

Risk management report

for the six months ended 30 June 2010

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Risk management

1. Overview

1.1 Introduction

Effective risk management is fundamental to the business activities of the group. While we remain committed to increasing shareholder value by developing and growing our business within our board-determined risk appetite, we are mindful of achieving this objective in line with the interests of all stakeholders.

We seek to achieve an appropriate balance between risk and reward in our business, and continue to build and enhance the risk management capabilities that assist in delivering our growth plans in a controlled environment.

Risk management is at the core of the operating structure of the group. We seek to limit adverse variations in earnings and capital by managing risk exposures within agreed levels of risk appetite. Our risk management approach includes minimising undue concentrations of exposure, limiting potential losses from stress events and ensuring the continued adequacy of all our financial resources.

Our risk management processes have continued to prove effective throughout the first half of 2010, despite a

tough economic environment. Executive management remained closely involved in important risk management initiatives, which have focused particularly on preserving appropriate levels of liquidity and capital, and effectively managing the risk portfolios.

Responsibility and accountability for risk management resides at all levels within the group, from the board down through the organisation to each business manager and risk specialist.

Risks are controlled at the level of individual exposures and at portfolio level, as well as in aggregate across all businesses and risk types.

1.2 Focus areas for 2010

In our 2009 annual report we set out specific risk focus areas for 2010. We continue to make good progress on these initiatives.

The group continues to focus significant attention on the proposed changes to Basel II, and to this end we participated in the Comprehensive Impact Assessment as well as industry groups at a local and global level.

The group uses the three lines of defence model:

First line of defence	Business unit management	Primarily responsible for risk management. The process of assessing, evaluating and measuring risk is ongoing and is integrated into the day-to-day activities of the business. This process includes implementing the group's risk management framework, identifying issues and taking remedial action where required. Business unit management is also accountable for reporting to the governance bodies within the group.
Second line of defence	Group and business unit risk management functions which are appropriately independent of business management	The group risk management function is primarily accountable for setting the group's risk management framework and policy, providing oversight and independent reporting to executive management through the group risk oversight committee, and to the board through the group credit committee and the group risk and capital management committee. The business unit risk management functions implement the group's risks management framework and policy in the business units, approve risk within specific mandates and provide an independent overview of the effectiveness of risk management by the first line of defence.
Third line of defence	Internal audit function	Provides an independent assessment of the adequacy and effectiveness of the overall risk management framework and risk governance structures, and reports to the board through the group audit committee.

2. Risk management framework

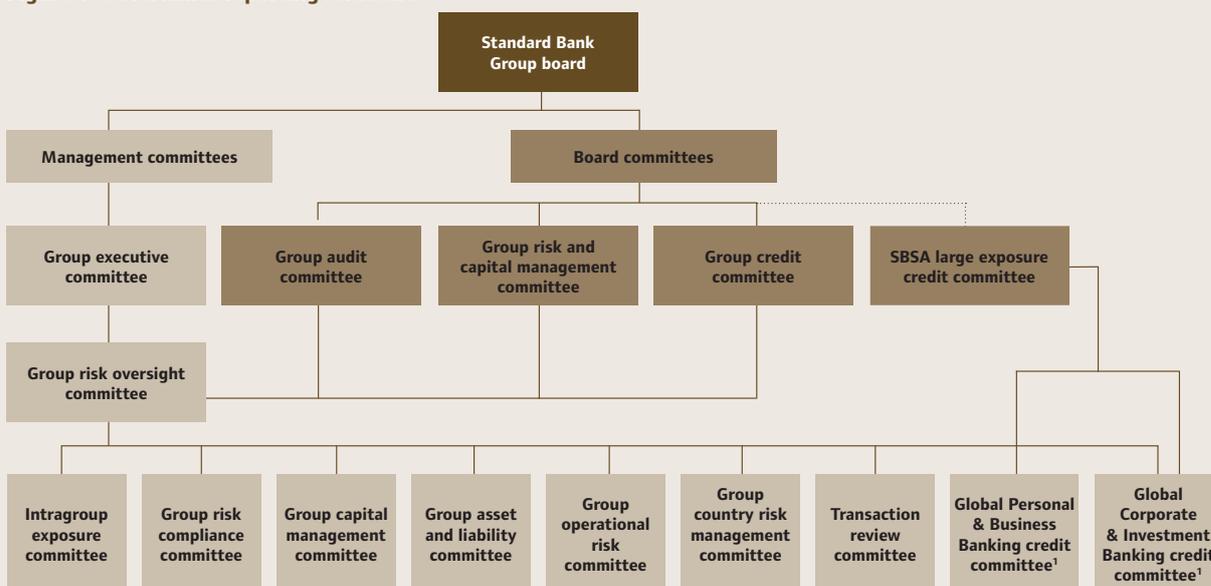
2.1 Governance structure

Strong independent oversight is in place at all levels throughout the group.

Various committees allow executive management and the board to evaluate the risks faced by the group, as well as the effectiveness of the group's management of these risks. These committees are integral to the group's risk governance structure.

The senior committees are set out in figure 1.

Figure 1: Governance reporting structure



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

The group audit committee (GAC) is responsible for:

- reviewing the group's financial position and making recommendations to the board on all financial matters, including assessing the integrity and effectiveness of accounting, financial, compliance and other control systems; and
- ensuring effective communication between internal auditors, external auditors, the board, management and regulators.

The group risk and capital management committee (GRCMC) and the group credit committee (GCC) provide, among other things, independent and objective oversight of risk and capital management across the group by:

- reviewing and providing oversight of the adequacy and effectiveness of the group's risk management control framework;
- approving risk and capital management governance standards and policies; and

- approving and monitoring the group's risk profile and risk tendency against risk appetite for each risk type under normal and potential stress conditions.

Executive management oversight for all risk types at group level has been delegated by the group executive committee to the group risk oversight committee (GROC). This committee considers and, to the extent required, recommends for approval by the relevant board committees:

- levels of risk appetite and tolerance;
- risk governance standards for each risk type;
- actions on the risk profile;
- risk strategy and key risk controls across the group;
- capital planning and capital funding activities;
- utilisation of risk appetite; and
- usage and allocation of economic capital parameters for modelling, stress testing and scenario analysis.

The GRCMC, GCC, GAC and GROC meet at least quarterly, with additional meetings conducted when necessary. The group risk management subcommittees set out in figure 1 report directly to GROC and through GROC to the GRCMC, the GCC and GAC.

2.2 Approach and structure

The group's approach to risk management is based on well established governance processes and relies on both individual responsibility and collective oversight, supported by comprehensive reporting. This approach balances strong corporate oversight at group level, beginning with proactive participation by the group chief executive and the group executive committee in all significant risk matters, with independent risk management structures within individual business units.

Business unit heads are primarily responsible for managing risk within each of their businesses and for ensuring that appropriate, adequately designed and effective risk management frameworks are in place, and that these frameworks are compliant with the group's risk governance standards.

To ensure independence and appropriate segregation of responsibilities between business and risk management, business unit chief risk officers and chief credit risk officers report operationally to their respective business unit heads and functionally to either the group chief risk officer or the group chief credit officer.

2.3 Risk governance standards, policies and procedures

The group has developed a set of risk governance standards for each major risk type to which it is exposed. The standards set out and ensure alignment and consistency in the way in which we deal with major risk types across the group, from identification to reporting.

All standards are applied consistently across the group and are approved by the GRCMC or the GCC. It is the responsibility of executive management in each business unit to ensure that the risk governance standards, as well as supporting policies and procedures, are implemented and independently monitored by the risk management team in that particular business unit.

Compliance with risk standards is controlled through annual self-assessments conducted by business units and group risk and review independently by the group internal auditors.

2.4 Risk appetite

Risk appetite is the maximum level of residual risk that the group is prepared to accept to deliver its business objectives. The group has developed a robust framework that is used to articulate risk appetite throughout the group and to external stakeholders.

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

- providing strategic leadership and guidance;
- reviewing and approving annual budgets and forecasts, under both normal and stressed conditions, for the group and each division; and
- regularly reviewing and monitoring the group's risk performance through quarterly board reports.

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

The group's risk appetite statements are defined by five broad metrics:

- headline earnings;
- liquidity;
- regulatory capital;
- economic capital; and
- the confidence level applied to our capital adequacy to cover any unexpected losses.

These metrics are then converted into tolerance levels and limits through an analysis of the risks that impact on them.

2.5 Stress testing

The group's stress testing framework guides the regular execution of stress tests at the business unit, legal entity and group levels. The group's overall stress testing programme is a key management tool within the organisation and facilitates a forward-looking perspective on risk management and business performance. Stress testing involves identifying

possible events or future changes in economic conditions that could have an impact on the group.

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

More specifically, stress testing may reveal a reduction in surplus capital or a shortfall in capital under specific scenarios. This may then serve as a leading indicator to the group to raise additional capital, reduce capital outflows, adjust the capital structure and/or reduce its risk appetite.

The appropriateness of the group-wide stress scenarios and the severity of the relevant scenarios are approved by the GRMC based on GROC's recommendations, and are reviewed at least annually.

Executive management considers the outcomes of stress testing on earnings and capital adequacy in determining an appropriate risk appetite, to ensure that these remain above the group's minimum capital requirements. Management reviews the outcomes of stress tests and, where necessary, determines appropriate mitigating actions to minimise and manage the risks induced by potential stresses. Examples of potential mitigating actions include reviewing and changing risk limits, limiting exposures and hedging strategies. Stress tests are regularly discussed with regulators.

The objective of stress testing is to support a number of value-added business processes across the group. These processes include:

- assessment of potential changes in the risk profile and monitoring of risk appetite;
- strategic planning and budgeting;
- capital planning and management, including setting capital buffers for the group;
- communication with internal and external stakeholders;
- the assessment of the impact of stresses on earnings volatility; and

- ad hoc assessment of the impact of changes in short-term macroeconomic factors on the group's performance

During the first half of the year, the group performed group-wide stress tests across all major risk types based on a number of macroeconomic scenarios, each with different levels of severity. The outcome of these stress tests indicated that the group was well within its risk tolerance levels in all of the scenarios. In 2009, the group-wide macroeconomic stress testing process was conducted twice in line with changing economic conditions, and will continue to be conducted biannually during 2010 and for the foreseeable future.

Portfolio-specific stress tests are conducted more frequently within business units, with many executed monthly. This enables early and proactive management of the potential impact of stress scenarios on the group's risk profile at a business unit level.

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

2.6 King III

The group has completed a gap analysis to identify differences between current risk governance and management and the recommendations of the third King report on corporate governance (King III). No gaps which require substantial changes to current procedures and governance practices have been identified.

The key risk workstreams set out in King III pertain to boards of directors (encompassing ethics and leadership culture), combined assurance and internal financial controls, and integrated reporting and disclosure. Project plans for appropriately implementing the recommendations of King III have been finalised.

3. Risk categories

3.1 Credit risk

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

- Counterparty risk is the risk of credit loss to the group as a result of failure by a counterparty to meet its financial and/or contractual obligations to the group. This risk type has three components:
 - primary credit risk, which is the exposure at default (EAD) arising from lending and related banking product activities including their underwriting;
 - pre-settlement credit risk, which is the EAD arising from unsettled forward and derivative transactions. This risk arises from the default of the counterparty to the transaction and is measured as the cost of replacing the transaction at current market rates; and
 - issuer risk, which is the EAD arising from traded credit and equity products including their primary market underwriting.
- Settlement risk is the risk of loss to the group from settling a transaction where value is exchanged, but where it fails to receive all or part of the counter value.
- Credit concentration risk is the risk of loss to the group as a result of excessive build-up of exposure to, among others, a single counterparty or counterparty segment, an industry, a market, a product, a 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.

3.2 Country risk

Cross-border transfer risk, herein referred to as country risk, is the uncertainty that a client or counterparty, including the relevant sovereign, will be able to fulfil its obligations to the group outside

the host country due to political or economic conditions in the host country.

3.3 Liquidity risk

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

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

3.4 Market risk

This is the risk of a change in the actual or effective market value or earnings of a portfolio of financial instruments caused by adverse movements in market variables such as equity, bond and commodity prices; currency exchange and interest rates; credit spreads; recovery rates and correlations; as well as implied volatilities in all of the above.

3.5 Operational risk

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

3.6 Business risk

Business risk relates to the potential revenue shortfall compared to the cost base due to strategic and/or reputational reasons. From an economic capital perspective, business risk capital requirements are calculated as the potential loss arising over a one-year timeframe, within a certain level of confidence, as implied by the group's chosen target rating. The group's ability to generate revenue is impacted by, among others, the external macroeconomic environment, its chosen strategy and its reputation in the markets in which it operates.

3.7 Reputational risk

Reputational risk results from damage to the group's image among stakeholders, which may impair its ability to retain and generate business. Such damage may result from a breakdown of trust, confidence or business relationships.

3.8 Insurance risk

This is the risk that future claims and related expenses will exceed the allowance for expected claims and expenses, as determined through measuring policyholder liabilities and in reference to product pricing principles. Insurance risk arises due to uncertainty regarding the timing and amount of future cash flows from insurance contracts, whether due to variations in mortality, morbidity or withdrawal rate, or due to deviations from investment performance assumptions in the case of life products, and claims incidence and severity assumptions in the case of short-term insurance products. Further insurance risk disclosures are not provided in this interim report, but on an annual basis in line with International Financial Reporting Standards (IFRS) requirements.

4. Reporting frameworks

This risk management report addresses the disclosure requirements of Basel II pillar 3 and is not audited.

4.1 Basel II consolidation

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

Basel II information has been disclosed in accordance with the following approaches:

4.1.1 Consolidated

Includes the full risk-weighted exposure amounts of a subsidiary in the group consolidated risk-weighted exposures, for example banking and financial entities.

4.1.2 Proportionately consolidated

Includes the pro rata portion of the risk-weighted exposure amounts of the entity in the group consolidated risk-weighted exposures, for example banking and financial entities where joint control exists.

4.1.3 Deduction

The respective investment in the entity is deducted from the consolidated capital and reserve funds and the related assets are removed from the consolidated balance sheet, for example insurance and commercial entities or financial entities where no control exists.

Table 1: Treatment of legal entities under the Basel II consolidation

Type of treatment	Banks ¹	Securities firms ²	Financial entities ³	Commercial entities ⁴	Insurance entities ⁵
June 2010					
Consolidated	23	5	80		
Proportionately consolidated			4		
Deduction	1	1	11	107	5
Total	24	6	95	107	5
December 2009					
Consolidated	23	5	79		
Proportionately consolidated			4		
Deduction	1	1	12	107	5
Total	24	6	95	107	5

¹ Banks – public companies registered as banks in terms of the Banks Act, 1990 or the relevant legislation if the entity is registered outside of the Republic of South Africa.

² Securities firms – entities that conduct securities business as envisaged in the Securities Services Act, 2004 or the relevant legislation if the entity is registered outside of the Republic of South Africa.

³ Financial entities – entities that conduct financial activities, for example, lending business, financial leasing, consumer credit, mortgage credit, money transmission, portfolio management or money broking.

⁴ Commercial entities – entities primarily involved in the production of goods or non-financial services.

⁵ Insurance entities – entities that conduct insurance business including any entity registered as an insurer in terms of the Short-term Insurance Act, 1998 or Long-term Insurance Act, 1998 or the relevant legislation if the entity is registered outside the Republic of South Africa.

4.2 Basel II approaches adopted

4.2.1 Credit risk

The group obtained approval from the South African Reserve Bank (SARB) to adopt the advanced internal ratings-based (AIRB) approach for its credit portfolios in The Standard Bank of South Africa (SBSA). Certain portfolios outside of SBSA, for which the standardised and foundation internal ratings-based (FIRB) approaches were initially adopted, are being migrated to the AIRB approach.

4.2.2 Operational risk

The group applies the standardised approach (TSA) for operational risk and has implemented some qualitative aspects of the advanced measurement approach (AMA) to bring the group in line with risk management best practice. The group is progressing well in developing and implementing an AMA operational risk framework by 2012.

4.2.3 Market risk

The group obtained approval from SARB to adopt the internal model approach for most of its principal trading books.

4.3 Restatements

4.3.1 Capital management

Tier I and tier II capital were restated for the December 2009 period to correctly reflect the

group's investment in financial entities and to exclude unappropriated profits in terms of the Regulations Relating to Banks.

4.3.2 Banking book equity exposures

Banking book equity exposures were restated to exclude an investment in a money market unit trust previously included in the balance.

4.3.3 Specific impairments

The breakdown of specific impairments by industry was restated to align with the classification definitions of the Regulations Relating to Banks.

Specific impairments by asset class were restated following a refinement in the classification methodology.

4.3.4 Securitisations

The disclosure methodology for securitisations was revised, this resulted in two restatements.

Capital deductions were restated to include the first loss provision, as reflected in the regulatory returns.

On- and off-balance sheet exposures were restated to show the Blue Titanium liquidity facility, previously reported as on-balance sheet, as off-balance sheet, in order to reflect the nature of the underlying exposure.

5. Capital management

The group's capital management framework serves to ensure that the group and its principal subsidiaries are capitalised in line with the risk profile, regulatory requirements, economic capital standards and target ratios approved by the board, at both group and subsidiary level. The group capital management objectives are to:

- maintain sufficient capital resources to meet minimum regulatory capital requirements set by SARB in accordance with Basel II requirements;
- ensure that the group's foreign regulated subsidiaries meet the minimum requirements of their particular jurisdiction/s;
- maintain sufficient capital resources to support the group's risk appetite;
- cover unexpected loss within the group's target confidence levels and support the group's credit rating;
- allocate capital to businesses to support the group's strategic objectives, including optimising returns on economic and regulatory capital; and
- ensure the group holds capital in excess of minimum requirements in order to achieve the target capital adequacy ratios set by management and approved by the board, to achieve debt rating objectives and to withstand the impact of potential stress events.

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

- establishing internal targets for capital adequacy;
- managing the sensitivity of capital ratios to foreign exchange rate movements;
- ensuring regulatory capital adequacy requirements for foreign and local entities are met;

- allocating capital to support the group's strategic plans;
- applying stress tests to assess the group's capital adequacy under stress scenarios;
- developing, reviewing and approving ICAAP;
- capital planning and forecasting to ensure that capital ratios exceed the targets set by the board; and
- capital raising on a timely basis.

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

5.1 Capital adequacy

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

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

5.2 Regulatory capital

During the period under review, the group complied with all externally-imposed capital requirements to which its banking activities and insurance operations are subject. These include, but are not limited to, the relevant requirements of the Banks Act and Regulations Relating to Banks (which are broadly consistent with the Basel II guidelines issued by the Bank for International Settlements), as well as those of the Financial Services Board (FSB) in South Africa and other insurance regulatory bodies.

In addition to the requirements of host country regulators, the group complies with capital adequacy requirements of South African banking regulations. Regulatory capital adequacy is measured via two risk-based ratios: tier I and total capital adequacy, both of which are stated as a percentage of risk-weighted assets.

Tier I capital represents the permanent forms of capital such as share capital, share premium, retained earnings and perpetual, non-cumulative preference shares, while total capital additionally includes other items such as subordinated debt, impairments for performing loans and revaluation reserves. Risk-weighted assets are determined on a granular basis by using risk weights calculated from internally-derived risk parameters. Both on- and off-balance sheet exposures are included in the overall credit risk-weighted assets of the group.

Notional risk-weighted assets for the market and operational risk components are determined using the risk drivers that impact on regulatory capital as inputs.

The group's tier I capital, excluding unappropriated profits, was R61,8 billion as at 30 June 2010 (31 December 2009: R60,3 billion) and total capital, excluding unappropriated profits, was R79,2 billion as

at 30 June 2010 (31 December 2009: R79,7 billion). The change in the group's tier I capital was primarily due to an increase in retained earnings by the group.

The group maintained a well capitalised position based on core tier I, tier I and total capital ratios for the six months ending June 2010, as set out in the tables on the pages that follow.

Furthermore, the group participated in the Comprehensive Impact Assessment (Basel III) which was submitted to the Bank Supervision Department (BSD) of the SARB in April 2010. On the basis of this assessment the group internally reviewed the impact on its capital position, taking into account the reforms in promoting a more resilient financial sector, to arrive at an appropriately-calibrated total level of risk-weighted assets, qualifying capital and leverage ratio.

5.3 Capital transferability

Subject to appropriate motivation and approval by exchange control authorities, no significant restrictions exist on the transfer of funds and regulatory capital within the banking group. The transfer of funds and regulatory capital within the group is conducted after due consideration has been given to the appropriateness of each action.

Risk management continued

Table 2: Basel II regulatory capital (excluding unappropriated profit)

	June 2010 Rm	December ¹ 2009 Rm
Tier I		
Issued primary capital and unimpaired reserve funds	91 593	87 195
Ordinary share capital and premium	17 436	17 197
Ordinary shareholders' reserves	69 927	66 279
Minority interest	4 230	3 719
Less: regulatory deductions	(18 792)	(16 202)
Goodwill and other intangible assets	(8 442)	(7 827)
Investment in regulated non-banking entities	(139)	(135)
Investment in banks	(3 178)	(2 369)
Less: regulatory deductions – 50% deducted from tier I and tier II respectively	(7 033)	(5 871)
Future expected loss exceeding eligible provisions on an incurred loss basis	(1 816)	(921)
Investment in insurance and financial entities not consolidated	(4 888)	(4 666)
Loans to Special Purpose Entities (SPEs) (first loss credit enhancement)	(329)	(284)
Less: regulatory exclusions	(16 514)	(16 164)
Non-qualifying entities' ordinary shareholders' reserves ²	(4 254)	(3 631)
Unappropriated profits	(11 693)	(11 030)
Other reserves ³	(567)	(1 503)
Preference share capital and premium	5 495	5 495
	61 782	60 324
Tier II		
Issued secondary capital and reserves	24 517	23 868
Preference share capital and premium	8	8
Subordinated debt	23 395	22 931
Impairments for performing loans	1 114	929
Less: regulatory deductions – 50% deducted from tier I and tier II respectively	(7 563)	(5 871)
Future expected loss exceeding eligible provisions on an incurred loss basis	(1 816)	(921)
Investment in insurance and financial entities not consolidated	(4 888)	(4 666)
Investment in banks	(530)	
Loans to SPEs (first loss credit enhancement)	(329)	(284)
	16 954	17 997
Tier III		
Subordinated debt	491	1 361
Total eligible capital (excluding unappropriated profits)⁴	79 227	79 682
Total risk-weighted assets	620 971	599 822

¹ Restated, refer to page 9.

² Mainly insurance and commercial entities.

³ Mainly the share-based payment reserve, cash flow hedging reserve, available-for-sale revaluation reserve and negative foreign currency translation reserve, where applicable.

⁴ Total eligible capital, including unappropriated profits of R11 693 million (December 2009: R11 030 million), was R90 920 million (December 2009: R90 712 million). Tier I capital, including unappropriated profits of R11 693 million (December 2009: R11 030 million), was R73 475 million (December 2009: R71 354 million).

Table 3: Basel II capital requirements

	June 2010 Rm	December 2009 Rm
Credit risk	44 105	42 162
<i>Portfolios subject to the standardised approach</i>	11 125	10 563
Corporate	6 279	5 575
Sovereign	2 380	1 794
Banks	486	532
Retail mortgages	581	1 355
Retail other	1 378	1 265
Securitisation exposure	21	42
<i>Portfolios subject to the FIRB approach</i>	6 725	7 302
Corporate	5 499	6 264
Sovereign	130	81
Banks	1 096	957
<i>Portfolios subject to the AIRB approach</i>	24 093	22 316
Corporate	8 720	9 221
Sovereign	904	396
Banks	914	1 011
Retail mortgages	7 360	5 499
Qualifying retail revolving exposure	3 582	3 813
Retail other ¹	2 321	2 140
Securitisation exposure	292	236
<i>Other assets</i>	2 162	1 981
Equity risk in the banking book	1 494	1 531
<i>Portfolios subject to the standardised approach</i>	82	72
Listed	1	3
Unlisted	81	69
<i>Portfolios subject to the market-based approach</i>	723	615
Listed	73	322
Unlisted	650	293
<i>Portfolios subject to the probability of default/loss given default approach</i>	689	844
Market risk	4 749	4 686
Portfolios subject to the standardised approach	2 679	2 402
Portfolios subject to the internal models approach	2 070	2 284
Operational risk		
Portfolios subject to the standardised approach	10 197	10 104
Total capital requirements	60 545	58 483

¹ Retail other includes retail small and medium enterprises (SMEs), vehicle and asset finance, and term lending exposures.

Table 4: Capital adequacy ratios (including unappropriated profit)

	Minimum regulatory requirement %	Target ratio %	June 2010 %	December ¹ 2009 %
Total capital adequacy ratio	9,75	11-12	14,6	15,1
Tier I capital adequacy ratio	7,0	9	11,8	11,9
Core tier I capital adequacy ratio	5,25		11,0	11,0

¹ Restated, refer to page 9.

Risk management continued

Table 5: Capital adequacy ratios of banking and insurance subsidiaries

	June 2010		December 2009 ¹		Host regulatory requirement %
	Tier I capital %	Total capital %	Tier I capital %	Total capital %	
Standard Bank Group	11,8	14,6	11,9	15,1	9,75
South Africa					
The Standard Bank of South Africa (SBSA)	10,2	13,5	10,6	14,1	9,75
Rest of Africa					
CfC Stanbic Bank Kenya	10,8	17,0	10,6	16,4	12
Stanbic Bank Botswana	8,9	15,4	10,8	18,6	15
Stanbic Bank Ghana	21,2	26,0	19,4	22,5	10
Stanbic Bank Tanzania	16,2	17,5	17,4	18,9	12
Stanbic Bank Uganda	13,6	16,4	13,1	16,3	12
Stanbic Bank Zambia	11,7	15,7	14,1	18,0	10
Stanbic Bank Zimbabwe	14,2	15,5	17,5	18,8	10
Stanbic IBTC Bank Nigeria	29,0	29,6	27,6	28,1	10
Standard Bank Malawi	23,7	29,2	19,8	25,7	10
Standard Bank Mauritius	11,8	17,4	12,0	18,1	10
Standard Bank Mozambique	15,7	18,0	12,0	14,7	8
Standard Bank Namibia	11,2	13,7	11,2	14,1	10
Standard Bank RDC	18,7	23,2	10,1	16,2	10
Standard Bank Swaziland	12,5	17,8	12,0	17,9	8
Standard Lesotho Bank	15,7	17,1	9,1	10,6	8
Outside Africa					
Standard International Holdings, consolidated ²	10,6	17,0	9,9	16,5	10,48³
Standard Bank Isle of Man	9,3	12,9	8,8	12,5	10
Standard Bank Jersey	10,6	15,8	10,0	13,0	10
Aggregate regulatory capital requirement for banking operations		10,1		10,1	
Liberty Group (calculated in terms of the Long-term Insurance Act) CAR⁴ – times covered		2,8		2,8	

¹ Restated, please refer to page 9.

² Standard International Holdings consists of:
 – Banco Standard de Investimentos (Brazil);
 – Standard Bank Argentina;
 – Standard Bank Asia (Hong Kong);
 – Standard Bank Plc (United Kingdom); and
 – Standard Merchant Bank (Asia) (Singapore).

³ Plus an additional USD 100 million.

⁴ Capital adequacy requirement.

5.4 Economic capital

Economic capital is the basis for measuring and reporting quantifiable economic risks faced by the group. Economic capital is the amount of permanent capital that a transaction, business unit or risk type must hold to support the economic risk.

The group assesses its economic capital requirements by measuring its risk profile using both internally- and externally-developed models. Economic capital is used for risk management, capital management, capital planning and capital allocation.

The group has refined its ICAAP over the period under review to incorporate the impact of residual risk, risk concentrations, correlation of risk, diversification impacts and stress tests to ensure that the group is adequately capitalised on an economic basis.

A key component of ICAAP is the assessment of the group's capital adequacy using economic capital. ICAAP was approved by the board, through the GRCMC, and forms the basis for discussion with SARB on the group's risk profile and capital adequacy.

The group's economic capital management framework governs how economic capital is quantified, and assigns roles and responsibilities for the management and allocation of economic capital across the group.

The methodologies used to quantify the amount of economic capital required by the group have evolved rapidly over the past two years. These methodologies are subject to regular reviews to ensure that the economic capital results are a true reflection of the underlying portfolios and risk drivers that impact the group.

Economic capital is calculated for each of the following quantifiable risk types:

- credit risk;
- equity risk;
- market risk;
- operational risk;
- business risk; and
- interest rate risk in the banking book.

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

Table 6: Economic capital by risk type

	June 2010 Rm	December 2009 Rm
Credit risk	28 597	31 336
Equity risk	1 865	1 293
Market risk	1 768	1 747
Operational risk	6 814	6 965
Business risk	1 817	1 504
Interest rate risk in the banking book	1 620	1 917
Banking activities – economic capital	42 481	44 762
Available financial resources	86 830	81 503
Capital coverage ratio	2,04	1,82

- Credit risk represents the largest source of risk to which the banking entities in the group are exposed and accounts for the majority of total economic capital. Credit risk reduced due to an improvement in through the cycle risk parameters.
- Equity risk capital increased primarily due to the first time inclusion of the group's investment in Troika Dialog.
- Capital in respect of interest rate risk in the banking book reduced due to a decline in the prime interest rate.

- Available financial resources is the capital supply as defined on an economic basis which comprises permanent capital and is broadly equivalent to equity capital. AFR of R86,8 billion covers the minimum economic capital requirement of R42,5 billion by a factor of 2,04 times, indicating substantially higher capital position relative to the risk assumed in banking activities.

6. Credit risk

6.1 Framework

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

The principal executive management committee responsible for overseeing credit risk is GROC. The global credit committees for both Personal & Business Banking and Corporate & Investment Banking report directly to GROC and indirectly through GROC to the GCC.

The two global credit committees are responsible for making decisions on credit risk. They have been approved by the board as the designated committees for approving key aspects of the credit rating systems for Personal & Business Banking and Corporate & Investment Banking as required by the Banks Act, 1990 and the Regulations Relating to Banks.

The GCC is the principal board committee responsible for the oversight of credit risk, with GAC having oversight responsibility for reviewing credit impairment adequacy. The structure of the business unit credit committees is shown in figure 2.

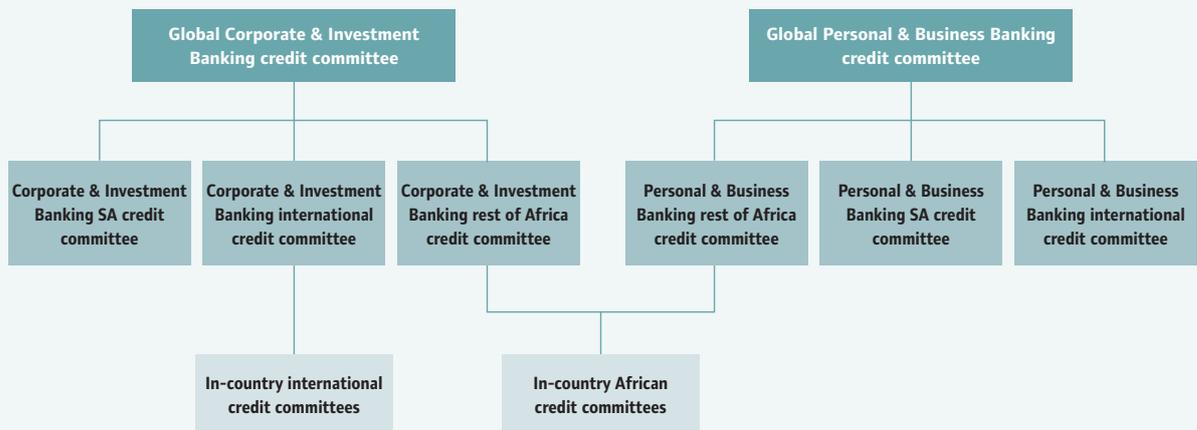
The SBSA large exposure committee approves all counterparty large exposures to the extent required by SARB regulations. All such approvals are ratified by the SBSA board.

The committees have clearly defined mandates and delegated authorities, which are regularly reviewed.

Credit committee responsibilities include governance oversight; risk appetite; model performance, development and validation; counterparty and portfolio risk limits and approvals; country, industry, market, product, obligor, customer segment and maturity concentration risk; risk mitigation; impairments; stress testing and the optimisation of regulatory and economic capital.

Intra-group exposures are monitored by the intra-group exposures committee which reports into GROC.

Figure 2: Business unit credit committees



Risk management continued

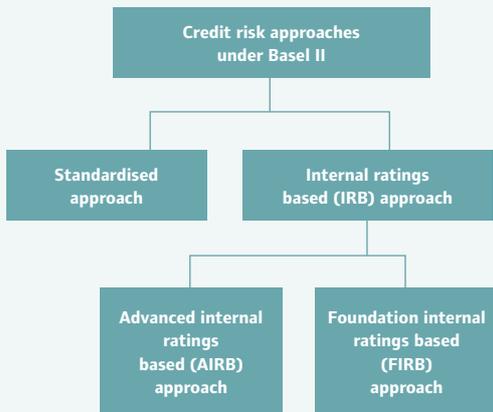
6.2 Basel II

6.2.1 Approaches adopted

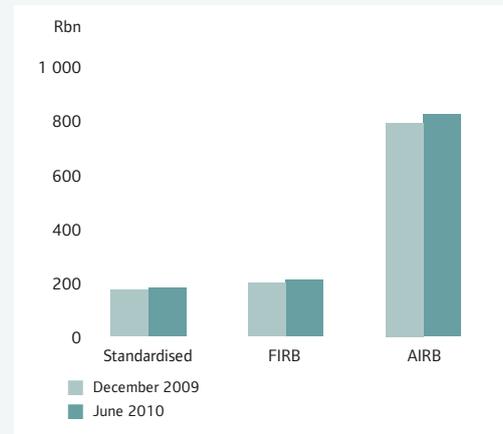
The three approaches under Basel II for credit risk are the standardised approach, the FIRB approach and the AIRB approach. The FIRB and AIRB approaches are collectively referred to as the internal ratings-based (IRB) approaches.

The group has adopted the AIRB approach for most credit risk portfolios. Some subsidiaries and portfolios that are not currently on the AIRB approach are in the process of being migrated to this approach, where appropriate.

Figure 3: Approaches under Basel II



Graph 1: Basel II exposure by approach



Graph 2: Basel II exposure by approach and asset class



6.2.2 Standardised approach

The group has adopted the standardised approach for some of its subsidiaries and portfolios for which the calculation of regulatory capital is based on net counterparty exposures after recognising a limited set of qualifying collateral. A prescribed percentage, being the risk weighting which is based on the perceived credit rating of the counterparty, is then applied to the net exposure.

Table 7: External credit assessment institutions

Asset class	Moody's Investor Services	Fitch
Sovereign	✓	✓

For exposures that have been rated by approved credit assessment institutions, the process prescribed by SARB is used to ascribe public issue ratings into comparable assets in the banking book. For

counterparties for which there are no credit ratings available, exposures are classified as unrated for determining regulatory capital requirements.

6.2.2.1 Equity exposures subject to the standardised approach

Under this approach unlisted and listed equity exposures are both ascribed a 100% risk weighting, unless the exposure relates to private equity and venture capital. In this case, a risk weighting of 150% is applied.

Table 9: Equity exposures

	June 2010 Rm	December 2009 Rm
Listed		34
Unlisted	836	700
Total	836	734

Table 8: Exposures subject to the standardised approach per risk weighting

	June 2010			December 2009 Exposure after mitigation Rm
	Exposure Rm	Mitigation Rm	Exposure after mitigation Rm	
Based on risk weights				
0% – 35%	8 612	1	8 611	25 328
50%	33 527	85	33 442	34 449
Rated	2 825		2 825	3 656
Unrated	30 702	85	30 617	30 793
75%	37 684	249	37 435	33 096
100% and above	99 836	8 182	91 654	77 004
Rated	6 085	49	6 036	9 167
Unrated	93 751	8 133	85 618	67 837
Total	179 659	8 517	171 142	169 877

During the period, a mortgage type sub-portfolio was migrated from the standardised approach to the AIRB approach, accounting for the decrease in the 0 to 35% bucket. This was offset by the temporary reclassification

of certain exposures from the AIRB and FIRB approaches to the standardised approach, resulting in the increase in the 100% and above bucket.

6.2.3 IRB approach

Measuring credit risk under the IRB approach requires the assessment of its core components: probability of default (PD), exposure at default (EAD) and loss given default (LGD). EAD is the exposure amount that the group estimates will be outstanding at the time of default. LGD is measured as a percentage of the EAD that the group estimates it will lose as a result of a default. It is based largely on the customer type, seniority of the loan, country of risk and level of collateralisation.

6.2.3.1 Corporates, sovereigns and banks

Corporate, sovereign and bank borrowers include South African and international companies, sovereigns (government entities), 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 SMEs that are managed on a relationship basis or have a combined exposure to the group of more than R7,5 million.

A risk grade is assigned to each borrower using an appropriate rating model. Rating models are used to achieve objectivity, comparability, transparency and consistency in assigning ratings.

Rating models typically take quantitative and qualitative factors into account, which are used to produce a stand-alone rating. The models may also factor in geographic differences as well as support, both explicit and implicit, to determine the final risk rating.

The group uses an internationally-comparable 25 point master rating scale for counterparties. Each performing risk grade is mapped to a PD that is used to quantify the credit risk for each borrower. The mapping of the master rating scale to the SARB risk buckets, external credit assessment institutions' alphanumerical rating scales and grading categories are shown in table 10.

Mapping is done through a calibration process that uses historical default rates and other data from the applicable portfolio. In low default portfolios, such as the sovereign and bank asset classes, the group uses internal data, where available, and external benchmarks and studies, particularly from rating agencies.

Under the AIRB approach, the EAD and LGD parameters are derived using approved methodologies and are based on a combination of internal and external historical default and recovery data. For the FIRB approach, these parameters are prescribed by the regulator.

The group uses internal risk estimates of PD, LGD and EAD as inputs into the following management decisions:

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

Table 10: 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	Close monitoring
22 – 25	Below B-	Caa1, Caa2, Caa3, Ca	CCC+, CCC, CCC-	CCC+, CCC, CCC-		
Default	Default	C	D	D	Default	Default

Other rating models have also been developed for specialised lending exposures, details of which are set out below.

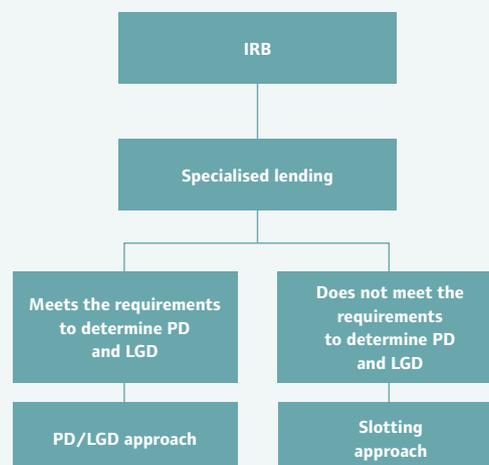
6.2.3.2 Specialised lending exposures

Specialised lending includes project, object and commodity finance as well as income-producing real estate finance. Creditworthiness is assessed on a transactional level as the group relies on repayment from the cash flows generated by the underlying asset, as opposed to the financial strength of the borrower.

Under Basel II, two approaches are available for specialised lending exposures: the PD/LGD approach and the slotting approach. Both these approaches are IRB approaches, however they vary significantly. Under the IRB approach, the treatment of specialised lending exposures depends on whether the PD and LGD can be determined. If these can be determined,

the specialised lending exposures are treated under the PD/LGD approach. If the PD or LGD cannot be determined, the specialised lending exposure is treated under the slotting approach.

Figure 4: Treatment of specialised lending under the IRB approach



6.2.3.2.1 PD/LGD approach

Under the PD/LGD approach, the models used to rate project, object and commodity finance transactions are scorecards combining quantitative and qualitative factors to generate a PD and LGD for each transaction. The models used to rate income-producing real estate transactions are varied: a scorecard model is used for developer transactions and rating smaller vanilla investor transactions and a cash flow simulation model is used for larger or more complex investor transactions.

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 such as collateral, for example cash pledges, mortgages, bonds or equity, third- or related-party guarantees and insurance policies, are taken into account.

A blended scorecard approach is used to derive the credit risk grade of project, object and commodity finance transactions, which is then converted to a unique PD.

6.2.3.2.2 Slotting approach

The slotting approach has been adopted for some specialised lending asset classes. Under this approach, the assets are evaluated against a set number of criteria and based on this evaluation an appropriate risk profile and risk weighting are calculated.

Table 11: Specialised lending exposures under the slotting approach

	June 2010 Rm	December 2009 Rm
Based on risk weight		
70% – 95%	229	369
115% – 250%	993	877
Total	1 222	1 246

6.2.3.3 Equity exposures subject to the simple risk-weighted method

The PD/LGD approach is used to model the credit risk and capital requirement for equities excluding strategic investments in the banking portfolio. The group's standard approved risk grade models, described earlier, are used in this process together with the regulatory prescribed LGD of 90% and a maturity factor of five years. The PD/LGD approach is used for most of the group's South African equity investment portfolios. Where no suitable model exists for the equity investment, the default capital calculation is the simple risk-weighted approach. Under this approach, listed and unlisted equity exposures are ascribed a 300% and 400% risk weighting respectively.

Table 12: Equity exposures under the simple risk-weighted method

	June 2010 Rm	December 2009 Rm
Listed	910	1 073
Unlisted	1 163	1 303
Total	2 073	2 376

6.2.3.4 Retail mortgages

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

Internally developed behavioural scorecards are used to measure the behavioural performance of each individual account. PDs are calculated from the behaviour scores using statistical calibration of internal historical default experience and are used to determine the portfolio distribution on the 25 point master rating scale. The individual account PDs are used to determine the overall PD for the retail mortgage portfolio.

The LGDs per product are estimated using historic recovery data. When a customer defaults, some part of the amount outstanding on the loan is recovered. The part that is not recovered, the actual loss, together with the costs associated with the recovery process are used to determine estimated cash flows and LGDs. In addition, a downturn LGD factor is applied to the estimated LGD.

EAD represents the expected level of usage of the facility when default occurs. During the course of a loan, the customer may not have drawn the loan fully or may have already repaid some of the principal loan amount, thus the exposure is typically less than the approved loan limit. However, by using historical data it is possible to estimate the average utilisation of limits of an account when default occurs, taking into consideration the fact that customers may make more use of their facilities as they approach default.

6.2.3.5 Qualifying revolving retail exposures (QRRE)

QRRE relates to cheque accounts, credit cards and revolving personal loans. These products include both drawn and undrawn exposures.

Internally developed behavioural scorecards for cheque and credit card accounts and revolving personal loans are used to measure the anticipated performance for each account. The behaviour score is mapped to a PD for each portfolio using a statistical calibration of portfolio-specific historical default experience. The behavioural scorecard PDs are used to determine the portfolio distribution on the master rating scale.

Separate LGD models are used for each product portfolio and are based on historic recovery data.

EAD is measured as a percentage of the credit facility limit, based on historical averages. EAD is estimated per portfolio and per portfolio-specific segments using internal historic data on limit utilisation.

6.2.3.6 Other retail

Other retail refers to other branch lending and vehicle finance for retail and retail SME portfolios. Branch lending includes both drawn and undrawn exposures, while vehicle and asset finance only has drawn exposures.

The credit behaviour of each portfolio is measured using internally developed scorecards specific to each portfolio. The behaviour score is mapped to a PD for each portfolio using a statistical calibration of portfolio-specific historical default experience.

As with QRRE portfolios, the LGDs are estimated for portfolio-specific segments using historic recovery data, and the EAD is estimated per portfolio and per portfolio-specific segment using internal historic data on limit utilisation.

Risk management continued

Table 13: Analysis of PDs, EADs and LGDs by risk grade under the IRB approach

	Average PD %	Corporate			Sovereign			Banks		
		EAD Rm	LGD %	Exposure weighted average risk weight %	EAD Rm	LGD %	Exposure weighted average risk weight %	EAD Rm	LGD %	Exposure weighted average risk weight %
June 2010										
Non-default		216 791			79 703			104 102		
1-4	0,03	5 308	35,84	9,25	5 835	29,77	0,85	24 142	39,41	10,86
5-7	0,05	10 800	42,85	19,35	215	21,68	19,75	37 176	37,34	13,03
8-12	0,25	76 981	34,38	38,42	70 522	20,96	14,34	38 007	34,84	21,27
13-21	2,29	120 325	36,46	75,91	3 130	29,99	55,25	4 547	43,19	98,63
22-25	31,77	3 377	33,24	130,24	1	44,19	6,40	230	45,00	248,78
Default	100,00	9 353	43,08	77,40	513	45,00	1,46	442	43,88	
Total		226 144	36,27		80 216	22,11		104 544	37,21	
December 2009										
Non-default		236 235			59 981			120 244		
1-4	0,03	4 682	35,82	8,78	4 989	31,18	1,37	47 215	37,18	9,72
5-7	0,06	8 187	42,83	21,28				38 114	36,63	12,25
8-12	0,27	92 468	35,50	43,09	52 183	13,73	8,95	31 007	36,57	24,07
13-21	2,13	127 072	36,78	83,35	2 809	26,39	52,67	3 908	44,05	90,37
22-25	32,93	3 826	26,22	82,10						
Default	100,00	8 872	39,80	20,61	561	45,00	3,17	532	43,14	
Total		245 107	36,43		60 542	16,05		120 776	37,10	

As at 30 June 2010 42,1% (31 December 2009: 43,6%) of the asset class exposures are investment grade. As per the group master rating scale, investment grade is represented by risk grades 1 to 12.

Challenging economic conditions persisted during the first six months of 2010. The movement in the retail mortgage portfolio is largely due to the migration of a sub-portfolio from the

standardised approach to AIRB as well as increasing demand for mortgage finance.

Bank exposures decreased due to increased placements of surplus liquidity with sovereign counterparties. The decrease in corporate exposures is attributable to net repayments of drawn down facilities and the temporary reclassification of certain exposures from the AIRB and FIRB approaches to the standardised approach.

Retail mortgages			QRRE			Retail other			Equity	
EAD Rm	LGD %	Exposure weighted average risk weight %	EAD Rm	LGD %	Exposure weighted average risk weight %	EAD Rm	LGD %	Exposure weighted average risk weight %	Exposure Rm	PD %
230 594			45 829			70 201			3 301	
32	16,31		3	62,82		1 566	11,88	0,68		
43 917	16,21	5,04	1 356	50,57	1,96	2 621	16,26	1,14	948	0,35
163 416	16,39	18,77	6 122	54,45	8,85	9 241	24,24	4,02	2 178	1,47
23 229	16,57	2,67	33 717	65,93	48,72	51 774	30,29	22,52	175	14,48
25 897	16,49	2,98	4 631	68,07	6,69	4 999	28,42	2,17		
256 491	16,39		4 597	67,65	6,64	4 298	32,81	1,87		
204 987			46 180			72 065			3 409	
1 137	15,25	0,12	50 426	64,47		74 499	28,68			
1 366	15,17	0,15	114	41,39	0,17	2 329	12,23	0,90		
37 740	15,23	4,12	1 308	45,41	1,99	2 756	17,91	1,06	978	0,40
145 237	15,52	15,85	6 719	50,02	10,21	8 267	24,45	3,19	2 431	1,56
19 507	15,69	2,13	33 162	64,98	50,40	54 136	28,86	20,82		
22 500	15,66	2,46	4 877	68,56	7,41	4 577	26,11	1,76		
227 487	15,50		4 542	67,44	6,90	4 107	31,65	1,58		
204 987			46 180			72 065			3 409	

Risk management continued

6.2.4 Credit portfolio analysis

The credit portfolio is analysed in the tables that follow in terms of Basel II approach as well as asset class, industry and geography.

Table 14: Asset class exposure by Basel II approach and class

	On-balance sheet			Off-balance sheet			Repurchase and resale agreements		
	Standardised Rm	FIRB Rm	AIRB Rm	Standardised Rm	FIRB Rm	AIRB Rm	Standardised Rm	FIRB Rm	AIRB Rm
June 2010									
Corporate	64 842	55 084	107 703	9 911	5 831	62 130	869	20 958	18 785
Sovereign	29 025	3 891	71 809	1 018	61	4 848	603		2 829
Banks	30 342	17 347	46 367	153	1 658	6 170	317	53 493	16 542
Retail exposure	26 724		329 418	12 807		77 804			
Retail mortgages	7 729		239 361			33 368			
QRRE	2 349		32 745	4 081		27 081			
Other retail	16 646		57 312	8 726		17 355			
Total	150 933	76 322	555 297	23 889	7 550	150 952	1 789	74 451	38 156
December 2009									
Corporate	51 849	64 800	118 942	9 550	6 290	57 562		14 861	24 932
Sovereign	21 338	3 594	54 166	877	108	3 203	736		2 000
Banks	31 631	17 426	66 459	212	2 335	6 055	34	37 773	15 352
Retail exposure	45 104		300 622	10 389		78 685			
Retail mortgages	7 663		210 260			33 338			
QRRE	1 714		32 432	3 382		26 975			
Other retail	35 727		57 930	7 007		18 372			
Total	149 922	85 820	540 189	21 028	8 733	145 505	770	52 634	42 284

¹ Amount before the application of any offset, mitigation or netting.

² Restated, please refer to page 9. Specific impairments include impairments relating to securitisations.

The two most significant asset classes, corporate and retail mortgages, have significant levels of collateralisation in place.

Changes in underlying asset classes were as a result of the following:

- During the period, a mortgage type sub-portfolio was migrated from the standardised approach, where it was included under other retail, to the AIRB approach, where it was included under

retail mortgages. This was the primary reason for a R17,4 billion decrease in standardised other retail exposure, which together with increased demand for mortgage finance, resulted in a R29,1 billion increase to AIRB approach retail mortgages.

- Standardised corporate and sovereign exposures increased by R15,3 and R7,7 billion respectively due to asset growth as well as the temporary reclassification of certain exposures from the

Derivative instruments			Total by approach			Total Rm	EAD		Gross defaulted exposures ¹ Rm	Impairment of exposures Specific ² Portfolio Rm	
Standardised Rm	FIRB Rm	AIRB Rm	Standardised Rm	FIRB Rm	AIRB Rm		FIRB Rm	AIRB Rm		Rm	Rm
2 341	21 726	14 611	77 963	103 599	203 229	384 791	74 042	153 324	10 611	2 274	
1	849	1 283	30 647	4 801	80 769	116 217	5 078	75 138	425	35	
706	29 052	59 774	31 518	101 550	128 853	261 921	37 509	67 035	443	246	
			39 531		407 222	446 753		381 416	36 266	10 643	
			7 729		272 729	280 458		256 491	26 171	5 099	
			6 430		59 826	66 256		50 426	4 721	2 461	
			25 372		74 667	100 039		74 499	5 374	3 083	
3 048	51 627	75 668	179 659	209 950	820 073	1 209 682	116 629	676 913	47 745	13 198	5 266
1 233	22 426	13 484	62 632	108 377	214 920	385 929	85 164	161 188	10 970	2 924	
	618	886	22 951	4 320	60 255	87 526	4 310	56 232	560	82	
113	27 784	54 164	31 990	85 318	142 030	259 338	35 416	85 360	590	358	
			55 493		379 307	434 800		354 381	34 027	9 714	
			7 663		243 598	251 261		227 487	22 704	4 438	
			5 096		59 407	64 503		50 722	4 657	2 258	
			42 734		76 302	119 036		76 172	6 666	3 018	
1 346	50 828	68 534	173 066	198 015	796 512	1 167 593	124 890	657 161	46 147	13 078	5 588

AIRB and FIRB approaches to the standardised approach.

- Repurchase and resale agreements subject to the FIRB approach increased by R21,8 billion mainly due to an overall increase in activity with major banking counterparties.
- On-balance sheet bank exposures subject to the AIRB approach decreased by R20,1 billion due

to increased placements of surplus liquidity with sovereign counterparties.

- The decrease in AIRB corporate exposures of R11,7 billion is attributable to net repayments of drawn down facilities and the previously mentioned temporary reclassification of exposures from the AIRB and FIRB approaches to the standardised approach.

Risk management continued

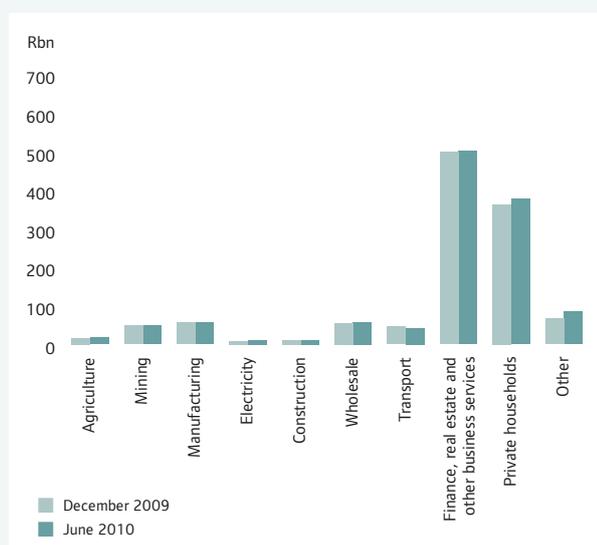
Table 15: Basel II exposures by type of asset and industry

	On-balance sheet Rm	Off-balance sheet Rm	Repurchase and resale agreements Rm	Derivative instruments Rm	Total gross exposure Rm	Gross defaulted exposures ¹ Rm	Impairment of exposures Specific ² Rm	Portfolio Rm
June 2010								
Agriculture	11 478	5 824	4	43	17 349	804	396	
Mining	25 478	20 143	387	3 046	49 054	1 400	342	
Manufacturing	36 033	17 779	41	2 892	56 745	3 627	698	
Electricity	7 241	2 272	71	2 110	11 694	287	27	
Construction	5 689	5 005		221	10 915	323	119	
Wholesale	33 807	14 336	512	9 478	58 133	711	276	
Transport	29 869	11 020		1 265	42 154	356	159	
Finance, real estate and other business services	249 345	29 022	113 381	109 409	501 157	6 853	2 376	
Private households	308 890	68 439		8	377 337	32 290	8 422	
Other	74 722	8 551		1 871	85 144	1 094	383	
Total	782 552	182 391	114 396	130 343	1 209 682	47 745	13 198	5 266
December 2009								
Agriculture	10 321	5 857		122	16 300	1 040	400	
Mining	27 606	16 732	402	3 829	48 569	1 306	369	
Manufacturing	35 238	18 019	122	3 060	56 439	1 523	831	
Electricity	5 406	1 954		1 733	9 093	355	30	
Construction	5 561	4 739		188	10 488	312	118	
Wholesale	32 316	14 123	692	8 195	55 326	1 781	253	
Transport	35 681	8 425		1 622	45 728	433	131	
Finance, real estate and other business services	273 421	29 725	94 472	101 672	499 290	7 405	2 700	
Private households	297 528	65 846		2	363 376	30 459	7 794	
Other	52 853	9 846		285	62 984	1 533	452	
Total	775 931	175 266	95 688	120 708	1 167 593	46 147	13 078	5 588

¹ Amount before the application of any offset, mitigation or netting.

² Restated, please refer to page 9. Specific impairments include impairments relating to securitisations.

Graph 3: Basel II exposures by industry



Graph 4: Basel II total gross exposure by geographic region

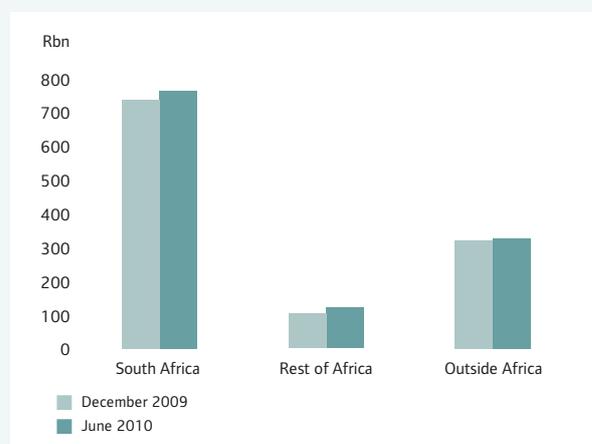


Table 16: Basel II exposures by type of asset and geographic region

	On- balance sheet Rm	Off- balance sheet Rm	Repurchase and resale agree- ments Rm	Derivative instru- ments Rm	Total gross exposure Rm	Gross defaulted exposures ¹ Rm	Impairment of exposures Specific ² Rm	Portfolio Rm
June 2010								
South Africa	550 125	151 446	40 058	21 650	763 279	37 787	10 987	
Other African countries	107 214	11 054	465	2 170	120 903	2 575	759	
Europe	44 765	5 801	55 233	68 644	174 443	4 252	421	
Asia	34 208	6 089	6 661	5 445	52 403	1 380	222	
North America	11 807	417	3 321	29 572	45 117	90	82	
South America	34 072	7 534	8 628	2 621	52 855	1 535	599	
Other	361	50	30	241	682	126	128	
Total	782 552	182 391	114 396	130 343	1 209 682	47 745	13 198	5 266
December 2009								
South Africa	535 548	144 370	43 752	19 924	743 594	36 248	10 297	
Other African countries	86 967	12 946	939	2 381	103 233	2 834	1 000	
Europe	70 360	4 505	37 085	63 233	175 183	2 517	524	
Asia	31 086	6 119	2 553	5 762	45 520	2 642	536	
North America	20 907	1 205	1 449	25 926	49 487	412	47	
South America	28 919	6 045	9 910	3 141	48 015	1 369	595	
Other	2 144	76		341	2 561	125	79	
Total	775 931	175 266	95 688	120 708	1 167 593	46 147	13 078	5 588

¹ Amount before the application of any offset, mitigation or netting.

² Specific impairments include impairments relating to securitisations.

Table 17: Movement in group loans and advances impairment as at June 2010

	June 2010				December 2009
	Corporate Rm	Retail secured Rm	Retail unsecured Rm	Total Rm	Total Rm
Impaired loans – Impairments					
Balance at beginning of the period	2 839	6 498	3 741	13 078	8 596
Net impairment raised and released	56	2 572	1 812	4 440	12 291
Impaired accounts written off	(992)	(1 198)	(1 272)	(3 462)	(5 323)
Discount element recognised in interest income	(16)	(760)	(144)	(920)	(1 785)
Exchange and other movements	24	7	31	62	(701)
Balance at end of the period	1 911	7 119	4 168	13 198	13 078
Performing loans – Impairments					
Balance at beginning of the period	2 343	1 805	1 440	5 588	5 422
Net impairment raised and released	(206)	(93)	(34)	(333)	318
Impaired accounts written off					(4)
Exchange and other movements	13	(3)	1	11	(148)
Balance at end of the period	2 150	1 709	1 407	5 266	5 588
Total	4 061	8 828	5 575	18 464	18 666

Risk management continued

Table 18: Basel II exposures by residual contractual maturity

	Less than 1 year Rm	1 to 5 years Rm	Greater than 5 years Rm	Total gross exposure Rm
June 2010				
Corporate	172 266	170 791	41 734	384 791
Sovereign	74 206	29 254	12 757	116 217
Banks	173 792	59 087	29 042	261 921
Retail exposure	61 243	109 241	276 269	446 753
Retail mortgages	7 067	3 844	269 547	280 458
QRRE	13 325	52 686	245	66 256
Other retail	40 851	52 711	6 477	100 039
Total	481 507	368 373	359 802	1 209 682
December 2009				
Corporate	156 261	186 020	43 648	385 929
Sovereign	58 308	24 028	5 190	87 526
Banks	180 887	54 659	23 792	259 338
Retail exposure	59 069	109 716	266 015	434 800
Retail mortgages	7 317	4 322	239 622	251 261
QRRE	13 875	50 381	247	64 503
Other retail	37 877	55 013	26 146	119 036
Total	454 525	374 423	338 645	1 167 593

6.2.5 Credit risk mitigation

Collateral, guarantees, credit derivatives, contingent credit hedging and on- and off-balance sheet netting are widely used by the group to mitigate credit risk. The amount and type of credit risk mitigation depends on the circumstances of each case.

Credit risk mitigation policy and procedure ensure that credit risk mitigation techniques are acceptable, used consistently, valued appropriately and regularly, and meet the risk requirements of operational management for legal, practical and timely enforceability. Detailed processes and procedures are in place to guide each type of mitigation used.

The main types of collateral taken are mortgage bonds over residential, commercial and industrial properties, cession of book debts, bonds over plant and equipment and, for leases and instalment sales, the underlying moveable assets financed. Security values are reviewed on a regular basis and are revalued at the time of default if it is found that the existing value could have shifted materially from the time of valuation. Reverse repurchase agreements are underpinned by the assets being financed, which are mostly liquid, tradeable financial instruments.

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

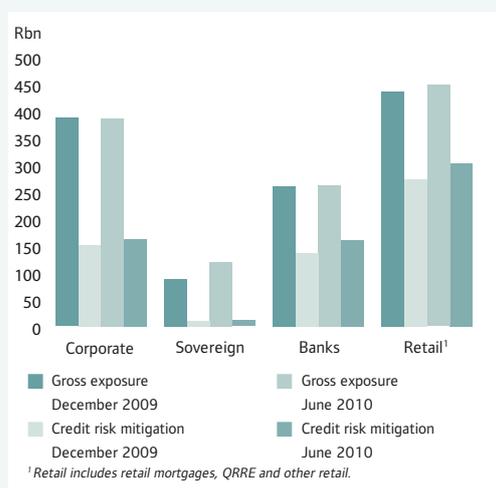
For derivative transactions, the group typically requires the use of internationally recognised and enforceable Institute of Swap Dealers Association (ISDA) agreements with a credit support annexure, where necessary. Exposures are generally marked-to-market daily, netting is applied to the full extent contractually agreed by the parties, and cash or near cash collateral is posted where contractually provided for.

Since the counterparty credit risk of derivatives can vary over time in line with market factors, exposures to counterparty credit risk are calculated by either adding increases in future potential exposure to the balance of present exposure, or modelling the change in expected future exposure using Monte Carlo simulation techniques.

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 typically done at individual counterparty, sub-portfolio and portfolio levels.

Syndication, distribution and sale of assets; asset and portfolio limit management; credit derivatives and credit protection are used. Implementation and performance are measured regularly and reporting tools are in place to ensure effective monitoring.

Graph 5: Basel II exposure and mitigation by asset class



6.2.5.1 Collateral

Specialised legal practitioners within risk functions and business units are responsible for ensuring that legally valid, binding and enforceable loan agreements and amendments to standard security documents are in place, where required. Security is provided to the group by counterparties accepting lending facilities. In some instances, further counsel is sought from external attorneys with respect to unusual forms of security or where security is provided by foreign companies, or where the security is domiciled in jurisdictions with untested or uncertain legal frameworks.

6.2.5.2 Wrong way risk exposures

Wrong way risk arises where there is a positive correlation between counterparty default and transaction exposure. Examples of transactions

where this may arise include reverse repurchase and collateralised forward sale transactions. This risk is addressed by considering the higher than normal correlation between the default event and exposure to a counterparty when calculating the potential exposure on these transactions, as well as limiting the concentration risk by setting caps on the type and liquidity profile of collateral taken.

6.2.5.3 Collateral required in the event of a credit rating downgrade

The group enters into derivative contracts with rated and unrated counterparties. To mitigate counterparty credit risk, the group stipulates credit protection terms such as limitations on the amount of unsecured credit exposure it will accept, collateralisation if mark-to-market credit exposure exceeds those amounts and collateralisation and/or termination of the contract if certain credit events occur, including but not limited to a downgrade of the counterparty's public credit rating.

Some counterparties require that the group provide similar credit protection terms. From time to time, the group may agree to provide those terms on a restrictive basis. Rating downgrades as a collateralisation or termination event are generally conceded only to highly-rated counterparties and, whenever possible, on a bilateral reciprocal basis. In exceptional cases, the group might concede such rating downgrades to unrated counterparties when their size, credit strength and business potential are deemed acceptable.

The impact on the group with respect to the amount of collateral it would have to provide given a credit downgrade is determined by the negative mark-to-market on derivative contracts where such a collateralisation trigger has been conceded.

Where the impact on the group's liquidity of a collateral call linked to downgrading is deemed to be material, the potential exposure is taken into account in model stress testing. However, the extent of legal commitments that could result in collateral calls triggered by a rating downgrade is not material and would not have an adverse effect on the group's financial position.

Risk management continued

Table 19: Basel II credit risk mitigation for portfolios under the IRB approach

	Eligible financial collateral Rm	Other eligible IRB collateral Rm	Guarantees and credit derivatives Rm	Effects of netting agreements Rm	Total credit risk mitigation Rm
June 2010					
Corporate	61 520	34 717	33 944	21 423	151 604
Sovereign	5 601	1 035	4 591	139	11 366
Banks	75 537		5 160	78 436	159 133
Retail exposures	3	301 620			301 623
Retail mortgages		264 670			264 670
QRRE		276			276
Other retail	3	36 674			36 677
Total	142 661	337 372	43 695	99 998	623 726
December 2009					
Corporate	60 902	35 688	28 741	21 081	146 412
Sovereign	4 778	1 153	3 539	34	9 504
Banks	59 654		5 348	70 102	135 104
Retail exposures	3	271 682			271 685
Retail mortgages		236 653			236 653
QRRE		252			252
Other retail	3	34 777			34 780
Total	125 337	308 523	37 628	91 217	562 705

Table 20: Basel II credit risk mitigation for portfolios under the standardised approach

	Effects of netting agreements Rm	Eligible financial collateral Rm	Guarantees and credit derivatives Rm	Total credit risk mitigation Rm
June 2010				
Corporate	537	6 759	2 074	9 370
Sovereign			30	30
Banks	613	1	130	744
Retail		179	119	298
Total	1 150	6 939	2 353	10 442
December 2009				
Corporate		54	1 472	3 306
Sovereign			44	46
Banks			30	41
Retail			229	447
Total		54	2 083	3 840

6.2.6 Counterparty credit risk

The analysis that follows regarding securities financing transactions and the over-the-counter (OTC) derivatives represents the group's exposure to counterparty credit risk.

6.2.6.1 Analysis of securities financing transactions

Securities financing transactions include repurchase agreements, resale agreements, securities lending and securities borrowing agreements for all relevant Basel II asset classes and collateral held.

Table 21: Basel II securities financing transactions

	June 2010 Rm	December 2009 Rm
Exposure		
With master netting agreement	61 686	41 295
Without master netting agreement	52 710	54 394
Total	114 396	95 689
Collateral		
Cash	28 337	30 140
Commodities		830
Debt securities	75 626	50 169
Equities	7 097	10 621
Total	111 060	91 760
Exposure at default	12 528	13 810

6.2.6.2 Analysis of OTC derivatives

Included in the total credit risk exposure is exposure to counterparty credit risk. The details of this counterparty credit risk are disclosed in table 22. Derivative transactions traded on a recognised exchange or with a central counterparty, for example a clearing house, have been excluded as such exposures are not subject to capital requirements with respect to counterparty credit risk.

Table 22: Basel II OTC derivatives exposure

	June 2010 Rm	December 2009 Rm
Notional principal		
Interest rate products	7 570 532	6 053 618
Forex and gold	1 169 670	835 946
Equities	36 939	50 333
Precious metals	76 935	83 802
Other commodities	252 836	232 257
Credit derivatives	211 250	155 082
Protection bought	100 426	73 477
Protection sold	110 824	81 605
Total	9 318 162	7 411 038
Gross positive fair value	130 244	120 567
Interest rate products	77 633	59 019
Forex and gold	26 793	31 650
Equities	1 929	3 407
Precious metals	3 087	3 482
Other commodities	16 320	19 283
Credit derivatives	4 482	3 726
Protection bought	3 556	2 532
Protection sold	926	1 194
Netting benefits	(101 148)	(91 271)
Netted current credit exposure (ie net fair value)	29 096	29 296
Exposure at default	65 808	60 252
Collateral		
Cash	7 110	9 310
Debt securities	49	44
Total	7 159	9 354

6.2.7 Securitisation

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

The group has entered into securitisation transactions in the normal course of business in which it transferred recognised financial assets directly to third parties or special purpose entities (SPEs), or in the secondary role as an investor in securitisation vehicles.

The group complies with IFRS in recognising and accounting for securitisation transactions. SPEs are consolidated into the group when required by IFRS.

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

For local securitisations in South Africa, Moody's Investor Services and/or Fitch were appointed as ratings agencies. For securitisation issues outside Africa, Standard & Poor's has previously been appointed.

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

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

To calculate the regulatory capital on securitised assets that are retained by the group, both the AIRB and standardised approaches are used and the group has

adopted the ratings-based approach under the AIRB approach.

An impairment of R60 million (on subordinated loans provided to SPEs) was recognised at the end of the 2009 financial year. For the period ended 30 June 2010, based on updated credit risk assessments, no further provisions were recognised.

Table 23: Analysis of securitisation activity for the period

	June 2010 Total ¹ Rm	December 2009 Total Rm
As originator		
As investor	280	1 567
Total activity for the period	280	1 567

¹ Relates to retail mortgages.

The securitisation activity for 2010 comprises a loan facility of R280 million to Thekwini Warehousing Conduit that was effective at 1 March 2010.

The group did not use securitisations as an alternative source of funding for the six months ending June 2010, due to the severe contraction in local and international securitisation markets.

All the notes issued by the retail mortgage securitisations under the Blue Granite programme (Blue Granite 1, 2, 3 and 4) are currently amortising. The Siyakha Fund (a securitisation of low income housing loans) is scheduled to commence amortisation in November 2010.

In terms of instalment sale securitisation vehicles, Accelerator Fund 2 exercised its clean-up call option during June 2010 in accordance with the transaction documents and the securitisation regulations promulgated under the Banks Act, 1990. All note holders and the subordinated lender were repaid in full which amounted to R260,3 million.

Table 24: Basel II securitised on-balance sheet exposures

	June 2010			December 2009 ²
	Retail mortgages Rm	Retail loans ¹ Rm	Total Rm	Total Rm
IRB				
Personal & Business Banking	1 072		1 072	772
Investment grade	804		804	552
Sub-investment grade	268		268	220
Corporate & Investment Banking				
Investment grade	2 553	1 266	3 819	4 252
Total	3 625	1 266	4 891	5 024
Standardised				
Personal & Business Banking				
Investment grade				318
Total				318

¹ Retail loans consist of retail instalment sales and leasing, and retail revolving products.

² Restated, refer to page 9.

Table 25: Basel II securitised off-balance sheet exposures

	June 2010				December 2009 ¹
	Corporate Rm	Retail mortgages Rm	Retail loans Rm	Total Rm	Total Rm
Corporate & Investment Banking					
Unrated		2 750		2 750	
Investment grade	1 368	2 672	323	4 363	7 349
Total IRB exposures²	1 368	5 422	323	7 113	7 349

¹ Restated, refer to page 9.

² Comprise investment-grade exposures, under the IRB approach, in Corporate & Investment Banking.

Table 26: Basel II securitisation capital deductions by approach

	Risk-weighted assets Rm	Primary capital and reserve funds Rm	Secondary capital and reserve funds Rm
June 2010			
IRB	2 999	329	329
Total	2 999	329	329
December 2009¹			
IRB	2 418	284	284
Standardised	193	1	1
Total	2 611	285	285

¹ Restated, refer to page 9.

7. Country risk

The management of country risk is delegated by the GCC to the group country risk management committee (GCRC), a subcommittee of GROC. The GCRC recommends country risk appetite for individual countries and ensures, through compliance with the country risk standard, that country risk is effectively governed, identified, measured, managed, controlled and reported in the group.

An internal rating model is used to determine the rating of each country in which the group has an exposure. The model inputs are continually updated to reflect economic and political changes in countries. The country risk model output provides an internal risk grade which is calibrated to a 1 to 25 rating scale. Reviews of all countries to which the group is exposed are conducted annually. In determining ratings, the group's network of operations, country visits and external sources of information are used extensively.

The country risk model also rates sovereigns. Sovereign ratings are distinct from country risk ratings in that they focus on sovereign counterparty creditworthiness, whereas country risk ratings provide a more holistic

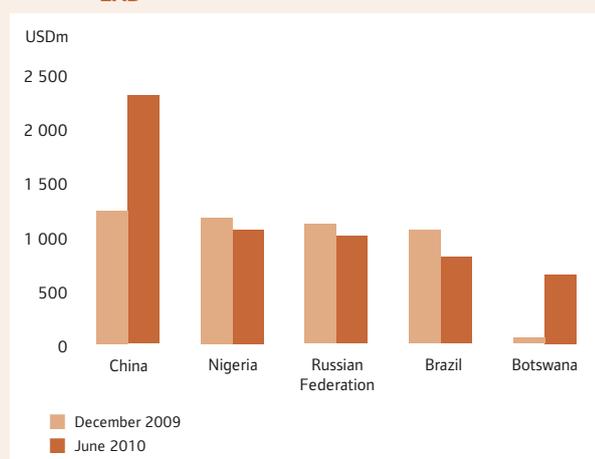
view, covering transfer and convertibility risk, economic (or credit portfolio risk), as well as sovereign risk. As with country risk ratings, an internal rating model is used to determine sovereign ratings. The sovereign model is an extension of the country model, with sovereign inputs updated in tandem with updates to the country model. Like the country risk model, the sovereign risk model provides an internal risk grade which is calibrated to a 1 to 25 rating scale. Sovereign risk reviews occur in tandem with country reviews, with the research process underpinning sovereign reviews comparable with the country risk process.

Countries and sovereigns rated 8 and higher, referred to as medium and high risk countries and sovereigns, are subject to increased central monitoring. For those with an internal risk grade of 7 and lower, referred to as low risk countries and sovereigns, a lesser degree of analysis is generally performed.

Total medium and high risk country risk exposures as at 30 June 2010 were USD14,6 billion (December 2009: USD14,0 billion).

Country concentration risk is managed and monitored by geographic region and country.

Graph 6: Top five high risk cross-border country exposures EAD



Graph 7: Medium and high risk country risk exposures by region



Emerging European exposures were reduced due to the deterioration of economic conditions in the region. The decrease in exposures to sub-Saharan Africa resulted from a drop in trading exposure. The increase in Emerging Asia exposures is due to increased placement of spare liquidity with banks in the regions as well as an increase in trade finance and base metals trading flows. The decreased concentration in South America is a reflection of a drop in trading exposure.

8. Liquidity risk

8.1 Framework and governance

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

On an annual basis, and in accordance with regulatory requirements and international best practice, the liquidity risk standards are reviewed and approved by both GROC and the GRMC. This ensures that a comprehensive and consistent governance framework for liquidity risk management is followed across the group. Each banking entity in the group has an asset and liability management committee (ALCO) or similar committee responsible for ensuring compliance with liquidity risk policies. Both the Africa ALCO and international capital committee report into the group ALCO, chaired by a group deputy chief executive.

8.2 Liquidity and funding management

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

As part of a consistent liquidity management process, the group is required to:

- maintain a sufficiently large liquidity buffer;
- ensure a structurally sound statement of financial position;
- manage short- and long-term cash flow;
- manage foreign currency liquidity;
- preserve a diversified funding base;
- undertake regular liquidity stress testing and scenario analysis; and
- maintain adequate contingency funding plans.

The cumulative impact of these elements is monitored by group ALCO and the process is underpinned by a system of extensive controls. These include the

application of purpose-built technology, documented processes and procedures, independent oversight and regular independent reviews and evaluations of system effectiveness.

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

The group remains cognisant of the potential liquidity risk-related regulatory reforms proposed by various regulating entities and continues to monitor developments closely.

8.3 Liquidity buffer

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

Table 27 provides a breakdown of the group's surplus marketable securities and foreign currency placements as at June 2010, compared to the 2009 closing position. These portfolios are highly liquid and can be readily sold to meet liquidity requirements.

Table 27: Group unencumbered surplus liquidity

	June 2010 Rbn	December 2009 Rbn
Marketable assets	72,8	65,4
Short-term foreign currency placements	27,4	47,0
Total unencumbered marketable assets	100,2	112,4
Other readily accessible liquidity	4,8	6,2
Total group unencumbered surplus liquidity	105,0	118,6

In addition to minimum requirements, surplus liquidity holdings are informed by the results from liquidity stress testing as per Basel principles and in certain instances, in-country regulations. Group unencumbered surplus liquidity decreased to R105,0 billion as at 30 June 2010 (R118,6 billion as at 31 December 2009), reflecting the group's proactive liquidity management approach as informed by stress testing requirements and prevailing market conditions.

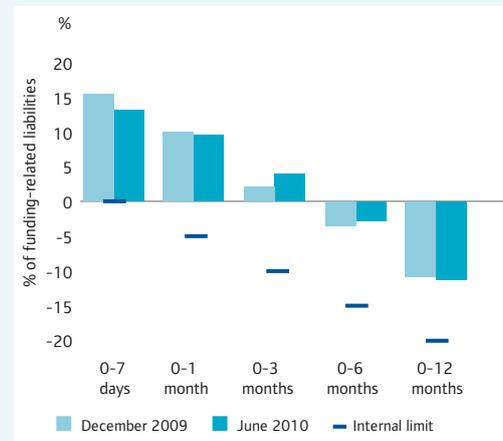
8.4 Structural requirements

With actual cash flows typically varying significantly from the contractual position, behavioural profiling is applied to assets, liabilities and off-balance sheet commitments with an indeterminable maturity or drawdown period, as well as to certain liquid assets. Behavioural profiling assigns probable maturities based on actual customer behaviour.

This is used to identify significant additional sources of structural liquidity in the form of liquid assets and core deposits, such as current and savings accounts that exhibit stable behaviour, although these are repayable on demand or at short notice.

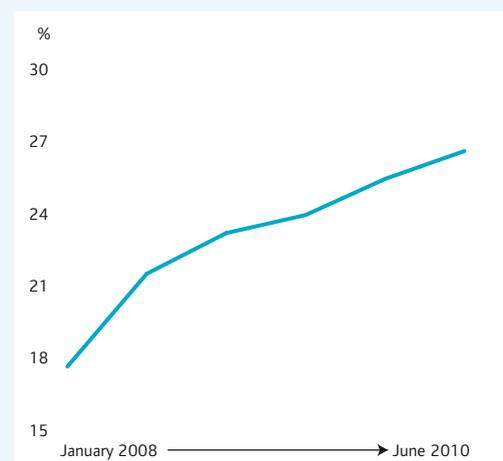
Graph 8 shows the group's cumulative maturity mismatch between assets and liabilities for the 0 to 12 months bucket, after applying behavioural profiling. Limits are set internally to restrict the cumulative liquidity mismatch between expected inflows and outflows of funds in different time buckets. These mismatches are monitored on a regular basis with active management intervention if potential limit breaches become apparent. The structural mismatch is comfortably within the stated mismatch risk appetite.

Graph 8: Group behaviourally adjusted cumulative liquidity mismatch



One of the mechanisms employed to ensure adherence to these limits is the active management of the long-term funding ratio. The ratio is defined as those funding-related liabilities with a remaining maturity of greater than six months as a percentage of total funding-related liabilities. The graph below illustrates the group's long-term funding ratio for the period January 2008 to June 2010. The increase in the ratio is attributed to the increased percentage of term funding raised to support term lending.

Graph 9: Long-term funding ratio



8.5 Cash flow management

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

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

8.6 Foreign currency liquidity management

A number of parameters are observed to monitor changes in either market liquidity or exchange rates. A key parameter monitored is the foreign currency loans and advances extended in relation to foreign currency deposits raised.

8.7 Diversified funding base

The group employs a diversified funding strategy, sourcing liquidity in domestic and offshore markets.

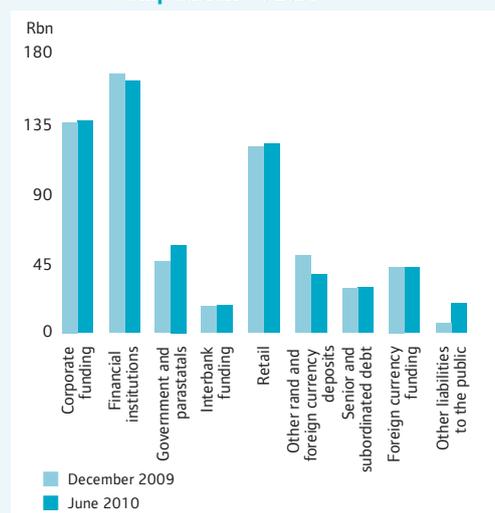
Concentration risk limits are used to ensure that funding diversification is maintained across products, sectors, geographic regions and counterparties. In terms of the latter, limits are set internally to restrict single and top-ten depositor exposures, within the sight to three-month tenors, to below 10% for a single depositor and 20% for top-ten depositors of total funding-related liabilities respectively.

Table 28: Depositor concentration – South Africa

	June 2010 %	December 2009 %
Single depositor	2,5	1,8
Top-ten depositors	10,7	8,5

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

Graph 10: Funding-related liabilities composition – SBSA



8.8 Liquidity stress testing and scenario analysis

Stress testing and scenario analysis form an important part of the group's liquidity management process. 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. Stresses and scenarios are based on hypothetical events as well as historical events.

This analysis is fully integrated into the group's existing liquidity risk management framework. It provides assurance as to the group's ability to generate sufficient liquidity under adverse conditions and provides meaningful input in defining target liquidity risk positions.

8.9 Contingency funding plans

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

9. Market risk

9.1 Introduction

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

9.1.1 Trading book market risk

These risks arise in trading activities where the group acts as a principal for clients in the market. The group's policy is that all trading activities are contained in the group's trading operations.

9.1.2 Interest rate risk in the banking book

These risks arise from the structural interest rate risk caused by the differing repricing characteristics of banking assets and liabilities.

9.1.3 Equity investments

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

9.1.4 Foreign currency risk

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

9.2 Framework and governance

The board grants general authority to take on market risk exposure to GROC, which delegates this authority to group ALCO. Group ALCO sets market risk standards which are approved by the GRCMC to ensure that the measurement, reporting, monitoring and management of market risk across the group follows a common governance framework. The Africa ALCO and international capital committee report into the group ALCO, which is chaired by a deputy group chief executive.

Market risk management units, independent of trading operations and accountable to business unit ALCOs, monitor market risk exposures due to trading

and banking activities. Exposures and excesses are monitored daily, and reported monthly to the business unit ALCOs and quarterly to the group ALCO, GROC and the GRCMC.

9.3 Market risk measurement

The techniques used to measure and control market risk include:

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

9.3.1 Daily VaR

The group generally uses the historical VaR approach to derive quantitative measures, specifically for market risk under normal conditions. Normal VaR is based on a holding period of one day and a confidence interval of 95%. Daily losses exceeding the VaR are likely to occur, on average, 13 times every 250 days.

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

The group back-tests its VaR models to verify the predictive ability of the VaR calculations and ensure the appropriateness of the models. Back-testing compares the daily hypothetical profit and losses under the one-day buy and hold assumption to the prior day's VaR. Where the bank has received internal model approval, a VaR using a confidence level of 99% is used to determine market risk regulatory capital.

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

- the use of historical data as a proxy for estimating future events, which may not encompass all potential events, particularly those which are extreme in nature;

- the use of a one-day holding period, which 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 99% confidence level which, by definition, does not take into account losses that might occur beyond this level of confidence;
- as VaR is calculated on the basis of exposures outstanding at the close of business, it does not necessarily reflect intra-day exposures; and
- the fact that VaR is unlikely to reflect loss potential on exposures that only arise under significant market moves.

9.3.2 Stress tests

Stress testing provides an indication of the potential losses that could occur in extreme market conditions. 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.

9.3.3 Back-testing

The group conducts back-testing in which estimated VaR, calculated using the VaR measurement model, is compared to actual realised and unrealised losses

on a daily basis to verify the accuracy of the model. In addition, back-testing is conducted using various methods, including testing VaR against hypothetical losses and testing VaR by changing various parameters, such as confidence intervals and observation periods used in the model.

In this manner, characteristics of the VaR model are captured to ensure the accuracy and appropriateness of the VaR measurement.

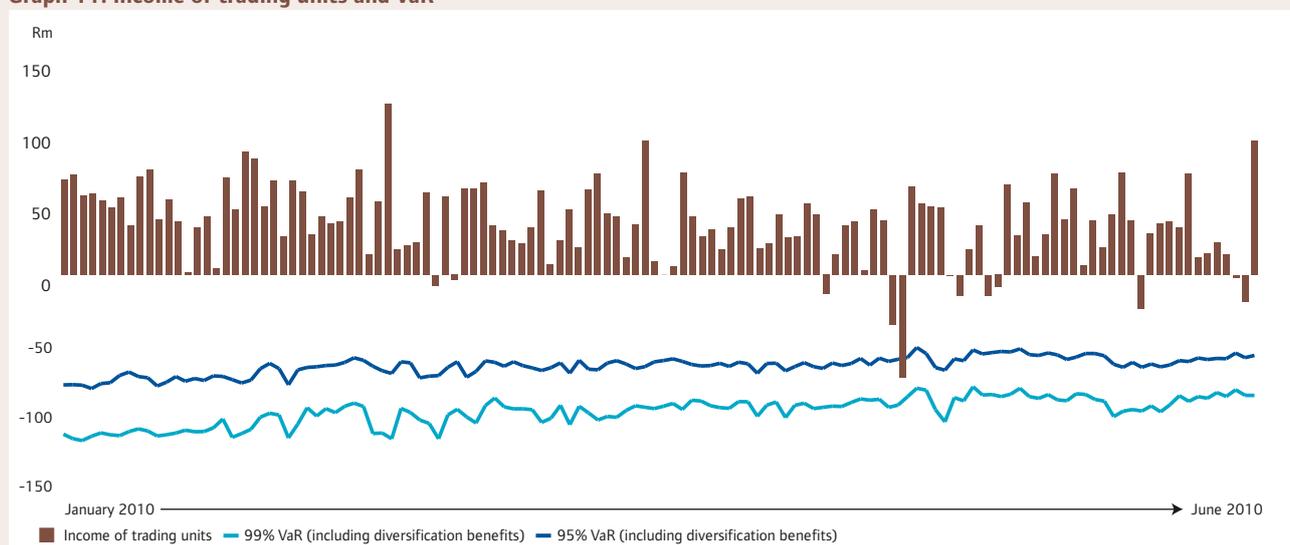
Graph 11 plots the results of back-testing for trading activities over six months and shows that the group's model provided reasonably accurate measurements of market risk.

9.3.4 Other market risk mitigants

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

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

Graph 11: Income of trading units and VaR



9.3.5 Annual net interest income at risk

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

9.3.6 Economic value of equity

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

9.3.7 Economic capital

Economic capital methodologies are used to calculate all categories of market risk-sensitive capital

allocations as well as to determine each business's capital charge.

9.4 Trading book market risk positions

In line with the strategy and structure of the group, trading book market risk exposures arise mainly from client transactions with limited trading for the group's own account. Table 29 shows the aggregated historical VaR for the group's trading positions. The maximum and minimum VaR amounts show the bands in which the values at risk fluctuated during the periods specified.

VaR models have been approved by the regulators for all South African trading units except exotics and specific risk on interest rates. Standard Bank Plc has regulatory model approval for its resource banking, local markets and credit trading businesses and applications for its remaining businesses have been submitted.

For the six months ended 30 June 2010, trading desks ran relatively low levels of market risk, resulting in low VaR utilisation, despite a spike in market volatility in early May 2010.

Table 29: Trading book VaR analysis by market variable

	Nominal VaR			Closing Rm
	Maximum ¹ Rm	Minimum ¹ Rm	Average Rm	
June 2010				
Commodities	42,1	22,8	30,1	22,8
Forex	17,2	6,6	9,6	9,1
Equities	18,7	11,2	15,6	11,2
Debt securities	63,9	40,4	48,7	45,3
Diversification benefits ²			(40,1)	(32,6)
Aggregate	78,8	50,9	63,9	55,8
December 2009				
Commodities	38,5	13,2	24,9	30,5
Forex	17,4	4,2	8,0	6,8
Equities	18,3	3,7	9,1	9,6
Debt securities	82,8	46,4	60,3	55,0
Diversification benefits ²			(31,9)	(18,8)
Aggregate	110,7	50,7	70,4	83,1

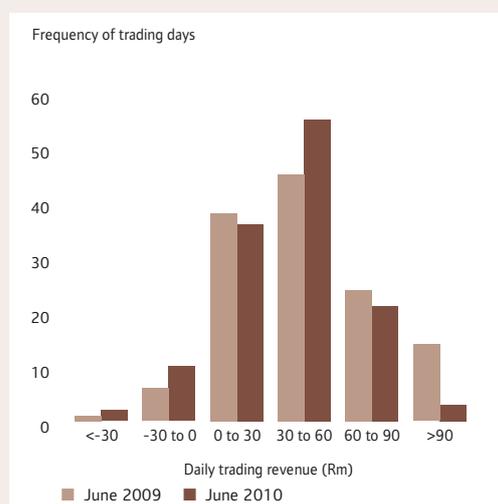
¹ The maximum and minimum VaR figures reported for each market variable do not necessarily occur on the same days. As a result, the aggregate VaR will not equal the sum of the individual market VaR values, and it is inappropriate to ascribe a diversification effect to VaR when these values may occur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

9.4.1 Analysis of trading revenue

Graph 12 shows the distribution of daily income and losses in 2009 and 2010. It captures trading volatility and shows the number of days in which the group's trading-related revenues fell within particular ranges. The distribution is positively skewed with no material negative outliers. In the six months ended 30 June 2010, the daily trading profit or loss was positive for 115 out of 127 days, whereas in 2009, the daily trading profit or loss was positive for 121 out of 128 days.

Graph 12: Distribution of daily trading units



9.5 Interest rate risk in the banking book

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

9.5.1 Framework and governance

The group's approach to managing interest rate risk is governed by applicable laws and regulations, and is guided by international best practice and the competitive environment in which the group operates. Banking book interest rate risk is managed centrally by the group's treasury operations under supervision of the local ALCO. Each banking entity in the group manages this risk on a stand-alone basis and also

calculates and maintains economic capital in support thereof.

9.5.2 Interest rate risk measurement

The analytical techniques used to quantify banking book interest rate risk include both earnings and valuation-based measures. Results are monitored on at least a monthly basis by the relevant ALCOs. The analysis takes cognisance of embedded optionality such as loan prepayments and in respect of other accounts where the 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.

9.5.3 Interest rate risk limits

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

9.5.4 Economic capital

Earnings at risk forms the basis for calculating the economic capital required to absorb an unexpected reduction in earnings, as a result of interest rate changes.

9.5.5 Analysis of banking book interest rate sensitivity

Table 30, on the following page, indicates the rand equivalent sensitivity of the group's net interest income and equity in response to a parallel yield curve shock, before tax. Hedging transactions are taken into account while other variables are kept constant.

Table 30: Interest rate sensitivity analysis

		Rand	US dollar	Sterling	Euro	Other	Total
June 2010							
Increase in basis points		200	100	100	100	100	
Sensitivity of annual net interest income	Rm	1 516	14	3	(1)	90	1 622
Sensitivity of equity	Rm	98	(56)			35	77
Decrease in basis points		200	100	100	100	100	
Sensitivity of annual net interest income	Rm	(1 627)	52	(3)	2	(97)	(1 673)
Sensitivity of equity	Rm	(98)	56			(35)	(77)
December 2009							
Increase in basis points		200	100	100	100	100	
Sensitivity of annual net interest income	Rm	1 463	62	(3)	2	61	1 585
Sensitivity of equity	Rm	159	(65)			21	115
Decrease in basis points		200	100	100	100	100	
Sensitivity of annual net interest income	Rm	(1 532)	(36)	3	(2)	(68)	(1 635)
Sensitivity of equity	Rm	(159)	65			(21)	(115)

9.5.6 Hedging of the endowment risk

The endowment risk emanating from the anticipated turn in the economic cycle is hedged as and when it is considered opportune. Instruments including fixed-rate assets and interest rate swaps may be used to partially hedge and manage the endowment exposure.

9.5.7 Group risk diversification

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

9.6 Equity investments

9.6.1 Market risk on equity investments

Corporate & Investment Banking's equity investment committees and Personal & Business Banking's strategic

investment and alliance committee approve investments in listed and unlisted entities, in accordance with delegated authority limits and allocated risk appetites. Periodic reviews and reassessments are undertaken on the performance of the investments. Accounting techniques and valuation methodologies are detailed in accounting policy 5 – financial instruments, in the December 2009 annual report.

9.6.2 Analysis of banking book equity exposures

As with trading book equity investments, listed and unlisted investments are approved by the appropriate equity governance committees in accordance with delegated authority limits. Market risk on investments is managed in accordance with the purpose and strategic benefits of such investments, rather than purely on mark-to-market considerations. Reviews and reassessments on the performance of the investments are undertaken periodically.

Table 31: Basel II equity positions in the banking book

	June 2010 Rm	December 2009 ¹ Rm
Fair value		
Listed	941	1 062
Unlisted	2 550	2 738
Total²	3 491	3 800

¹ Restated, refer to page 9.

² Banking book equity exposures are equity investments which comprise listed and unlisted private equity and strategic investments, and do not form part of the trading book.

9.6.3 Accounting techniques and valuation methodologies

Financial instruments include all financial assets and liabilities held for liquidity, investment, trading or hedging purposes. Financial instruments are accounted for and valued in terms of accounting policy 5 – financial instruments in the December 2009 annual report.

Cumulative gains realised during the period from the sale or liquidation of equity positions in the banking book were R100,3 million (December 2009: R248,1 million).

Unrealised gains recognised directly into the balance sheet, from equity positions in the banking book, were R40,1 million (December 2009: R6 million loss).

9.7 Foreign currency risk

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

9.7.1 Framework and governance

The group capital management committee delegates the management of foreign currency risk to the net

asset value currency risk management committee. This committee manages the risk according to existing legislation, South African exchange control regulations and accounting parameters. It takes into account naturally offsetting risk positions and manages the group's residual risk by means of forward exchange contracts, currency swaps and option contracts. Hedging is undertaken in such a way that it does not interfere with or constrain normal operational activities. In particular, cognisance is taken of the need for capital held in offshore banking entities to fluctuate in accordance with risk-weighted assets, thereby preserving the capital adequacy in-country. The net asset value currency risk management committee meets regularly to reassess the hedging or diversification strategy in the event of changes in currency views.

Due to South African exchange control limitations, hedging activities are restricted to ensuring a diversified mix of foreign currency exposures in the group's foreign subsidiaries.

Hedging of rand/foreign currency exposure is limited and permitted only for planned and specific future investment-related cash flows.

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 in respect of the banking book. Gains or losses on derivatives that have been designated in terms of either net investment or cash flow hedging relationships are reported directly in equity, with all other gains and losses on derivatives being reported in profit or loss.

10. Operational risk

10.1 Responsibility and approach to operational risk management

Operational risk is recognised as a distinct risk category which the group manages within acceptable levels through sound operational risk management practices. The group's approach to managing operational risk is to adopt practices that are fit for purpose to suit the organisational maturity and particular business environments.

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

The objective in managing operational risk is to establish sound control practices to increase the efficiency and effectiveness of the group's resources, minimise losses and utilise opportunities. The group continues to manage operational risk on The Standardised Approach (TSA) in accordance with SARB approval granted in 2008. In addition to TSA, the group has implemented certain advanced practices, ensuring that it is in line with leading risk management practice. The intention is to migrate to the Advanced Measurement Approach (AMA) by 2012 and a project to make the transition from TSA to AMA was formalised at the beginning of 2009.

In accordance with leading practice, our comprehensive risk management approach involves identifying, assessing, managing, mitigating, monitoring and measuring the risks associated with our operations. The group framework defines the minimum requirements for operational risk management and is supported by specific policies and procedures. Business units implement the group framework, policies and procedures but may customise these to better suit their unique environments.

Both centralised and decentralised operational risk management functions are independent from business line management and work in partnership as

the second line of defence. Their role is to monitor, manage and report on risks to ensure operational risk exposure remains within the stated risk appetite as mandated by senior management and the board. These independent functions are also responsible for developing and implementing the operational risk management framework and for promoting sound risk management practices across the group. Business unit line management, as the first line of defence, is ultimately responsible for managing risks that arise.

The primary oversight body for operational risk is the group operational risk committee (GORC) which reports to GROC, the GRMC and ultimately the board. The GORC is chaired by the group's chief risk officer and includes representation from group functions and business units. The GORC is also responsible for the approval of group-level operational risk policies and methodologies.

Group internal audit is the group's third line of defence and performs an independent review of the operational risk management framework, policies and practices to ensure that operational risk practices are implemented consistently across the group as operational risk management matures.

10.1.1 Managing operational risk

Independent monitoring of operational risk occurs through a number of functions within the group's risk divisions, including business continuity management, legal, information risk services, forensic services and operational risk governance. Operational risk management forms part of the day-to-day responsibilities of management at all levels. Qualitative and quantitative methodologies and tools are applied to identify and assess operational risks and to provide management with information for determining appropriate mitigating measures.

These tools include:

- a loss database of operational risk events categorised according to the Basel II business lines and operational risk event types;

- a risk and control self-assessment process to analyse business activities and identify operational risks that could affect the achievement of business objectives. An effective risk and control self-assessment process is a key component of developing a risk profile and understanding the residual risk; and
- key risk indicators which are used to manage operational risk on an ongoing basis. Key risk indicators contribute to an assessment of the operational risk profile. The main purpose is to assist management by providing an early-warning indicator of potential risk exposures and/or a potential breakdown of controls.

Our insurance process and requirements are the responsibility of the group insurance committee. An insurance framework guides the organisation on the optimal use of insurance as a risk transfer mechanism.

10.1.2 Business continuity management

Business continuity management is an integral component of the group's risk management framework. The various business units are continually exposed to deployment of updated methodologies as well as testing and training to ensure increased capability to deal with interruptions to business. This is achieved through active assessment of the changing business environment, reference to and incorporation of updated and emerging best practice standards worldwide, pre-planned simulation and desktop assessments and interrogation of identified risks and threats to the operational continuity of the group.

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

The group's business continuity strategy is structured to ensure strong central monitoring and reporting and decentralised execution, and is supported by an

entrenched governance process. The group continues to ensure that business continuity is managed in an effective manner through a framework of policies, procedures and tools to identify, assess, monitor, control and report such risks.

In 2009, the H1N1 influenza pandemic presented a new risk to the group, which warranted a swift response in mitigating exposure to threats posed by the pandemic. This focus continued well into 2010 as the risk remained relevant due to the influx of visitors to the country. Business units have now incorporated the effects of pandemic spread into their respective continuity plans.

Awareness campaigns remain a critical tool in driving a business continuity culture across the group. The group will continue to enhance and develop operational resilience to meet evolving business priorities.

10.1.3 Information risk management

Information risk is defined as the risk of accidental or intentional unauthorised use, modification, disclosure or destruction of information resources, resulting in compromised confidentiality, integrity or availability of information. 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.

The growing dependence on information and the systems that carry it, coupled with the risks, benefits and opportunities these resources present, have made information risk an increasingly critical facet of overall risk management for the group.

Group information risk management proactively scans the regulatory landscape for developments that warrant specific initiatives to meet minimum legal requirements. A number of projects executed over the last year assisted in ensuring information risk practices were embedded in the group and information-related risks were mitigated. Some of the information risk-related initiatives conducted include:

- developing a comprehensive group-aligned strategy and tactical plan to drive the information risk management programme throughout the group;
- establishing metrics and processes to ensure compliance and provide feedback on the effectiveness of information risk management programmes;
- business impact analysis of the impending Protection of Personal Information Bill;
- information risk management and, in particular, information security awareness, education and training programmes; and
- developing and reviewing information risk management policies, standards and procedures.

10.1.4 Financial crime control

The group remains committed to a zero tolerance approach to fraud and corruption. As such the group has recognised the need to treat financial crime holistically and has established a group financial crime control unit to ensure the proactive prevention, detection and reporting of all financial crime to mitigate economic loss, reputational risk and regulatory sanction in the group.

Financial crime includes fraud, money laundering, violent crime and misconduct by staff, customers, suppliers, business partners and third parties. The financial crime control unit aims to continue leveraging relationships with internal and external partners to further strengthen the control environment and effectively combat financial crime.

10.2 Legal risk

Legal risk arises where:

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

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

10.3 Environmental risk

Environmental risk falls within the group sustainability management programme, which aims to create a consistent approach to environmental and social risk management within the group's operations and indirectly through responsible lending. Many of our environmental risks and opportunities arise from lending and transaction processes.

Environmental risk is governed by the safety, health and environmental risk oversight committees which comprise executive representation from various divisions across the group. Group sustainability management sets the strategic direction, oversees implementation and reviews and assesses performance and compliance.

The group formally adopted and integrated the Equator Principles in 2009 into its project finance deal assessment processes and conducted staff training on the principles across the investment banking business. The Equator Principles are based on the International Finance Corporation performance standards on social and environmental sustainability, and on the World Bank Group's environmental, health and safety general guidelines. The group applies the Equator Principles' screening, assessment and monitoring procedures to all new project finance deals above USD10 million. Over time, environmental and social risk management approaches will be applied across a wider set of financial transactions.

Raising awareness and training will be an ongoing element of managing environmental risk and identifying opportunities and business solutions to global environmental and social concerns.

10.4 Taxation risk

Taxation risk is the possibility of suffering unexpected loss, financial or otherwise, as a result of the application of tax systems, whether in legislative systems, rulings

or practices, applicable to the entire spectrum of taxes and other fiscal imposts to which the group is subject.

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

Compliance with this policy is aimed at ensuring that the group:

- pays neither more nor less tax than tax law requires, in the context of the group's operations;
- continually reviews its existing operations and planned operations in this context; and
- ensures that, where clients participate in group products, these clients are either aware of the probable tax consequences, or are advised to consult with independent professionals to assess these consequences, or both.

The framework to achieve compliance with the group tax policy comprises four elements:

- tax risk – identification and management of tax risk;
- human resources – an optimal mix of staffing and outsourcing;
- skills development – methods to maintain and improve managerial and technical competency; and
- communication – communication of information affecting tax within the group.

Good corporate governance in terms of tax requires that each of these framework elements be in place. The absence of any one of these elements would seriously undermine all others.

Identifying and managing tax risk is the primary objective of the group tax function, and this objective is achieved through the application of a tax risk matrix approach which measures the fulfilment of tax responsibilities against the specific requirements of each category of tax to which the group is exposed, in the context of the various types of activity the group conducts.

10.5 Occupational health and safety

The health and safety of employees, customers and other stakeholders is a priority and the group aims to identify and reduce the potential for accidents or injuries in all its operations. Training of health and safety officers and staff awareness is an ongoing endeavour. Standards that support uniform health and safety requirements across all group operations are being developed. The focus on health and safety is closely linked to employee wellbeing and the group's efforts to attract, retain and develop skilled and talented employees.

Comprehensive information on the group's initiatives in this regard is available in the sustainability report on the group's website.

10.6 Compliance risk

10.6.1 Definition

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

10.6.2 Approach to compliance risk management

The group's approach to managing compliance risk is proactive and premised on internationally-accepted principles of risk management. It is also 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, identifying and managing market abuse and mitigating reputational risk.

10.6.3 Framework and governance

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

The group's compliance framework is based on the principles of effective compliance risk management as required by the South African Banks Act, 1990, as well as international policy-making bodies. Group compliance is responsible for assisting the group in mitigating compliance risk by maintaining an effective compliance risk management framework, while business unit compliance functions are responsible for assisting senior management in effectively managing the compliance risks faced by the respective business units. Business unit compliance heads have reporting responsibilities to the group chief compliance officer.

Heads of compliance have a duty to report compliance issues to the group compliance committee, a sub-committee of the GROC. Significant or material issues are also escalated to the GAC and the GRMC, as appropriate. To support legislative requirements and the group's approach to compliance risk management, ongoing monitoring is undertaken to ensure adherence to the group compliance policy and standards.

10.6.4 Regulation and supervision

The group operates in a highly regulated industry and across multiple jurisdictions. Supervision is undertaken by host country regulators as well as various regulatory bodies in South Africa. The group's primary regulator is the BSD of SARB which supervises the group on a consolidated basis. The group chief compliance officer engages with the BSD on a regular basis, as well as with regulators in other jurisdictions on a targeted basis.

South African financial services supervisory bodies include the Financial Services Board which regulates the non-banking aspects of the financial services industry in South Africa, 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 the regulation of the South African credit industry.

Key international regulators include the United Kingdom Financial Services Authority, the Hong Kong Monetary Authority and the central banks of Argentina

and Nigeria, as well as the regulators in each African jurisdiction in which we operate.

The details of relevant South African and host country regulators, including key legislation impacting our business, are available in the Standard Bank Group sustainability report which can be accessed on the group's website.

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

Key regulatory developments during the first half of 2010 included those relating to the fair treatment of customers. Major developments in this regard are the implementation of the Consumer Protection Act, 2008, in the fourth quarter of 2010. The Financial Advisory and Intermediary Services Act has resulted in the implementation of new Fit and Proper requirements for those providing financial advice, and preparation for the Protection of Personal Information Bill is underway. The amended Companies Act is likely to be promulgated by the end of 2010. The recommendations of King III, published in the first quarter, are also being considered.

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

10.6.5 Money laundering and terrorist financing control

Legislation across the group pertaining to money laundering and terrorist financing control imposes significant requirements in terms of customer identification, record keeping and training, as well

as obligations to detect, prevent and report money laundering and terrorist financing. The group is committed to continually improving its control measures, including customer monitoring tools. The group's money laundering and terrorist financing control policy continues to be updated to reflect best practice expectations.

10.6.6 Compliance risk management training

Staff are made aware of their responsibilities in terms of current and emerging legislative and regulatory requirements and developments through induction programmes and ongoing training and awareness initiatives. These cover diverse topics such as treating customers fairly, money laundering and terrorist financing, market conduct and health and safety requirements, among others. A programme has also been put in place to enhance senior executives' awareness of their roles and responsibilities with regard to regulatory expectations.

10.7 Business risk

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

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

The approach followed by the group in quantifying business risk is to estimate a net revenue or loss

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

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

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

11. Reputational risk

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

The group's agreed values provide guidance on acceptable behaviours for all staff members, and provide structure and guidance for non-quantifiable decision making, thereby assisting in the management of the group's reputation. The Standard Bank Code of Ethics defines the values in greater detail.

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

Matters identified as a reputational risk to the group will be reported to the group chief risk officer, who if required will escalate these matters to GROC.

12. Conclusion

The global economy continues to be volatile and under stress, and our continued commitment to sound risk management has proved to be effective as reflected in our strong capital and liquidity position. We recognise that maintaining and continually enhancing our risk management capabilities will be critical in the months ahead to ensure that the group's financial and strategic objectives are achieved within approved levels of risk appetite.

Acronyms and abbreviations

AIRB	Advanced internal ratings-based approach
ALCO	Asset and liability committee
AMA	Advanced Measurement Approach
Basel	Basel Capital Accord
BSD	Bank supervision department
EAD	Exposure at default
FIRB	Foundation internal ratings based approach
FSB	Financial Services Board
GAC	Group audit committee
GCC	Group credit committee
GCRC	Group country risk management committee
GORC	Group operational risk committee
GRCMC	Group risk and capital management committee
GROC	Group risk oversight committee
Group	Standard Bank Group
ICAAP	Internal capital adequacy assessment process
IFRS	International Financial Reporting Standards
IRB	Internal ratings-based approach
King III	The third King report on corporate governance
LGD	Loss given default
ORM	Operational risk management
PD	Probability of default
QRRE	Qualifying revolving retail exposure
SARB	South African Reserve Bank
SBSA	The Standard Bank of South Africa
SME	Small and medium enterprise
SPE	Special purpose entity
Tier I	Primary capital
Tier II	Secondary capital
Tier III	Tertiary capital
TSA	The standardised approach
VaR	Value-at-risk