment required by the group 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 probable that economic benefits will flow to the group, but

Annexure A – detailed accounting policies continued

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. 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 yearend.

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
- investments in subsidiaries and jointly controlled entities where the group controls the timing of the reversal of temporary differences and it is probable that these differences will not reverse in the foreseeable future.

The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of the asset or liability and is not discounted.

Deferred tax assets are recognised to the extent that it is probable that future taxable income will be available against which the unused tax losses can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Current and deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously.

Dividends tax

Taxes on dividends declared by the group are recognised as part of the dividends paid within equity.

Dividends tax withheld by the group on dividends paid to its shareholders and payable at the reporting date to the South African Revenue Service (where applicable) is included in trade and other payables in the statement of financial position.

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, disposal groups and discontinued operations

Non-current assets, or disposal groups comprising assets and liabilities that are expected to be recovered primarily through sale rather than continuing use, are classified as held for sale.

Immediately before classification as held for sale, the assets (or components of a disposal group) are remeasured in accordance with the group's accounting policies and tested for impairment (refer accounting policy 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.

Assets (or components of a disposal group) are presented separately in the statement of financial position.

Once an interest in an associate is classified as held for sale, equity accounting is suspended.

Property and equipment and intangible assets, once classified as held for sale, are not depreciated or amortised.

The group classifies a component of the business as a discontinued operation when that component has been disposed of, or is classified as held for sale, and:

- represents a separate major line of business or geographical area of operations
- is part of a single coordinated plan to dispose of a separate major line of business or geographical area of operations, or
- is a subsidiary acquired exclusively with a view to resale.

Discontinued operations are presented separately within the income statement and the cash flow statement.

16. Equity

Share issue costs

Incremental external costs directly attributable to a transaction that increases or decreases equity are deducted from equity, net of related tax. All other share issue costs are expensed.

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.

17. Equity-linked transactions

Equity compensation plans

The group operates both equity-settled and cash-settled share-based compensation plans. All share options issued after

Annexure A – detailed accounting policies continued

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.

18. Revenue and expenditure

Revenue is derived substantially from the business of banking and related activities and comprises interest income, fee and commission revenue, trading revenue and other non-interest revenue.

Net interest income

Interest income and expense (with the exception of those borrowing costs that are capitalised – refer to accounting policy 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 reclassified 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 classified as debt 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. Expenditure is recognised as fee and commission expenses where the expenditure is linked to the production of fee and commission revenue.

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.

19. 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 the chief operating decision maker.

Transactions between segments are priced at market-related rates.

20. 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.

21. Comparative figures

Where necessary, comparative figures within notes have been restated to conform to changes in presentation in the current year.

Annexure A – detailed accounting policies continued

22. New standards not yet adopted

The following new or revised standards and amendments which have a potential impact on the group, are not yet effective for the year ended 31 December 2012 and have not been applied in preparing these annual financial statements:

Pronouncement	Title	Effective date
IFRS 7 (amendments)	*Financial Instruments: Disclosures – Offsetting Financial Assets and Financial Liabilities* The amendment to IFRS 7 requires additional disclosure for those financial instruments that are offset in the statement of financial position and for those financial instruments that are not offset in the statement of financial position but that are subject to either an enforceable master netting arrangement or similar agreement.	Annual periods beginning on or after 1 January 2013
IFRS 9 (amended)	*Financial Instruments* IFRS 9 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 OCI. 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 OCI. IFRS 9 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 (amended)[1]	*Consolidated Financial Statements* IFRS 10 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. When assessing whether an investor controls an investee, an investor with decision-making rights determines whether it acts as principal or as an agent. IFRS 10 will be applied retrospectively. The application of IFRS 10 is not expected to have a material impact on the group's results, with the exception of certain structured entities that may no longer be required to be consolidated by the group. The impact on the group's financial statements is currently being finalised.	Annual periods beginning on or after 1 January 2013

[1] Amendments were made to the transitional guidance within IFRS 10, 11 and 12 to limit the requirement to provide comparative information to only the preceding comparative period.

Pronouncement	Title	Effective date
IFRS 11 (amended)[1]	*Joint Arrangements* IFRS 11 focuses on the rights and obligations of joint arrangements, rather than the legal form. The standard: ■ distinguishes between joint operations and joint ventures depending on the rights and obligations of the parties to the arrangements ■ 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 ■ requires joint ventures to be accounted for using the equity method. IFRS 11 will be applied retrospectively and is not expected to have a material impact on the group's financial statements.	Annual periods beginning on or after 1 January 2013
IFRS 12 (amended)[1]	*Disclosure of Interests in Other Entities* IFRS 12 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 ■ the effects of those interests on the entity's financial position, financial performance and cash flows. IFRS 12 will be applied retrospectively and will result in additional disclosures regarding the nature of the relationship, risks and significant judgements an entity may make in determining the nature of its interest in another entity.	Annual periods beginning on or after 1 January 2013
IFRS 13	*Fair Value Measurement* IFRS 13 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. IFRS 13 does not introduce any new requirements to measure additional assets or liabilities at fair value. IFRS 13 will be applied prospectively. The application of IFRS 13 may result in changes to the measurement of certain of the group's assets and liabilities although initial high level assessments indicate these are unlikely to be significant. IFRS 13 will also result in additional disclosure requirements.	Annual periods beginning on or after 1 January 2013
IAS 19 (amendments)	*Employee Benefits* The amendments to IAS 19 include the following requirements: ■ actuarial gains and losses are to be recognised immediately in OCI. This change will remove the corridor method and eliminate the ability to recognise all changes in the defined benefit obligation and plan assets in profit or loss ■ 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 amendment will be applied retrospectively. The group will recognise all unrecognised actuarial losses or gains in OCI. As at 31 December 2012 there were unrecognised actuarial gains of R1,1 billion. The group will recognise an interest charge on the net pension fund liability or asset, rather than the expected return on the schemes' assets and interest cost on the schemes' benefit obligation.	Annual periods beginning on or after 1 January 2013

[1] Amendments were made to the transitional guidance within IFRS 10, 11 and 12 to limit the requirement to provide comparative information to only the preceding comparative period.

Annexure A – detailed accounting policies continued

Pronouncement	Title	Effective date
IAS 27 (amendments)	*Separate Financial Statements* The amendments to IAS 27 include both existing and amended accounting and disclosure requirements for separate financial statements. The amendments will be applied retrospectively and are not expected to have a material impact on the company's financial statements.	Annual periods beginning on or after 1 January 2013
IAS 28 (amendments)	*Investments in Associates and Joint Ventures* The amendments to IAS 28 carry 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 amendments will be applied retrospectively and are not expected to have a material impact on the group's financial statements.	Annual periods beginning on or after 1 January 2013
IAS 32 (amendments)	*Offsetting Financial Assets and Financial Liabilities* The amendment to IAS 32 clarifies the requirements for offsetting of financial assets and liabilities. The amendments 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 B – reclassifications

Income statement reclassifications of prior year's disclosures[1]

	Group			Company		
	For the year ended December 2011			For the year ended December 2011		
	As previously reported Rm	Restatement Rm	Restated Rm	As previously reported Rm	Restatement Rm	Restated Rm
Group						
Net interest income	21 241	107	21 348	21 161	107	21 268
Interest income	49 607	107	49 714	48 731	107	48 838
Interest expense	28 366		28 366	27 570		27 570
Non-interest revenue	18 606	198	18 804	18 082	198	18 280
Net fee and commission revenue	14 518	64	14 582	13 779	64	13 843
Fee and commission revenue	17 291	64	17 355	16 537	64	16 601
Fee and commission expense	2 773		2 773	2 758		2 758
Trading revenue	3 086	134	3 220	3 077	134	3 211
Other revenue	1 002		1 002	1 226		1 226
Total income	39 847	305	40 152	39 243	305	39 548
Credit impairment charges	4 623		4 623	4 584		4 584
Income after credit impairment charges	35 224	305	35 529	34 659	305	34 964
Revenue sharing agreements with group companies[1]		230	230		230	230
Income after revenue sharing agreements	35 224	75	35 299	34 659	75	34 734
Operating expenses	21 829	75	21 904	21 293	75	21 368
Staff costs	11 360	(571)	10 789	11 169	(571)	10 598
Other operating expenses	10 469	646	11 115	10 124	646	10 770
Net income before goodwill impairment	13 395		13 395	13 366		13 366
Goodwill impairment	46		46	39		39
Net income before associates and joint ventures	13 349		13 349	13 327		13 327
Share of profits/(losses) from associates and joint ventures	83		83	(26)		(26)
Net income before indirect taxation	13 432		13 432	13 301		13 301
Indirect taxation	745		745	745		745
Profit before direct taxation	12 687		12 687	12 556		12 556
Direct taxation	3 167		3 167	3 035		3 035
Profit for the year	9 520		9 520	9 521		9 521
Attributable to non-controlling interest	10		10			
Attributable to the ordinary shareholder	9 510		9 510	9 521		9 521

[1] During the financial year ended 31 December 2012 SBG reviewed its transfer pricing agreements in order to refine such methodologies applied in line with the group's revised business operating model, specifically as it relates to the group's CIB business. The transfer pricing arrangements have been presented in the income statement on a basis that reflects the underlying nature and substance of all cross-border related party transactions. Such presentation has been achieved through the inclusion of a new line in the income statement designated 'Revenue sharing agreements with group companies', as well as presenting any such costs paid within other operating expenses rather than in specific line item expenses. The comparative results have been restated in order to present the results of such agreements on a consistent basis.

Annexure C – subsidiaries

Subsidiaries	Nature of operation	Issued share capital Rm	Effective holding 2012 %	Effective holding 2011 %	Book value of shares 2012 Rm	Book value of shares 2011 Rm	Net indebtedness 2012 Rm	Net indebtedness 2011 Rm
Blue Bond Investments Limited	Participation mortgage bond finance	*	**100**	100	**	**	**81**	163
Blue Granite Investments No. 1 Proprietary Limited[1]	Securitisation vehicle						**588**	668
Blue Granite Investments No. 2 Proprietary Limited[1]	Securitisation vehicle						**330**	304
Blue Granite Investments No. 3 Proprietary Limited[1]	Securitisation vehicle						**675**	753
Blue Granite Investments No. 4 Proprietary Limited[1]	Securitisation vehicle						**516**	193
Blue Titanium Conduit Limited[1]	Asset-backed commercial paper conduit						**288**	236
Diners Club (SA) Proprietary Limited	Travel and entertainment card	*	**100**	100	**	**	**643**	765
Out of the Blue Originator Proprietary Limited	Bond originators	*	**100**	100	**	**		
Siyakha Fund Proprietary Limited[1]	Securitisation vehicle						**(354)**	(294)
Standard Bank Insurance Brokers Proprietary Limited	Insurance broking	*	**100**	100	***	***	**(309)**	(323)
Miscellaneous	Finance companies		****	****	**85**	84	**1 269**	342
Total investment in subsidiaries					**85**	84	**3 727**	2 807

The detailed information is only given in respect of subsidiaries which are material to the financial position of the group.
All subsidiaries are incorporated in South Africa.

1 SPE, no shareholding.
* Issued share capital less than R1 million.
** Book value less than R1 million.
*** Held indirectly.
**** Various holdings.

Annexure D – associates and joint ventures

	RCS Investment Holdings Proprietary Limited		Safika Holdings Proprietary Limited		Edu-Loan Proprietary Limited	
Ownership structure	Associate		Joint venture		Associate	
Nature of business	Finance		Investment holding company		Student loans	
Yearend	**March**		**February**		**December**	
Date to which equity accounted	**31 December 2011**		**31 December 2012**		**31 December 2012**	
	2012	2011	**2012**	2011	**2012**	2011
Effective holding (%)		45	**17**	17	**29**	29
	Rm	Rm	**Rm**	Rm	**Rm**	Rm
Carrying value	*	724	**446**	365	**41**	37
Statement of financial position[1]						
Non-current assets		99	**3 341**	2 924	**13**	13
Current assets		3 335	**533**	521	**337**	331
Non-current liabilities		(2 039)	**(701)**	(714)	**(144)**	(89)
Current liabilities		(225)	**(486)**	(409)	**(84)**	(147)
Loans to group companies[2]		392				
Attributable income before impairment		100	**82**	64	**6**	5

	Dairy Belle Holdings Proprietary Limited		Reatile Resources Proprietary Limited		Other associates	
Ownership structure	Associate		Associate		Associate	
Nature of business	Dairy products		Investment holding company		Various	
Yearend	**September**		**February**		**Various**	
Date to which equity accounted	**31 December 2011**		**31 December 2012**		**31 December 2012**	
	2012	2011	**2012**	2011	**2012**	2011
Effective holding (%)		50	**35**	35	**Various**	Various
	Rm	Rm	**Rm**	Rm	**Rm**	Rm
Carrying value	***	**	**62**	50	**210**	26
Statement of financial position[1]						
Non-current assets		405	**152**	327	**1 786**	1 117
Current assets		531	**38**	192	**578**	395
Non-current liabilities		(242)	**(32)**	(93)	**(894)**	(850)
Current liabilities		(317)	**(30)**	(115)	**(617)**	(376)
Loans to group companies[2]		231				35
Attributable income before impairment		(3)	**12**	17	**277**	1

1 Represents the summarised financial information of the associates and joint ventures.
2 These loans are provided on an arm's length basis.
* RCS Investment Holdings (Pty) Limited was classified as a non-current asset held for sale as at 31 December 2012. Refer to note 7 for further information.
** Investment fully impaired.
*** During 2012, the company obtained control of Dairy Belle Holdings (Pty) Limited (Dairy Belle) for an immaterial consideration. The fair value of Dairy Belle's assets and liabilities on acquisition date was negligible. Dairy Belle is currently in the process of being liquidated.

Annexure D – associates and joint ventures continued

	Credit Suisse Standard Securities Proprietary Limited[1]		Integrated Processing Solutions Proprietary Limited		Other joint ventures	
Ownership structure	Joint venture		Joint venture		Joint ventures	
Nature of business	Stockbroker		Banking		Various	
Yearend	**February**		**December**		**Various**	
Date to which equity accounted	**31 December 2011**		**31 December 2012**		**31 December 2012**	
	2012	2011	**2012**	2011	**2012**	2011
Effective holding (%)			**50**	50	**Various**	Various
	Rm	Rm	**Rm**	Rm	**Rm**	Rm
Carrying value			**50**	44	**2**	2
Statement of financial position[2]						
Non-current assets			**26**	27		
Current assets			**80**	106		6
Non-current liabilities			**(4)**	(4)		(6)
Current liabilities			**(25)**	(53)		(7)
Loans to group companies[3]					**2**	2
Attributable income before impairment		(33)	**6**	2	**2**	2

	Total associates and joint ventures		Private equity/venture capital associates and joint ventures[4]	
Ownership structure	Various		Various	
Nature of business	Various		Various	
Yearend	**Various**		**Various**	
Date to which equity accounted	**31 December 2012**		**31 December 2012**	
	2012	2011	**2012**	2011
Effective holding (%)	**Various**	Various	**Various**	Various
	Rm	Rm	**Rm**	Rm
Carrying value	**811**	1 248	**537**	427
Statement of financial position[2]				
Non-current assets	**5 318**	4 912	**4 423**	4 239
Current assets	**1 566**	5 417	**610**	1 604
Non-current liabilities	**(1 775)**	(4 037)	**(1 386)**	(1 440)
Current liabilities	**(1 242)**	(1 649)	**(773)**	(1 165)
Loans to group companies[3]		660	**2**	268
Attributable income before impairment	**385**	155	**91**	84
Impairments included in non-interest revenue		(59)		(59)
Fair value	**2 481**	1 226	**475**	427

1 The group sold its shareholding in Credit Suisse Standard Securities Proprietary Limited in January 2011 to Standard Financial Markets, a subsidiary of the Standard Bank Group, after which it was renamed to SBG Securities Proprietary Limited.
2 Represents the summarised financial information of the associates and joint ventures.
3 These loans are provided on an arm's length basis.
4 Included in total associates and joint ventures. All investments in associates and joint ventures, other than those measured at fair value through profit or loss in accordance with IAS 39, made by a private equity organisation are ring-fenced for headline earnings purposes. On the disposal of these associates and joint ventures held by the group's private equity division the profit or loss on the disposal will be included in headline earnings in terms of Circular 3/2012 *Headline Earnings,* issued by the South African Institute of Chartered Accountants at the request of the JSE Limited.

Annexure E – equity-linked transactions

Share-based payments

	2012 Rm	2011 Rm
Summary of the group and company's share incentive schemes and expenses recognised in staff costs:		
Equity-settled share-based payments	**6**	6
Cash-settled share-based payments	**436**	(38)
DBS	**66**	68
DBS 2012	**185**	
Total expenses recognised in staff costs	**693**	36
Summary of liabilities recognised in other liabilities:		
Cash-settled share-based payment liability	**981**	777
DBS	**175**	137
DBS 2012	**185**	
Total liability recognised in other liabilities	**1 341**	914

Equity compensation plans

The group's share incentive schemes enable key management personnel and senior employees of SBSA to benefit from the performance of SBG shares.

SBSA has two equity compensation plans, namely the GSIS and the equity growth scheme (EGS). The GSIS, which is equity-settled, confers rights to employees to acquire ordinary shares at the value of the SBG share price at the date the option is granted. The EGS, which is cash-settled, was implemented in 2005 and represents appreciation rights allocated to employees. The eventual value of the right is effectively settled by the issue of shares equivalent in value to the value of the rights.

The two schemes have four different sub-types of vesting categories as illustrated by the table below:

Vesting categories	Year	% vesting	Expiry (years)
Type A	3, 4, 5	50, 75, 100	10
Type B	5, 6, 7	50, 75, 100	10
Type C	2, 3, 4	50, 75, 100	10
Type D[1]	2, 3, 4	33, 67, 100	10

[1] New vesting category. Awards under category D are similar in vesting to category C but with longer average duration over the cumulative vesting period.

Equity-settled share-based payments

A reconciliation of the movement of share options is detailed below:

	Option price range (rand)	Number of options	
	2012	2012	2011
GSIS			
Options outstanding at the beginning of the year		**4 888 950**	8 311 600
Transfers	**27,80 – 111,94**	**(91 100)**	(1 236 200)
Granted			72 500
Exercised	**27,80 – 111,94**	**(2 090 100)**	(125 950)
Lapsed	**40,65 – 111,94**	**(45 800)**	(2 133 000)
Options outstanding at the end of the year		**2 661 950**	4 888 950

Annexure E – equity-linked transactions continued

Equity-settled share-based payments continued

Share options were exercised regularly throughout the year. The weighted average share price for the year was R110,03 (2011: R98,66).

The following options granted to employees, including executive directors, had not been exercised at 31 December 2012:

Number of ordinary shares	Option price range (rand)	Weighted average price (rand)	Option expiry period
137 000	**27,90 – 32,19**	**28,21**	**Year to 31 December 2013**
1 024 300	**39,90 – 48,00**	**40,82**	**Year to 31 December 2014**
33 800	**64,27 – 65,60**	**65,01**	**Year to 31 December 2015**
31 600	**76,40 – 79,50**	**78,52**	**Year to 31 December 2016**
70 400	**98,00**	**98,00**	**Year to 31 December 2017**
233 500	**92,00**	**92,00**	**Year to 31 December 2018**
220 100	**62,39**	**62,39**	**Year to 31 December 2019**
648 750	**104,53 – 114,60**	**110,82**	**Year to 31 December 2020**
262 500	**98,80**	**98,80**	**Year to 31 December 2021**
2 661 950			

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 price (rand)	Option expiry period
333 700	27,80 – 34,40	27,94	Year to 31 December 2012
1 035 000	27,70 – 32,19	27,94	Year to 31 December 2013
1 830 900	39,90 – 48,00	40,75	Year to 31 December 2014
34 500	64,27 – 65,60	65,02	Year to 31 December 2015
51 500	76,40 – 79,50	78,90	Year to 31 December 2016
87 900	98,00	98,00	Year to 31 December 2017
357 800	89,00 – 92,00	91,68	Year to 31 December 2018
331 400	62,39	62,39	Year to 31 December 2019
768 750	104,53 – 114,60	110,99	Year to 31 December 2020
57 500	98,80 – 99,97	99,21	Year to 31 December 2021
4 888 950			

The share options 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	
	2012	2011	**2012**	2011
Number of options granted		36 250		36 250
Weighted average fair value at grant date (rand)		33,29		35,12
The principal inputs are as follows:				
Weighted average share price (rand)		98,89		98,91
Weighted average exercise price (rand)		98,89		98,91
Expected life (years)		5,9		6,9
Expected volatility (%)		33.9 – 35.4		33.9 – 35.4
Risk-free interest rate (%)		7.0 – 8.2		7.3 – 8.4
Dividend yield (%)		3.7		3.7

No options were granted during 2012. The options granted during 2011 which were expected to vest had an estimated fair value of R2 million.

Cash-settled share-based payments

A reconciliation of the movement of appreciation rights is detailed below:

	Average price range (rand)	Number of rights	
	2012	2012	2011
EGS			
Reconciliation			
Rights outstanding at the beginning of the year		**49 454 302**	46 432 212
Transfers	**62,39 – 114,69**	**(194 887)**	(1 272 890)
Granted	**98,75 – 113,5**	**939 593**	10 951 475
Exercised[1]	**60,35 – 104,65**	**(4 875 999)**	(2 217 296)
Lapsed	**62,39 – 114,69**	**(2 419 948)**	(4 439 199)
Rights outstanding at end of the year[2]		**42 903 061**	49 454 302

[1] During the year, 1 011 587 (2011: 306 463) SBG shares were issued to settle the appreciated rights value.
[2] At the end of the year the group would need to issue 9 951 706 (2011: 5 791 127) SBG shares to settle the outstanding appreciated rights value.

The EGS rights are only awarded to individuals in employment of a group entity domiciled within South Africa. The group is required to ensure that employees' tax arising from benefits due in terms of the scheme is paid in accordance with the Fourth Schedule of the South African Income Tax Act 68 of 1962. Where employees have elected not to fund the tax from their own resources the tax due is treated as a diminution of the gross benefits due under the scheme. A total of 701 392 (2011: 373 501) 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 2012:

Number of rights	Option price range (rand)	Weighted average price (rand)	Option expiry period
1 680 071	**60,35 – 65,60**	**65,55**	**Year to 31 December 2015**
3 698 910	**76,40 – 87,00**	**79,61**	**Year to 31 December 2016**
3 433 059	**94,50 – 117,30**	**98,56**	**Year to 31 December 2017**
7 322 091	**69,99 – 100,08**	**91,82**	**Year to 31 December 2018**
7 647 502	**62,39 – 98,20**	**64,41**	**Year to 31 December 2019**
8 858 616	**102,00 – 116,80**	**111,43**	**Year to 31 December 2020**
9 352 046	**90,50 – 113,50**	**98,79**	**Year to 31 December 2021**
910 766	**98,75 – 113,50**	**108,03**	**Year to 31 December 2022**
42 903 061			

The following rights granted to employees, including executive directors, had not been exercised at 31 December 2011:

Number of rights	Option price range (rands)	Weighted average price (rands)	Option expiry period
2 684 089	60,35 – 65,60	65,56	Year to 31 December 2015
4 667 692	76,40 – 87,00	79,60	Year to 31 December 2016
4 187 364	94,50 – 117,30	98,48	Year to 31 December 2017
8 686 750	69,99 – 100,08	91,82	Year to 31 December 2018
9 532 741	62,39 – 99,00	64,22	Year to 31 December 2019
9 611 941	102,00 – 116,80	111,39	Year to 31 December 2020
10 083 725	90,50 – 107,55	98,83	Year to 31 December 2021
49 454 302			

Annexure E – equity-linked transactions continued

Cash-settled share-based payments continued

The share appreciation rights granted during the year were valued using a Black-Scholes option pricing model. Each grant was valued separately. The weighted fair value of the options granted per vesting type and the assumptions utilised are illustrated below:

	Type A		Type B		Type D
	2012	2011	**2012**	2011	**2012**
Number of appreciation rights granted	**466 165**	5 875 572	**72 750**	5 075 903	**400 678**
Weighted average fair value at grant date (rand)	**32,8**	33,47	**33,37**	35,26	**28,14**
The principle inputs are as follows:					
Weighted average share price (rand)	**108,11**	98,87	**103,43**	98,81	**108,9**
Weighted average exercise price (rand)	**108,11**	98,87	**103,43**	98,81	**108,9**
Expected life (years)	**5,9**	5,9	**6,9**	6,9	**7**
Expected volatility (%)	**32.83 – 33.33**	33.9 – 35.4	**32.83 – 33.33**	33.9 – 35.4	**32.87**
Risk-free interest rate (%)	**7.08– 7.29**	6.9 – 8.8	**7.30 – 7.53**	6.9 – 8.8	**6.63**
Dividend yield (%)	**3.8**	3.7	**3.8**	3.7	**3.8**

The appreciation rights granted during the year which are estimated to vest have a fair value of R21 million (2011: R279 million) at grant date.

Deferred bonus scheme

It is essential for the group to retain key skills over the longer term. This is done particularly through share-based incentive plans. The purpose of these plans is to align the interests of the group, its subsidiaries and employees, as well as to attract and retain skilled, competent people.

The group implemented a share scheme to defer a portion of incentive bonuses over a minimum threshold for key management and executives. This improves the alignment of shareholder and management interests by creating a closer linkage between risk and reward, and also facilitates the retention of key employees.

All employees who were awarded short-term incentives over a certain threshold, were 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. The DBS was replaced in 2012 by the Deferred Bonus Scheme 2012 (DBS 2012).

The provision in respect of liabilities under the scheme amounts to R175 million at 31 December 2012 (2011: R137 million) and the amount charged to the income statement for the year was R66 million (2011: R68 million). The change in the liability, due to change in the group share price, is hedged through the use of equity options and is designated as cash flow hedges.

Equity compensation plans

	Units 2012	Units 2011
Reconciliation		
Units outstanding at the beginning of the year	**2 610 464**	1 784 466
Granted		1 081 285
Exercised	**(511 585)**	(113 562)
Lapsed	**(131 615)**	(141 725)
Units outstanding at the end of the year	**1 967 264**	2 610 464
Weighted average fair value at grant date (rand)		87,93
Expected life (years)		3,00
Risk-free interest rate (%)		6.13
Dividend yield (%)		3.63

DBS 2012

In 2012 changes were made to the existing DBS to provide for a single global incentive deferral scheme across the regions. The purpose of the DBS 2012 is to encourage a longer-term outlook in business decision-making and closer alignment of performance with long-term value creation.

All employees granted an annual performance award over a threshold have part of their award deferred. The award is indexed to the group's share price and accrues notional dividends during the vesting period, which are payable on vesting. The awards vest in three equal amounts at 18 months, 30 months and 42 months from the date of award. The final payout is determined with reference to the group's share price on vesting date.

The provision in respect of these awards recognised other liabilities at 31 December 2012 and the amount charged to the income statement for the year under the scheme amounts to R185 million.

	Units 2012
Units granted during the year	**5 269 318**
Lapsed	**(189 012)**
Units outstanding at the end of the year	**5 080 306**
Weighted average fair value at grant date (Rand)	**109,02**
Expected life (years)	**2,51**
Risk-free interest rate (%)	**5.02**

Annexure F – emoluments and share incentives of directors and prescribed officers

Directors' and prescribed officers' emoluments 2012

	Fixed remuneration			
	Services as directors of SBSA R'000	SBSA committee fees R'000	Services as directors of group subsidiaries R'000	Cash portion of package R'000
Non-executive directors				
DDB Band	315			
RMW Dunne	189			
TS Gcabashe	225			
KP Kalyan	189			
SJ Macozoma	207			
KD Moroka	189			
AC Nissen	189			
MC Ramaphosa	189			
MJD Ruck	315			
Lord Smith of Kelvin, Kt	533			
EM Woods	207			
Subtotal	2 747			
Former non-executive directors				
SE Jonah KBE[1]	78			
Sir PR Judge[1]	221			
Subtotal	299			
Executive directors				
JH Maree				6 345[2]
SP Ridley				4 617[2]
SK Tshabalala				5 098[2]
Subtotal				16 060
Subtotal board	3 046			16 060
Prescribed officers				
BJ Kruger				6 014[2]
PG Wharton-Hood				6 008[2]
Subtotal prescribed officers				12 022
Total	3 046			28 082

[1] Retired on 31 May 2012.
[2] The amounts disclosed reflect total remuneration received from SBG where prescribed officers and executive directors of SBSA are also prescribed officers and/or executive directors of SBG.
[3] In order to align incentive payments with the performance period to which they relate, the above variable remuneration relates to the year under review irrespective of when payment is made.
[4] In terms of the DBS 2012, described on page 233, the amount finally payable is dependent on the performance of the group's share price. The awards deferred for the 2012 performance year are only issued in the 2013 financial year.
[5] Awards granted to key senior executives in March 2013 for the EGS are valued using the Black-Scholes methodology and are subject to a performance condition as set out on page 131 of the SBG annual integrated report, over and above the duration of service.

			Variable remuneration			
Other benefits R'000	Pension contri-butions R'000	Total fixed remuneration R'000	Cash bonus R'000	Deferred bonus R'000	Value of options/rights granted (EGS) R'000	Total remuneration for the year R'000
		315				315
		189				189
		225				225
		189				189
		207				207
		189				189
		189				189
		189				189
		315				315
		533				533
		207				207
		2 747				2 747
		78				78
		221				221
		299				299
470	997[2]	7 812	4 500[2,3]	3 700[4]	2 000[5,6]	18 012
246	572[2]	5 435	5 500[2,3]	4 700[4]	1 500[5,6]	17 135
270	482[2]	5 850	8 250[2,3]	7 450[4]	2 500[5,6]	24 050
986	2 051	19 097	18 250	15 850	6 000	59 197
986	2 051	22 143	18 250	15 850	6 000	62 243
132	963[2]	7 109	5 900[2,3]	5 100[4]	2 000[5,6]	20 109
191	966[2]	7 165	7 500[2,3]	6 700[4]	2 500[5,6]	23 865
323	1 929	14 274	13 400	11 800	4 500	43 974
1 309	3 980	36 417	31 650	27 650	10 500	106 217

[6] Black-Scholes value of conditional awards forfeited. Detail of award listed on pages 238 to 243.

Name	Value R'000
JH Maree	(5 748)
SP Ridley	(2 128)
PG Wharton-Hood	(3 697)
SK Tshabalala	(2 547)
BJ Kruger	(3 697)
Total	**(17 817)**

Annexure F – emoluments and share incentives of directors and prescribed officers continued

Directors' and prescribed officers' emoluments 2011

	Fixed remuneration			
	Services as directors of SBSA R'000	SBSA committee fees R'000	Services as directors of group subsidiaries R'000	Cash portion of package R'000
Non-executive directors				
DDB Band	302			
RMW Dunne	172			
TS Gcabashe	172			
SE Jonah KBE	172			
Sir PR Judge	430			
KP Kalyan	172			
SJ Macozoma	172			
KD Moroka	172			
AC Nissen	172			
MC Ramaphosa	172			
MJD Ruck	318			
Lord Smith of Kelvin, Kt	430			
EM Woods	172			
Subtotal	3 028			
Former non-executive director				
RP Menell[1]	16			
Subtotal	16			
Executive directors				
JH Maree				5 595[2]
SP Ridley				4 087[2]
SK Tshabalala				4 713[2]
Subtotal				14 395
Subtotal board	3 044			14 395
Prescribed officers				
BJ Kruger				5 268[2]
PG Wharton-Hood				5 337[2]
Subtotal prescribed officers				10 605
Total	3 044			25 000

[1] Resigned on 4 February 2011.
[2] The amounts disclosed reflect total remuneration received from SBG where prescribed officers and executive directors of SBSA are also prescribed officers and/or executive directors of SBG.
[3] In order to align incentive payments with the performance period to which they relate, the above variable remuneration relates to the year under review irrespective of when payment is made.
[4] In terms of the DBS 2012, described on page 233, the amount finally payable is dependent on the performance of the group's share price. The awards deferred for the 2011 performance year are only issued in the 2012 financial year.
[5] Awards granted to key senior executives in March 2012 for the EGS are valued using the Black-Scholes methodology and are subject to a performance condition as set out on page 131 of the SBG annual integrated report, over and above the duration of service.
[6] SK Tshabalala elected to have the value of his deferred award for the performance year 2011 invested in the EGS rather than DBS 2012. Details have been provided on page 240.

			Variable remuneration			
Other benefits R'000	Pension contri-butions R'000	Total fixed remuneration R'000	Cash bonus R'000	Deferred bonus R'000	Value of options/ rights granted (EGS) R'000	Total remuneration for the year R'000
		302				302
		172				172
		172				172
		172				172
		430				430
		172				172
		172				172
		172				172
		172				172
		172				172
		318				318
		430				430
		172				172
		3 028				3 028
		16				16
		16				16
423	895[2]	6 913	8 786[2,3]	9 043[4]	2 500[5]	27 242
212	514[2]	4 813	5 881[2,3]	5 600[4]	1 500[5]	17 794
227	454[2]	5 394	8 200[2,3]	7 900[6]	2 500[5]	23 994
862	1 863	17 120	22 867	22 543	6 500	69 030
862	1 863	20 164	22 867	22 543	6 500	72 074
143	858[2]	6 269	9 506[2,3]	9 763[4]	2 500[5]	28 038
152	840[2]	6 329	8 631[2,3]	8 888[4]	2 500[5]	26 348
295	1 698	12 598	18 137	18 651	5 000	54 386
1 157	3 561	32 762	41 004	41 194	11 500	126 460

Annexure F – emoluments and share incentives of directors and prescribed officers continued

Director's or prescribed officer's name			Opening balance 1 January	Number of share incentives allocated	Issue or offer date	Number of participation rights forfeited for the current performance year	Black-Scholes value of participation rights forfeited (R)
JH Maree	**GSIS**						
		2012	**300 000**				
		2011	325 000				
	EGS						
		2012	**1 625 000**	**61 471**	**2012/03/08**	**(125 000)**	**(5 747 500)**
		2011	1 625 000				
SP Ridley	**GSIS**						
		2012					
		2011	77 500				
	EGS						
		2012	**725 000**	**36 883**	**2012/03/08**	**(42 500)**	**(2 127 925)**
		2011	525 000	200 000	2011/03/04		

[1] Conditional awards.

Number of share incentives exercised or accepted during the year	Issue price (R)/ resultant shares	Difference between issue price and closing price on date of delivery (R)	Balance of share incentives 31 December	Number of share incentives as at 31 December 2012	Issue date	Issue or offer price (R)	Vesting category	Expiry date
300 000	**40,65**	**20 661 000**						
25 000	33,50	1 621 250	300 000					
	108,90		**1 561 471**	**375 000**	**2006/03/10**	**79,50**	**A**	**2016/03/10**
			1 625 000	**125 000**	**2006/03/10**	**79,50**	**B**	**2016/03/10**
				62 500[1]	**2008/03/06**	**92,00**	**A**	**2018/03/06**
				250 000[1]	**2008/03/06**	**92,00**	**B**	**2018/03/06**
				62 500[1]	**2009/03/06**	**62,39**	**A**	**2019/03/06**
				125 000[1]	**2009/03/06**	**62,39**	**B**	**2019/03/06**
				500 000[1]	**2010/03/05**	**111,94**	**A**	**2020/03/05**
				61 471[1]	**2012/03/08**	**108,90**	**A**	**2022/03/08**
17 500	27,90	1 232 350						
60 000	40,65	3 460 200						
50 000	**12 175**	**2 170 000**	**669 383**	**150 000**	**2006/03/10**	**79,50**	**B**	**2016/03/10**
			725 000	**15 000**	**2007/03/07**	**98,00**	**A**	**2017/03/07**
				15 000	**2007/03/07**	**98,00**	**B**	**2017/03/07**
				12 500[1]	**2008/03/06**	**92,00**	**A**	**2018/03/06**
				50 000[1]	**2008/03/06**	**92,00**	**B**	**2018/03/06**
				30 000[1]	**2009/03/06**	**62,39**	**A**	**2019/03/06**
				60 000[1]	**2009/03/06**	**62,39**	**B**	**2019/03/06**
				100 000[1]	**2010/03/05**	**111,94**	**A**	**2020/03/05**
				100 000[1]	**2011/03/04**	**98,80**	**A**	**2021/03/04**
				100 000[1]	**2011/03/04**	**98,80**	**B**	**2021/03/04**
				36 883[1]	**2012/03/08**	**108,90**	**A**	**2022/03/08**

Annexure F – emoluments and share incentives of directors and prescribed officers continued

Share incentives continued

Director's or prescribed officer's name			Opening balance 1 January	Number of share incentives allocated	Issue or offer date	Number of participation rights forfeited for the current performance year	Black-Scholes value of participation rights forfeited (R)
PG Wharton-Hood	**GSIS**						
		2012	**250 000**				
		2011	300 000				
	EGS						
		2012	**1 250 000**	**61 471**	**2012/03/08**	**(75 000)**	**(3 696 750)**
		2011	1 100 000	150 000	2011/03/04		
SK Tshabalala[2]	**GSIS**						
		2012	**25 000**				
		2011	25 000				
	EGS						
		2012	**795 000**	**274 305**	**2012/03/08**	**(50 000)**	**(2 547 250)**
		2011	595 000	200 000	2011/03/04		

[1] Conditional awards.
[2] SK Tshabalala, has a right to 698 339 shares as a beneficiary of the Tutuwa Manager's Trusts. There is a current liability of R44,36 per share. Special conditions apply to the shares.

Number of share incentives exercised or accepted during the year	Issue price (R)/ resultant shares	Difference between issue price and closing price on date of delivery (R)	Balance of share incentives 31 December	Number of share incentives as at 31 December 2012	Issue date	Issue or offer price (R)	Vesting category	Expiry date
125 000	**27,90**	**10 641 250**	**125 000**	**125 000**	**2004/03/11**	**40,65**	**A**	**2014/03/11**
50 000	27,80	3 408 200	250 000					
	108,90		**1 236 471**	**125 000**	**2005/03/10**	**65,60**	**B**	**2015/03/10**
			1 250 000	**300 000**	**2006/03/10**	**79,50**	**B**	**2016/03/10**
				125 000	**2007/03/07**	**98,00**	**B**	**2017/03/07**
				25 000[1]	**2008/03/06**	**92,00**	**A**	**2018/03/06**
				100 000[1]	**2008/03/06**	**92,00**	**B**	**2018/03/06**
				50 000[1]	**2009/03/06**	**62,39**	**A**	**2019/03/06**
				100 000[1]	**2009/03/06**	**62,39**	**B**	**2019/03/06**
				100 000[1]	**2010/03/05**	**111,94**	**A**	**2020/03/05**
				100 000[1]	**2010/03/05**	**111,94**	**B**	**2020/03/05**
				75 000[1]	**2011/03/04**	**98,80**	**A**	**2021/03/04**
				75 000[1]	**2011/03/04**	**98,80**	**B**	**2021/03/04**
				61 471[1]	**2012/03/08**	**108,90**	**A**	**2022/03/08**
			25 000	**25 000**	**2004/03/11**	**40,65**	**A**	**2014/03/11**
			25 000					
	108,90		**1 019 305**	**50 000**	**2005/03/10**	**65,60**	**B**	**2015/03/10**
			795 000	**22 500**	**2006/03/10**	**79,50**	**A**	**2016/03/10**
				22 500	**2006/03/10**	**79,50**	**B**	**2016/03/10**
				25 000	**2007/03/07**	**98,00**	**A**	**2017/03/07**
				25 000	**2007/03/07**	**98,00**	**B**	**2017/03/07**
				12 500[1]	**2008/03/06**	**92,00**	**A**	**2018/03/06**
				100 000[1]	**2008/03/06**	**92,00**	**B**	**2018/03/06**
				50 000[1]	**2008/03/06**	**92,00**	**B**	**2018/03/06**
				37 500[1]	**2009/03/06**	**62,39**	**A**	**2019/03/06**
				75 000[1]	**2009/03/06**	**62,39**	**B**	**2019/03/06**
				62 500[1]	**2010/03/05**	**111,94**	**A**	**2020/03/05**
				62 500[1]	**2010/03/05**	**111,94**	**B**	**2020/03/05**
				100 000[1]	**2011/03/04**	**98,80**	**A**	**2021/03/04**
				100 000[1]	**2011/03/04**	**98,80**	**B**	**2021/03/04**
				61 471[1]	**2012/03/08**	**108,90**	**A**	**2022/03/08**
				212 834	**2012/03/08**	**108,90**	**D**	**2022/03/08**

Annexure F – emoluments and share incentives of directors and prescribed officers continued

Share incentives continued

Director's or prescribed officer's name			Opening balance 1 January	Number of share incentives allocated	Issue or offer date	Number of participation rights forfeited for the current performance year	Black-Scholes value of participation rights forfeited (R)
BJ Kruger	**GSIS**						
		2012					
		2011	15 700				
	EGS						
		2012	**1 231 500**	**61 471**	**2012/03/08**	**(75 000)**	**(3 696 750)**
		2011	1 062 500	200 000	2011/03/04		

[1] Conditional awards.

Number of share incentives exercised or accepted during the year	Issue price (R)/ resultant shares	Difference between issue price and closing price on date of delivery (R)	Balance of share incentives 31 December	Number of share incentives as at 31 December 2012	Issue date	Issue or offer price (R)	Vesting category	Expiry date
15 700	40,65	960 309						
31 500	**7 990**	**1 441 440**	**1 186 471**	**300 000**	**2006/03/10**	**79,50**	**B**	**2016/03/10**
31 000	7 243	262 341	1 231 500	150 000	2007/03/07	98,00	B	2017/03/07
				50 000[1]	2008/03/06	92,00	A	2018/03/06
				100 000[1]	2008/03/06	92,00	B	2018/03/06
				25 000[1]	2009/03/06	62,39	A	2019/03/06
				100 000[1]	2009/03/06	62,39	B	2019/03/06
				100 000[1]	2010/03/05	111,94	A	2020/03/05
				100 000[1]	2010/03/05	111,94	B	2020/03/05
				100 000[1]	2011/03/04	98,80	A	2021/03/04
				100 000[1]	2011/03/04	98,80	B	2021/03/04
				61 471[1]	2012/03/08	108,90	A	2022/03/08

Annexure F – emoluments and share incentives of directors and prescribed officers continued

Deferred bonus scheme

The table below reflects bonus awards issued in the 2012 and prior financial years and relate to past years' performance. The awards will only vest in future in terms of the rules of the DBS and DBS 2012. The bonus awards payable and bonus awards deferred for the 2012 performance year are only issued in the 2013 financial year and are reflected on page 234.

	Performance year	Issue date	Amount deferred (R)	Award price (R)
JH Maree	2008	2009/03/06[1]	2 593 000	62,39
	2011	2012/03/08[2]	9 043 512	108,90
SP Ridley	2008	2009/03/06[1]	887 500	62,39
	2009	2010/03/05[1]	817 500	111,94
	2010	2011/03/04[1]	552 875	98,80
	2011	2012/03/08[2]	5 600 074	108,90
PG Wharton-Hood	2008	2009/03/06[1]	967 500	62,39
	2009	2010/03/05[1]	887 500	111,94
	2010	2011/03/04[1]	5 184 600	98,80
	2011	2012/03/08[2]	8 887 547	108,90
SK Tshabalala[3]	2008	2009/03/06[1]	1 750 000	62,39
	2009	2010/03/05[1]	1 930 000	111,94
BJ Kruger	2008	2009/03/06[1]	1 870 000	62,39
	2009	2010/03/05[1]	1 075 000	111,94
	2010	2011/03/04[1]	2 310 000	98,80
	2011	2012/03/08[2]	9 762 558	108,90

[1] Units are granted in DBS and vest after three years from date of award.
[2] Units are granted in DBS 2012 and vest in three equal tranches at 18, 30 and 42 months from date of award.
[3] SK Tshabalala elected to have the value of his deferred award for the performance year 2011 invested in the EGS rather than DBS 2012. Details have been provided on page 240.
[#] The units were exercised to settle taxes due on vesting date.

Units	Expiry date/ final vesting date	Number of units exercised during the year	Share price (R)	Value of units exercised (R)	Balance of units 31 December
41 561	2013/11/30				41 561
83 035	2015/09/08				83 035
14 226	2013/11/30	5 691	111,36	633 750	8 535
7 303	2014/11/30				7 303
5 596	2015/11/30				5 596
51 424	2015/09/08				51 424
15 508	2013/11/30	6 204	111,36	690 877	9 304
7 928	2014/11/30				7 928
52 476	2015/11/30				52 476
81 612	2015/09/08				81 612
28 050	2013/11/30	11 220	111,36	1 249 459	16 830
17 241	2014/11/30				17 241
29 973	2013/11/30	29 973	111,36	3 337 793	
9 603	2014/11/30				9 603
23 381	2015/11/30				23 381
89 647	2015/09/08				89 647

Annexure G – segmental statement of financial position

	Personal & Business Banking	
	2012 Rm	2011[1] Rm
Assets		
Cash and balances with central banks		
Derivative assets	**20**	(25)
Trading assets		
Pledged assets		
Non-current asset held for sale	**960**	
Financial investments	**45**	31
Loans and advances	**424 436**	386 851
Current and deferred taxation	**48**	(176)
Other assets	**2 211**	1 869
Interest in group companies, associates and joint ventures	**(123)**	548
Goodwill and other intangible assets	**5 650**	3 629
Property and equipment	**2 209**	2 243
Total assets	**435 456**	394 970
Equity and liabilities		
Equity	**33 439**	25 075
Equity attributable to the ordinary shareholder	**33 438**	25 075
Ordinary share capital		4
Ordinary share premium	**4**	4
Reserves	**33 434**	25 067
Non-controlling interest	**1**	
Liabilities	**402 017**	369 895
Derivative liabilities	**19**	
Trading liabilities		
Deposit and current accounts	**391 915**	360 371
Current and deferred taxation	**1 792**	934
Provisions and other liabilities	**1 170**	(730)
Subordinated debt	**7 304**	8 986
Liabilities to group companies	**(183)**	334
Total equity and liabilities	**435 456**	394 970

[1] 2011 figures restated due to the commercial property finance profit centre being reallocated from CIB to PBB.

Corporate & Investment Banking		Other services		Total	
2012 Rm	2011[1] Rm	**2012 Rm**	2011 Rm	**2012 Rm**	2011 Rm
15 835	13 128	**10 091**	7 737	**25 926**	20 865
78 657	92 780	**167**	667	**78 844**	93 422
35 399	24 366	**286**	260	**35 685**	24 626
5 706	3 737			**5 706**	3 737
				960	
74 334	77 463	**2 296**	2 315	**76 679**	79 809
237 928	226 359	**(2 864)**	(2 045)	**659 500**	611 165
135	158	**34**	326	**217**	308
13 844	8 200	**1 766**	690	**17 821**	10 759
53 311	57 117	**5 242**	4 434	**58 430**	62 099
8		**4 696**	2 840	**10 350**	6 469
132	166	**6 554**	6 021	**8 895**	8 430
515 289	503 474	**28 268**	23 245	**979 013**	921 689
24 084	21 141	**12 282**	8 631	**69 805**	54 847
24 022	21 089	**12 282**	8 631	**69 742**	54 795
21	21	**39**	35	**60**	60
		35 192	27 226	**35 196**	27 230
24 001	21 068	**(22 949)**	(18 630)	**34 486**	27 505
62	52			**63**	52
491 205	482 333	**15 986**	14 614	**909 208**	866 842
81 697	98 640	**28**	90	**81 744**	98 730
15 953	13 581			**15 953**	13 581
324 977	322 740	**1 052**	4 951	**717 944**	688 062
4 334	3 352	**(2 733)**	(2 612)	**3 393**	1 674
6 499	3 187	**9 904**	11 236	**17 573**	13 693
7 176	7 260	**7 920**	(151)	**22 400**	16 095
50 569	33 573	**(185)**	1 100	**50 201**	35 007
515 289	503 474	**28 268**	23 245	**979 013**	921 689

Credit ratings

Ratings as at 6 March 2013

	Short term	Long term	Outlook
Fitch Ratings			
The Standard Bank of South Africa			
Foreign currency issuer default rating	F3	BBB	Stable
Local currency issuer default rating		BBB	Stable
National rating	F1+ (ZAF)	AA (ZAF)	Stable
RSA Sovereign ratings			
Foreign currency issuer default rating	F3	BBB	Stable
Local currency issuer default rating		BBB+	Stable
Moody's Investor Services			
The Standard Bank of South Africa			
Foreign currency deposit rating	P-2	Baa1	Negative
Local currency deposit rating	P-2	A3	Negative
National rating	P-1	Aa2.za	
RSA Sovereign ratings			
Foreign currency	P-2	Baa1	Negative
Local currency		Baa1	Negative
Standard & Poor's			
The Standard Bank of South Africa			
Unsolicited issuer rating	A-2	BBB	Negative
RSA Sovereign ratings			
Foreign currency	A-2	BBB	Negative
Local currency	A-2	A-	Negative

Financial and other definitions

The Standard Bank of South Africa	
Additional increments	To enhance the retention components of the DBS, additional increments of the deferred award become payable at vesting and one year thereafter. This feature was replaced by notional dividends for awards in respect of the 2011 financial year.
Basic earnings per ordinary share (EPS) (cents)	Earnings attributable to the ordinary shareholder divided by the weighted average number of ordinary shares in issue.
Black	African, Coloured, Indian and South African Chinese people (who fall within the ambit of the definition of black people in the relevant legislation as determined by court ruling).
Broad-based black economic empowerment (BBBEE)	Socioeconomic term concerning formalised initiatives and programmes to enable historically disadvantaged black individuals and groups to participate gainfully and equitably in the mainstream economy.
Capital adequacy ratio (%)	Capital as a percentage of risk-weighted assets.
Cost-to-income ratio (%)	Operating expenses as a percentage of total income including share of profit from associates and joint ventures.
CPI (%)	A South African index of prices used to measure the change in the cost of basic goods and services.
Credit loss ratio (%)	Total impairment charges on loans and advances per the income statement as a percentage of average daily and monthly gross loans and advances.
Dividend per share (cents)	Total dividends to the ordinary shareholder in respect of the year expressed on a per share basis. Dividend is calculated using the cash component of any distribution where an election to receive scrip was available.
Dividend yield	Dividend per share as a percentage of the closing share price.
Effective tax rate (%)	Direct and indirect taxation as a percentage of income before taxation.
Exposure at default (EAD)	Counterparty's expected exposure to the group at the time of default.
Headline earnings (Rm)	Earnings attributable to the ordinary shareholder excluding goodwill gain or impairment, capital profits and losses, and recycled profits or losses on available-for-sale financial instruments.
Headline earnings per ordinary share (HEPS) (cents)	Headline earnings divided by the weighted average number of ordinary shares in issue.
International Financial Reporting Standards (IFRS)	International Financial Reporting Standards issued by the International Accounting Standards Board (IASB).
Loss given default (LGD)	Amount of counterparty's obligation to the group that is not expected to be recovered after default and is expressed as a percentage of the EAD.
Net asset value (Rm)	Equity attributable to the ordinary shareholder.
Net asset value per ordinary share (cents)	Net asset value divided by the number of ordinary shares in issue at yearend.
Non-interest revenue to total income (%)	Non-interest revenue as a percentage of total income.

Financial and other definitions continued

The Standard Bank of South Africa continued	
Portfolio credit impairments (Rm)	Impairment for latent losses inherent in groups of loans and advances that have not yet been specifically impaired.
Price-earnings ratio (times)	Market capitalisation divided by net asset value.
Probability of default (PD)	Probability of a counterparty not making full and timely repayment of credit obligations over a specific time horizon.
Profit attributable to the ordinary shareholder (Rm)	Profit for the year attributable to the ordinary shareholder, calculated as profit for the year less non-controlling interests.
Profit for the year (Rm)	Income statement profit attributable to the ordinary shareholder and non-controlling interests for the year.
Real yield (RY)	The return from an investment adjusted for the effects of inflation, compounded semi-annually.
Return on equity (ROE) (%)	Headline earnings as a percentage of monthly average ordinary shareholders' funds.
Risk appetite	An expression of the maximum level of residual risk that the group is prepared to accept in order to deliver its business objectives.
Risk-weighted assets (Rm)	Determined by applying prescribed risk weightings to on- and off-balance sheet exposures according to the relative credit risk of the counterparty.
Specific credit impairments (Rm)	Impairment for specific identified credit losses on loans and advances, net of the present value of estimated recoveries.
Special purpose entity (SPE)	An entity created to accomplish a narrow and well-defined objective.
Tutuwa	Tutuwa is SBG's black economic empowerment ownership initiative entered into in terms of the Financial Sector Charter.
Weighted average number of ordinary shares (number)	The weighted average number of ordinary shares in issue during the year.

Acronyms and abbreviations

A

AIRB	Advanced internal ratings-based
ALCO	Asset and liability committee
AMA	Advanced measurement approach
ATM	Automated teller machine

B

Banks Act	South African Banks Act 94 of 1990
BASA	Banking Association of South Africa
Basel	Basel Capital Accord
BBBEE	Broad-based black economic empowerment
BCBS	Basel Committee on Banking Supervision
BEE	Black economic empowerment
Board	The Standard Bank of South Africa board of directors
BSD	Bank Supervision Department
BTV	Balance-to-value

C

CAGR	Compound annual growth rate
CDM	Clean Development Mechanism
CGT	Capital gains tax
The charter	Financial Sector Charter
CIB	Corporate & Investment Banking
The code	The group's code of ethics
CoE	Cost of equity
Companies Act/ the Act	South African Companies Act 71 of 2008
The company	The Standard Bank of South Africa Limited
CPI	Consumer price index
CR	Country risk grade
CRO	Chief risk officer
CSI	Corporate social investment

D

DBS	Deferred bonus scheme
dti	Department of Trade and Industry of the Government of South Africa
dti codes	Department of Trade and Industry Codes of Good Practice for Broad-Based Black Economic Empowerment

E

EAD	Exposure at default
EGS	Equity growth scheme

F

FSB	Financial Services Board

G

GAC	SBG/SBSA audit committee
GBP	British pound sterling
GCCO	Group chief compliance officer
GIBS	Gordon Institute of Business Science
GORC	Group operational risk committee
GRCMC	SBG/SBSA risk and capital management committee
GROC	SBG risk oversight committee
The group	The Standard Bank of South Africa Limited and its subsidiaries
GSIS	Group share incentive scheme

I

IAS	International Accounting Standards
IASB	International Accounting Standards Board
ICAAP	Internal capital adequacy assessment process
ICBC	Industrial and Commercial Bank of China Limited
IFRS	International Financial Reporting Standards
IRB	Internal ratings-based
ISDA	International Swaps and Derivatives Association
IT	Information technology

J

JIBAR	Johannesburg interbank agreed rate
JSE	JSE Limited, the licensed securities exchange in Johannesburg

K

KFI	Key financial indicator
King Code	The King Report on Corporate Governance for South Africa 2009

L

LCm	Millions of local currency
LCR	Liquidity coverage ratio
LGD	Loss given default
Liberty	Liberty Holdings Limited and its subsidiaries
LIBOR	London interbank offered rate

Acronyms and abbreviations continued

M	
MOI	Memorandum of Incorporation
N	
NSFR	Net stable funding ratio
O	
OCI	Other comprehensive income
OTC	Over-the-counter
P	
PBB	Personal & Business Banking
PD	Probability of default
Pension Funds Act	Pension Funds Act 24 of 1956
PoPi	Protection of Public Information
Q	
QRRE	Qualifying revolving retail exposures
R	
R	South African rand
RAPM	Risk-adjusted performance measurement
Rbn	Billions of rand
REIPPP Programme	Renewable Energy Independent Power Producer Procurement Programme
Rm	Millions of rand
ROE	Return on equity
RY	Real yield
S	
SA	South Africa
SARB	South African Reserve Bank
SBG	Standard Bank Group Limited
SBGRF	Standard Bank Group Retirement Fund
SB Plc	Standard Bank Plc
SBSA	The Standard Bank of South Africa Limited
SCMB	Standard Corporate and Merchant Bank
SME	Small and medium enterprises
SPE	Special purpose entity
STC	Secondary tax on companies

T	
TCF	Treating Customers Fairly
TCM	Treasury and capital management
The trust	Tutuwa Community Trust
Tier I	Primary capital
Tier II	Secondary capital
Tier III	Tertiary capital
Tutuwa	Black economic empowerment ownership initiative
U	
UK	United Kingdom
USD	United States dollar
V	
VaR	Value-at-risk
VAT	Value added tax
Z	
ZAR	South African rand

Contact details

Head: Investor relations
David Kinsey
Tel: +27 11 631 3931

Group secretary
Zola Stephen
Tel: +27 11 631 9106

Chief financial officer
Libby King
Tel: +27 11 636 1167

Head: 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 switchboard
Tel: +27 11 636 9111

Website: www.standardbank.com

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

STUDIO⑤

www.standardbank.com

Africa is a complex and diverse continent deserving nuanced insight. With differing prospects and performance across the continent, a 'one size fits all' approach is inappropriate. We are able to navigate unique environments by employing and developing local skills. Together with our other competitive advantages, our heritage and footprint, we are in a prime position to turn Africa's challenges into market opportunities.