Standard Bank Plc

Consolidated Annual Report 2013

Standard Bank

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Strategic report

The directors present their strategic report for the year ended 31 December 2013 for Standard Bank Plc (the company) and its subsidiaries (together the group or SB Plc).

Standard Bank Group profile

Standard Bank Group Limited, listed on the Johannesburg Stock Exchange, is the ultimate holding company for the global activities of the Standard Bank Group (SBG). With total assets in excess of US$161 billion and employing 48 000 people worldwide, SBG is one of Africa's leading banking and financial services organisations. In 2007, SBG entered into a major strategic partnership with Industrial and Commercial Bank of China Limited (ICBC), China's largest bank by market capitalisation, which resulted in ICBC becoming a 20% shareholder in SBG.

SBG operates within three key business segments: Personal & Business Banking (PBB), Corporate & Investment Banking (CIB) and Investment Management & Life Insurance. These global business segments operate across South Africa, Africa and selected international locations outside of Africa. SB Plc is the main subsidiary outside Africa and an integral part of SBG's CIB business segment.

Principal activities

The company is a bank authorised by the Prudential Regulation Authority (PRA) and regulated by the Financial Conduct Authority and PRA, providing a range of banking and related financial services. It is a member of the London Stock Exchange, the London Bullion Market Association, the London Metal Exchange and the London Platinum and Palladium Market. It acts as Chairman of the London Platinum and Palladium Fixing and has two seats on the New York Mercantile Exchange (Comex division). The franchise of Standard Bank Plc and its subsidiaries focuses on African and other emerging markets – primarily debt, interest rate, equity, currency products and commodities.

Change of control

On 8 November 2013, SBG announced its intention to sell a majority interest in SB Plc, the principal entity which houses the Global Markets business outside Africa. On 29 January 2014, Standard Bank London Holdings Limited (SBLH), a wholly-owned subsidiary of SBG, entered into a sale and purchase agreement in terms of which ICBC will, upon completion of the sale and purchase, acquire a controlling interest in SBG's London-based Global Markets business (Global Markets business), focusing on commodities, fixed income, currencies, credit and equities products. This will facilitate the establishment of a partnership in Global Markets between China and Africa's largest banks.

As SB Plc is the primary legal entity used by the Global Markets business, ICBC will acquire 60% of SB Plc, and other international subsidiary companies, from SBLH for cash. Completion is subject to the implementation of a series of steps to be undertaken to constitute SB Plc, and relevant subsidiaries and operations in the United States and Singapore, as a focused Global Markets platform. The proposed transaction is subject to regulatory approval in multiple jurisdictions.

In order to achieve this, SBG will, prior to completion, remove from the SB Plc entity and other entities in any relevant international locations within the SB Plc group, all activities that it currently performs which do not form part of the Global Markets business. These activities include Investment Banking, Transactional Products and Services, Principal Investment Management, PBB International and the Services Unit, which provides key skills and services to the Group (together, the 'excluded business'). The successor entities into which the excluded business will be moved will require appropriate regulatory approvals, so that these activities can be continued, as they remain a critical part of the SBG's overall competitive positioning in Africa.

Following this announcement the financial statements have been prepared to reflect the appropriate division between continuing and discontinued businesses.

Continuing product areas

Global Markets division

The Global Markets division is SB Plc's primary revenue generator and transacts customer-driven, market-making and sales activities across the full spectrum of traded financial and commodity risk. The division seeks to originate exposures directly from clients or market-making activities, which are repackaged and traded with market participants, asset managers and other clients through the group's distribution network. A comprehensive range of foreign exchange, money markets, interest rate, credit, equity and commodity products are provided, ranging from simple risk management tools to structured products. The division's expertise extends to the management and financing of physical commodity inventories across base and precious metals, in addition to the provision of foreign exchange and access to products for all major African, Asian, Central and Eastern European, Middle Eastern, Central Asian (CEEMECA) and Latin American currencies.

Looking ahead, the partnership between ICBC and Standard Bank will expand the strategic emphasis of the Global Markets division to serve the increasing demands for commodities, hedging and capital market capabilities from a growing Chinese economy. The division will utilise its established infrastructure platform, mature business model and industrial expertise to serve ICBC and Standard Bank's clients' needs in global commodities, fixed income, currency, interest rate, credit and equity products.

Discontinued product areas

Investment Banking division

The Investment Banking business is now managed as an integrated global business with the group originating assets directly on the Standard Bank of South Africa Limited (SBSA) balance sheet and SBSA serving as the primary booking centre and risk warehouse in the SBG.

The division provides a full suite of advisory and financing solutions to clients, both cross-border and domestically within its core countries and sectors. Financing solutions range from corporate loans and bond issues to highly structured products across equity and debt capital markets. The division is structured along the major product lines of debt products, capital markets and advisory. These areas are also aligned, where applicable, by execution expertise to the key sectors within client coverage which work together to create bespoke solutions for clients.

Transactional Products and Services

The Transactional Products and Services (TPS) division provides products and services for clients' short-term working capital needs and is constituted of cash, trade and investor services. The SBG TPS business division facilitates the domestic and cross border flows into and out of Africa and provides vanilla trade finance, payments, collections, short term liquidity and custody solutions across Africa.

The TPS business unit engages with both SBG and regional treasurers in order to promote opportunities within the African franchise, utilising the international origination team, and similarly the in-country coverage and sales teams promote transactions booked in the Standard Bank Group.

Principal Investment Management and Private Client Services

A redefined focus on strategic business and revenue streams resulted in the closure of non-core businesses, Principal Investment Management (PIM) and Private Client Services (PCS), in 2010. Consequently, no further investments were made in these business units and the focus has been on realising the carrying value of the assets.

Market conditions

Global equity markets continued to rally in 2013. Sentiment was lifted by the US Federal Reserve's decision on tapering its asset purchase programme from US$85 billion to US$75 billion a month. The tapering announcement was broadly welcomed by equity investors as a positive signal about the strength of the US economy and a return to more normal conditions. On the other hand, fixed income investors were less enthusiastic, with the 10-year Treasury yield rising to 3%.

The eurozone moved out of recession in the third quarter of 2013 and economic data suggests that the economic expansion continued in the fourth quarter. The period of relative financial calm and economic stabilisation led to increased capital flows into the region with European equities recording single digit growth. However, while the peripheral economies improve, there are growing concerns about France, with Standard and Poor's cutting its credit rating to AA based on the lack of economic reform.

Emerging markets recovered some of the losses from earlier in the year but the market remained cautious. Investors took some comfort from signs of stabilisation in China, however, in the short term, the People's Bank of China faces a challenging period in managing rising wages, a tight labour market and rapid rises in real estate prices. Turning to South Africa, the JSE all share index finished the year above 2012 levels despite remaining volatile throughout the period. The fourth quarter witnessed a significant amount of volatility following the tapering announcement by the US Federal Reserve. Share prices fell in mid-December with gold mining stock particularly impacted following the fall in the price of gold.

Commodities continued to underperform other asset classes, partly impacted by the strengthening of the US dollar. Gold fell by US$122 per ounce over the same period, impacted by the benign inflation environment in developed markets and by the improving economic outlook.

Performance

The challenging market conditions have continued this year and have constrained the business divisions' revenue growth.

Continuing operations

Global Markets division

Global Markets revenues of US$216.7 million (2012: US$224.2 million) were 3% lower than the prior year.

The commodities business had a strong year, benefitting from robust precious metals revenues off the back of physical trading early in the year, followed by an increase in base metal client activity later in the year with market share gains achieved as competitors withdrew from the market. The base metals revenues also continued to benefit from physical trading of iron ore. Precious metals strong performance early in the year was followed by a slowdown in trading activity as the price of gold and other precious metals fell, driven by a weaker demand from Asia and anticipated tapering from the US Federal Reserve. Across products, the commodities business reported increased physical demand, principally from Asia, despite market conditions remaining volatile throughout the year. From a comparative perspective, the prior year revenues included a gain of US$43.7 million on the sale of a holding in the London Metal Exchange.

The fixed interest, currency and equity businesses revenues were lower than the prior year following difficult trading conditions together with limited client activity that stemmed from the announcement by the US Federal Reserve of potential tapering which lead to a significant sell off across emerging market asset classes. The credit trading business finished the year strongly as a result of higher client flow.

Discontinued operations

Investment Banking division

Investment Banking revenues of US$124.7 million (2012: US$246.9 million) were 49% lower than the prior year.

The IB loan portfolio was transferred to SBSA in 2012 as part of the management strategy to simplify, reduce scale and de-risk the international operations and further integrate the operating model with SBSA. SB Plc's balance sheet is now substantially de-risked with respect to Investment Banking loan exposures. There is consequently a reduction in revenue attributed to assets booked directly on the balance sheet and a migration to revenue received from SBSA determined under appropriate transfer pricing models.

TPS division

The TPS revenues of US$8.7 million (2012: US$19.1 million) were 54% lower than the prior year.

The revised strategic focus for the business of delivering deal origination in Africa has gained momentum particularly in terms of collaborations between China and Africa. The business saw a steady flow of trade related business by servicing clients wishing to transact in Africa.

PIM and PCS

PIM and PCS losses of US$18.1 million (2012: US$20.7 million) were 13% lower than the prior year.

The PIM and PCS businesses, discontinued in 2010, are being wound down and incurred losses in the current year, primarily emanating from Asian distressed debt business. These portfolio assets have now been sold or fully written down following extensive work in exiting the business lines. Whilst SB Plc no longer has credit exposure, further work is required to fully exit the business and associated structures.

Service Unit

The Service Unit has recovered, under transfer pricing arrangements, all costs incurred on behalf of other SBG entities. These recoveries are included within revenues.

Financial results

The group's results for the year are shown in the consolidated income statement on page 15 and key performance indicators are discussed within this report.

Strategic report *continued*

The financial statements have been prepared to reflect separately the continuing business and the discontinued businesses to be removed from SB Plc, as described in the announcements on 8 November 2013 and 29 January 2014.

The loss attributable to shareholders of US$12.1 million (2012: US$332.4 million) is a consequence of a loss of US$39.8 million (2012: US$178.7 million) from continuing Global Markets operations, partly offset by a profit of US$27.7 million (2012: loss of US$153.7 million) from discontinued operations comprising Investment Banking, TPS, PIM and the Service Unit.

Continuing operations returned a significantly reduced loss due to lower expenses resulting from the cost management actions initiated last year and successfully concluded in 2013. Operating expenses reduced by US$144.5 million (37%) to US$246.0 million. Excluding the restructuring charge of US$52.5 million incurred last year, operating costs reduced by 27%. Following a review by the Financial Conduct Authority (FCA) of SB Plc client files during the period December 2007 to July 2011, it was found that SB Plc had not consistently applied its own policies in terms of protecting against the risk of money laundering. As a result, SB Plc agreed to pay a fine of £7.6 million to the FCA and this charge is included within operating expenses.

Income after impairments of US$210.4 million was 2% lower reflecting the continuation of the challenging operating environment for the banking industry, particularly across the fixed income and equity asset classes. Limited tax relief against these losses has been recognised due to the anticipated revenue profile over the short term.

The cost to income ratio from continuing operations of 113.5% (2012: 174.2%) is a result of the lower cost base as well as restructure costs and indirect taxes incurred in the prior year.

Discontinued operations achieved a profit of US$27.7 million compared to a loss of US$153.7 million in the prior year largely due to the profit from Investment Banking of US$46.1 million. Credit recoveries of US$27.1 million were made in the year compared to the prior year credit losses of US$131.7 million, primarily related to legacy Middle East loan exposures. Losses of US$23.2 million were incurred within the PIM business associated with the closure of the remaining Asian distressed debt portfolios.

Total assets were reported as US$18 579.0 million compared to US$21 091.0 million in the prior year. The decrease is attributable to lower funding requirements following the change in business model and transfer of the loan book to SBSA and reduced trading and derivative balances. The improvement in the return on assets ratio to -0.1% (2012: -1.6%) reflects the lower loss for the period.

Financial resources

SB Plc has established, over a number of years, a highly integrated operating model with SBSA. The proposed transaction will require a comprehensive review of this operating model and the associated financial resources arrangements. As noted in the directors' report, SBG's undertaking of support will remain until transaction completion, at which time SBG and ICBC will enter into arrangements in favour of Standard Bank Plc substantively similar to the support letter, and pro rata to their respective shareholdings in Standard Bank Plc.

Capital resources

At the end of the reporting period, the group's equity capital resources amounted to US$1 388.5 million (2012: US$1 374.6 million) and total capital resources qualifying for prudential purposes amounted to US$1 865.9 million (2012: US$2 111.2 million). The prudential consolidation group remains well capitalised with a total capital adequacy ratio of 21.7% (2012: 20.5%), a tier 1 ratio of 15.1% (2012: 12.6%) and risk weighted assets of US$8 608.9 million (2012: US$10 283.0 million).

As projected, new Basel requirements have had a limited impact on SB Plc. SB Plc forecasts the core tier 1 ratio to be maintained at levels which exceed the minimum requirements of the Prudential Regulation Authority under the new regulations. SB Plc was compliant with the leverage ratio, which measures tier 1 capital to balance sheet exposures, at 31 December 2013 and has incorporated this measure in the capital planning process. The ratio will be reported to the PRA in 2014 and becomes effective in 2018.

Subordinated debt of US$300 million, no longer required, was repaid to SBG during the year.

Liquidity

SB Plc maintained a strong liquidity profile through the year and liquidity buffers were comfortably above the minimum requirements at year end.

The current and prospective funding requirements for all operations are reviewed on an on-going basis through regular reviews of the liquidity ratios, maturity mismatch, diversification and stability of the deposit base, as well as liquidity stress testing results.

Under the required stress testing scenarios, SB Plc maintained survival horizons in excess of the regulatory and internally established limits. Management continues to focus on monitoring relevant stress scenarios for the group. The structural liquidity mismatch continued to be positive across all short term buckets and, as at year end, SB Plc maintained a significant surplus of liquid assets over the regulatory requirements.

Upon completion of the announced transaction, a shareholders' agreement will be concluded that contains provisions regarding the future funding arrangements for SB Plc.

Business objectives and strategies

ICBC partnership and Global Markets focus

SBG has been building and operating a London-based Global Markets business since the early 1990s. Today, this platform performs an important role in allowing SBG to access the global capital markets to facilitate growth and development in Africa, and in maintaining SBG's position as a significant financial market participant in commodities trading. Given the investment over many years, the platform has the potential to create considerably more value through growing its franchise and generating incremental revenues from a wider spectrum of opportunities than are currently available to it given SBG's narrower strategic focus on Africa.

The proposed transaction creates the unique and commercially compelling opportunity for SBG and ICBC to partner in global markets. Through introducing ICBC as majority shareholder, the partners are creating a new and larger commodity and financial markets platform and expanding the strategic emphasis for SB Plc's Global Markets business to include a focus on China by becoming part of China's leading banking group. The SB Plc Global Markets business, by leveraging its product capabilities and infrastructure, will have direct linkage to ICBC's unparalleled access to Chinese corporates and network of 300 million retail clients. This competitive advantage,

combined with ICBC's balance sheet strength and leading Renminbi capabilities, provides an unique strategic platform to serve the growing demands of ICBC and SBG clients.

China is the world's largest consumer of natural resources, its corporations and financial institutions are expanding rapidly beyond its borders, and it benefits from robust economic growth. China is also the world's second largest economy and has one of the fastest growing traded currencies in the world, the Renminbi. These, in combination with the powerful client relationships that ICBC has, present the Global Markets business with exciting franchise and revenue growth opportunities, while maintaining the role it performs for SBG's African business. The partnership, between China and Africa's largest banks, is unique in banking and reflects the fact that the direct linkages generally between emerging market economies, and China and Africa in particular, are increasingly important contributors to the global economy.

It is intended that Standard Bank Plc and its subsidiaries will be renamed upon completion of the proposed transaction to reflect the changed ownership of SB Plc.

Capital management

Regulatory capital usage reduced during the year as a result of the transfer of a significant portfolio of loans to SBSA, as well as Global Markets capital usage being successfully managed down. The SBSA balance sheet has been used to centralise the warehousing of risk and capital usage.

Optimisation and efficiency

SB Plc's holding company structure has been simplified with the removal of its two Luxembourg intermediate parent companies. Regulatory approval for this corporate restructure was obtained from the South African Reserve Bank in late 2011 and the companies were placed under voluntary liquidation during the year.

In accordance with the refocused strategy and the need to optimise the cost base, management undertook specific initiatives to scale back the regional footprint outside London, reduce headcount in London and to cease non-core activities. These actions concluded in the year, resulting in significant cost savings.

Key risk areas and impact on prospects

SB Plc faces a number of risks and uncertainties in the normal course of conducting banking business. In addition, SB Plc will also face certain risks in the course of completing the acquisition of a controlling interest by ICBC. The key risks and risk management processes are set out in note 33 of this report and the key areas of focus for management in relation to these risks are described below.

As set out in the announcement on the 29th January 2014, the completion of the transaction is subject to all necessary regulatory approvals from the relevant regulatory bodies in each legal entity jurisdiction. These approvals will be pursuant to the submissions of a comprehensive regulatory business plan detailing the corporate strategy, business mandate, financial forecasts and operating model to support the corporate strategy.

The separation of SB Plc from SBG and the subsequent integration with ICBC will be a focus of management once regulatory approval has been received. In order to provide ICBC with the opportunity to invest in focused Global Markets business, a number of corporate re-organisation steps need to be undertaken as a condition to completion. A newly established UK entity or other SBG entities will acquire or take transfer of all the assets, liabilities and employees of the excluded business from SB Plc prior to completion. Where it is not practicable to transfer specific assets of the excluded business from SB Plc prior to completion, provision has been made for synthetic, collateralised transfer of all the risk and benefit relating to these assets to other SBG entities prior to completion. An equally important re-organisation step will be embedding the operational model and infrastructure platforms to support the Global Markets business. The current operating model is highly integrated with SBG and the future operations will rely on services to be provided by SBG and be governed under appropriate service level agreements.

The profitability of the Global Markets division has been a key focus for management following the de-risking of emerging market assets in during 2013. The emerging markets in which the division operates are continuing to grow, albeit slower than historical rates, and management focus will be on generating sustainable revenue in these markets during the transitional period before the transaction has been completed. Looking ahead management attention will be on monetising the revenue opportunities arising from the partnership between ICBC and Standard Bank and managing the financial resources required to support business demand and growth.

SB Plc's credit rating is important for business operations and is currently highly integrated with that of the SBG credit rating. Looking ahead, management focus will be on the execution of its credit rating strategy reflecting the separation of SB Plc from SBG. The credit rating strategy will be pursuant to the parental support from ICBC as well as consideration of corporate strategy, future profitability and rating agency engagement. Management will continue to monitor key ratios, metrics, stress scenarios and relevant management responses.

Funding is a core activity and the focus continues to be on the development of diversified funding sources and effective liquidity risk management. Post deal completion the ability to raise funds while managing funding costs will be a key challenge in meeting funding requirements, and the funding plan will be calibrated to the credit rating strategy.

The regulatory environment encompassing both prudential and conduct requirements has continued to evolve for businesses transacting in the financial markets. The management team has responded to the ongoing prudential requirements by implementing appropriate actions to maintain a strong liquidity position and capital ratios, in both cases in excess of minimum regulatory requirements. SB Plc's capital and liquidity management includes the impact of emerging legislation on capital and liquidity forecasting and stress testing to ensure the group continues to be adequately capitalised and funded. SB Plc has also put in place plans and resources to support the introduction of new regulatory reforms including Basel 3, Dodd-Frank, EMIR and FATCA.

By order of the Board

S C Smollett

Secretary

20 February 2014

20 Gresham Street

London EC2V 7JE

Registered in England and Wales No. 2130447

Directors' report

The directors present their report and financial statements for the year ended 31 December 2013 for SB Plc.

Going concern basis

The financial statements are prepared on a going concern basis, as the directors are satisfied that the Standard Bank Plc group and company have the resources to continue in business for the foreseeable future. In making this assessment, the directors have considered a wide range of information relating to present and future conditions. Further information relevant to the assessment is provided in the following sections of the financial statements:

- principal activities, strategic direction and challenges and uncertainties are described in the strategic report;
- a financial summary, including a review of the income statement and balance sheet, is provided in the strategic report; and
- objectives, policies and processes for managing credit, liquidity and market risk, and the group's approach to capital management and allocation, are described in note 33.

Although the current economic environment remains challenging, SB Plc has reported a significantly reduced loss attributable to equity shareholders. Management action over the last three years to simplify the business operating model, to reduce the scale and complexity of operations and to de-risk the SB Plc balance sheet has been completed. In addition, the exit or scaling back of certain business lines and geographies has been carried out and stringent cost reductions, including a staff retrenchment programme, implemented. As a result of these strategic measures, SB Plc is exposed to significantly lower credit risk and benefits from a lower cost base.

SB Plc maintains a strong capital and liquidity position and SBG has confirmed its undertaking of support in respect of SB Plc, in terms of which SBG confirms that it will ensure that, except in the case of political risk, SB Plc will be able to meet its contractual liabilities. SBG has additionally committed, with the prior approval of the South African Reserve Bank, to ensure that SB Plc continues to meet its minimum capital adequacy requirement.

SBG announced on 29 January 2014 that Standard Bank London Holdings Limited (SBLH), SB Plc's parent company, has entered into a sale and purchase agreement in terms of which Industrial and Commercial Bank of China Limited (ICBC) will, upon completion of the sale and purchase, acquire a controlling interest in the SBG's London-based Global Markets business, focusing on commodities, fixed income, currencies, credit and equities products. As SB Plc is the primary legal entity used by the Global Markets business, ICBC will acquire 60% of Standard Bank Plc from SBLH for cash.

SBG's undertakings of support will remain until completion at which time SBG and ICBC will enter into arrangements in favour of SB Plc substantively similar to the support letter and pro rata to their respective shareholdings in SB Plc.

Having considered the factors set out above, SB Plc continues to adopt the going concern basis in preparing the annual financial statements.

Dividends

The directors do not recommend the payment of a dividend.

Internal control and financial reporting

The directors who held office at the date of approval of this report confirm that, as far as they are each aware, there is no relevant audit information of which the SB Plc's auditors are unaware; and that each director has taken all steps that they ought to have taken as directors to make them aware of any relevant audit information, and to establish that the group's auditors are aware of that information.

The directors are responsible for internal control in SB Plc and for reviewing its effectiveness. Procedures have been designed for safeguarding assets against unauthorised use or disposition; for maintaining proper accounting records; and for the reliability of financial information used within the business or for publication. Such procedures are designed to manage rather than eliminate the risk of failure to achieve business objectives and can only provide reasonable and not absolute assurance against material misstatement, errors, losses or fraud.

The procedures that the directors have established are designed to provide effective internal control within SB Plc.

Such procedures for the ongoing identification, evaluation and management of the significant risks faced by SB Plc have been in place throughout the year and up to 20 February 2014, the date of approval of the consolidated annual report for the year ended 31 December 2013.

The directors and senior management of SB Plc have adopted policies which set out the Board's attitude to risk and internal control. Key risks identified by the directors are formally reviewed and assessed at least once a year by the Board, in addition to which key business risks are identified, evaluated and managed by operating management on an ongoing basis by means of procedures such as physical controls, credit and other authorisation limits and segregation of duties.

The Board also receives regular reports on any risk matters that need to be brought to its attention. Significant risks identified in connection with the development of new activities are subject to consideration by the Board.

There are well established budgeting procedures in place and reports are presented regularly to the Board detailing the results of each principal business unit, variances against budget and prior year, and other performance data.

The effectiveness of the internal control system is reviewed regularly by the Board and the audit committee, which also receives reports of reviews undertaken by the internal audit function as well as reports from the external auditors which include details of internal control matters that they have identified. Certain aspects of the system of internal control are also subject to regulatory supervision, the results of which are monitored closely by the Board.

Committees

The Board delegates certain functions and responsibilities to the following committees.

Governance committee

This committee is responsible for the day-to-day management of SB Plc. Subject to the overall authority of the Board, the committee meets regularly to develop business strategy, initiate and review strategic initiatives, review and approve annual business plans, monitor financial performance against budget, monitor risk and all

matters related to regulatory responsibilities and review the activities of its sub-committees.

Membership: The committee comprises executive directors and certain senior executives, currently, Jenny Knott (Chairperson), Nicki Auret, Mark Basten, Ian Dalglish, Richard Fielder, Phillip Hurley, Grant Joyce, Jerry Pearce, Chris Potter, Julia Strain, Steven Wallace and Albert Maartens.

The major sub-committees, supporting the governance committee in fulfilling its responsibilities, are the capital management committee, the risk management committee, regulatory compliance committee, politically exposed persons and reputational risk committee and the business infrastructure and projects committee.

Board audit committee

This non-executive board committee monitors the process for identifying, evaluating and managing risks and controls. In particular, this includes the quality, integrity and reliability of compliance, financial and accounting control systems. The committee's other responsibilities are to review the scope of external and internal audit, to receive regular reports from internal audit and KPMG LLP, and to review the financial statements focusing in particular on accounting policies, areas of management judgement and estimates. The committee meets quarterly.

Membership: Henry Staunton (Chairman), Mark Austen, Patrick Burgess, Christopher Sheridan and Peter Sullivan.

Board risk management committee

The objective of this board committee is to provide an independent review and challenge to SB Plc's risk policies and the composition of the risk portfolio, its concentrations and the risk-taking decisions of SB Plc, covering all aspects of risk - market, credit, country, liquidity and operational. The committee complements the audit committee which also studies, inter alia, risk controls and their operation, but from a different perspective. The committee meets quarterly.

Membership: Ben Kruger (Chairman), Mark Austen, Patrick Burgess, Jacko Maree, Christopher Sheridan, Henry Staunton and Peter Sullivan.

Board remuneration committee

This non-executive committee approves remuneration policy and long-term incentive schemes for staff, sets the remuneration of executive directors and other senior executives and approves guidelines for the group's annual salary and incentive reviews.

Membership: Christopher Sheridan (Chairman), Ben Kruger, Jacko Maree, Henry Staunton and Ted Woods.

Transactions with directors and related parties

There are no loans, arrangements or agreements that require disclosure under the Companies Act 2006 or International Accounting Standard IAS 24 regarding transactions with related parties, other than those shown in notes to the financial statements.

Directors' liability insurance

SB Plc maintained directors' and officers' liability insurance during the twelve months ended 31 December 2013.

Employees

It is SB Plc's policy to ensure that all employees and job applicants are given equal opportunities and that they do not face discrimination on the grounds of ethnic origin, colour, nationality, marital same sex partnership or family status, religion, sex, age, sexual orientation, gender reassignment or disability. Should an employee become disabled during his or her career with the group, all reasonable efforts will be made to ensure continued employment.

Employee involvement in the group's business is encouraged and information disseminated through communication meetings, and an internal staff publication.

The group recognises its responsibilities to provide a safe working environment for all its staff and measures are in place to ensure that the Health and Safety at Work regulations are observed.

Directors and directors' interests

The directors who held office during the course of 2013 or who hold office as at the date of this report are as follows:

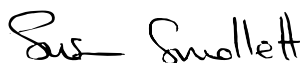
M E Austen	(Independent non-executive director)
D P H Burgess	(Independent non-executive director)
G A R Joyce	(Appointed on 1 May 2013)
J K Knott	(Chief Executive)
B J Kruger	(Chairman)
J H Maree	
C J Sheridan	(Independent non-executive director)
H E Staunton	(Independent non-executive director)
P D Sullivan	(Independent non-executive director, appointed on 19 February 2014)
G M Vogel	(Resigned as director on 1 May 2013)
P Wharton-Hood	(Resigned as director on 14 August 2013)

None of the directors held any beneficial interest in the ordinary share capital of SB Plc during the year or at 31 December 2013.

Auditors

KPMG LLP has indicated its willingness to continue as auditors of SB Plc. Accordingly, a resolution is to be proposed at the next annual general meeting for the re-appointment of KPMG LLP as auditors of SB Plc.

By order of the Board



S C Smollett

Secretary

20 February 2014

20 Gresham Street

London EC2V 7JE

Registered in England and Wales No. 2130447

Remuneration policy statement

This statement is intended to provide stakeholders with an understanding of Standard Bank Plc and its subsidiaries' remuneration philosophy and practices. The philosophy and practices are consistent with those of SBG.

SBG's board-approved strategy includes a long-standing expansion into African markets, working in teams that have deep reach into global capital markets and clients. At the heart of our strategy is the value we place on our people as a primary differentiator. Highly skilled and experienced people, both business generators and enablers, are essential in delivering sustainable growth for shareholders within prudent risk boundaries.

A strategic focus is, therefore, to continually build the depth, breadth and calibre of human capital required to deliver group strategy. Effective leadership and reward of our human resources is considered a core competency for SB Plc.

The primary imperative of our remuneration strategy is to implement designs and practices that only reward value delivered, adjusted appropriately for risk assumed.

A second objective in strategy is to be competitive in remuneration in the global marketplace for skills. We seek to reward all our people in a manner that is fair, both to the individual and to shareholders, while avoiding a bonus-centric culture that distorts motivations and may encourage excessive risk-taking.

Promoting effective teamwork is a third vital component of remuneration strategy. Remuneration scheme designs and performance evaluation processes must motivate strong and sustained performance within teams.

Within this wider strategic context, the SB Plc's remuneration committee (Remco) seeks to design and implement structures and practices that are specifically tailored to the SB Plc's business strategy.

Remco continues to work with local regulators to ensure that the SB Plc's remuneration philosophy and practices meet the developing requirements, maintain market competiveness and are consistent with, and promote, effective risk management.

Principles that underpin our remuneration strategy

The key principles that underpin our remuneration strategy and determine individual reward are as follows:

- We reward sustainable, long term business results.
- We do not discriminate against employees based on diversity or physical difference.
- The reward focus is on total reward, being fixed and variable remuneration. We seek to be competitive in both elements, but annual incentives are not a function of a guaranteed package.
- We create an appropriate balance between the fixed and variable elements of total reward. A deferral policy affects annual incentives above predetermined levels. Deferred amounts are indexed to the group's share price and vesting is subject to specific conditions.
- Vesting conditions attached to deferral awards and long-term incentives make provision for malus and forfeiture of unvested awards.
- We determine all elements of pay based on an understanding of market remuneration levels and internal relative remuneration.
- Remuneration structures encourage a focus on achieving agreed deliverables and behaviours, rather than hours worked.
- Individual performance appraisals identify talent at all levels in the organisation, enabling fair and competitive remuneration.
- Individual rewards are determined according to group, business unit and individual performance.
- We reward experience, performance relative to others doing similar work and performance against the market.
- The principles of individual reward differentiation are transparent and are based on quantitative and behavioural performance, as well as retention.
- We ensure that key senior executives are significantly invested in the group share price over time.
- Remuneration designs comply with all legal and regulatory requirements.
- Ongoing oversight to eliminate any potential for irresponsible risk taking by individuals and to ensure risk adjustment forms an intrinsic part of remuneration design.

Remco is committed to appropriate disclosure of reward principles and structures to all relevant stakeholders, including employees and shareholders. This is aimed at enabling stakeholders to make a reasonable assessment of reward strategy, structures and associated governance processes.

Remuneration strategy

As an integral part of growing and fortifying the group's human capital, Remco regularly reviews the SB Plc's remuneration policies, structures and practices to ensure the principles behind the reward strategy and the elements of the strategy itself are effective.

SB Plc has recently reviewed its remuneration strategy which includes the following:

- Reward strategies and remuneration down to an individual level must enable SB Plc, in a highly competitive environment, to attract, motivate and retain high-calibre people at all levels of the organisation.
- Remuneration designs must motivate strong and sustained performance in teams, but also promote risk management in line with the SB Plc's stated strategy and risk tolerance.
- The balance between fixed and variable pay is appropriately structured according to seniority and roles, with particular care being given to risk and control areas. The intention is to provide both total compensation, and its composition, at market-competitive levels, drawing on relevant information from various sources, including external advisers.

- Remco annually approves the SB Plc's bonus pools and oversees the principles applied in allocating these pools to business units and individual employees. These pools are shaped by a combination of SBG, SB Plc and business unit profitability and multi-year financial metrics, taking account of capital utilised, risks assumed and an evaluation of the business area's future development and growth prospects.
- Individual performance is measured according to an appropriate range of absolute and relative criteria, including the person's quantitative delivery against specific metrics, qualitative individual behaviour and competitive performance. This measurement is integral to our remuneration practices and underpins strong differentiation in individual pay.
- A portion of annual bonus incentive, typically above a certain threshold, is deferred into a share price-linked programme with multi-year vesting and malus (forfeiture) provisions.
- A significant portion of senior management reward is awarded in deferred instruments, the values of which are directly linked to the performance of the SBG share price over time. This harmonises personal interests with those of shareholders.
- No remuneration schemes are linked by formula to revenue generation.
- No multi-year guaranteed minimum bonus arrangements are permitted.
- Transparency on remuneration designs and processes is maintained with employees and increasingly with shareholders.
- Wherever available and relevant, market information is used to inform remuneration decisions.
- Stakeholders must be enabled to make a reasonable assessment of reward practices, and members of Remco have unrestricted access to information that informs their independent judgements on the possible effects that remuneration may have on compliance with risk, regulatory and behavioural controls across the SB Plc.
- The group aims to pay a comparable rate of pay against the local market for both fixed and variable compensation, but we need to ensure positioning against local market is fair across geographies.

This strategy forms the basis for reward processes within the SB Plc and all reward designs and practices are consistent with this strategy.

Bonus deferral

SB Plc operates a deferred bonus arrangement in the form of the Quanto stock unit plan (the plan). The plan was developed in 2007 after a review of the remuneration strategy. The purpose of the plan is to strengthen the retention effect of incentive remuneration and to promote an equity ownership culture. Quanto stock units are linked to the SBG share price, but expressed in US dollars. The total annual incentive includes a deferred portion in the form of Quanto stock units.

Deferred incentive awards are also designed to allow malus (forfeiture) during the vesting period in circumstances where:

- there is reasonable evidence of misbehaviour or material error by the participant; or
- the employer company or the relevant business unit suffers a material downturn in its financial performance, for which the participant can be seen to have some liability; or
- the employer company or the relevant business unit suffers a material failure of risk management, for which the participant can be seen to have some liability.

For employees deemed as 'code staff', as per the UK PRA regulations, deferral rates are either 40% or 60% depending on the level of the incentive award. The deferred portion of the incentive is delivered in Quanto stock units with a three year pro-rated vesting, plus an additional six months holding period after vesting. Half of the non-deferred portion is paid immediately in cash and the balancing 50% is delivered in Quanto shares with a six month vesting period.

For 'non-code staff' a proportion of the incentive is deferred into Quanto stock units for incentives in excess of US$150,000. The deferral increases from 20% at US$150,000 to 60% deferral for the highest awards. The deferral portion applies to the entire bonus amount and is delivered in Quanto stock units with a three year pro-rated vesting period.

Remco will continue to monitor the evolving regulatory landscape as it pertains to remuneration and will respond constructively as appropriate.

Statement of directors' responsibilities

The directors are responsible for preparing the strategic report, directors' report and the consolidated and company financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare consolidated and company financial statements for each financial year. Under that law, they are required to prepare the consolidated financial statements in accordance with International Financial Reporting Standards as adopted by the EU (IFRSs) and applicable law, and have elected to prepare the company financial statements on the same basis.

Under company law, the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of SB Plc and the company and of their profit or loss for that period. In preparing each of the consolidated and company financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether they have been prepared in accordance with IFRSs; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the group and the company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that its financial statements comply with the Companies Act 2006. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the group and to prevent and detect fraud and other irregularities.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the company's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Independent auditor's report to the members of Standard Bank Plc

We have audited the financial statements of Standard Bank Plc for the year ended 31 December 2013 set out on pages 14 to 103. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the EU and, as regards the parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members, as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditor

As explained more fully in the statement of directors' responsibilities set out on page 12, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit, and express an opinion on, the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the Financial Reporting Council's website at www.frc.org.uk/auditscopeukprivate.

Opinion on financial statements

In our opinion:

- the financial statements give a true and fair view of the state of the group's and of the parent company's affairs as at 31 December 2013 and of the group's loss for the year then ended;
- the group financial statements have been properly prepared in accordance with IFRSs as adopted by the EU;
- the parent company financial statements have been properly prepared in accordance with IFRSs as adopted by the EU and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the group financial statements, Article 4 of the IAS Regulation.

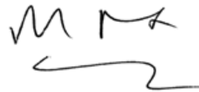
Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the strategic report and directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.



Paul Furneaux

for and on behalf of KPMG LLP, Statutory Auditor

Chartered Accountants

15 Canada Square, London E14 5GL

20 February 2014

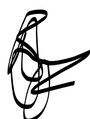
Consolidated balance sheet

at 31 December 2013

	Note	2013 $m	2012 $m
Assets			
Balances with central banks	3	**1 343.8**	2 228.2
Derivative assets	4	**4 071.1**	4 812.9
Trading assets	5	**5 846.6**	6 848.1
Financial investments	6	**2.8**	36.8
Pledged assets	7	**623.3**	503.7
Assets held for sale to group companies	8	**484.6**	-
Loans and advances	9	**5 778.4**	6 160.8
Loans and advances to banks	9	**3 013.9**	3 084.5
Loans and advances to customers	9	**2 764.5**	3 076.3
Other assets	10	**352.6**	404.8
Deferred tax asset	11	**20.7**	20.0
Intangible assets	13	**32.3**	47.9
Property and equipment	14	**22.8**	27.8
Total assets		**18 579.0**	21 091.0
Liabilities and equity			
Liabilities		**17 190.5**	19 716.4
Derivative liabilities	4	**4 049.8**	5 254.5
Trading liabilities	15	**1 713.0**	2 274.3
Deposit and current accounts	16	**10 230.3**	10 408.8
Deposits from banks	16	**7 596.4**	8 032.0
Deposits from customers	16	**2 633.9**	2 376.8
Other liabilities	17	**479.4**	726.4
Current tax liability		**8.2**	5.9
Deferred tax liability	11	**-**	1.2
Subordinated debt	18	**709.8**	1 045.3
Equity			
Equity attributable to ordinary shareholders		**1 388.5**	1 374.6
Ordinary share capital	25	**1 083.5**	1 083.5
Ordinary share premium		**431.0**	431.0
Reserves		**(126.0)**	(139.9)
Total liabilities and equity		**18 579.0**	21 091.0

The accounting policies and notes on pages 22 to 103 should be read as part of the financial statements.

Approved by the Board of Directors and signed on its behalf on 20 February 2014.



B J Kruger, Chairman

J K Knott, Chief Executive

Consolidated income statement

for the year ended 31 December 2013

	Note	**2013 $m**	2012[1] $m
Net interest income		**0.6**	5.9
Interest income	27.1	**68.3**	77.2
Interest expense	27.2	**(67.7)**	(71.3)
Non-interest revenue	27.3	**216.1**	218.3
Net fees, commission and revenue sharing arrangements		**(26.0)**	(73.3)
Fees and commission revenue		**(3.4)**	(0.6)
Revenue sharing and fee arrangements with group companies		**(22.6)**	(72.7)
Trading revenue		**242.1**	247.9
Other revenue		**-**	43.7
Total revenue		**216.7**	224.2
Credit impairment charges	27.4	**(6.3)**	(10.5)
Revenue after impairments		**210.4**	213.7
Operating expenses		**(246.0)**	(390.5)
Staff costs	27.5	**(136.8)**	(175.0)
Other operating expenses	27.6	**(103.1)**	(145.5)
Indirect taxation	27.7	**(6.1)**	(17.5)
Restructuring costs	27.8	**-**	(52.5)
Loss before taxation		**(35.6)**	(176.8)
Income tax charge	28	**(4.2)**	(1.9)
Loss for the year from continuing operations		**(39.8)**	(178.7)
Discontinued operations	29	**27.7**	(153.7)
Loss attributable to equity shareholders		**(12.1)**	(332.4)

[1] 2012 figures reclassified to conform with current year presentation of discontinued operations.

The accounting policies and notes on pages 22 to 103 should be read as part of the financial statements.

Consolidated statement of comprehensive income

for the year ended 31 December 2013

	Note	**2013 $m**	2012 $m
Loss attributable to equity shareholders		**(12.1)**	(332.4)
Items that may be subsequently reclassified to profit or loss[1]			
Foreign currency translation reserve		**3.6**	(0.3)
Cash flow hedging reserve[2]		**23.5**	5.6
Effective portion of changes in fair value		**31.4**	21.0
Net amount transferred to profit or loss		**(7.9)**	(15.4)
Available-for-sale reserve		**(0.1)**	2.7
Changes in fair value		**(0.1)**	46.4
Net realised amount transferred to profit or loss	27.3	**-**	(43.7)
Total comprehensive profit / (loss) attributable to equity shareholders		**14.9**	(324.4)

[1] Amounts are presented net after tax. Tax impact on OCI is disclosed in note 4.4.1.

[2] Includes US$12.2 million (2012: US$2.9 million) attributable to discontinued operations, comprising of US$16.3 million (2012: US$10.9 million) change in fair value and US$4.1 million debit (2012: US$8.0 million debit) transferred to profit or loss.

Consolidated statement of changes in shareholders' equity

for the year ended 31 December 2013

	Ordinary share capital and share premium $m	Cash flow hedging reserve $m	Available-for-sale reserve $m	Foreign currency translation reserve $m	Retained earnings $m	Total equity $m
Balance at 1 January 2012	1 514.5	(1.8)	-	5.1	181.1	1 698.9
Total comprehensive income / (loss) for the year	-	5.6	2.7	(0.3)	(332.4)	(324.4)
Equity-settled share-based payment transactions	-	-	-	-	0.1	0.1
Balance at 31 December 2012	1 514.5	3.8	2.7	4.8	(151.2)	1 374.6
Balance at 1 January 2013	**1 514.5**	**3.8**	**2.7**	**4.8**	**(151.2)**	**1 374.6**
Total comprehensive income / (loss) for the year	**-**	**23.5**	**(0.1)**	**3.6**	**(12.1)**	**14.9**
Equity-settled share-based payment transactions	**-**	**-**	**-**	**-**	**(1.0)**	**(1.0)**
Balance at 31 December 2013	**1 514.5**	**27.3**	**2.6**	**8.4**	**(164.3)**	**1 388.5**

Consolidated statement of cash flows

for the year ended 31 December 2013

	Note	2013 $m	2012[1] $m
Cash flows (used in) / from operating activities			
(Loss) / profit before taxation			
- Continuing operations		**(35.6)**	(176.8)
- Discontinued operations	1	**28.2**	(123.3)
Adjusted for:			
Net interest income / (expenses)		**6.7**	(57.2)
Amortisation of intangible assets		**15.6**	26.3
Impairment of intangible assets		**-**	25.1
Depreciation of property and equipment		**8.5**	10.5
Non-cash flow movements on subordinated debt		**(35.3)**	13.6
Cash-settled share-based payments		**44.6**	53.1
Equity-settled share-based payments		**0.9**	(1.3)
Net credit impairments released	27.4	**(7.0)**	142.6
Loss on disposal of loan portfolio		**-**	51.8
Provisions for leave pay		**(0.2)**	-
		26.4	(35.6)
Changes in operating funds		**(674.1)**	1 888.0
Decrease in income-earning assets	30.1	**790.9**	5 684.1
Decrease in deposits and other liabilities	30.2	**(1 465.0)**	(3 796.1)
Interest received		**114.3**	213.2
Interest paid		**(101.2)**	(145.6)
Tax (paid) / received	30.3	**(2.4)**	9.2
Cash flows (used in) / from operating activities		**(637.0)**	1 929.2
Cash flows used in investing activities			
Capital expenditure on - intangible assets		**-**	(7.5)
- property and equipment		**(3.6)**	(2.9)
Cash flows used in investing activities		**(3.6)**	(10.4)
Cash flows used in financing activities			
Redemption of subordinated fixed rate notes		**(300.0)**	-
Cash flows used in financing activities		**(300.0)**	-
Net (decrease) / increase in cash and cash equivalents		**(940.6)**	1 918.8
Effects of exchange rate changes on cash and cash equivalents		**4.9**	1.4
Cash and cash equivalents at beginning of the year		**3 174.4**	1 254.2
Cash and cash equivalents at end of the year	30.4	**2 238.7**	3 174.4

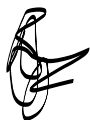
[1] 2012 figures restated as described in note 30.

Company balance sheet
at 31 December 2013

	Note	2013 $m	2012 $m
Assets			
Balances with central banks	3	**1 343.8**	2 228.2
Derivative assets	4	**4 075.1**	4 780.6
Trading assets	5	**5 842.6**	6 774.4
Financial investments	6	**2.8**	56.9
Pledged assets	7	**623.3**	503.7
Assets held for sale to group companies	8	**482.9**	-
Loans and advances	9	**5 730.4**	6 175.3
Loans and advances to banks	9	**2 926.8**	3 071.7
Loans and advances to customers	9	**2 803.6**	3 103.6
Other assets	10	**313.9**	327.6
Deferred tax asset	11	**20.0**	20.0
Investment in group company	12	**16.0**	16.0
Intangible assets	13	**32.3**	47.9
Property and equipment	14	**22.5**	27.2
Total assets		**18 505.6**	20 957.8
Liabilities and equity			
Liabilities		**17 183.8**	19 647.7
Derivative liabilities	4	**4 053.6**	5 205.7
Trading liabilities	15	**1 713.0**	2 274.3
Deposit and current accounts	16	**10 230.3**	10 414.1
Deposits from banks	16	**7 596.4**	7 999.9
Deposits from customers	16	**2 633.9**	2 414.2
Other liabilities	17	**477.1**	708.3
Subordinated debt	18	**709.8**	1 045.3
Equity			
Equity attributable to ordinary shareholders		**1 321.8**	1 310.1
Ordinary share capital	25	**1 083.5**	1 083.5
Ordinary share premium		**431.0**	431.0
Reserves		**(192.7)**	(204.4)
Total liabilities and equity		**18 505.6**	20 957.8

The accounting policies and notes on pages 22 to 103 should be read as part of the financial statements.

Approved by the Board of Directors and signed on its behalf on 20 February 2014.



B J Kruger, Chairman

J K Knott, Chief Executive

Company statement of changes in shareholders' equity
for the year ended 31 December 2013

	Ordinary share capital and share premium $m	Cash flow hedging reserve $m	Available-for-sale reserve $m	Retained earnings $m	Total equity $m
Balance at 1 January 2012	1 514.5	(1.8)	-	134.4	1 647.1
Total comprehensive income / (loss) for the year	-	5.6	2.7	(345.4)	(337.1)
Equity-settled share-based payment transactions	-	-	-	0.1	0.1
Balance at 31 December 2012	1 514.5	3.8	2.7	(210.9)	1 310.1
Balance at 1 January 2013	**1 514.5**	**3.8**	**2.7**	**(210.9)**	**1 310.1**
Total comprehensive income / (loss) for the year	**-**	**23.5**	**(0.1)**	**(10.8)**	**12.6**
Equity-settled share-based payment transactions	**-**	**-**	**-**	**(0.9)**	**(0.9)**
Balance at 31 December 2013	**1 514.5**	**27.3**	**2.6**	**(222.6)**	**1 321.8**

Company statement of cash flows

for the year ended 31 December 2013

	Note	2013 $m	2012[1] $m
Cash flows (used in) / from operating activities			
Loss before taxation		**(7.3)**	(318.9)
Adjusted for:			
Net interest income / (expenses)		**6.4**	(57.3)
Amortisation of intangible assets		**15.6**	26.3
Impairment of intangible assets		**-**	25.1
Depreciation of property and equipment		**8.1**	10.0
Non-cash flow movements on subordinated debt		**(35.3)**	13.6
Cash-settled share-based payments		**44.6**	53.1
Equity-settled share-based payments		**0.9**	(1.3)
Net credit impairments raised		**(7.0)**	142.6
Loss on disposal of loan portfolio		**-**	51.8
Provisions for leave pay		**(0.2)**	-
		25.8	(55.0)
Changes in operating funds		**(751.1)**	1 943.4
Decrease in income-earning assets	30.1	**685.2**	5 750.5
Decrease in deposits and other liabilities	30.2	**(1 436.3)**	(3 807.1)
Interest received		**113.7**	213.4
Interest paid		**(100.3)**	(145.6)
Tax (paid) / received	30.3	**(3.5)**	15.3
Cash flows (used in) / from operating activities		**(715.4)**	1 971.5
Cash flows used in investing activities			
Capital expenditure on - intangible assets		**-**	(7.5)
- property and equipment		**(3.4)**	(2.8)
Cash flows used in investing activities		**(3.4)**	(10.3)
Cash flows used in financing activities			
Redemption of subordinated fixed rate notes		**(300.0)**	-
Cash flows used in financing activities		**(300.0)**	-
Net (decrease) / increase in cash and cash equivalents		**(1 018.8)**	1 961.2
Effects of exchange rate changes on cash and cash equivalents		**1.5**	1.6
Cash and cash equivalents at beginning of the year		**3 161.6**	1 198.8
Cash and cash equivalents at end of the year	30.4	**2 144.3**	3 161.6

[1] 2012 figures restated as described in note 30.

Significant accounting policies

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

1 Basis of preparation

Both the company financial statements and the consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the EU. In publishing the company financial statements here together with the SB Plc consolidated (group) financial statements, the company has taken advantage of the exemption in s408 of the Companies Act 2006 not to present its separate income statement and related notes that form part of these financial statements. The annual financial statements have been prepared on the historical cost basis except for the following material items in the balance sheet:

- available-for-sale financial assets, financial assets and liabilities at fair value through profit or loss, and liabilities for cash-settled share-based payment arrangements that are measured at fair value.

Although the current economic environment remains challenging, the group has reported a significantly reduced loss attributable to equity shareholders. Management action over the last three years to simplify the business operating model, to reduce the scale and complexity of operations and to de-risk the SB Plc balance sheet have been completed. In addition, the exit or scaling back of certain business lines and geographies has been carried out and stringent cost reductions, including a staff retrenchment programme, implemented. As a result of these strategic measures, SB Plc is exposed to significantly lower credit risk and benefits from a lower cost base. The group maintains a strong capital and liquidity position and Standard Bank Group (SBG) has confirmed its undertaking of support in respect of SB Plc, in terms of which SBG confirms that it will ensure that, except in the case of political risk, SB Plc will be able to meet its contractual liabilities. SBG has additionally committed, with the prior approval of the South African Reserve Bank, to ensure that SB Plc continues to meet its minimum capital adequacy requirement.

SBG announced on 29 January 2014 that Standard Bank London Holdings Limited (SBLH), SB Plc's parent company, has entered into a sale and purchase agreement in terms of which Industrial and Commercial Bank of China Limited (ICBC) will, upon completion of the sale and purchase, acquire a controlling interest in the SBG's London-based Global Markets business, focusing on commodities, fixed income, currencies, credit and equities products. As SB Plc is the primary legal entity used by the Global Markets business, ICBC will acquire 60% of Standard Bank Plc from SBLH for cash.

SBG's undertakings of support will remain until completion at which time SBG and ICBC will enter into arrangements in favour of SB Plc substantively similar to the support letter and pro rata to their respective shareholdings in SB Plc.

Having considered the factors set out above, the group continues to adopt the going concern basis in preparing the annual financial statements.

Changes in accounting policies

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

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

The group adopted the following IFRS retrospectively as of 1 January 2013 with no material impact on the group's measurement or disclosures:

- IFRS 10 Consolidated Financial Statements (IFRS 10);
- IFRS 11 Joint Arrangements (IFRS 11);
- IFRS 12 Disclosure of Interests in Other Entities (IFRS 12);
- IAS 27 Separate Financial Statements (2011 revised) (IAS 27R);
- IAS 28 Investments in Associates and Joint Ventures (2011 revised) (IAS 28R); and
- IAS 19 Employee Benefits (revised 2011) (IAS 19R).

In addition, the group has adopted the following IFRS as of 1 January 2013 with increased disclosure requirements:

- IFRS 7 Disclosures – Offsetting Financial Assets and Financial Liabilities (December 2011 amendment to IFRS 7) (IFRS 7R). IFRS 7R requires new disclosures with respect to the offsetting of financial assets and financial liabilities. The adoption of IFRS 7R did not affect the group's previously reported results or disclosures; and
- IFRS 13 Fair Value Measurement (IFRS 13) defines fair value and describes in a single standard a framework for measuring fair value where its use is already required or permitted by other standards. IFRS 13 also requires enhanced fair value disclosures, which include several required disclosures as presented in these annual financial statements. IFRS 13 was adopted retrospectively and did not have a material impact on the measurement of the group's assets and liabilities.

The revised IFRS did not have any effect on the group's reported earnings or financial statement position but have affected the group's disclosures with no material impact on the group's accounting policies.

2 Basis of consolidation

The group consolidates the annual financial statements of investees which it controls. The group controls an investee when:

- it has power over the investee;
- has exposure or rights to variable returns from its involvement with the investee; and
- has the ability to use its power to affect the returns from its involvement with the investee.

The annual financial statements of the investee are consolidated from the date on which the group acquires control up to the date that control ceases. Control is assessed on a continuous basis.

Intragroup transactions, balances and unrealised gains and losses are eliminated on consolidation. Unrealised losses are eliminated in the same manner as unrealised gains, but only to the extent that there is no evidence of impairment.

The proportion of comprehensive income and changes in equity allocated to the group and non-controlling interests are determined on the basis of the group's present ownership interest in the subsidiary.

The accounting policies of subsidiaries that are consolidated by the group conform to these policies.

Investments in subsidiaries are accounted for at cost less accumulated impairment losses (where applicable) in the separate financial statements. The carrying amounts of these investments are reviewed annually and impaired (limited to initial cost) when necessary. Investments in consolidated structured entities are accounted for at fair value in the separate financial statements.

3 Foreign currency translations

Functional and presentation currency

Items included in the financial statements of each of the group's entities are measured using the currency of the primary economic environment in which the entity operates (functional currency). The consolidated and company financial statements are presented in US dollars which is the group's functional and presentation currency, and all amounts, unless otherwise indicated, are stated in millions of dollars (US$ million).

Group companies

The results and financial position of all foreign operations that have a functional currency different from the group's presentation currency are translated into the group's presentation currency as follows:

- assets and liabilities (including goodwill, intangible assets and fair value adjustments arising on acquisition) are translated at the closing rate on the reporting date;
- income and expenses are translated at average exchange rates for the month, to the extent that such average rates approximate actual rates; and
- all resulting foreign exchange differences are accounted for directly in a separate component of other comprehensive income (OCI), being the foreign currency translation reserve.

Where the partial disposal of a subsidiary that includes a foreign operation results in a loss of control, a proportionate share of the balance of the foreign currency translation reserve is transferred to non-controlling interests. For all other partial disposals of a foreign operation, the proportionate share of the balance of the foreign currency translation reserve is reclassified to profit or loss.

On disposal (where a change in ownership occurs and control is lost) of a subsidiary that includes a foreign operation, the relevant amount in the foreign currency translation reserve is reclassified to profit or loss at the time at which the profit or loss on disposal of the foreign operation is recognised.

Transactions and balances

Foreign currency transactions are translated into the respective functional currencies of group entities at exchange rates prevailing at the date of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies at year end exchange rates are recognised in profit or loss (except when recognised in OCI as a qualifying cash flow hedge).

Non-monetary assets and liabilities denominated in foreign currencies that are measured at historical cost are translated using the exchange rate at the transaction date, and those measured at fair value are translated at the exchange rate at the date that the fair value was determined. Exchange rate differences on non-monetary items are accounted for based on the classification of the underlying items. Foreign exchange gains and losses on equities classified as available-for-sale financial assets are recognised in the available-for-sale reserve in OCI (profit or loss) whereas the exchange differences on equities and debt that are classified as held at fair value through profit or loss are reported as part of the fair value gain or loss in profit or loss.

Foreign currency gains and losses on intra-group loans are recognised in profit or loss except where the settlement of the loan is neither planned nor likely to occur in the foreseeable future. In these cases, the foreign currency gains and losses are recognised in the group's foreign currency translation reserve. These gains and losses are recognised in profit or loss either on disposal (loss of control of a subsidiary, loss of significant influence over an associate or the loss of joint control over a jointly controlled entity that includes a foreign operation) or partial disposal (a reduction in ownership interest in a foreign operation other than a disposal) of an associate or jointly controlled entity that includes a foreign operation. In the case of a partial disposal of a subsidiary that includes a foreign operation, the proportionate share of the cumulative amount of the exchange differences recognised in OCI is reclassified to the non-controlling interests in that foreign operation.

4 Cash and cash equivalents

Cash and cash equivalents disclosed in the statement of cash flows consist of cash balances with central banks together with other highly liquid short-term placements with deposit-taking institutions available on demand. These balances are subject to insignificant changes in fair value and are reported at amortised cost.

5 Financial instruments

Initial recognition and measurement

Financial instruments include all financial assets and liabilities. These instruments are typically held for liquidity, investment, trading or hedging purposes. All financial instruments are initially recognised at fair value plus directly attributable transaction costs, except those carried at fair value through profit or loss where transaction costs are recognised immediately in profit or loss. Financial instruments are recognised / (derecognised) on the date the group commits to purchase / (sell) the instruments (trade date accounting), except for loans and advances which are recognised when cash is advanced to a borrower.

Subsequent measurement

Subsequent to initial measurement, financial instruments are measured either at fair value or amortised cost, depending on their classifications as follows:

Held-for-trading assets and liabilities

Held-for-trading assets and liabilities include those financial assets and liabilities acquired or incurred principally for the purpose of selling or repurchasing in the near term, those forming part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking, and commodities that are acquired principally by the group for the purpose of selling in the near future and generating a profit from fluctuations in price or broker-traders' margin. Derivatives are always categorised as held-for-trading, as reflected in note 20.

Significant accounting policies *continued*

Subsequent to initial recognition, the financial instruments' fair values are remeasured at each reporting date. All gains and losses, including interest and dividends, arising from changes in fair value are recognised in profit or loss as trading revenue within non-interest revenue with the exception of derivatives that are designated and effective as hedging instruments in cash flow hedge relationships (refer to derivative financial instruments and hedge accounting).

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

The group designates certain financial assets and liabilities, other than those classified as held-for-trading, as at fair value through profit or loss when:

- this designation eliminates or significantly reduces an accounting mismatch that would otherwise arise. Under this criterion, the main classes of financial instruments designated by the group are loans and advances to banks and customers and financial investments. The designation significantly reduces measurement inconsistencies that would have otherwise arisen, for example where the related derivatives were treated as held-for-trading and the underlying financial instruments were carried at amortised cost;
- groups of financial assets, financial liabilities or both are managed, and their performance evaluated, on a fair value basis in accordance with a documented risk management or investment strategy, and reported to the group's key management personnel on a fair-value basis. Under this criterion, certain private equity investments, acquired NPL portfolios and other investment portfolios have been designated at fair value through profit or loss; or
- financial instruments contain one or more embedded derivatives that significantly modify the instruments' cash flows.

The fair value designation is made on initial recognition and is irrevocable. Subsequent to initial recognition, the fair values are remeasured at each reporting date. Gains and losses arising from changes in fair value are recognised in interest income (expense) for all debt financial assets (financial liabilities) and in other revenue within non-interest revenue for all equity instruments.

Private equity and property equity investments designated at fair value through profit or loss in terms of IAS 28 Investments in Associates and Joint Ventures (IAS 28), are accounted for in the designated at fair value through profit or loss category.

Available-for-sale

Financial assets classified by the group as available-for-sale are generally strategic capital investments held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices, or non-derivative financial assets that are not classified within another category of financial assets.

Available-for-sale financial assets are subsequently measured at fair value. Unrealised gains or losses are recognised directly in the available-for-sale reserve until the financial asset is derecognised or impaired. When debt / (equity) available-for-sale financial assets are disposed of, the cumulative fair value adjustments in OCI are reclassified to interest income / (other revenue).

Interest income, calculated using the effective interest rate method, is recognised in profit or loss. Dividends received on available-for-sale instruments are recognised in profit or loss when the group's right to receive payment has been established.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than those classified by the group as at fair value through profit or loss or available-for-sale.

Loans and receivables are measured at amortised cost using the effective interest method, less any impairment losses. Origination transaction costs and origination fees received that are integral to the effective rate are capitalised to the value of the loan and amortised through interest income as part of the effective interest rate. The majority of the group's loans and advances are included in the loans and receivables category.

Financial liabilities at amortised cost

Financial liabilities that are neither held for trading nor designated at fair value are measured at amortised cost.

Reclassification of financial assets

The group may choose to reclassify non-derivative trading assets out of the held-for-trading category if the financial asset is no longer held for the purpose of selling it in the near term. Financial assets that would not otherwise have met the definition of loans and receivables are permitted to be reclassified out of the held-for-trading category only in rare circumstances. In addition, the group may choose to reclassify financial assets that would meet the definition of loans and receivables out of the held-for-trading or available-for-sale categories if the group, at the date of reclassification, has the intention and ability to hold these financial assets for the foreseeable future or until maturity.

Derivatives or any financial instrument designated at fair value through profit or loss shall not be reclassified out of their respective categories.

Reclassifications are made at fair value as of the reclassification date. Effective interest rates for financial assets reclassified to loans and receivables, held-to-maturity and available-for-sale categories are determined at the reclassification date.

On reclassification of a trading asset, all embedded derivatives are reassessed and, if necessary, accounted for separately.

Fair value

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value of financial instruments is generally measured on the basis of the individual financial instrument.

The group has elected the portfolio exception to measure the fair value of certain groups of financial assets and financial liabilities. This exception permits the group of financial assets and financial liabilities to be measured at fair value on a net basis. This election is applied where the group:

- manages the group of financial assets and financial liabilities on the basis of the group's net exposure to a particular market risk (or risks) or to the credit risk of a particular counterparty in accordance with the group's documented risk management or investment strategy;
- provides information on that basis about the group of financial

assets and financial liabilities to the group's key management personnel; and

- is required to or has elected to measure those financial assets and financial liabilities at fair value at the end of each reporting period.

The best evidence of the fair value of a financial instrument on initial recognition is the transaction price, that is, the fair value of the consideration paid or received, unless the fair value is evidenced either by comparison with other observable current market transactions in the same instrument, without modification or repackaging, or based on valuation techniques such as discounted cash flow models and option pricing models whose variables include only data from observable markets.

When such valuation models, with only observable market data as inputs, or the comparison with other observable current market transactions in the same instrument indicate that the fair value differs from the transaction price, this initial difference, commonly referred to as day one profit or loss, is recognised in profit or loss immediately. If non-observable market data is used as part of the input to the valuation models or where the fair value of the financial instrument is not able to be evidenced by comparison with other observable current market transactions in the same instrument the resulting difference between the transaction price and the model value is deferred. The timing of the recognition of deferred day one profit or loss is determined individually. It is either amortised over the life of the transaction, deferred until the instrument's fair value can be determined using market observable inputs, or realised through settlement, depending on the nature of the instrument and availability of market observable inputs.

Subsequent to initial recognition, the fair values of financial assets and liabilities are based on quoted market prices or dealer price quotations for financial instruments traded in active markets and where those quoted prices represent fair value at the measurement date. If the market for a financial asset is not active or the instrument is unlisted, the fair value is determined using other applicable valuation techniques. These include the use of recent arm's-length transactions, discounted cash flow analyses, pricing models and other valuation techniques commonly used by market participants.

Where discounted cash flow analyses are used, estimated future cash flows are based on management's best estimates and a market related discount rate at the reporting date for a financial asset or liability with similar terms and conditions.

Where the fair value of investments in unquoted equity instruments and derivatives that are linked to and must be settled by delivery of such unquoted equity instruments are unable to be reliably determined, those instruments are measured at cost less impairment losses. Impairment losses on these financial assets are not reversed.

Impairment of financial assets

Assets carried at amortised cost

The group assesses at each reporting date whether there is objective evidence that a loan or group of loans is impaired. A loan or group of loans is impaired if objective evidence indicates that a loss event has occurred after initial recognition which has a negative effect on the estimated future cash flows of the loan or group of loans that can be estimated reliably.

Criteria that are used by the group in determining whether there is objective evidence of impairment include:

- known cash flow difficulties experienced by the borrower;
- a breach of contract, such as default or delinquency in interest and/or principal payments;
- breaches of loan covenants or conditions;
- it becoming probable that the borrower will enter bankruptcy or other financial reorganisation; and
- where the group, for economic or legal reasons relating to the borrower's financial difficulty, grants the borrower a concession that the group would not otherwise consider.

The group first assesses whether there is objective evidence of impairment individually for loans that are individually significant, and individually or collectively for loans that are not individually significant. Non-performing loans include those loans for which the group has identified objective evidence of default, such as a breach of a material loan covenant or condition, as well as those loans for which instalments are due and unpaid for 90 days or more. The impairment of non-performing financial loans takes into account past loss experience adjusted for changes in economic conditions and the nature and level of risk exposure since the recording of the historic losses.

When a loan carried at amortised cost has been identified as specifically impaired, the carrying amount of the loan is reduced to an amount equal to the present value of its estimated future cash flows, including the recoverable amount of any collateral, discounted at the financial asset's original effective interest rate. The carrying amount of the loan is reduced through the use of a specific credit impairment account and the loss is recognised as a credit impairment charge in profit or loss.

The calculation of the present value of the estimated future cash flows of collateralised financial assets recognised on an amortised cost basis includes cash flows that may result from foreclosure less costs of obtaining and selling the collateral, whether or not foreclosure is probable.

If the group determines that no objective evidence of impairment exists for an individually assessed loan, whether significant or not, it includes the loan in a group of financial loans with similar credit risk characteristics and collectively assesses for impairment. Loans that are individually assessed for impairment and for which an impairment loss is recognised are not included in a collective assessment for impairment.

Impairment of groups of loans that are assessed collectively is recognised where there is objective evidence that a loss event has occurred after the initial recognition of the group of loans but before the reporting date. In order to provide for latent losses in a group of loans that have not yet been identified as specifically impaired, a credit impairment for incurred but not reported losses is recognised based on historic loss patterns and estimated emergence periods, being the time period between the loss trigger events and the date on which the group identifies the losses. Groups of loans are also impaired when adverse economic conditions develop after initial recognition which may impact future cash flows. The carrying amount of groups of loans is reduced through the use of a portfolio credit impairment account and the loss is recognised as a credit impairment charge in profit or loss.

Increases in loan impairments and any subsequent reversals thereof, or recoveries of amounts previously impaired (including loans that have been written off), are reflected within credit impairment charges in profit or loss. Previously impaired loans are written off

Significant accounting policies *continued*

once all reasonable attempts at collection have been made and there is no realistic prospect of recovering outstanding amounts. Any subsequent reductions in amounts previously impaired are reversed by adjusting the allowance account with the amount of the reversal recognised as a reduction in credit impairment losses in profit or loss.

Subsequent to impairment, the effects of discounting unwind over time as interest income.

Renegotiated loans

Loans that would otherwise be past due or impaired and whose terms have been renegotiated and exhibit the characteristics of a performing loan are reset to performing loan status. Loans whose terms have been renegotiated are subject to ongoing review to determine whether they are considered to be impaired or past due.

The effective interest rate of renegotiated loans that have not been derecognised (described under the heading 'Derecognition of financial instruments'), is redetermined based on the loan's renegotiated terms.

Available-for-sale financial assets

Available-for-sale financial assets are impaired if there is objective evidence of impairment, resulting from one or more loss events that occurred after initial recognition but before the reporting date, that have a negative impact on the future cash flows of the asset. In addition, an available-for-sale equity instrument is considered to be impaired if a significant or prolonged decline in the fair value of the instrument below its cost has occurred. In that instance, the cumulative loss, measured as the difference between the acquisition price and the current fair value, less any previously recognised impairment losses on that financial asset, is reclassified from OCI to profit or loss.

If, in a subsequent period, the amount relating to an impairment loss decreases and the decrease can be linked objectively to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed through profit or loss for available-for-sale debt instruments. Any reversal of an impairment loss in respect of an available-for-sale equity instrument is recognised directly in OCI.

Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to set-off the recognised amounts and there is an intention to settle the asset and the liability on a net basis, or to realise the asset and settle the liability simultaneously.

Income and expenses are presented on a net basis only when permitted by the accounting standards, or for gains and losses arising from a group of similar transactions.

Derivative financial instruments and hedge accounting

A derivative is a financial instrument whose value changes in response to an underlying variable, requires no initial net investment or an initial net investment that is smaller than would be required for other types of contracts that would be expected to have a similar response to changes in market factors, and is settled at a future date. Derivatives are initially recognised at fair value on the date on which the derivatives are entered into and subsequently remeasured at fair value as described under the fair value policy above.

All derivative instruments are carried as financial assets when the fair value is positive and as financial liabilities when the fair value is negative, subject to offsetting principles as described under the heading 'Offsetting financial instruments'.

Embedded derivatives included in hybrid instruments are treated and disclosed as separate derivatives when their economic characteristics and risks are not closely related to those of the host contract, the terms of the embedded derivative are the same as those of a stand-alone derivative and the combined contract is not measured at fair value through profit or loss. The financial host contracts are accounted for and measured applying the rules of the relevant financial instrument category.

The method of recognising fair value gains and losses depends on whether the derivatives are designated as hedging instruments, and if so, the nature of the hedge relationship, or if they are classified as held-for-trading.

Derivatives that qualify for hedge accounting

When derivatives are designated in a hedge relationship, the group designates them as either:

- hedges of the fair value of recognised financial assets or liabilities or firm commitments (fair value hedges); or
- hedges of highly probable future cash flows attributable to a recognised asset or liability, a forecast transaction, or a highly probable forecast intragroup transaction in the consolidated annual financial statements (cash flow hedges).

Hedge accounting is applied to derivatives designated in this way provided certain criteria are met. The group documents, at the inception of the hedge relationship, the relationship between hedged items and hedging instruments, as well as its risk management objective and strategy for undertaking various hedging relationships. The group also documents its assessment, both at the inception of the hedge and on an ongoing basis, of whether the hedging instruments are highly effective in offsetting changes in fair values or cash flows of hedged items.

Fair value hedges

Where a hedging relationship is designated as a fair value hedge, the hedged item is adjusted for the change in fair value in respect of the risk being hedged. Gains or losses on the remeasurement of both the derivative and the hedged item are recognised in profit or loss. Fair value adjustments relating to the hedging instrument are allocated to the same line item in profit or loss as the related hedged item. Any hedge ineffectiveness is recognised in profit or loss as trading revenue.

If the derivative expires, is sold, terminated, exercised, no longer meets the criteria for fair value hedge accounting, or the designation is revoked, then hedge accounting is discontinued. The adjustment to the carrying amount of a hedged item measured at amortised cost, for which the effective interest method is used, is amortised to profit or loss as part of the hedged item's recalculated effective interest rate over the period to maturity.

Cash flow hedges

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in the cash flow hedging reserve. The ineffective part of any changes in fair value is recognised immediately in profit or loss as trading revenue.

Amounts recognised in OCI are transferred to profit or loss in the periods in which the hedged forecast cash flows affect profit or loss.

However, when the forecast transaction that is hedged results in the recognition of a non-financial asset or a non-financial liability, the cumulative gains or losses recognised previously in OCI are transferred and included in the initial measurement of the cost of the asset or liability.

If the derivative expires, is sold, terminated, exercised, no longer meets the criteria for cash flow hedge accounting, or the designation is revoked, then hedge accounting is discontinued. The cumulative gains or losses recognised in OCI remain in OCI until the forecast transaction is recognised in the case of a non-financial asset or a non-financial liability, or until the forecast transaction affects profit or loss in the case of a financial asset or a financial liability. If the forecast transaction is no longer expected to occur, the cumulative gains and losses recognised in OCI are immediately reclassified to profit or loss and classified as trading revenue.

Derivatives that do not qualify for hedge accounting

All gains and losses from changes in the fair values of derivatives that do not qualify for hedge accounting are recognised immediately in profit or loss as trading revenue.

Borrowings

Borrowings, including subordinated debt, are recognised initially at fair value, generally being their issue proceeds, net of directly attributable transaction costs incurred. Borrowings are subsequently measured at amortised cost and interest is recognised using the effective interest method.

Financial guarantee contracts

A financial guarantee contract is a contract that requires the group (issuer) to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument.

Financial guarantee contracts are initially recognised at fair value, which is generally equal to the premium received, and then amortised over the life of the financial guarantee. Subsequent to initial recognition, the financial guarantee liability is measured at the higher of the present value of any expected payment, when a payment under the guarantee has become probable, and the unamortised premium.

Derecognition of financial instruments

Financial assets are derecognised when the contractual rights to receive cash flows from the financial assets have expired, or where the group has transferred its contractual rights to receive cash flows on the financial asset such that it has transferred substantially all the risks and rewards of ownership of the financial asset. Any interest in transferred financial assets that is created or retained by the group is recognised as a separate asset or liability.

The group enters into transactions whereby it transfers assets recognised in its balance sheet, but retains either all or a portion of the risks or rewards of the transferred assets. If all or substantially all risks and rewards are retained, then the transferred assets are not derecognised. Transfers of assets with the retention of all or substantially all risks and rewards include securities lending and repurchase agreements.

When assets are sold to a third party with a concurrent total rate of return swap on the transferred assets, the transaction is accounted for as a secured financing transaction, similar to repurchase transactions. In transactions where the group neither retains nor transfers substantially all the risks and rewards of ownership of a financial asset, it derecognises the asset if control over the asset is lost. The rights and obligations retained in the transfer are recognised separately as assets and liabilities as appropriate. In transfers where control over the asset is retained, the group continues to recognise the asset to the extent of its continuing involvement, determined by the extent to which it is exposed to changes in the value of the transferred asset.

Financial liabilities are derecognised when they are extinguished, that is, when the obligation is discharged, cancelled or expires.

Where an existing financial asset or liability is replaced by another with the same counterparty on substantially different terms, or the terms of an existing financial asset or liability are substantially modified, such an exchange or modification is treated as a derecognition of the original asset or liability and the recognition of a new asset or liability, with the difference in the respective carrying amounts being recognised in profit or loss.

In all other instances, the renegotiated asset or liability's effective interest rate is redetermined by taking into account the renegotiated terms.

Sale and repurchase agreements and lending of securities (including commodities)

Securities sold subject to linked repurchase agreements are reclassified in the balance sheet as pledged assets when the transferee has the right by contract or custom to sell or repledge the collateral. The liability to the counterparty is included under deposit and current accounts or trading liabilities, as appropriate.

Securities purchased under agreements to resell, at either a fixed price or the purchase price plus a lender's rate of return, are recorded as loans granted under resale agreements and included under trading assets or loans and advances, as appropriate. The difference between the purchase and sales price is treated as interest and amortised over the life of the reverse repurchase agreement using the effective interest method.

Securities lent to counterparties are retained in the annual financial statements and are classified and measured in accordance with the measurement policy above. Securities borrowed are not recognised in the annual financial statements unless sold to third parties. In these cases, the obligation to return the securities borrowed is recorded at fair value as a trading liability.

Income and expenses arising from the securities borrowing and lending business are recognised over the period of the transactions.

Commodities

Commodities that are acquired principally by the group for the purpose of selling in the near future and generating a profit from fluctuations in price or broker-traders' margin are measured at fair value less cost to sell and are reported as trading assets. All changes in fair value less cost to sell are recognised in trading revenue in the period of the change.

Forward contracts to purchase or sell commodities, where net settlement occurs or where physical delivery occurs and the commodities are held to settle another derivative contract, are recognised as derivative financial instruments and measured at fair value. All changes in fair value are recognised in trading revenue in the period of the change.

Significant accounting policies *continued*

6 Intangible assets

Computer software

Costs associated with developing or maintaining computer software programmes and the acquisition of software licences are generally recognised as an expense as incurred. However, direct computer software development costs that are clearly associated with an identifiable and unique system, which will be controlled by the group and have a probable future economic benefit beyond one year are recognised as intangible assets. Capitalisation is further limited to development costs where the group is able to demonstrate its intention and ability to complete and use the software, the technical feasibility of the development, the availability of resources to complete the development, how the development will generate probable future economic benefits and the ability to reliably measure costs relating to the development. Direct costs include software development employee costs and an appropriate portion of relevant overheads.

Expenditure subsequently incurred on computer software is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates.

Direct computer software development costs recognised as intangible assets are amortised on the straight-line basis at rates appropriate to the expected useful lives of the assets (2 to 10 years) from the date that the assets are available for use, and are carried at cost less accumulated amortisation and accumulated impairment losses. The carrying amount of capitalised computer software is reviewed annually and is written down when impaired.

Amortisation methods, useful lives and residual values are reviewed at each financial year-end and adjusted, if necessary. There have been no changes in the estimated useful lives from those applied in the previous financial year.

7 Property and equipment

Equipment, furniture, vehicles and other tangible assets are measured at cost less accumulated depreciation and accumulated impairment losses. Cost includes expenditure that is directly attributable to the acquisition of the asset. Where significant parts of an item of property or equipment have different useful lives, they are accounted for as separate items (major components) of property and equipment.

Costs that are subsequently incurred are included in the asset's related carrying amount or are recognised as a separate asset, as appropriate, only when it is probable that future economic benefits will flow to the group and the cost of the item can be measured reliably. Expenditure, which does not meet these criteria, is recognised in profit or loss as incurred. Depreciation, impairment losses and gains and losses on disposal of assets are included in profit or loss.

Property and equipment are depreciated on the straight-line basis over the estimated useful lives of the assets to their residual values. The assets' residual values, useful lives and the depreciation method applied are reviewed, and adjusted if appropriate, at each financial year end.

The estimated useful lives of tangible assets are typically as follows:

Computer equipment	2 to 5 years
Office equipment	5 to 7 years
Motor vehicles	5 years
Furniture and fittings	5 to 7 years

There has been no change to the estimated useful lives and depreciation methods from those applied in the previous financial year.

Items of property and equipment are derecognised on disposal or when no future economic benefits are expected from their use or disposal. The gain or loss on derecognition is recognised in profit or loss and is determined as the difference between the net disposal proceeds and the carrying amount of the item.

8 Capitalisation of borrowing costs

Borrowing costs that relate to qualifying assets, that is, assets that necessarily take a substantial period of time to get ready for their intended use or sale and which are not measured at fair value, are capitalised. All other borrowing costs are recognised in profit or loss.

9 Impairment of non-financial assets

Intangible assets that have an indefinite useful life are tested annually for impairment and additionally when an indicator of impairment exists. Intangible assets that are subject to amortisation and other non-financial assets are reviewed for impairment at each reporting date and tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

An impairment loss is recognised in profit or loss for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. Fair value less costs to sell is determined by ascertaining the current market value of an asset and deducting any costs related to the realisation of the asset. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For the purposes of assessing impairment, assets that cannot be tested individually are grouped at the lowest levels for which there are separately identifiable cash inflows from continuing use (cash-generating units). Impairment losses recognised in respect of cash-generating units reduce the carrying amounts of the other assets in the unit on a pro rata basis.

In respect of other non-financial assets, impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed through profit or loss only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

10 Leases

A lease is an agreement whereby the lessor conveys to the lessee in return for a payment or series of payments the right to use an asset for an agreed period of time. A lease of assets is either classified as a finance lease or operating lease. Lease of assets under which the group transfers substantially all the risks and rewards incidental to ownership of the assets are classified as finance leases. Similarly, leases of assets under which the group retains a significant portion of the risks and rewards of ownership are classified as operating leases.

Group as lessee

Leases where the group assumes substantially all the risks and rewards of ownership are classified as finance leases. All other leases are classified as operating leases. Finance leases are capitalised at the inception of the lease at the lower of the fair value of the leased asset and the present value of the minimum lease payments. Lease payments are separated using the interest rate implicit in the lease to identify the finance cost, which is recognised in profit or loss over the lease period, and the capital repayment, which reduces the liability to the lessor.

Leases of assets are classified as operating leases if the lessor retains a significant portion of the risks and rewards of ownership. Payments made under operating leases, net of any incentives received from the lessor, are recognised in profit or loss on a straight-line basis over the term of the lease. Contingent rentals are expensed as they are incurred. When an operating lease is terminated before the lease period has expired, any payment required to be made to the lessor by way of penalty is recognised as an expense in the period in which termination takes place.

11 Provisions, contingent assets and contingent liabilities

Provisions are recognised when the group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate of the amount of the obligation can be made. Provisions are determined by discounting the expected future cash flows using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the liability.

A provision for restructuring is recognised when the group has approved a detailed formal plan, and the restructuring either has commenced or has been announced publicly. Future operating costs or losses are not provided for.

A provision for onerous contracts is recognised when the expected benefits to be derived by the group from a contract are lower than the unavoidable cost of meeting its obligations under the contract. The provision is measured at the present value of the lower of the expected cost of terminating the contract and the expected net cost of continuing with the contract. Before a provision is established, the group recognises any impairment loss on the assets associated with that contract.

Contingent assets are not recognised in the annual financial statements but are disclosed when, as a result of past events, it is probable that economic benefits will flow to the group, but this will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events which are not wholly within the group's control.

Contingent liabilities include certain guarantees, other than financial guarantees, and letters of credit. Contingent liabilities are not recognised in the annual financial statements but are disclosed in the notes to the annual financial statements unless they are remote.

12 Tax

Direct taxation

Direct taxation includes current and deferred tax. Current tax and deferred tax are recognised in profit or loss except to the extent that it relates to items recognised directly in equity or in OCI.

Current tax represents the expected tax payable on taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustments to tax payable in respect of previous years.

Deferred tax is recognised in respect of temporary differences arising between the tax bases of assets and liabilities and their carrying values for financial reporting purposes. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted at the reporting date. Deferred tax is not recognised for the following temporary differences:

- the initial recognition of assets and liabilities in a transaction that is not a business combination, which affects neither accounting nor taxable profits or losses; and
- investments in subsidiaries and jointly controlled entities (excluding mutual funds) where the group controls the timing of the reversal of temporary differences and it is probable that these differences will not reverse in the foreseeable future.

The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of the asset or liability and is not discounted. Deferred tax assets are recognised to the extent that it is probable that future taxable income will be available against which the unused tax losses and other temporary differences can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Current and deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously.

Indirect taxation

Indirect taxes, including non-recoverable value added tax (VAT) and other duties for banking activities, are recognised in profit or loss and disclosed separately in the income statement.

Significant accounting policies *continued*

13 Employee benefits

Post-employment benefits - defined contribution plans

The group operates a number of defined contribution plans, based on a percentage of pensionable earnings funded by both employer companies and employees, the assets of which are generally held in separate trustee-administered funds.

Contributions to these plans are recognised as an expense in profit or loss in the periods during which services are rendered by employees.

Termination benefits

Termination benefits are recognised as an expense when the group is committed, without realistic possibility of withdrawal, to a formal detailed plan to terminate employment before the normal retirement date, or to provide termination benefits as a result of an offer made to encourage voluntary redundancy. Termination benefits for voluntary redundancies are recognised as an expense if the group has made an offer encouraging voluntary redundancy, it is probable that the offer will be accepted, and the number of acceptances can be estimated reliably.

Short-term benefits

Short-term benefits consist of salaries, accumulated leave payments, profit share, bonuses and any non-monetary benefits such as medical aid contributions. Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided.

A liability is recognised for the amount expected to be paid under short-term cash bonus plans or accumulated leave if the group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

14 Long-term incentive schemes

The group operates both cash-settled and equity-settled share-based compensation plans.

Quanto stock unit plan

The Standard Bank Quanto stock unit plan awards a number of Quanto stock units denominated in US$ and is a cash-settled, deferred incentive scheme. The value is based on the Standard Bank Group Limited (SBG) share price and moves in parallel to the change in price of the SBG shares listed on the Johannesburg Stock Exchange. The awards, which are granted following remuneration committee approval subsequent to year end, vest over a three year period dependent on the employee being in service for the period and are accrued from the award date over the vesting period. The scheme provides for an incremental amount to be paid, accrued from the award date over the vesting period, if the employee is in service for four years. The amount of the accrued liability is re-measured at the end of each reporting period, taking into account assumptions about leavers. The changes in liability are accounted for through profit or loss over the life of the Quanto stock units. The changes in the liability arising from share price movements have been hedged, applying cash flow hedging principles.

SBG equity scheme

The SBG equity-settled share-based compensation plan awards options over the Standard Bank Group Limited shares. At the end of each reporting date, the estimate of the number of options expected to vest is reassessed and adjusted against profit or loss over the vesting period of the share options, with a corresponding increase in reserves, as the obligation to employees is settled by Standard Bank Group. Non-market vesting conditions are not considered in the valuation but are included in the estimate of the number of options expected to vest.

15 Revenue and expenditure

Revenue described below represent the most appropriate equivalent of turnover and is derived substantially from the business of banking and related activities.

Net interest income

Interest income and expense (with the exception of those borrowing costs that are capitalised – refer to accounting policy 8 – 'Capitalisation of borrowing costs') are recognised in profit or loss on an accrual basis using the effective interest method for all interest-bearing financial instruments, except for those classified at fair value through profit or loss. In terms of the effective interest method, interest is recognised at a rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, where appropriate, a shorter period, to the net carrying amount of the financial asset or financial liability. Direct incremental transaction costs incurred and origination fees received, including loan commitment fees, as a result of bringing margin-yielding assets or liabilities into the balance sheet, are capitalised to the carrying amount of financial instruments that are not at fair value through profit or loss and amortised as interest income or expense over the life of the asset or liability as part of the effective interest rate.

Where the estimates of payments or receipts on financial assets (except those that have been reclassified - refer to accounting policy 5 - 'Financial instruments') or financial liabilities are subsequently revised, the carrying amount of the financial asset or financial liability is adjusted to reflect actual and revised estimated cash flows. The carrying amount is calculated by computing the present value of the estimated cash flows at the financial asset or financial liability's original effective interest rate. Any adjustment to the carrying value is recognised in net interest income.

Where financial assets have been impaired, interest income continues to be recognised on the impaired value based on the original effective interest rate.

Fair value gains and losses on realised debt financial instruments, excluding those classified as held-for-trading, are included in net interest income.

Non-interest revenue

Net fees, commission and revenue sharing arrangements

Fee and commission revenue, including transactional fees, account servicing fees, investment management fees, sales commissions and placement fees are recognised as the related services are performed. Loan commitment fees for loans that are not expected to be drawn down are recognised on a straight-line basis over the commitment period. Loan syndication fees, where the group does not participate in the syndication or participates at the same effective interest rate for comparable risk as other participants, are recognised as revenue when the syndication has been completed. Syndication fees that do not

meet these criteria are capitalised as origination fees and amortised as interest income.

The fair value of issued financial guarantee contracts on initial recognition is amortised as income over the term of the contract.

Fee and commission expenses included in net fee and commission revenue are mainly transaction and service fees relating to financial instruments, which are expensed as the services are received. Expenditure is recognised as fee and commission expenses where the expenditure is linked to the production of fee and commission revenue.

Trading revenue

Trading revenue comprises all gains and losses from changes in the fair value of trading assets and liabilities, together with related interest income, expense and dividends.

Other revenue

Other revenue includes gains and losses on equity instruments designated at fair value through profit or loss and dividends relating to those financial instruments.

Gains and losses on equity available-for-sale financial assets are reclassified from OCI to profit or loss on derecognition or impairment of the investments. Dividends on these instruments are recognised in profit or loss.

Dividend income

Dividends are recognised in profit or loss when the right to receipt is established. Scrip dividends are recognised as dividends received where the dividend declaration allows for a cash alternative.

16 Assets held for sale to group companies and discontinued operations

Assets that are expected to be recovered primarily through sale rather than continuing use, are classified as held for sale.

Immediately before classification as held for sale, the assets are remeasured in accordance with the group's accounting policies and tested for impairment (refer to accounting policy 9 – 'Impairment of non-financial assets'). Thereafter, the assets are measured at the lower of their carrying amount and fair value less costs to sell. Impairment losses on initial classification as held for sale and subsequent gains and losses on remeasurement are recognised in profit or loss. Assets are presented separately in the balance sheet.

Property and equipment and intangible assets, once classified as held for sale, are not depreciated or amortised.

The group classifies a component of the business as a discontinued operation when that component has been disposed of, or is classified as held for sale, and:

- represents a separate major line of business or geographical area of operations, or
- is part of a single coordinated plan to dispose of a separate major line of business or geographical area of operations.

The results of discontinued operations are shown as a single amount in the income statement comprising the post-tax profit or loss.

17 Segment reporting

An operating segment is a component of the group engaged in business activities, whose operating results are reviewed regularly by management in order to make decisions about resources to be allocated to segments and assessing segment performance. The group's identification of segments and the measurement of segment results are based on the group's internal reporting to management. Transactions between segments are priced at market-related rates.

18 Fiduciary activities (client money)

The group commonly engages in trust or other fiduciary activities that result in the holding or placing of assets on behalf of individuals, trusts, post-employment benefit plans and other institutions. These assets and the income arising directly thereon are excluded from these annual financial statements as they are not assets of the group. However, fee income earned and fee expenses incurred by the group relating to the group's responsibilities from fiduciary activities are recognised in profit or loss.

19 Comparative figures

Where necessary, comparative figures within notes have been restated to conform to changes in presentation in the current year.

Significant accounting policies *continued*

20 New standards and interpretations not yet adopted

The following new or revised standards and amendments are not yet effective for the year ended 31 December 2013 and have not been applied in preparing these annual financial statements.

Pronouncement	Title	Effective date
IFRS 9 *(amended)*	**Financial Instruments** IFRS 9 will replace the existing standard on the recognition and measurement of financial instruments and requires all financial assets to be classified and measured on the basis of the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets. The accounting for financial assets differs in various other areas to existing requirements such as embedded derivatives and the recognition of fair value adjustments in other comprehensive income. All changes in the fair value of financial liabilities that are designated at fair value through profit or loss due to changes in own credit risk will be required to be recognised within other comprehensive income. IFRS 9 will be applied retrospectively. The impact on the annual financial statements has not yet been fully determined.	(Standard not yet endorsed by the EU)
IAS 32 *(amendments)*	**Offsetting Financial Assets and Financial Liabilities** The amendments to IAS 32 clarify the requirements for offsetting of financial assets and liabilities. The amendments will be applied retrospectively. The impact on the annual financial statements has not yet been fully determined.	Annual periods beginning on or after 1 January 2014

Notes to the annual financial statements

1 Segment reporting

The ultimate parent, SBG, is a leading African banking group focused on Africa and connecting selected emerging markets to Africa, particularly in the natural resources sector. Its operations are organised on the basis of products and services with the banking operations divided into two major segments, Personal & Business Banking (PBB) and Corporate & Investment Banking (CIB). The CIB segment provides banking, finance, trading, investment, risk management and advisory services to larger corporates, financial institutions and international counterparties in selected developing economies around the world. SB Plc is the major operating entity of the SBG's CIB business outside of Africa.

As described in note 29, SBG announced in November 2013 its intention to sell a majority interest in SB Plc, the principal entity which houses the Global Markets business outside Africa. Other activities performed in SB Plc, comprising Investment Banking, Transactional Products and Services, Corporate Banking and the Service Unit, are not part of the transaction and will be transferred to SBG entities. As a result of these developments, the operating segments are shown under continuing and discontinued operations as appropriate. Comparative figures have been reclassified accordingly.

Operating segments – continuing operations	
Global Markets (GM)	Includes foreign exchange, commodities, interest rate, credit and equity trading business as well as client financing and money market funding units.
Other	Includes costs incurred in the corporate restructuring activities of SB Plc's continuing operations.
Operating segments – discontinued operations	
Investment Banking (IB)	Commercial and investment banking services to corporates and financial institutions including investment and advisory business, structured trade and commodity finance and loan syndications.
Transactional Products and Services (TPS)	Includes transactional banking and investor services.
Service Unit (SU)	Service Unit is a division that provides an employment function for the wider Standard Bank Group, allowing personnel to be employed in London to provide services to Standard Bank Group entities.
Principal Investment Management (PIM) & Private Client Services (PCS)	The PIM and PCS business units were discontinued during the course of 2010 through resolution by the Board. No further investments were made in these businesses and focus remains on selling down positions, collections and collateral sales.
Other	Includes costs incurred in the corporate restructuring activities of SB Plc's discontinued operations.

Notes to the annual financial statements *continued*

1 Segment reporting continued

	Continuing operations			Discontinued operations					
2013 Segment results	**GM $m**	**Other $m**	**Total $m**	**IB $m**	**TPS $m**	**SU $m**	**PIM & PCS $m**	**Other $m**	**Total $m**
Net interest income / (expense)	**0.6**	**-**	**0.6**	**(9.5)**	**3.1**	**-**	**(0.9)**	**-**	**(7.3)**
Net fees, commission and revenue sharing arrangements	**(26.0)**	**-**	**(26.0)**	**134.6**	**5.6**	**83.2**	**(14.1)**	**-**	**209.3**
Trading revenue / (losses)	**242.1**	**-**	**242.1**	**(0.7)**	**-**	**-**	**(2.5)**	**-**	**(3.2)**
Other revenue	**-**	**-**	**-**	**0.3**	**-**	**-**	**(0.6)**	**-**	**(0.3)**
Total revenue / (losses)	**216.7**	**-**	**216.7**	**124.7**	**8.7**	**83.2**	**(18.1)**	**-**	**198.5**
Credit impairment (charges) / recoveries	**(6.3)**	**-**	**(6.3)**	**27.1**	**-**	**-**	**(0.4)**	**-**	**26.7**
Revenue / (loss) after impairments	**210.4**	**-**	**210.4**	**151.8**	**8.7**	**83.2**	**(18.5)**	**-**	**225.2**
Operating expenses	**(246.0)**	**-**	**(246.0)**	**(105.6)**	**(11.3)**	**(75.8)**	**(4.3)**	**-**	**(197.0)**
(Loss) / profit before taxation	**(35.6)**	**-**	**(35.6)**	**46.2**	**(2.6)**	**7.4**	**(22.8)**	**-**	**28.2**
Income tax charge	**(4.2)**	**-**	**(4.2)**	**(0.1)**	**-**	**-**	**(0.4)**	**-**	**(0.5)**
(Loss) / profit attributable to equity shareholders	**(39.8)**	**-**	**(39.8)**	**46.1**	**(2.6)**	**7.4**	**(23.2)**	**-**	**27.7**
Included in operating expenses:									
Depreciation	**(7.4)**	**-**	**(7.4)**	**(1.0)**	**(0.1)**	**-**	**-**	**-**	**(1.1)**
Amortisation of intangible assets	**(13.6)**	**-**	**(13.6)**	**(1.9)**	**(0.1)**	**-**	**-**	**-**	**(2.0)**

	Continuing operations			Discontinued operations					
2012 Segment results	**GM $m**	**Other $m**	**Total $m**	**IB $m**	**TPS $m**	**SU $m**	**PIM & PCS $m**	**Other $m**	**Total $m**
Net interest income / (expense)	5.9	-	5.9	47.6	5.7	-	(2.0)	-	51.3
Net fees, commission and revenue sharing arrangements	(73.3)	-	(73.3)	158.8	13.4	90.6	(1.0)	-	261.8
Trading revenue / (losses)	247.9	-	247.9	5.4	-	-	(20.1)	-	(14.7)
Other revenue	43.7	-	43.7	35.1	-	-	2.4	-	37.5
Total revenue / (losses)	224.2	-	224.2	246.9	19.1	90.6	(20.7)	-	335.9
Credit impairment charges	(10.5)	-	(10.5)	(131.7)	-	-	(0.3)	-	(132.0)
Revenue / (loss) after impairments	213.7	-	213.7	115.2	19.1	90.6	(21.0)	-	203.9
Operating expenses	(326.9)	(63.6)	(390.5)	(151.1)	(6.9)	(88.6)	(3.8)	(25.0)	(275.4)
(Loss) / profit before disposal of loan portfolio	(113.2)	(63.6)	(176.8)	(35.9)	12.2	2.0	(24.8)	(25.0)	(71.5)
Loss on disposal of loan portfolio	-	-	-	(51.8)	-	-	-	-	(51.8)
(Loss) / profit before taxation	(113.2)	(63.6)	(176.8)	(87.7)	12.2	2.0	(24.8)	(25.0)	(123.3)
Income tax charge	(1.9)	-	(1.9)	(0.4)	-	-	(30.0)	-	(30.4)
(Loss) / profit attributable to equity shareholders	(115.1)	(63.6)	(178.7)	(88.1)	12.2	2.0	(54.8)	(25.0)	(153.7)
Included in operating expenses:									
Depreciation	(9.1)	-	(9.1)	(1.3)	(0.1)	-	-	-	(1.4)
Amortisation of intangible assets	(22.8)	-	(22.8)	(3.3)	(0.2)	-	-	-	(3.5)

1 Segment reporting continued

2013 Segment balance sheet	**GM $m**	**IB $m**	**TPS $m**	**Service Unit $m**	**PIM & PCS $m**	**Held for sale $m**	**Total $m**
Assets							
Balances with central banks	**1 343.8**	**-**	**-**	**-**	**-**	**-**	**1 343.8**
Derivative assets	**4 071.1**	**-**	**-**	**-**	**12.3**	**(12.3)**	**4 071.1**
Trading assets	**5 846.6**	**1.0**	**-**	**-**	**1.2**	**(2.2)**	**5 846.6**
Financial investments	**2.8**	**-**	**-**	**-**	**22.9**	**(22.9)**	**2.8**
Pledged assets	**623.3**	**-**	**-**	**-**	**-**	**-**	**623.3**
Loans and advances	**5 778.4**	**89.8**	**338.4**	**-**	**16.7**	**(444.9)**	**5 778.4**
Other assets	**352.6**	**-**	**0.6**	**-**	**1.6**	**(2.2)**	**352.6**
Tax asset	**20.7**	**-**	**-**	**-**	**-**	**-**	**20.7**
Intangible assets	**32.3**	**-**	**-**	**-**	**-**	**-**	**32.3**
Property and equipment	**22.8**	**-**	**-**	**-**	**0.1**	**(0.1)**	**22.8**
Assets held for sale to group companies	**-**	**-**	**-**	**-**	**-**	**484.6**	**484.6**
Total assets	**18 094.4**	**90.8**	**339.0**	**-**	**54.8**	**-**	**18 579.0**
Liabilities[1]							
Derivative liabilities	**4 049.8**	**-**	**-**	**-**	**-**	**-**	**4 049.8**
Trading liabilities	**1 713.0**	**-**	**-**	**-**	**-**	**-**	**1 713.0**
Deposit accounts and funding	**10 228.2**	**90.8**	**339.0**	**-**	**51.7**	**-**	**10 709.7**
Tax liability	**5.1**	**-**	**-**	**-**	**3.1**	**-**	**8.2**
Subordinated debt	**709.8**	**-**	**-**	**-**	**-**	**-**	**709.8**
Total liabilities	**16 705.9**	**90.8**	**339.0**	**-**	**54.8**	**-**	**17 190.5**

[1] No liabilities were reclassified as held for sale as all liabilities will remain with the legal entity following the conclusion of the transaction described in note 2.1.

2012 Segment balance sheet	**GM $m**	**IB $m**	**TPS $m**	**Service Unit $m**	**PIM & PCS $m**	**Held for sale $m**	**Total $m**
Assets							
Balances with central banks	2 228.2	-	-	-	-	-	2 228.2
Derivative assets	4 799.5	0.3	-	-	13.1	-	4 812.9
Trading assets	6 831.2	8.5	-	-	8.4	-	6 848.1
Financial investments	7.0	-	-	-	29.8	-	36.8
Pledged assets	503.7	-	-	-	-	-	503.7
Loans and advances	5 553.7	294.3	265.3	-	47.5	-	6 160.8
Other assets	380.6	1.1	1.3	-	21.8	-	404.8
Tax asset	20.0	-	-	-	-	-	20.0
Intangible assets	47.9	-	-	-	-	-	47.9
Property and equipment	27.6	-	-	-	0.2	-	27.8
Total assets	20 399.4	304.2	266.6	-	120.8	-	21 091.0
Liabilities							
Derivative liabilities	5 252.8	-	-	-	1.7	-	5 254.5
Trading liabilities	2 270.7	3.3	-	-	0.3	-	2 274.3
Deposit accounts and funding	10 453.0	300.9	266.6	-	114.7	-	11 135.2
Tax liability	3.0	-	-	-	4.1	-	7.1
Subordinated debt	1 045.3	-	-	-	-	-	1 045.3
Total liabilities	19 024.8	304.2	266.6	-	120.8	-	19 716.4

Notes to the annual financial statements *continued*

1 Segment reporting continued

Geographical analysis

The geographical analysis has been compiled on the basis of location of office where the transactions are recorded.

	United Kingdom		Outside the United Kingdom		Total	
	2013 $m	2012 $m	**2013 $m**	2012 $m	**2013 $m**	2012 $m
Total revenue	**405.0**	492.2	**10.2**	67.9	**415.2**	560.1
- Continuing operations	**209.0**	166.3	**7.7**	57.9	**216.7**	224.2
- Discontinued operations	**196.0**	325.9	**2.5**	10.0	**198.5**	335.9
Non-current non-financial assets	**53.3**	73.4	**1.8**	2.3	**55.1**	75.7

No countries outside the United Kingdom are deemed to be individually material. There has been no reliance on any major external customers and no individual customer makes up a material portion of the revenue streams.

2 Key management assumptions

In preparing the consolidated and company financial statements, estimates and judgements are made that could affect the reported amounts of assets and liabilities within the next reporting period. Estimates and judgements are continually evaluated and are based on factors such as historical experience and current best estimates of uncertain future events that are believed to be reasonable under the circumstances.

2.1 Discontinued operations and assets held for sale to group companies

On 8 November 2013, SBG announced the intention to sell a majority interest in SB Plc, the principal entity which houses the Global Markets business outside Africa. On 29 January 2014, Standard Bank London Holdings Limited (SBLH) entered into a sale and purchase agreement (SPA) with ICBC in terms of which ICBC will acquire a 60% interest in SBG's London-based Global Markets business, which will facilitate the establishment of a partnership in Global Markets between China and Africa's largest banks. The implementation of the proposed transaction is subject to the fulfilment of a number of conditions precedent which includes regulatory and SBG shareholders' approvals.

In order to achieve this, SBG will remove from SB Plc all activities that it currently performs and any previously discontinued activities and legacy assets which do not form part of the outside Africa Global Markets business. These activities include Investment Banking, Transactional Products and Services, Principal Investment Management, and the Services Unit, which provides key skills and services to SBG (together, the 'excluded business'). The successor entities into which the excluded business will be moved will require appropriate regulatory approvals, so that these activities can be continued, as they remain a critical part of SBG's overall competitive positioning in Africa.

Held for sale classification

The assets held by the excluded businesses are available for immediate sale subject only to terms that are usual and customary for such a sale. The SPA includes the transfer of these businesses as a condition precedent and makes provision for transfer of economic risk where asset transfer is not possible. The intended disposal is considered highly probable and resulted in SB Plc classifying the excluded businesses as a disposal group held for sale with assets disclosed separately in the balance sheet as 'assets held for sale to group companies'. The assets will be transferred to SBG companies and the consideration to be received on the sale of these assets is not expected to be lower than carrying value.

Discontinued operations

The excluded businesses represent major lines of business and comprise complete operating segments of SB Plc. Management consider it appropriate to classify these business segments as discontinued operations whereby its results are reported in a separate line in the income statement.

Additional disclosures are set out in notes 8 and 29.

2.2 Taxation

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

Deferred tax assets

The accounting policy for the recognition of deferred tax assets is described in accounting policy 12. A deferred tax asset is recognised to the extent that it is probable that suitable future taxable profits will be available against which deductible temporary differences can be utilised. The recognition of a deferred tax asset relies on management's judgements surrounding the probability and sufficiency of suitable future taxable profits, future reversals of existing taxable temporary differences and planning strategies.

The deferred tax asset recognised is based on the evidence available about conditions at the reporting date, and requires significant judgements to be made by management, especially those based on management's projections of business revenues. Management's judgement takes into account the impact of both negative and positive evidence, including historical financial results and projections

2 Key management assumptions continued

of future taxable income, on which the recognition of the deferred tax asset is mainly dependent.

Losses suffered in recent years created uncertainty over the recoverability of SB Plc's deferred tax balances and as a result deferred tax assets of US$77.4 million (2012: US$96.4 million) have not been recognised in respect of unutilised trading losses carried forward and other temporary differences. As disclosed in 2.1, ICBC has entered into a SPA with SBLH in terms of which ICBC will acquire a 60% interest in SBG's London-based Global Markets business. A revised profit projection, compiled as part of the business plans post deal completion, supports the assumption that it is probable that the future results of SB Plc will generate sufficient suitable taxable income to utilise the recognised deferred tax asset of US$20.7 million (2012: US$18.8 million). Based on management's judgement the unutilised trading losses should remain eligible for future use following the conclusion of the transaction.

Additional disclosure relating to the deferred tax asset is set out in note 11.

2.3 Determining fair value

The fair value of financial instruments that are not quoted in active markets is determined using other valuation techniques. Wherever possible, models use only observable market data. Where required, these models incorporate assumptions that are not supported by prices from observable current market transactions in the same instrument and are not based on available observable market data. Such assumptions include recoverability, risk premiums, liquidity discount rates, credit risk, volatilities and correlations. Changes in these assumptions could affect the reported fair values of financial instruments. Additional disclosures on fair value measurements of financial instruments are set out in notes 19, 20 and 21.

2.4 Credit impairment losses on loans and advances

Specific loan impairments

Loans are analysed on a case-by-case basis taking into account breaches of key loan conditions. Management's estimates of future cash flows on individually impaired loans are based on historical loss experience for assets with similar credit risk characteristics. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience. Specifically impaired loans are 76.6% (2012: 90.7%) covered by specific loan impairments and subsequently a change of one percentage in the value of the estimated recovery will result in a US$0.2 million (2012: US$0.2 million) change in the value of the impairment.

Portfolio loan impairments

SB Plc assesses its loan portfolios for impairment at the end of each reporting date. In determining whether an impairment loss should be recorded in profit or loss, SB Plc makes judgements as to whether there is observable data indicating a measurable decrease in the estimated future cash flows from a portfolio of loans before the decrease can be allocated to an individual loan in that portfolio. Estimates are also made of the duration between the occurrence of a loss event and the identification of a loss on an individual basis. The impairment for performing loans is determined on a portfolio basis, based on calculated loss ratios, adjusted for economic conditions and other indicators of potential default.

These annual loss ratios are applied to loan balances in the portfolio and scaled to the estimated loss emergence period. At the year end, a number of factors including emergence period, recovery rates, recent loss history and probability of default were considered. Of these factors, the loss emergence period is a key input (2013: 12 months; 2012: 7 months).

A change of one month in the emergence period will result in a US$0.8 million (2012: US$1.4 million) change on the value of the impairment.

2.5 Consolidated structured entities (CSEs)

SB Plc consolidates CSEs which it controls. Control is determined by the exposure to variable returns from its involvement with the CSE and the ability to affect those returns through power over the investee. SB Plc do not have any contractual arrangements in terms of which it could be required to provide financial support to any of the CSEs that were consolidated at the reporting date. SB Plc has consolidated CSEs with assets of US$60.9 million (2012: US$106.5 million).

CSE	Country of incorporation
Star Two Holdings Inc.	Philippines
Star Asset Management Ltd.	Thailand
SB Dragon Fund (sub fund of Invesco China Series Trust)	The People's Republic of China

2.6 Legal proceedings

From time to time, SB Plc is involved in litigation or receives claims arising from the conduct of its business which can require SB Plc to engage in legal proceedings in order to enforce contractual rights.

The company is in receipt of a claim from a former borrower under certain long term non-performing loan facilities for alleged overpayments of fees, interest and default interest. The facilities were repaid in September 2012. The amount of the claim has not been quantified by the claimant, but would appear to be in the region of US$5 million to US$50 million. SB Plc believes the company has robust defences to the claim asserted against it and intends to defend itself vigorously.

Whilst recognising the inherent difficulty of predicting the outcome of legal proceedings, the directors believe, based upon current knowledge and after consulting with legal counsel, that the legal proceedings currently pending against it should not have a material adverse effect on the consolidated financial position.

3 Balances with central banks

	Group		Company	
	2013 $m	2012 $m	**2013 $m**	2012 $m
Reserve account with Bank of England[1]	**1 343.8**	2 228.2	**1 343.8**	2 228.2
	1 343.8	2 228.2	**1 343.8**	2 228.2

[1] This reserve account operates in the same way as a current account with an overnight contractual tenor.

Notes to the annual financial statements *continued*

4 Derivative instruments

4.1 Derivative assets and liabilities

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

Group	2013						
	Maturity analysis of net fair value			Net fair value	Fair value of assets	Fair value of liabilities	Contract/ notional amount
	< 1 year	1 - 5 years	> 5 years				
	$m	$m	$m	$m	$m	$m	$m
Derivatives held for trading							
Foreign exchange derivatives	67.9	(15.6)	(4.2)	48.1	496.5	(448.4)	32 285.6
Forwards	66.1	(13.2)	(4.3)	48.6	480.0	(431.4)	29 028.2
Futures	0.1	-	-	0.1	0.1	-	985.8
Options	1.7	(2.4)	0.1	(0.6)	16.4	(17.0)	2 271.6
Interest rate derivatives	(46.6)	28.0	69.4	50.8	2 265.2	(2 214.4)	496 631.5
Caps and floors	-	-	-	-	0.1	(0.1)	36.2
Forwards	2.9	0.2	-	3.1	8.5	(5.4)	12 442.1
Future options	(7.6)	14.0	-	6.4	25.8	(19.4)	373 537.0
Swaps	(42.5)	11.8	69.4	38.7	2 222.1	(2 183.4)	107 664.2
Swaptions	0.6	2.0	-	2.6	8.7	(6.1)	2 952.0
Commodity derivatives	70.0	9.3	0.5	79.8	1 094.2	(1 014.4)	133 487.7
Forwards	(39.0)	(12.5)	0.4	(51.1)	39.6	(90.7)	4 670.2
Futures	134.1	11.7	-	145.8	987.3	(841.5)	121 278.1
Options	(25.1)	10.1	0.1	(14.9)	67.3	(82.2)	7 539.4
Credit derivatives	(97.9)	(21.0)	(147.8)	(266.7)	98.8	(365.5)	12 653.6
Credit default swaps	(1.4)	(4.3)	4.2	(1.5)	98.4	(99.9)	12 328.8
Total return swaps	(96.5)	(16.7)	(152.0)	(265.2)	0.4	(265.6)	324.8
Equity derivatives	(7.0)	44.2	-	37.2	44.3	(7.1)	117.4
Futures & forwards	0.1	-	-	0.1	0.1	-	114.7
Swaps	(7.1)	44.2	-	37.1	44.2	(7.1)	2.7
Total derivative assets/(liabilities) held for trading	(13.6)	44.9	(82.1)	(50.8)	3 999.0	(4 049.8)	675 175.8
Derivatives held for hedging							
Derivatives designated as cash flow hedges	29.9	3.4	-	33.3	33.3	-	303.6
Foreign exchange forwards	24.1	-	-	24.1	24.1	-	223.4
Equity options	5.8	3.4	-	9.2	9.2	-	80.2
Derivatives designated as fair value hedges	-	-	38.8	38.8	38.8	-	500.0
Interest rate swaps	-	-	38.8	38.8	38.8	-	500.0
Total derivative assets/(liabilities) held for hedging	29.9	3.4	38.8	72.1	72.1	-	803.6
Total derivative assets/(liabilities)	16.3	48.3	(43.3)	21.3	4 071.1	(4 049.8)	675 979.4
Included above are the following amounts with related parties:							
Group undertakings - fellow subsidiaries				14.7	326.3	(311.6)	

The company reported derivative assets of US$4 075.1 million (2012: US$4 780.6 million) and derivative liabilities of US$4 053.6 million (2012: US$5 205.7 million). The difference between SB Plc and company amounts are due to foreign exchange and commodity derivatives.

4 Derivative instruments continued

4.1 Derivative assets and liabilities continued

Group	2012						
	Maturity analysis of net fair value			Net fair value	Fair value of assets	Fair value of liabilities	Contract/ notional amount
	< 1 year	1 - 5 years	> 5 years				
	$m	$m	$m	$m	$m	$m	$m
Derivatives held for trading							
Foreign exchange derivatives	(190.9)	40.6	19.6	(130.7)	661.8	(792.5)	55 879.7
Forwards	(20.9)	35.6	19.4	34.1	645.7	(611.6)	47 052.0
Futures	0.3	1.8	-	2.1	3.3	(1.2)	3 461.3
Options	(170.3)	3.2	0.2	(166.9)	12.8	(179.7)	5 366.4
Interest rate derivatives	(32.5)	(9.3)	52.0	10.2	2 385.1	(2 374.9)	484 968.5
Caps and floors	0.4	-	-	0.4	0.5	(0.1)	136.2
Forwards	(0.2)	-	-	(0.2)	18.9	(19.1)	10 089.3
Future options	0.7	33.3	0.3	34.3	66.1	(31.8)	364 086.7
Swaps	(33.4)	(42.6)	51.7	(24.3)	2 299.6	(2 323.9)	110 656.3
Swaptions	-	-	-	-	-	-	-
Commodity derivatives	(1.7)	(26.3)	3.4	(24.6)	1 508.8	(1 533.4)	369 480.0
Forwards	59.0	(12.7)	1.7	48.0	290.4	(242.4)	14 316.6
Futures	(31.3)	(10.4)	-	(41.7)	1 111.1	(1 152.8)	347 164.2
Options	(29.4)	(3.2)	1.7	(30.9)	107.3	(138.2)	7 999.2
Credit derivatives	(119.8)	(32.1)	(217.4)	(369.3)	153.4	(522.7)	17 069.6
Credit default swaps	(7.3)	(0.2)	3.1	(4.4)	140.3	(144.7)	16 612.0
Total return swaps	(112.5)	(31.9)	(220.5)	(364.9)	13.1	(378.0)	457.6
Equity derivatives	(24.8)	16.3	0.3	(8.2)	20.7	(28.9)	68.2
Futures & forwards	(12.4)	-	-	(12.4)	-	(12.4)	-
Options	-	-	0.3	0.3	0.3	-	36.9
Swaps	(12.4)	16.3	-	3.9	20.4	(16.5)	31.3
Total derivative assets/(liabilities) held for trading	(369.7)	(10.8)	(142.1)	(522.6)	4 729.8	(5 252.4)	927 466.0
Derivatives held for hedging							
Derivatives designated as cash flow hedges	4.1	1.7	-	5.8	7.9	(2.1)	240.2
Foreign exchange forwards	1.7	-	-	1.7	1.7	-	105.6
Equity options	1.2	1.7	-	2.9	5.0	(2.1)	97.1
Cross currency interest rate swaps	1.2	-	-	1.2	1.2	-	37.5
Derivatives designated as fair value hedges	-	-	75.2	75.2	75.2	-	500.0
Interest rate swaps	-	-	75.2	75.2	75.2	-	500.0
Total derivative assets/(liabilities) held for hedging	4.1	1.7	75.2	81.0	83.1	(2.1)	740.2
Total derivative assets/(liabilities)	(365.6)	(9.1)	(66.9)	(441.6)	4 812.9	(5 254.5)	928 206.2
Included above are the following amounts with related parties:							
Group undertakings - fellow subsidiaries				(501.4)	319.7	(821.1)	

Notes to the annual financial statements *continued*

4 Derivative instruments continued

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

4.2 Use and measurement of derivative instruments

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

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

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

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

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

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

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

4.3 Derivatives held for trading

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

4.3.1 Foreign exchange derivatives

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

4.3.2 Interest rate derivatives

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

4.3.3 Commodity derivatives

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

4.3.4 Credit derivatives

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

4.3.5 Equity derivatives

Equity derivatives are used to address customer equity demands and to take proprietary positions for SB Plc's own accounts. Equity derivatives primarily consist of futures, options, index options, swaps and other equity related financial derivative instruments.

4 Derivative instruments continued

4.4 Derivatives held for hedging

4.4.1 Derivatives designated as cash flow hedges

SB Plc enters into derivative contracts to hedge future probable cash flows, which are designated as cash flow hedges.

- The income statement volatility associated with future highly probable expenses in currencies other than the functional currency is hedged utilising forward exchange contracts.
- Equity options are used to mitigate risk of change in cash flows arising from changes in the long-term incentive liability, underpinned by the SBG share price (note 27.9.1).

Gains and losses on the effective portion of derivatives designated as cash flow hedges of forecast transactions are initially recognised directly in other comprehensive income in the cash flow hedging reserve, and are transferred to the income statement when the forecast cash flows impact the income statement

The forecast cash flows that will result in the release of the cash flow hedging reserve into the income statement at 31 December are as follows:

	Group		Company	
	2013 $m	2012 $m	**2013 $m**	2012 $m
3 months or less	**82.4**	113.2	**82.4**	113.2
More than 3 months but less than 1 year	**199.4**	55.2	**199.4**	55.2
More than 1 year but less than 5 years	**19.0**	21.3	**19.0**	21.3
	300.8	189.7	**300.8**	189.7
Reconciliation of movements in the cash flow hedging reserve				
Balance at beginning of the year	**3.8**	(1.8)	**3.8**	(1.8)
Amounts recognised directly in other comprehensive income	**31.4**	27.1	**31.4**	27.1
Less: amounts transferred to profit or loss	**(9.1)**	(19.7)	**(9.1)**	(19.7)
Interest income	**-**	2.1	**-**	2.1
Operating expenses	**(9.1)**	(21.8)	**(9.1)**	(21.8)
Less: deferred tax	**1.2**	(1.8)	**1.2**	(1.8)
Balance at end of the year	**27.3**	3.8	**27.3**	3.8

There were no transactions for which cash flow hedge accounting had to be ceased in 2013 or 2012 as a result of highly probable cash flows no longer expected to occur. A loss of US$3.2 million (2012: US$2.0 million loss) on the ineffective portions of such derivatives was recognised in profit or loss.

4.4.2 Derivatives designated as fair value hedges

SB Plc's fair value hedges consist of interest rate swaps that are used to mitigate the risk of changes in the fair value of financial instruments as a result of changes in market interest rates.

For qualifying fair value hedges, all changes in the fair value of the derivative and in the fair value of the item in relation to the risk being hedged are recognised in profit or loss.

	Group		Company	
(Losses) / gains arising from fair value hedges	**2013 $m**	2012 $m	**2013 $m**	2012 $m
- on hedging instruments	**(36.4)**	13.3	**(36.4)**	13.3
- on the hedged item attributable to the hedged risk	**36.4**	(13.3)	**36.4**	(13.3)

The hedged item is disclosed in note 18 - 'Subordinated debt'.

Notes to the annual financial statements *continued*

	Group		Company	
	2013 $m	2012 $m	**2013 $m**	2012 $m
5 Trading assets				
Government, utility bonds and treasury bills	**1 724.4**	1 820.9	**1 697.6**	1 815.6
Corporate bonds and floating rate notes	**1 058.1**	1 604.3	**1 058.1**	1 604.3
Listed equities	**64.0**	121.7	**64.0**	121.7
Reverse repurchase agreements	**1 448.3**	1 877.0	**1 448.3**	1 877.0
Commodities	**1 448.8**	1 223.8	**1 420.1**	1 155.5
Other unlisted instruments	**103.0**	200.4	**154.5**	200.3
	5 846.6	6 848.1	**5 842.6**	6 774.4
Maturity analysis				
The maturities represent periods to contractual redemption of the trading assets recorded.				
- Redeemable on demand	**-**	1.7	**-**	1.7
- Maturing within 1 month	**424.0**	528.0	**416.5**	528.0
- Maturing after 1 month but within 6 months	**1 452.1**	1 759.8	**1 432.8**	1 759.8
- Maturing after 6 months but within 12 months	**217.5**	556.7	**217.5**	556.7
- Maturing after 12 months	**2 328.0**	2 768.4	**2 328.0**	2 763.1
- Undated	**1 425.0**	1 233.5	**1 447.8**	1 165.1
	5 846.6	6 848.1	**5 842.6**	6 774.4
6 Financial investments[1]				
Listed equities	**-**	1.1	**-**	1.1
Unlisted equities	**2.8**	31.7	**2.8**	31.7
Investment funds	**-**	-	**-**	24.1
Mutual funds	**-**	4.0	**-**	-
	2.8	36.8	**2.8**	56.9
Maturity analysis				
The maturities represent periods to contractual redemption of the financial investments recorded.				
- Redeemable on demand	**-**	4.0	**-**	-
- Undated	**2.8**	32.8	**2.8**	56.9
	2.8	36.8	**2.8**	56.9

[1] At 31 December 2013, US$22.9 million was reclassified to assets held for sale to group companies.

	Group		Company	
	2013 $m	2012 $m	**2013 $m**	2012 $m

7 Pledged assets

7.1 Assets transferred not derecognised

	Group 2013 $m	Group 2012 $m	Company 2013 $m	Company 2012 $m
Government and utility bonds	**80.8**	-	**80.8**	-
Corporate bonds	**163.6**	-	**163.6**	-
Commodities	**378.9**	503.7	**378.9**	503.7
	623.3	503.7	**623.3**	503.7
Maturity analysis				
The maturities represent periods to contractual redemption of the pledged assets recorded.				
- Maturing after 1 month but within 6 months	**81.9**	-	**81.9**	-
- Maturing after 6 months but within 12 months	**45.7**	-	**45.7**	-
- Maturing after 12 months	**116.8**	-	**116.8**	-
- Undated	**378.9**	503.7	**378.9**	503.7
	623.3	503.7	**623.3**	503.7

SB Plc enters into transactions in the normal course of business by which it transfers recognised financial assets directly to third parties. These transfers may give rise to full or partial derecognition of the financial assets concerned. Where SB Plc has retained substantially all of the risks and rewards associated with the transferred assets, it continues to recognise these assets. To the extent that the counterparty is permitted to sell and / or re-pledge these assets in the absence of default, they are classified in the balance sheet as pledged assets.

Government, utility and corporate bonds pledged by SB Plc are strictly for the purpose of providing collateral to the counterparty. The associated liabilities relating to these pledged assets amount to US$248.3 million, classified under trading liabilities and deposit and current accounts. Risks to which the group remains exposed include credit and interest rate risk.

Pledged assets also include a component of SB Plc's commodity lease transactions. In terms of these transactions, the counterparty has the right to use the asset for a predetermined amount of time. Risks that SB Plc remains exposed to include market, credit and interest rate risk. There are no associated liabilities recorded on the balance sheet for these transactions.

7.2 Financial assets pledged as collateral for liabilities

The carrying amount of total financial assets that have been pledged as collateral for liabilities at 31 December 2013 was US$1 322.4 million (2012: US$1 549.8 million). These transactions are conducted under standard SIFMA / ICMA commissioned Global Master Repurchase Agreement (GMRA) terms and conditions.

7.3 Collateral accepted as security for assets

As part of the reverse repurchase and securities borrowing agreements, SB Plc has received securities that it is allowed to sell or re-pledge. The fair value of the financial assets accepted as collateral that SB Plc is permitted to sell or re-pledge in the absence of default is US$6 750.5 million (2012: US$6 682.2 million). This includes cash collateral of US$543.6 million (US$1 204.1 million).

The fair value of financial assets accepted as collateral that have been sold or re-pledged is US$634.1 million (2012: US$1 465.3 million). SB Plc is obliged to return equivalent securities.

These transactions are conducted under standard SIFMA / ICMA commissioned GMRA terms and conditions as well as requirements determined by exchanges where SB Plc acts as an intermediary.

Notes to the annual financial statements *continued*

8 Assets held for sale to group companies

On 8 November 2013, SBG announced the intention to sell a majority interest in SB Plc, the principal entity which houses the Global Markets business outside Africa. On 29 January 2014, SBG and ICBC entered into a sale and purchase agreement involving the London-based Global Markets business. ICBC will acquire 60 per cent of SB Plc and SBG's operations in the United States and Singapore. Completion of the transaction is subject to all the necessary regulatory approvals and requires a series of steps to craft SB Plc as the platform for a focused Global Markets business.

Other activities performed in SB Plc, comprising Investment Banking, Transactional Products and Services, Corporate Banking, Personal and Business Banking International and the Service Unit, are not part of the transaction and will be transferred to SBG entities. Standard Bank Plc and its subsidiaries will be renamed on completion of the transaction to reflect the combined ownership of the London-based Global Markets business.

The intended disposal resulted in SB Plc classifying the excluded businesses as a disposal group held for sale, with assets disclosed seperately in the balance sheet as 'assets held for sale to group companies'. The assets included in the disposal group are measured in accordance with SB Plc's accounting policies and the disposal group is measured at the lower of carrying value and fair value less costs to sell. The assets will be transferred to SBG companies and the consideration to be received on the sale of these assets is not expected to be lower than carrying value.

Assets held for sale to group companies include:

	Group		Company	
	2013 $m	2012[1] $m	**2013 $m**	2012[1] $m
Derivative assets	**12.3**	13.4	**12.3**	13.4
Trading assets	**2.2**	16.9	**2.2**	16.9
Financial investments	**22.9**	29.8	**23.0**	29.9
Loans and advances	**444.9**	607.1	**443.9**	619.6
Gross loans and advances to banks	**199.3**	259.9	**191.9**	245.1
Gross loans and advances to customers	**282.5**	541.0	**288.9**	568.3
Less: credit impairments	**(36.9)**	(193.8)	**(36.9)**	(193.8)
Other assets	**2.2**	24.2	**1.5**	4.3
Property and equipment	**0.1**	0.2	**-**	-
Assets held for sale to group companies	**484.6**	691.6	**482.9**	684.1

[1] 2012 comparatives are for information purposes only.

	Group		Company	
	2013 $m	2012 $m	**2013 $m**	2012 $m

9 Loans and advances

9.1 Loans and advances net of impairments

	2013 $m	2012 $m	**2013 $m**	2012 $m
Loans and advances to banks	**3 013.9**	3 084.5	**2 926.8**	3 071.7
Gross loans and advances to banks	**3 014.4**	3 085.1	**2 927.3**	3 072.3
- Demand and term loans	**673.1**	999.8	**673.1**	1 023.6
- Loans granted under resale agreements	**1 956.7**	1 592.9	**1 956.7**	1 593.1
- Balances with banks	**384.6**	492.4	**297.5**	455.6
Credit impairments for loans and advances to banks	**(0.5)**	(0.6)	**(0.5)**	(0.6)
Loans and advances to customers	**2 764.5**	3 076.3	**2 803.6**	3 103.6
Gross loans and advances to customers	**2 790.8**	3 310.0	**2 829.9**	3 337.3
- Demand loans and advances	**1 181.7**	1 396.6	**1 227.2**	1 423.9
- Term loans	**39.5**	549.5	**33.1**	549.5
- Loans granted under resale agreements	**1 569.6**	1 363.9	**1 569.6**	1 363.9
Credit impairments for loans and advances to customers	**(26.3)**	(233.7)	**(26.3)**	(233.7)
- Specific credit impairments	**(16.3)**	(223.7)	**(16.3)**	(223.7)
- Portfolio credit impairments	**(10.0)**	(10.0)	**(10.0)**	(10.0)
	5 778.4	6 160.8	**5 730.4**	6 175.3
Comprising:				
Gross loans and advances	**5 805.2**	6 395.1	**5 757.2**	6 409.6
Less: Specific credit impairments	**(16.8)**	(224.3)	**(16.8)**	(224.3)
Less: Portfolio credit impairments	**(10.0)**	(10.0)	**(10.0)**	(10.0)
	5 778.4	6 160.8	**5 730.4**	6 175.3

Maturity analysis

The maturity analysis is based on the remaining periods to contractual maturity from year end.

	2013 $m	2012 $m	**2013 $m**	2012 $m
- Redeemable on demand	**1 970.1**	2 203.6	**1 903.8**	2 190.8
- Maturing within 1 month	**3 288.4**	3 160.0	**3 288.4**	3 160.0
- Maturing after 1 month but within 3 months	**241.4**	584.1	**259.7**	593.0
- Maturing after 3 months but within 6 months	**34.8**	124.2	**34.8**	124.2
- Maturing after 6 months but within 12 months	**150.7**	174.1	**150.7**	174.1
- Maturing after 12 months but within 5 years	**85.5**	71.8	**85.5**	90.2
- Maturing after 5 years	**34.3**	77.3	**34.3**	77.3
	5 805.2	6 395.1	**5 757.2**	6 409.6

Notes to the annual financial statements *continued*

9 Loans and advances continued

	Group		Company	
	2013 $m	2012 $m	**2013 $m**	2012 $m
Loans and advances to banks - gross				
- Redeemable on demand	**887.6**	946.2	**800.5**	933.4
- Maturing within 1 month	**1 709.0**	1 736.7	**1 709.0**	1 736.7
- Maturing after 1 month but within 3 months	**147.4**	306.7	**147.4**	306.7
- Maturing after 3 months but within 6 months	**34.8**	62.9	**34.8**	62.9
- Maturing after 6 months but within 12 months	**147.6**	15.3	**147.6**	15.3
- Maturing after 12 months but within 5 years	**70.2**	-	**70.2**	-
- Maturing after 5 years	**17.8**	17.3	**17.8**	17.3
	3 014.4	3 085.1	**2 927.3**	3 072.3
Loans and advances to customers - gross				
- Redeemable on demand	**1 082.5**	1 257.4	**1 103.3**	1 257.4
- Maturing within 1 month	**1 579.4**	1 423.3	**1 579.4**	1 423.3
- Maturing after 1 month but within 3 months	**94.0**	277.4	**112.3**	286.3
- Maturing after 3 months but within 6 months	**-**	61.3	**-**	61.3
- Maturing after 6 months but within 12 months	**3.1**	158.8	**3.1**	158.8
- Maturing after 12 months but within 5 years	**15.3**	71.8	**15.3**	90.2
- Maturing after 5 years	**16.5**	60.0	**16.5**	60.0
	2 790.8	3 310.0	**2 829.9**	3 337.3
Segmental industry analysis - gross				
- Agriculture	**0.2**	36.3	**0.2**	36.3
- Electricity	**5.1**	52.6	**5.1**	52.6
- Finance: banks	**3 014.4**	3 085.1	**2 927.3**	3 072.3
- Finance: non-bank financial institutions	**2 252.6**	2 335.1	**2 291.7**	2 389.0
- Individuals	**60.0**	148.1	**60.0**	121.5
- Manufacturing	**128.6**	179.0	**128.6**	179.0
- Mining	**94.8**	171.2	**94.8**	171.2
- Transport	**2.5**	12.6	**2.5**	12.6
- Wholesale	**219.8**	248.5	**219.8**	248.5
- Other	**27.2**	126.6	**27.2**	126.6
	5 805.2	6 395.1	**5 757.2**	6 409.6

9 Loans and advances continued

	Group		Company	
	2013 $m	2012 $m	**2013 $m**	2012 $m
Included in gross loans and advances are the following amounts due from related parties:				
Group undertakings fellow subsidiaries				
- Loans and advances to banks	**37.0**	153.6	**37.0**	177.5
- Loans granted under resale agreements	**86.1**	85.7	**86.1**	85.7
- Loans and advances to customers	**105.0**	161.6	**144.2**	161.6
	228.1	400.9	**267.3**	424.8
Minimum amount during the year	**191.7**	257.9	**227.2**	268.0
Maximum amount during the year	**454.5**	474.0	**497.9**	502.3

9.2 Credit impairments for loans and advances

	Group 2013 $m	Group 2012 $m	Company 2013 $m	Company 2012 $m
Specific impairments				
Balance at beginning of the year	**224.3**	195.4	**224.3**	195.4
Reclassified to held for sale	**(207.7)**	-	**(207.7)**	-
Amounts written off	**(7.4)**	(147.3)	**(7.4)**	(147.3)
Impairments raised	**6.3**	174.7	**6.3**	174.7
Exchange and other movements	**1.3**	1.5	**1.3**	1.5
Balance at end of the year	**16.8**	224.3	**16.8**	224.3
Portfolio impairments				
Balance at beginning of the year	**10.0**	42.1	**10.0**	42.1
Net impairments released[1]	**-**	(32.1)	**-**	(32.1)
Balance at end of the year	**10.0**	10.0	**10.0**	10.0
Total	**26.8**	234.3	**26.8**	234.3
Segmental analysis of specific impairments - industry				
- Electricity	**-**	3.3	**-**	3.3
- Finance	**2.7**	127.8	**2.7**	127.8
- Individuals	**-**	8.4	**-**	8.4
- Manufacturing	**-**	29.6	**-**	29.6
- Mining	**5.4**	5.2	**5.4**	5.2
- Other	**8.7**	50.0	**8.7**	50.0
	16.8	224.3	**16.8**	224.3

[1] Reduction in the 2012 impairment is a reflection of the reduced loan portfolio.

	Group		Company	
	2013 $m	2012 $m	**2013 $m**	2012 $m
10 Other assets				
Unsettled dealing balances	**216.8**	174.6	**216.8**	174.6
Other receivables	**135.8**	230.2	**97.1**	153.0
	352.6	404.8	**313.9**	327.6
Included above are the following amounts due from related parties:				
Group undertakings - fellow subsidiaries	**47.8**	44.6	**47.8**	44.7
Minimum amount during the year	**40.4**	39.4	**40.4**	39.4
Maximum amount during the year	**325.5**	319.5	**325.5**	317.2
11 Deferred tax assets and liabilities				
Deferred tax asset	**20.7**	20.0	**20.0**	20.0
Deferred tax liability	**-**	(1.2)	**-**	-
	20.7	18.8	**20.0**	20.0
Deferred tax asset not recognised	**77.4**	96.4	**77.4**	96.4
Unused tax losses and other temporary differences	**98.1**	115.2	**97.4**	116.4

	2013				
The movements in the deferred tax balance were as follows:	**Opening balance $m**	**Recognised in profit or loss $m**	**Recognised in OCI $m**	**Asset not recognised[1] $m**	**Closing balance $m**
Group					
Capital allowances	**11.2**	**(1.3)**	**-**	**-**	**9.9**
Impaired loans	**1.2**	**(0.5)**	**-**	**-**	**0.7**
Cash flow hedges	**(1.2)**	**-**	**1.2**	**-**	**-**
Share based payments	**9.6**	**(0.2)**	**-**	**-**	**9.4**
Other short-term temporary differences[2]	**(2.0)**	**2.7**	**-**	**-**	**0.7**
Total recognised deferred tax	**18.8**	**0.7**	**1.2**	**-**	**20.7**
Total unrecognised deferred tax	**96.4**	**-**	**-**	**(19.0)**	**77.4**
Temporary differences not recognised	**13.8**	**-**	**-**	**(8.6)**	**5.2**
Unused tax losses not recognised	**82.6**	**-**	**-**	**(10.4)**	**72.2**
	115.2	**0.7**	**1.2**	**(19.0)**	**98.1**

[1] Asset not recognised includes a tax rate change of US$(12.9) million.

[2] US$0.7 million recognised in consolidated group only.

11 Deferred tax assets and liabilities continued

The movements in the deferred tax balance were as follows:	2012 Opening balance $m	Recognised in profit or loss $m	Recognised in OCI $m	Asset not recognised $m	Closing balance $m
Capital allowances	(0.9)	12.1	-	-	11.2
Impaired loans	1.8	(0.6)	-	-	1.2
Cash flow hedges	0.6	-	(1.8)	-	(1.2)
Share based payments	27.1	(17.5)	-	-	9.6
Other short-term temporary differences[1]	(1.6)	(0.4)	-	-	(2.0)
Unused tax losses	21.0	(21.0)	-	-	-
Total recognised deferred tax	48.0	(27.4)	(1.8)	-	18.8
Total unrecognised deferred tax	-	-	-	96.4	96.4
Temporary differences not recognised	-	-	-	13.8	13.8
Unused tax losses not recognised	-	-	-	82.6	82.6
	48.0	(27.4)	(1.8)	96.4	115.2

[1] US$1.2 million recognised in consolidated group only.

12 Investment in group company

	Company 2013 $m	 2012 $m
Carrying value at end of the year	**16.0**	16.0

The subsidiary undertaking is as follows:

Entity	**Activity**	**Country of incorporation**	**% Interest**
Standard Resources (China) Limited	Trading company	The People's Republic of China	100

Notes to the annual financial statements *continued*

13 Intangible assets

	2013			2012		
	Cost $m	**Accumulated amortisation $m**	**Carrying value $m**	Cost $m	Accumulated amortisation $m	Carrying value $m
Group and Company						
Computer software	**123.8**	**(91.5)**	**32.3**	123.8	(75.9)	47.9
	123.8	**(91.5)**	**32.3**	123.8	(75.9)	47.9

	Opening carrying value $m	Additions[1] $m	Amortisation $m	Impairments $m	Closing carrying value $m
Movement					
2013	**47.9**	**-**	**(15.6)**	**-**	**32.3**
2012	91.8	7.5	(26.3)	(25.1)	47.9

[1] In 2012, additions include US$3.4 million internal development costs.

Capitalised computer software represents computer software and development costs which are of a strategic nature with an expected useful life of 5 years. They are comprised mainly of core front office trading systems and back office settlement or risk systems and represent a combination of internal and external costs. The assets are amortised on a straight-line basis over their expected life. No research and development costs have been incurred during the period.

Certain projects were suspended in the prior year which resulted in an impairment charge of US$25.1 million, disclosed as part of restructuring costs in note 27.8.

14 Property and equipment

	2013			2012		
	Cost $m	**Accumulated depreciation $m**	**Carrying value $m**	Cost $m	Accumulated depreciation $m	Carrying value $m
Group						
14.1 Summary						
Computer equipment	**31.5**	**(23.7)**	**7.8**	28.9	(21.3)	7.6
Motor vehicles	**0.2**	**(0.2)**	**-**	0.2	(0.2)	-
Office equipment	**5.3**	**(2.1)**	**3.2**	6.5	(2.8)	3.7
Furniture and fittings	**35.7**	**(23.9)**	**11.8**	35.3	(18.8)	16.5
	72.7	**(49.9)**	**22.8**	70.9	(43.1)	27.8

	2012					**2013**
	Carrying value $m	**Additions $m**	**Disposals $m**	**Depreciation charge $m**	**Reclassified to held for sale $m**	**Carrying value $m**
14.2 Movement						
Computer equipment	**7.6**	**3.1**	**-**	**(2.9)**	**-**	**7.8**
Motor vehicles	**-**	**-**	**-**	**-**	**-**	**-**
Office equipment	**3.7**	**-**	**-**	**(0.4)**	**(0.1)**	**3.2**
Furniture and fittings	**16.5**	**0.5**	**-**	**(5.2)**	**-**	**11.8**
	27.8	**3.6**	**-**	**(8.5)**	**(0.1)**	**22.8**

	2011					2012
	Carrying value $m	Additions $m	Disposals $m	Depreciation charge $m	Reclassified to held for sale $m	Carrying value $m
Computer equipment	10.0	2.0	-	(4.4)	-	7.6
Motor vehicles	0.1	-	-	(0.1)	-	-
Office equipment	4.2	-	-	(0.5)	-	3.7
Furniture and fittings	21.1	0.9	-	(5.5)	-	16.5
	35.4	2.9	-	(10.5)	-	27.8

Notes to the annual financial statements *continued*

14 Property and equipment continued

	2013			2012		
	Cost $m	**Accumulated depreciation $m**	**Carrying value $m**	Cost $m	Accumulated depreciation $m	Carrying value $m
Company						
14.3 Summary						
Computer equipment	**31.2**	**(23.6)**	**7.6**	28.3	(21.0)	7.3
Office equipment	**5.2**	**(2.1)**	**3.1**	5.2	(1.7)	3.5
Furniture and fittings	**35.3**	**(23.5)**	**11.8**	34.9	(18.5)	16.4
	71.7	**(49.2)**	**22.5**	68.4	(41.2)	27.2

	2012					**2013**
	Carrying value $m	**Additions $m**	**Disposals $m**	**Depreciation charge $m**	**Reclassified to held for sale $m**	**Carrying value $m**
14.4 Movement						
Computer equipment	**7.3**	**3.0**	**-**	**(2.7)**	**-**	**7.6**
Office equipment	**3.5**	**-**	**-**	**(0.4)**	**-**	**3.1**
Furniture and fittings	**16.4**	**0.4**	**-**	**(5.0)**	**-**	**11.8**
	27.2	**3.4**	**-**	**(8.1)**	**-**	**22.5**

	2011					2012
	Carrying value $m	Additions $m	Disposals $m	Depreciation charge $m	Reclassified to held for sale $m	Carrying value $m
Computer equipment	9.7	1.9	-	(4.3)	-	7.3
Office equipment	3.9	-	-	(0.4)	-	3.5
Furniture and fittings	20.8	0.9	-	(5.3)	-	16.4
	34.4	2.8	-	(10.0)	-	27.2

	Group		Company	
	2013 $m	2012 $m	**2013 $m**	2012 $m

15 Trading liabilities

	Group 2013 $m	Group 2012 $m	Company 2013 $m	Company 2012 $m
Government and utility bonds	**637.4**	105.8	**637.4**	105.8
Corporate bonds	**106.6**	66.9	**106.6**	66.9
Unlisted equities	**-**	61.4	**-**	61.4
Repurchase agreements	**36.3**	1 052.3	**36.3**	1 052.3
Credit linked notes	**871.8**	982.6	**871.8**	982.6
Other unlisted instruments	**60.9**	5.3	**60.9**	5.3
	1 713.0	2 274.3	**1 713.0**	2 274.3

Maturity analysis

The maturities represent periods to contractual redemption of the trading liabilities recorded.

	Group 2013 $m	Group 2012 $m	Company 2013 $m	Company 2012 $m
- Redeemable on demand	**25.1**	-	**25.1**	-
- Maturing within 1 month	**68.8**	794.0	**68.8**	794.0
- Maturing after 1 month but within 6 months	**344.4**	318.0	**344.4**	318.0
- Maturing after 6 months but within 12 months	**231.0**	230.1	**231.0**	230.1
- Maturing after 12 months	**1 043.7**	862.8	**1 043.7**	862.8
- Undated liabilities	**-**	69.4	**-**	69.4
	1 713.0	2 274.3	**1 713.0**	2 274.3
Included above are the following amounts due to related parties:				
Group undertakings - fellow subsidiaries	**-**	1 008.3	**-**	1 008.3
Minimum amount during the year	**-**	720.7	**-**	720.7
Maximum amount during the year	**1 161.2**	1 289.6	**1 161.2**	1 289.6

16 Deposit and current accounts

	Group 2013 $m	Group 2012 $m	Company 2013 $m	Company 2012 $m
Deposits from banks	**7 596.4**	8 032.0	**7 596.4**	7 999.9
Deposits from banks	**6 881.8**	7 074.7	**6 881.8**	7 042.6
Repurchase agreements	**426.9**	624.3	**426.9**	624.3
Commercial paper	**287.7**	333.0	**287.7**	333.0
Deposits from customers	**2 633.9**	2 376.8	**2 633.9**	2 414.2
Call deposits	**1 321.9**	1 506.4	**1 321.9**	1 543.8
Term deposits	**1 053.7**	686.6	**1 053.7**	686.6
Repurchase agreements	**253.0**	183.8	**253.0**	183.8
Negotiable certificates of deposit	**5.3**	-	**5.3**	-
	10 230.3	10 408.8	**10 230.3**	10 414.1

16 Deposit and current accounts continued

	Group		Company	
	2013 $m	2012 $m	**2013 $m**	2012 $m
Maturity analysis				
The maturity analysis is based on the remaining periods to contractual maturity from year end				
- Repayable on demand	**2 997.5**	3 782.1	**2 997.5**	3 819.5
- Maturing within 1 month	**5 165.2**	2 433.6	**5 165.2**	2 433.6
- Maturing after 1 month but within 3 months	**1 133.1**	2 171.3	**1 133.1**	2 158.4
- Maturing after 3 months but within 6 months	**482.5**	1 193.8	**482.5**	1 174.6
- Maturing after 6 months but within 12 months	**154.7**	368.7	**154.7**	368.7
- Maturing after 12 months but within 5 years	**269.0**	429.2	**269.0**	429.2
- Maturing after 5 years	**28.3**	30.1	**28.3**	30.1
	10 230.3	10 408.8	**10 230.3**	10 414.1
Included above are the following amounts due to related parties:				
Group undertakings - fellow subsidiaries[1]	**4 007.6**	3 608.7	**4 007.6**	3 646.2
Minimum amount during the year	**2 998.9**	3 608.7	**2 998.9**	3 646.2
Maximum amount during the year	**4 325.4**	6 771.0	**4 327.6**	6 852.8

[1] Included in deposits from banks is US$1 264.6 million (2012: US$2 511.3 million) placed by Standard Bank Jersey Limited and Standard Bank Isle of Man Limited.

17 Other liabilities

	Group		Company	
	2013 $m	2012 $m	**2013 $m**	2012 $m
Unsettled dealing balances	**183.1**	75.8	**176.5**	62.3
Long-term share incentives	**95.3**	116.8	**95.3**	116.8
Other	**201.0**	533.8	**205.3**	529.2
	479.4	726.4	**477.1**	708.3
Comprising:				
Due within one year	**466.8**	702.9	**464.5**	684.8
Due after one year	**12.6**	23.5	**12.6**	23.5
	479.4	726.4	**477.1**	708.3
Included above are the following amounts due to related parties:				
Group undertakings - fellow subsidiaries	**54.5**	106.1	**56.7**	106.1
Minimum amount during the year	**54.5**	106.1	**56.8**	106.1
Maximum amount during the year	**267.0**	344.4	**267.6**	350.3

18 Subordinated debt

Carrying value

	Group		Company	
	2013 $m	2012 $m	**2013 $m**	2012 $m
Subordinated step-up rate notes 2019[1]	**25.0**	25.0	**25.0**	25.0
Subordinated fixed rate notes 2019[2]	**534.9**	570.2	**534.9**	570.2
Step-up subordinated floating rate notes 2019[3]	**-**	299.0	**-**	299.0
Step-up perpetual subordinated notes[4]	**141.7**	141.7	**141.7**	141.7
Accrued interest	**8.2**	9.4	**8.2**	9.4
	709.8	1 045.3	**709.8**	1 045.3
Included above are the following amounts due to related parties:				
Group undertakings - fellow subsidiaries	**-**	301.1	**-**	301.1
Minimum amount during the year	**-**	301.0	**-**	301.0
Maximum amount during the year	**303.2**	303.4	**303.2**	303.4

[1] Bonds issued in US Dollars (US$25 million) bearing interest equal to 8% per annum until 3 December 2014, whereafter it will increase to 8.5% until maturity on 3 December 2019.

[2] Bonds issued in US Dollars (US$500 million) bearing interest equal to 8.125% per annum until maturity on 2 December 2019. To manage interest rate volatility, SB Plc has entered into a fair value hedge. Refer note 4.4.2.

[3] Bonds issued in US Dollars (US$300 million) were redeemed at the nominal value on 10 September 2013. The bonds bore interest at a floating rate equal to the aggregate of 4% per annum and the London interbank offered rate for three-month US Dollar deposits.

[4] Bonds issued in US Dollars (US$141.7 million) at a fixed rate equal to 8.012% per annum. The bonds carry an option to be redeemed in full at their nominal value on or after 27 July 2016. After this option date, the bonds bear interest at the aggregate of 3.25% per annum and the London interbank offer rate for three-month US Dollar deposits. The principal has no fixed repayment date.

Claims in respect of the loan capital are subordinated to the claims of the other creditors. SB Plc has not defaulted on principal, interest or other breaches with respect to its subordinated liabilities during 2013 and 2012.

19 Estimation of fair values

19.1 Financial instruments measured at fair value

The process of marking to market seeks to value a financial instrument at its fair value. The best indicator of a fair value is an independently published price quoted in an active market. If the instrument is not traded in an active market, its fair value is determined using valuation techniques consistent with other market participants to price similar financial instruments.

Where valuation techniques are used to determine fair values, they are validated and periodically independently reviewed by qualified senior personnel. All models are approved before they are used, and models are calibrated and back-tested to ensure that outputs reflect actual data and comparative market prices. To the extent practical, models use only observable data; however, areas such as credit risk (both own and counterparty), volatilities and correlations require management to make estimates. Changes in assumptions about these factors could affect the reported fair value of the financial instruments. Such assumptions include risk premiums, liquidity discount rates, credit risk, volatilities and correlations.

The fair value can be a function of many variables. These variables can include factors unique to the position such as liquidity and oversupply. Fair value does not factor in 'fire-sale' or 'distressed sale' conditions unless immediate sale is the trading objective. Equally, fair value does not factor in 'trading off the information curve', i.e. trades between unequally informed counterparties.

In order to arrive at fair value, valuation adjustments are made where appropriate to include liquidity risk, model risk, parameter uncertainty, credit risk, administrative costs and revenue recognition. As a practical expedient, instruments are sometimes priced at mid-market. This would include situations where instruments that incorporate a combination of risks (i.e. corporate bonds which trade interest rate risk and credit risk) are hedged against some of the risks, leaving the other risks open. In that case, a bid/offer adjustment is applied on the net open risk position as appropriate.

The valuation methodologies used are objective and deterministic, i.e. given the same market conditions and holding assumptions, the marking process should produce identical results. However, valuing any instrument or portfolio involves a degree of judgement and can never be completely defined in mechanistic terms.

There may not be one perfect mark for any position, but rather ranges of possible values. At any point in time, the mark-to-market on a financial instrument must be based on the effective deal tenor or term.

For certain commodity trades, where SB Plc purchases spot and sells to the same counterparty at a fixed price on a forward settling basis, transactions are valued as financing transactions and are priced accordingly. Where similar trades occur but the far leg is executed as an option or at a prevailing market price, the individual trades are priced as individual spot and forward trades.

Private equity positions are valued according to specific private equity valuation policies which follow IFRS and international guidelines. These items include private equity investments in individual enterprises and in funds.

Derivatives are estimated using either market prices, broker quotes or discounting future flows. Performance risk of the counterparts and correlation between counterpart and underlying performance may also be factored into valuation where applicable.

19.2 Fair value of financial instruments carried at amortised cost

The value of financial instruments not carried at fair value incorporates SB Plc's estimate of the amount at which SB Plc would be able to sell an asset or pay to transfer a liability in an orderly transaction between market participants at the measurement date. It does not reflect the costs / benefits that the company expects to measure on the flows generated over the expected life of the instrument. Other reporting entities may use different valuation methodologies and assumptions in determining fair values for which no observable market prices are available.

The fair values stated at a point in time may differ significantly from the amounts which will actually be paid on the maturity date or settlement dates of the instruments. In many cases, it will not be possible to realise immediately the estimated fair values.

The following methods and significant assumptions have been applied in determining the fair values:

- The fair value of demand deposits with no specific maturity is assumed to be the amount payable at the end of the reporting period.
- The fair value of the variable and fixed rate financial instruments carried at amortised cost is estimated by comparing interest rates when the loans were granted with current market interest rates and credit spreads on similar loans.
- The fair value of a loan reflects both loan impairments at the balance sheet date and estimates of market participants' expectations of credit losses over the life of the loans. For impaired loans, fair value is estimated by discounting the future cash flows over the time period they are expected to be recovered, which includes consideration of collateral.
- For secured loans and deposits arising from sale and repurchase agreements and for bond transactions that are due to settle on a date beyond the market norm (i.e. forward settlement), SB Plc receives collateral in the form of cash or securities. The collateral is valued using established valuation techniques and variation margin is called or paid. Carrying amounts therefore closely reflect fair values.

19.3 Overnight index based swap curves (OIS)

A number of market participants have changed inputs in the valuation methodology of certain products from the use of Libor rates to Overnight Index Swap rates (OIS) to reflect the nature of the cost of financing of the product. Most collateral balances on derivative trades are funded at an overnight rate and hence OIS curves are more relevant than traditional Libor curves for such trades.

As is the emerging practice amongst market participants, OIS discounting was considered in the valuation methodology for certain products. This market divergence from the use of Libor to OIS is to reflect the nature of the cost of financing the product. The application of OIS discounting can be divided into observable and non-observable markets. The observable OIS markets are mainly G4

currencies, with the non-observable markets being those in emerging market countries such as South Africa. SB Plc's valuation approach was divided and assessed along these lines. The assessment of the G4 currencies' exposure indicated immaterial valuation differences when compared to the Libor methodology, and consequently OIS was not applied in determining fair value. An assessment of the OIS market in South Africa confirmed that the OIS methodology is still evolving and is currently non-observable and the interbank offer rate is still the valuation method used for valuing derivatives in South Africa in line with the SBG approach.

19.4 Credit and debit valuation adjustments (CVA and DVA)

The methodology for estimating CVA and DVA has been revised as at 31 December 2013 as a result of changing market practices in response to regulatory and accounting changes. This revision did not have a significant impact on SB Plc's valuation adjustments. Credit valuation adjustments are taken against derivative exposures in order to reflect the potential current and future impact of counterparty performance with regards to these contracts.

The exposure upon which a provision is calculated is not the current replacement value in the balance sheet but rather an expectation of future exposures that counterparties will have to SB Plc. The typical calculation of a future exposure on a trade is based on a simulation of expected positive exposures performed to standard market methodologies.

For most products, the bank uses a simulation methodology to calculate the expected positive exposure to a counterparty. This incorporates a range of potential exposures across the portfolio of transactions with the counterparty over the life of the portfolio. The simulation methodology includes credit mitigants such as counterparty netting agreements and collateral agreements with the counterparty.

The methodologies do not, in general, account for 'wrong-way risk'. Wrong-way risk arises when the underlying value of the derivative prior to any CVA is positively correlated to the probability of default by the counterparty. When there is significant wrong-way risk, a trade-specific approach is applied to reflect the wrong-way risk within the valuation.

Own credit adjustments (DVA) on derivative instruments and credit linked notes are based on the expectation of future exposures that counterparties will have to SB Plc itself.

For derivative trades, CVA is calculated by applying the probability of default (PD) of the counterparty conditional on the non-default of the bank to the expected positive exposure to the counterparty and multiplying the result by the loss given default (LGD). Conversely, DVA is calculated by applying the PD of the bank, conditional on the non-default of the counterparty, to the expected exposure that the counterparty has to the bank and multiplying by the loss expected in the event of default. Both calculations are performed over the life of the potential exposure.

20 Classification of assets and liabilities

The tables that follow analyse financial instruments carried at the end of the reporting period by measurement basis. Fair values are determined for each balance sheet line item and classified into levels 1, 2 or 3, depending on its valuation basis. The different levels are based on the extent to which quoted prices are used in the calculation of the fair value of financial instruments and the levels have been defined as follows:

Level 1 - quoted market price: financial instruments with quoted prices for identical instruments in active markets that the bank can access at the measurement date.

Level 2 - valuation technique using observable inputs: financial instruments with quoted prices for similar instruments in active markets or quoted prices for identical or similar instruments in inactive markets and financial instruments valued using models where all significant inputs are observable.

Level 3 - valuation technique with significant unobservable inputs: financial instruments valued using valuation techniques where one or more significant inputs are unobservable.

All fair valued instruments are subjected to the independent price verification (IPV) process. Level 3 items are identified where the asset or liability contains a significant exposure to a parameter that is not directly observable in the market, e.g. credit spreads, discounts rates etc. Level 3 classification does not infer lack of comfort with the modelled price, but rather that a significant exposure within the pricing can not be directly tested to an observable exit price, or where the observation is indicative and not testable in an active market. Classification is always determined at an instrument and not portfolio level. Transfers between levels of the fair value hierarchy are deemed to occur at the end of the reporting period.

Notes to the annual financial statements *continued*

20 Classification of assets and liabilities continued

The tables that follow set out the group's classification of assets and liabilities, and their fair values.

	Note	Held-for-trading[1] $m	Designated at fair value $m	Loans and receivables $m	Available -for-sale $m	Other amortised cost $m	Other non-financial assets $m	Total carrying amount $m
31 December 2013								
Financial assets measured at fair value								
Derivative assets	4	**4 071.1**	-	-	-	-	-	**4 071.1**
Trading assets	5	**5 846.6**	-	-	-	-	-	**5 846.6**
Financial investments	6	-	-	-	**2.8**	-	-	**2.8**
Pledged assets	7	**623.3**	-	-	-	-	-	**623.3**
Assets held for sale to group companies	8	**14.5**	**4.1**	-	**22.9**	-	-	**41.5**
		10 555.5	**4.1**	-	**25.7**	-	-	**10 585.3**
Financial assets carried at amortised cost								
Balances with central banks	3	-	-	**1 343.8**	-	-	-	**1 343.8**
Assets held for sale to group companies	8	-	-	**440.8**	-	-	-	**440.8**
Loans and advances to banks	9	-	-	**3 013.9**	-	-	-	**3 013.9**
Loans and advances to customers	9	-	-	**2 764.5**	-	-	-	**2 764.5**
		-	-	**7 563.0**	-	-	-	**7 563.0**
Other non-financial assets		-	-	-	-	-	**430.7**	**430.7**
Total assets		**10 555.5**	**4.1**	**7 563.0**	**25.7**	-	**430.7**	**18 579.0**
Financial liabilities measured at fair value								
Derivative liabilities	4	**4 049.8**	-	-	-	-	-	**4 049.8**
Trading liabilities	15	**1 713.0**	-	-	-	-	-	**1 713.0**
Deposits from customers	16	-	**28.1**	-	-	-	-	**28.1**
		5 762.8	**28.1**	-	-	-	-	**5 790.9**
Financial liabilities carried at amortised cost								
Deposits from banks	16	-	-	-	-	**7 596.4**	-	**7 596.4**
Deposits from customers	16	-	-	-	-	**2 605.8**	-	**2 605.8**
Subordinated debt	18	-	-	-	-	**709.8**	-	**709.8**
		-	-	-	-	**10 912.0**	-	**10 912.0**
Other non-financial liabilities		-	-	-	-	-	**487.6**	**487.6**
Total liabilities		**5 762.8**	**28.1**	-	-	**10 912.0**	**487.6**	**17 190.5**

[1] Includes derivative assets and liabilities held for hedging. Refer to note 4.4.

	Level 1 $m	Level 2 $m	Level 3 $m	Other[1] $m	Total fair value $m
31 December 2013					
Financial assets measured at fair value					
Derivative assets	**636.4**	**3 311.8**	**122.9**	**-**	**4 071.1**
Trading assets	**1 186.2**	**4 222.4**	**438.0**	**-**	**5 846.6**
Financial investments	**-**	**2.3**	**0.5**	**-**	**2.8**
Pledged assets	**564.8**	**58.5**	**-**	**-**	**623.3**
Assets held for sale to group companies	**0.7**	**0.2**	**40.6**	**-**	**41.5**
	2 388.1	**7 595.2**	**602.0**	**-**	**10 585.3**
Financial assets carried at amortised cost					
Balances with central banks	**-**	**-**	**-**	**1 343.8**	**1 343.8**
Assets held for sale to group companies	**-**	**-**	**433.5**	**7.3**	**440.8**
Loans and advances to banks	**-**	**1 961.7**	**169.9**	**887.6**	**3 019.2**
Loans and advances to customers	**-**	**1 570.1**	**1 194.9**	**-**	**2 765.0**
	-	**3 531.8**	**1 798.3**	**2 238.7**	**7 568.8**
Financial liabilities measured at fair value					
Derivative liabilities	**571.8**	**3 277.0**	**201.0**	**-**	**4 049.8**
Trading liabilities	**201.3**	**950.7**	**561.0**	**-**	**1 713.0**
Deposits from customers	**-**	**28.1**	**-**	**-**	**28.1**
	773.1	**4 255.8**	**762.0**	**-**	**5 790.9**
Financial liabilities carried at amortised cost					
Deposits from banks	**-**	**426.9**	**5 458.8**	**1 711.0**	**7 596.7**
Deposits from customers	**-**	**253.0**	**2 353.1**	**-**	**2 606.1**
Subordinated debt	**-**	**742.1**	**-**	**-**	**742.1**
	-	**1 422.0**	**7 811.9**	**1 711.0**	**10 944.9**

There were no significant transfers between level 1 and level 2 in the current year.

[1] Represents cash and cash equivalents.

Notes to the annual financial statements *continued*

20 Classification of assets and liabilities continued

	Note	Held-for-trading[1] $m	Designated at fair value $m	Loans and receivables $m	Available-for-sale assets $m	Other amortised cost $m	Other non-financial assets $m	Total carrying amount $m
31 December 2012								
Financial assets measured at fair value								
Derivative assets	4	4 812.9	-	-	-	-	-	4 812.9
Trading assets	5	6 848.1	-	-	-	-	-	6 848.1
Financial investments	6	-	33.8	-	3.0	-	-	36.8
Pledged assets	7	503.7	-	-	-	-	-	503.7
Assets held for sale to group companies	8	-	-	-	-	-	-	-
Loans and advances to banks	9	-	17.1	-	-	-	-	17.1
Loans and advances to customers	9	-	30.9	-	-	-	-	30.9
		12 164.7	81.8	-	3.0	-	-	12 249.5
Financial assets carried at amortised cost								
Balances with central banks	3	-	-	2 228.2	-	-	-	2 228.2
Loans and advances to banks	9	-	-	3 067.4	-	-	-	3 067.4
Loans and advances to customers	9	-	-	3 045.4	-	-	-	3 045.4
		-	-	8 341.0	-	-	-	8 341.0
Other non-financial assets		-	-	-	-	-	500.5	500.5
Total assets		12 164.7	81.8	8 341.0	3.0	-	500.5	21 091.0
Financial liabilities measured at fair value								
Derivative liabilities	4	5 254.5	-	-	-	-	-	5 254.5
Trading liabilities	15	2 274.3	-	-	-	-	-	2 274.3
Deposits from banks	16	-	2.0	-	-	-	-	2.0
Deposits from customers	16	-	50.8	-	-	-	-	50.8
		7 528.8	52.8	-	-	-	-	7 581.6
Financial liabilities carried at amortised cost								
Deposits from banks	16	-	-	-	-	8 030.0	-	8 030.0
Deposits from customers	16	-	-	-	-	2 326.0	-	2 326.0
Subordinated debt	18	-	-	-	-	1 045.3	-	1 045.3
		-	-	-	-	11 401.3	-	11 401.3
Other non-financial liabilities		-	-	-	-	-	733.5	733.5
Total liabilities		7 528.8	52.8	-	-	11 401.3	733.5	19 716.4

[1] Includes derivative assets and liabilities held for hedging. Refer to note 4.4.

	Level 1 $m	Level 2 $m	Level 3 $m	Other[1] $m	Total fair value $m
31 December 2012					
Financial assets measured at fair value					
Derivative assets	998.6	3 547.9	266.4	-	4 812.9
Trading assets	2 303.5	3 833.7	710.9	-	6 848.1
Financial investments	4.1	3.4	29.3	-	36.8
Pledged assets	503.7	-	-	-	503.7
Assets held for sale to group companies	-	-	-	-	-
Loans and advances to banks	-	17.1	-	-	17.1
Loans and advances to customers	-	8.4	22.5	-	30.9
	3 809.9	7 410.5	1 029.1	-	12 249.5
Financial assets carried at amortised cost					
Balances with central banks	-	-	-	2 228.2	2 228.2
Loans and advances to banks	-	1 594.1	528.6	946.2	3 068.9
Loans and advances to customers	26.6	1 364.9	1 655.2	-	3 046.7
	26.6	2 959.0	2 183.8	3 174.4	8 343.8
Financial liabilities measured at fair value					
Derivative liabilities	1 039.5	3 968.2	246.8	-	5 254.5
Trading liabilities	384.0	1 298.0	592.3	-	2 274.3
Deposits from banks	-	2.0	-	-	2.0
Deposits from customers	-	50.8	-	-	50.8
	1 423.5	5 319.0	839.1	-	7 581.6
Financial liabilities carried at amortised cost					
Deposits from banks	-	624.3	5 151.1	2 265.3	8 040.7
Deposits from customers	-	-	2 326.7	-	2 326.7
Subordinated debt	-	1 080.8	-	-	1 080.8
	-	1 705.1	7 477.8	2 265.3	11 448.2

[1] Represents cash and cash equivalents.

Notes to the annual financial statements *continued*

21 Financial instruments measured at fair value

21.1 Valuation techniques used in determining the fair value of level 2 and level 3 instruments

The following table sets out SB Plc's principal valuation techniques used in determining the fair value of its financial assets and financial liabilities that are classified within levels 2 and 3.

	Valuation basis	Main assumptions	Level 2 2013 $m	Level 2 2012 $m	Level 3 2013 $m	Level 3 2012 $m
Net derivative instruments	Discounted cash flow model (DCF)	Discount rate	**40.8**	(225.9)	**(91.1)**	19.6
	Black Scholes model	Risk-free rate, volatility rate	**(6.8)**	(194.4)	**0.7**	-
	Other	EBITDA multiple approach	**0.8**	-	**12.3**	-
			34.8	(420.3)	**(78.1)**	19.6
Trading assets	DCF	Discount rate	**4 193.6**	3 833.7	**438.0**	710.9
	Other	Exchange price difference	**28.8**	-	**-**	-
			4 222.4	3 833.7	**438.0**	710.9
Financial investments	DCF	Discount rate, liquidity discount rate	**2.3**	3.4	**0.1**	-
	Earnings multiple	Earnings expectation	**-**	-	**-**	29.3
	Other	Net asset value	**-**	-	**0.4**	-
			2.3	3.4	**0.5**	29.3
Pledged assets	DCF	Discount rate, liquidity discount rate	**58.5**	3.4	**-**	-
Assets held for sale to group companies	DCF	Discount rate	**0.2**	-	**17.7**	-
	Other	Net asset value	**-**	-	**22.9**	-
			0.2	-	**40.6**	-
Loans and advances to banks	DCF	Discount rate	**-**	17.1	**-**	-
Loans and advances to customers	DCF	Discount rate	**-**	8.4	**-**	22.5
Trading liabilities	DCF	Discount rate	**(950.7)**	(1 298.0)	**(561.0)**	(592.3)
Deposits from banks	DCF	Discount rate	**-**	(2.0)	**-**	-
Deposits from customers	DCF	Discount rate	**(28.1)**	(50.8)	**-**	-
			3 339.4	2 094.9	**(160.0)**	190.0

21 Financial instruments measured at fair value continued

21.2 Reconciliation of level 3 financial instruments

2013 Group[1]	**Net derivative instruments $m**	**Trading assets $m**	**Financial investments $m**	**Assets held for sale $m**	**Loans and advances to customers $m**	**Trading liabilities $m**	**Total $m**
Balance at beginning of the year	**19.6**	**710.9**	**29.3**	**-**	**22.5**	**(592.3)**	**190.0**
Reclassified to held for sale	**(13.1)**	**(4.1)**	**(28.7)**	**68.4**	**(22.5)**	**-**	**-**
Total (losses) / gains included in trading revenue	**(91.1)**	**(49.9)**	**-**	**2.3**	**1.8**	**33.4**	**(103.5)**
- Realised	**(168.5)**	**(69.9)**	**-**	**7.3**	**1.8**	**73.5**	**(155.8)**
- Unrealised	**77.4**	**20.0**	**-**	**(5.0)**	**-**	**(40.1)**	**52.3**
Loss included in OCI	**-**	**-**	**(0.1)**	**-**	**-**	**-**	**(0.1)**
Purchases and issues	**54.8**	**95.2**	**-**	**-**	**-**	**(86.4)**	**63.6**
Sales and settlements	**(48.3)**	**(314.1)**	**-**	**(27.9)**	**(0.6)**	**128.9**	**(262.0)**
Transfers into level 3[2]	**-**	**-**	**-**	**-**	**-**	**(44.6)**	**(44.6)**
Transfers out of level 3[3]	**-**	**-**	**-**	**(2.2)**	**-**	**-**	**(2.2)**
Foreign exchange movements	**-**	**-**	**-**	**-**	**(1.2)**	**-**	**(1.2)**
Balance at end of the year	**(78.1)**	**438.0**	**0.5**	**40.6**	**-**	**(561.0)**	**(160.0)**

2012 Group[1]	Net derivative instruments $m	Trading assets $m	Financial investments $m	Assets held for sale $m	Loans and advances to customers $m	Trading liabilities $m	Total $m
Balance at beginning of the year	141.8	699.0	52.6	-	92.2	(753.0)	232.6
Total gains / (losses) included in trading revenue	11.4	2.6	(3.7)	-	(17.3)	(17.8)	(24.8)
- Realised	(23.8)	24.4	(0.2)	-	(21.7)	(8.3)	(29.6)
- Unrealised	35.2	(21.8)	(3.5)	-	4.4	(9.5)	4.8
Purchases and issues	2.0	215.5	-	-	-	(59.7)	157.8
Sales and settlements	8.7	(506.5)	(15.8)	-	(33.1)	243.0	(303.7)
Transfers into level 3[2]	(144.3)	300.3	-	-	-	(4.8)	151.2
Transfers out of level 3[3]	-	-	(3.8)	-	(22.6)	-	(26.4)
Foreign exchange movements	-	-	-	-	3.3	-	3.3
Balance at end of the year	19.6	710.9	29.3	-	22.5	(592.3)	190.0

[1] There are no material differences between group and company.

[2] The inputs of certain valuation models (e.g. credit curve) became unobservable and consequently the fair values were transferred into level 3.

[3] The inputs of certain valuation models became observable and consequently the fair values were transferred out of level 3.

21.3 Sensitivity of level 3 financial assets and liabilities

The fair value of level 3 financial instruments is determined using valuation techniques which incorporate assumptions based on unobservable inputs and are subject to management's judgement. Although SB Plc believes that its estimates of fair values are appropriate, changing one or more of these assumptions to reasonably possible alternative values could impact the fair value of the financial instruments. The table below indicates the effect that a change of unobservable inputs would have on profit or loss at the reporting date.

				Effect recorded in profit or loss			
				2013		2012	
Group[1]	**Valuation basis**	**Main assumptions**	**Variance in input**[2]	**Favourable $m**	**(Adverse) $m**	Favourable $m	(Adverse) $m
Net derivative instruments	DCF	Discount rate	(1%) - 1%	**6.8**	**(6.8)**	3.4	(3.4)
	Black Scholes model	Risk-free rate, volatility rate	(1%) - 1%	**0.1**	**(0.1)**	-	-
Trading assets	DCF	Discount rate	(1%) - 1%	**18.7**	**(18.7)**	19.8	(19.8)
Financial investments[3]	Other	Net asset value	(1%) - 1%	**-**	**-**	0.3	(0.3)
Assets held for sale	DCF	Discount rate	(1%) - 1%	**0.2**	**(0.2)**	-	-
Loans and advances to customers	DCF	Discount rate	(1%) - 1%	-	**-**	0.2	(0.1)
Trading liabilities	DCF	Discount rate	(1%) - 1%	**5.9**	**(5.9)**	16.5	(16.5)

[1] There is not a material difference between group and company.
[2] Indicates the change in unobservable input.
[3] At the reporting date, a change of 1 percentage point in the net asset value would have had a less than US$0.1 million impact on other comprehensive income.

Level 3 instruments contain sensitivities to both observable and non-observable parameters. The table above measures the sensitivity to non-observable parameters only. These positions are risk managed using various instruments of which the associated gains or losses are not reflected in the table above.

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

22.1 Loans and advances

SB Plc's maximum exposure to credit risk for loans and advances designated at fair value through profit or loss is US$4.1 million (2012: US$48.0 million).

Fair value changes attributable to changes in credit risk on loans and advances designated at fair value through profit or loss amounted to a profit of US$10.7 million (2012: US$17.3 million loss).

The change in fair value of the designated loans and advances attributable to changes in their credit risk is determined as the amount of change in fair value that is not attributable to changes in market conditions.

22.2 Deposit and current accounts

At the reporting date US$28.1 million (2012: US$52.8 million) of deposit and currents accounts were designated at fair value through profit and loss (note 20). The change in fair value of the deposit and current accounts designated at fair value through profit or loss is attributable to changes in interest rate risk.

The amount SB Plc would contractually be required to pay at maturity of the deposits designated at fair value through profit or loss amounts to US$27.9 million (2012: US$51.1 million).

23 Reclassification of financial assets

Amounts reclassified from held for trading to loans and receivables at amortised cost

Following the amendments to IAS 39 and IFRS 7 'Reclassification of Financial Assets', SB Plc reclassified assets from held-for-trading to loans and receivables for which there was a clear change of intent to hold the assets for the foreseeable future rather than to exit or trade in the short term. SB Plc did not reclassify any such assets during the current year.

	2013 $m	2012 $m
Carrying value of reclassified financial assets at end of the year	**24.2**	47.7
Fair value of reclassified financial assets at end of the year	**20.7**	38.4
If the reclassification had not been made, the profit and loss would have included an unrealised fair value gain of US$3.8 million (2012: unrealised loss of US$2.2 million).		
The table below sets out the amounts actually recognised in profit or loss:		
Period after reclassification		
Net interest (expense) / income	**(0.4)**	5.2
Credit impairment recovery	**0.6**	5.0
Net income	**0.2**	10.2

The loans in the portfolio are assessed for credit impairments in terms of the credit policy set out in note 33.

24 Offsetting of financial assets and financial liabilities

Financial assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to set-off the recognised amounts and there is an intention to settle the asset and the liability on a net basis, or to realise the asset and settle the liability simultaneously. Certain derivative assets and liabilities met this criteria and US$1 616.8 million was offset in the current year.

SB Plc also receives and places collateral in the form of cash and marketable securities in respect of derivative transactions, sale and repurchase agreements, and reverse sale and repurchase agreements. Such collateral is subject to the standard industry terms of ISDA Credit Support Annex. This means that securities received or given as collateral can be pledged or sold during the term of the transaction but must be returned on maturity of the transaction. The terms also give each counterparty the right to terminate the related transactions upon the counterparty's failure to post collateral. In certain circumstances, for example when a credit event such as a default occurs, all outstanding transactions under the agreement are terminated, the termination value is assessed and only a single net amount is due or payable in settlement of all transactions.

The disclosure set out in the tables that follow reflect financial assets and liabilities that have been offset in the balance sheet in accordance with IAS 32 as well as financial instruments that are subject to enforceable master netting arrangements or similar agreements, irrespective of whether they have been offset in the balance sheet. There are no measurement differences in the assets and liabilities presented on the next page.

24 Offsetting of financial assets and financial liabilities continued

Financial assets and liabilities subject to offsetting, enforceable master netting arrangements and similar agreements	Gross $m	Amounts offset in the balance sheet $m	Net amounts included in the balance sheet $m	Amounts that could be offset in the event of counterparty default[1] Financial instruments $m	Cash collateral received / pledged $m	Net amount $m
2013						
Assets in scope						
Derivative assets	**5 700.2**	**(1 616.8)**	**4 083.4**	**(2 817.3)**	**(291.1)**	**975.0**
Commodity reverse repurchase agreements	**1 448.3**	**-**	**1 448.3**	**(1 448.3)**	**-**	**-**
Loans granted under resale agreements - Banks	**1 956.7**	**-**	**1 956.7**	**(1 882.2)**	**(35.6)**	**38.9**
Loans granted under resale agreements - Customers	**1 569.6**	**-**	**1 569.6**	**(1 552.5)**	**(8.5)**	**8.6**
Total financial assets in scope	**10 674.8**	**(1 616.8)**	**9 058.0**	**(7 700.3)**	**(335.2)**	**1 022.5**
Liabilities in scope						
Derivative liabilities	**5 666.6**	**(1 616.8)**	**4 049.8**	**(2 817.3)**	**(288.8)**	**943.7**
Commodity repurchase agreements	**36.3**	**-**	**36.3**	**(36.3)**	**-**	**-**
Repurchase agreements - Deposits from banks	**426.9**	**-**	**426.9**	**(351.2)**	**(32.6)**	**43.1**
Repurchase agreements - Deposits from customers	**253.0**	**-**	**253.0**	**(240.9)**	**(8.2)**	**3.9**
Total financial liabilities in scope	**6 382.8**	**(1 616.8)**	**4 766.0**	**(3 445.7)**	**(329.6)**	**990.7**

[1] Offsetting has not been applied and financial instruments are presented on a gross basis in the balance sheet.

Reconciliation of net amounts included in the balance sheet:	Note	Amounts disclosed in the notes $m	Amounts reclassified as held for sale $m	Amounts disclosed in table above $m
2013				
Derivative assets	4	**4 071.1**	**12.3**	**4 083.4**
Commodity reverse repurchase agreements	5	**1 448.3**	**-**	**1 448.3**
Loans granted under resale agreements - Banks	9	**1 956.7**	**-**	**1 956.7**
Loans granted under resale agreements - Customers	9	**1 569.6**	**-**	**1 569.6**
Derivative liabilities	4	**4 049.8**	**-**	**4 049.8**
Commodity repurchase agreements	15	**36.3**	**-**	**36.3**
Repurchase agreements - Deposits from banks	16	**426.9**	**-**	**426.9**
Repurchase agreements - Deposits from customers	16	**253.0**	**-**	**253.0**

24 Offsetting of financial assets and financial liabilities continued

Financial assets and liabilities subject to offsetting, enforceable master netting arrangements and similar agreements	Gross $m	Amounts offset in the balance sheet $m	Net amounts presented in the balance sheet $m	Amounts that could be offset in the event of counterparty default[1] Financial instruments $m	Cash collateral received / pledged $m	Net amount $m
2012						
Assets in scope						
Derivative assets	8 704.2	(3 891.3)	4 812.9	(3 067.9)	(344.6)	1 400.4
Commodity reverse repurchase agreements	1 877.0	-	1 877.0	(1 644.5)	(118.2)	114.3
Loans granted under resale agreements - Banks	1 592.9	-	1 592.9	(1 282.5)	(181.7)	128.7
Loans granted under resale agreements - Customers	1 363.9	-	1 363.9	(1 313.8)	(46.2)	3.9
Total financial assets in scope	13 538.0	(3 891.3)	9 646.7	(7 308.7)	(690.7)	1 647.3
Liabilities in scope						
Derivative liabilities	9 145.8	(3 891.3)	5 254.5	(3 067.9)	(488.7)	1 697.9
Commodity repurchase agreements	1 052.3	-	1 052.3	(864.1)	-	188.2
Repurchase agreements - Deposits from banks	624.3	-	624.3	(419.2)	(181.7)	23.4
Repurchase agreements - Deposits from customers	183.8	-	183.8	(121.6)	(45.4)	16.8
Total financial liabilities in scope	11 006.2	(3 891.3)	7 114.9	(4 472.8)	(715.8)	1 926.3

[1] Offsetting has not been applied and financial instruments are presented on a gross basis in the balance sheet.

Reconciliation of net amounts included in the balance sheet:	Note	Amounts disclosed in the notes $m	Amounts reclassified as held for sale $m	Amounts disclosed in table above $m
2012				
Derivative assets	4	4 812.9	-	4 812.9
Commodity reverse repurchase agreements	5	1 877.0	-	1 877.0
Loans granted under resale agreements - Banks	9	1 592.9	-	1 592.9
Loans granted under resale agreements - Customers	9	1 363.9	-	1 363.9
Derivative liabilities	4	5 254.5	-	5 254.5
Commodity repurchase agreements	15	1 052.3	-	1 052.3
Repurchase agreements - Deposits from banks	16	624.3	-	624.3
Repurchase agreements - Deposits from customers	16	183.8	-	183.8

Notes to the annual financial statements *continued*

25 Ordinary share capital

	2013 $m	2012 $m
Issued and fully paid		
2 'A' ordinary shares of US$1 each (2012: 2)	**-**	-
1 083 408 349 ordinary shares of US$1 each (2012: 1 083 408 349)	**1 083.4**	1 083.4
50 000 ordinary shares of £1 each (2012: 50 000)	**0.1**	0.1
	1 083.5	1 083.5

	2013 Number	2012 Number
Reconciliation of ordinary shares issued		
Shares in issue at beginning of the year	**1 083 458 351**	1 083 458 351
- Shares with par value of £1 each	**50 000**	50 000
- Shares with par value of US$1 each	**1 083 408 351**	1 083 408 351
Shares in issue at end of the year	**1 083 458 351**	1 083 458 351
- Shares with par value of £1 each	**50 000**	50 000
- Shares with par value of US$1 each	**1 083 408 351**	1 083 408 351

The rights of the ordinary shares and the 'A' ordinary shares are identical with regard to voting rights and amounts receivable upon winding up. The 'A' ordinary shares carry a preferential right to dividends, the extent of which may be determined by the directors at their complete discretion.

In line with the change in the Companies Act 2006, the company's articles have been amended to cancel the existing authorised share capital. The directors are generally and unconditionally authorised at any time during a period of five years to allot or to grant any rights to subscribe for or to convert any security into shares up to an aggregate nominal amount of £300 million and US$1 000 million.

26 Contingent liabilities and commitments

Group and company

26.1 Contingent liabilities

	2013 $m	2012 $m
Guarantees	**41.3**	149.2
Letters of credit	**362.4**	479.6
	403.7	628.8

Loan commitments that are irrevocable over the life of the facility or revocable only in response to material adverse changes are included in the risk management section on page 90.

26.2 Operating lease commitments

The future minimum payments under non-cancellable operating leases are as follows:

	2013 $m	2012 $m
Properties		
Within 1 year	**13.5**	13.4
After 1 year but within 5 years	**44.7**	47.5
After 5 years	**58.2**	71.1
	116.4	132.0

26 Contingent liabilities and commitments continued

26.3 Legal proceedings

From time to time, SB Plc is involved in litigation or receives claims arising from the conduct of its business which can require SB Plc to engage in legal proceedings in order to enforce contractual rights.

The company is in receipt of a claim from a former borrower under certain long term non-performing loan facilities for alleged overpayments of fees, interest and default interest. The facilities were repaid in September 2012. The amount of the claim has not been quantified by the claimant, but would appear to be in the region of US$5.0 million to US$50.0 million. SB Plc believes the company has robust defences to the claim asserted against it and intends to defend itself vigorously.

Whilst recognising the inherent difficulty of predicting the outcome of legal proceedings, the directors believe, based upon current knowledge and after consulting with legal counsel, that the legal proceedings currently pending against it should not have a material adverse effect on the consolidated financial position.

27 Supplementary income statement information

Group

	2013 $m	2012 $m
27.1 Interest income[1]		
Interest on loans and advances and short-term funds	**84.9**	193.0
	84.9	193.0
Comprising:		
Continuing operations	**68.3**	77.2
Discontinued operations	**16.6**	115.8
	84.9	193.0
Included above are the following amounts received from related parties:		
Group undertakings - fellow subsidiaries	**4.1**	3.8
27.2 Interest expense[2]		
Subordinated debt	**47.9**	54.0
Other interest-bearing liabilities	**43.7**	79.8
	91.6	133.8
Comprising:		
Continuing operations	**67.7**	71.3
Discontinued operations	**23.9**	64.5
	91.6	135.8
Included above are the following amounts paid to related parties:		
Group undertakings - fellow subsidiaries	**49.9**	95.1

[1] All interest income reported above relates to financial assets not carried at fair value through profit or loss.
[2] All interest expense reported above relates to financial liabilities not carried at fair value through profit or loss.

27 Supplementary income statement information continued

	2013 $m	2012 $m
27.3 Non-interest revenue		
Net fees, commission and revenue sharing arrangements[1]	**183.3**	188.5
Trading revenue	**238.9**	233.2
- Commodities	**188.0**	165.4
- Debt securities	**42.6**	39.5
- Equities	**1.4**	7.6
- Foreign exchange	**6.9**	20.7
Other revenue	**(0.3)**	81.2
- Gain on disposal of shares in London Metal Exchange	**-**	43.7
- Net fair value (losses) / gains on unlisted equities	**(0.6)**	2.4
- Gain on disposal of loan	**0.3**	-
- Gain on disposal of other unlisted equity holdings	**-**	35.1
	421.9	502.9
Comprising:		
Continuing operations	**216.1**	218.3
Discontinued operations	**205.8**	284.6
	421.9	502.9

[1] Revenue sharing arrangements include receipts of US$267.1 million (2012: US$267.5 million) and payments of US$99.1 million (2012: US$122.5 million), to and from SBG companies.

	2013 $m	2012 $m
Interest and dividend income included in trading revenue		
Net interest income	**109.0**	67.9
Dividend income	**-**	2.2
	109.0	70.1
Included in net fee and commissions are the following amounts with related parties:		
Group undertakings - fellow subsidiaries	**167.3**	146.1
27.4 Credit impairment charges		
Net credit impairments released / (raised)	**20.4**	(142.6)
- Specific impairments raised (note 9.2)	**(6.3)**	(174.7)
- Specific impairment recoveries in assets classified as held for sale	**26.7**	-
- Portfolio impairments released (note 9.2)	**-**	32.1
Exclude: credit impairment (recoveries) / charges in discontinued operations (note 1)	**(26.7)**	132.0
Credit impairments raised in continuing operations	**(6.3)**	(10.6)
Recoveries on loans and advances previously written off	**-**	0.1
Net credit impairment charges in continuing operations	**(6.3)**	(10.5)

27 Supplementary income statement information continued

	2013 $m	2012 $m
27.5 Staff costs		
Salaries and allowances	**209.8**	268.2
Other direct staff costs	**18.3**	25.6
Long-term incentive schemes	**45.5**	49.7
Retirement benefit costs	**11.3**	12.3
	284.9	355.8
Comprising:		
Continuing operations	**136.8**	175.0
Discontinued operations	**148.1**	180.8
	284.9	355.8

The following table indicates the average number of persons employed:

	Group		Company	
	2013 Number	2012 Number	**2013 Number**	2012 Number
Key management	**12**	15	**12**	15
Other	**945**	1 174	**921**	1 149
	957	1 189	**933**	1 164

	2013 $m	2012 $m
27.6 Other operating expenses		
Amortisation of intangible assets (note 13)	**15.6**	26.3
Auditors' remuneration	**2.0**	10.7
Audit of Standard Bank Plc company	**1.2**	1.3
Audit of subsidiary	**0.2**	0.1
Audit related assurance services	**0.3**	0.3
All other services	**0.3**	9.0
Depreciation (note 14.2)	**8.5**	10.5
Computer equipment	**2.9**	4.4
Motor vehicles	**-**	0.1
Office equipment	**0.4**	0.5
Furniture and fittings	**5.2**	5.5
Operating lease charges - Properties	**12.0**	12.0
Information technology and communication	**28.8**	39.2
Premises	**7.3**	11.8
Other expenses	**77.8**	106.7
	152.0	217.2
Comprising:		
Continuing operations	**103.1**	145.5
Discontinued operations	**48.9**	71.7
	152.0	217.2
27.7 Indirect taxation		
Value added tax	**6.1**	18.5
Duties and other indirect taxes	**-**	0.5
	6.1	19.0
Comprising:		
Continuing operations	**6.1**	17.5
Discontinued operations	**-**	1.5
	6.1	19.0

27 Supplementary income statement information continued

27.8 Restructuring costs

SB Plc's business model developed significantly in recent years and included a reduction in geographic reach, a migration of risk and the implementation of an integrated operating model with South Africa. As a result of these changes, restructuring costs were incurred in 2012 which included a redundancy program, the suspension of IT projects and reductions in floor space usage. The redundancy costs included all salary costs, benefits and severance packages of employees placed at risk.

	2013 $m	2012 $m
Impairment of intangible assets	-	25.1
Onerous lease provision	-	6.6
Redundancy costs	-	42.2
	-	73.9
Comprising:		
Continuing operations	-	52.5
Discontinued operations	-	21.4
	-	73.9

27.9 Long-term incentive schemes

27.9.1 Quanto stock unit plan

Since 2007, SB Plc has operated a deferred incentive arrangement in the form of the Quanto stock unit plan. Qualifying employees, with an incentive award above a set threshold are awarded Quanto stock units denominated in US$ for nil consideration, the value of which moves in parallel to the change in price of the SBG shares listed on the Johannesburg Stock Exchange. The cost of the award is accrued over the vesting period (generally three years), normally commencing the year in which these are awarded and communicated to employees. Awards prior to 2011 can be exercised within 10 years, 2011 awards can be exercised within the longest vesting period and awards after 2011 will be exercised on vesting. Units granted since 1 January 2012 do not allow for incremental payments to employees in service for 4 years. A description of the underlying accounting principles is disclosed in accounting policy 14 'Long-term incentive schemes'.

The provision in respect of liabilities under the scheme amounts to US$95.3 million as at 31 December 2013 (2012: US$116.8 million), and the charge for the year is US$44.6 million (2012: US$53.1 million). The change in liability due to the change in the SBG share price is hedged through the use of equity options designated as a cash flow hedge.

	2013 Units	2012 Units
Units outstanding at beginning of the year	**1 038 766**	984 231
Granted[1]	**349 269**	439 440
Transferred in	**1 127**	24 496
Exercised	**(492 533)**	(399 800)
Leavers / lapses	**(101 740)**	(9 601)
Units outstanding at end of the year	**794 889**	1 038 766
Of which relates to key management	**106 741**	198 182

[1] The nominal value at time of issue was US$40.3 million (2012: US$53.9 million), of which US$25.1 million was recognised as an expense in the current year (2012: US$30.6 million).

Notes to the annual financial statements *continued*

27 Supplementary income statement information continued

27.9 Long-term incentive schemes continued

27.9.1 Quanto stock unit plan continued

The following Quanto stock units granted to employees had not been exercised at 31 December:

Expiry year[1]	2013 Units	2012 Units
2014	**40 393**	-
2015	**183 310**	292 088
2016	**256 103**	380 790
2017	**241 443**	-
2018	**7 050**	30 381
2019	**9 353**	132 281
2020	**57 237**	203 226
	794 889	1 038 766

[1] The units vest at various intervals between the reporting date and the expiry period.

At 31 December 2013, the unrecognised compensation cost related to the unvested Quanto awards amounted to US$64.6 million (2012: US$62.0 million). This represents the accumulated amount deferred on awards issued in 2013 and previous years. The vesting of these awards is expected to occur as follows:

	2013 $m	2012 $m
Year ending 31 December 2013	**-**	40.5
Year ending 31 December 2014	**41.6**	16.5
Year ending 31 December 2015	**17.1**	4.5
Year ending 31 December 2016	**5.3**	0.5
Year ending 31 December 2017	**0.6**	-
	64.6	62.0

Quanto stock units of US$43.3 million have been approved for issue in March 2014. These awards will have four vesting periods: 6 months, 12 months, 24 months and 36 months.

27.9.2 SBG equity scheme

Certain employees are granted share options under the SBG equity-settled share-based scheme. The outstanding award value under the SBG share scheme amounts to US$9.0 million (2012: US$10.0 million), and the amount charged for the year is US$0.9 million (2012: US$1.3 million).

	2013 Units	2012 Units
Options outstanding at beginning of the year	**2 319 663**	2 779 588
Transfers in	**14 137**	-
Exercised	**(627 975)**	(367 175)
Leavers / lapses	**(101 200)**	(92 750)
Options outstanding at end of the year	**1 604 625**	2 319 663
Of which relates to key management	**219 450**	684 400

Share options were exercised regularly throughout the year, other than during closed periods. The average share price for the year was ZAR115.08.

27 Supplementary income statement information continued

27.9 Long-term incentive schemes continued

27.9.2 SBG equity scheme continued

The following options granted to employees had not been exercised at 31 December:

Options expiry period	Option price range per share (ZAR)	2013 Units	2012 Units
Year to December 2015	60.35 - 65.50	**25 000**	45 000
Year to December 2016	79.50 - 81.00	**189 500**	313 263
Year to December 2017	92.05 - 107.91	**212 125**	309 250
Year to December 2018	89.00 - 92.00	**260 200**	454 350
Year to December 2019	62.39 - 65.00	**370 900**	525 300
Year to December 2020	111.94	**209 400**	247 500
Year to December 2021	98.80	**337 500**	425 000
		1 604 625	2 319 663

27.10 Directors' emoluments

Executive directors[1]	2013 $m	2012 $m
Emoluments of directors in respect of services rendered		
Emoluments	**2.2**	2.5
Proceeds from exercise of share-based incentives	**2.0**	2.7
Pension contribution	**0.1**	0.1
Highest paid director		
Emoluments	**1.1**	1.0
Proceeds from exercise of share-based incentives	**1.6**	2.3
Number of directors for whom pension contributions are paid	**2**	2

[1] Compensation relates to services rendered to SB Plc.

Long-term benefits under the Quanto stock unit plan	2013 Units	2012 Units
Number of units brought forward	**49 270**	49 310
Issued during the year	**18 187**	28 215
New directors existing units	**11 703**	-
Leavers	**(27 119)**	-
Exercised	**(20 529)**	(28 255)
As at 31 December	**31 512**	49 270

Long-term benefits under the SBG equity-settled share-based scheme	2013 Units	2012 Units
Number of options brought forward	**310 650**	310 650
New directors existing units	**41 250**	-
Leavers	**(178 150)**	-
Exercised	**(3 700)**	-
As at 31 December	**170 050**	310 650

27.11 Company profits

As permitted by section 408 of the Companies Act 2006, the company's statement of comprehensive income has not been presented. The company loss of US$10.8 million (2012: US$345.4 million loss) has been included in the consolidated income statement.

27.12 Dividends

No dividends were declared in 2013 (2012: nil).

28 Income tax charge

	2013 $m	2012 $m
Current year tax (charge) / credit	**(4.4)**	(32.4)
- UK corporation tax	**-**	-
- UK deferred tax	**(1.2)**	(26.5)
Origination and reversal of temporary differences	**1.6**	(22.7)
Impact of change in tax rate	**(2.8)**	(3.8)
- Overseas tax	**(5.1)**	(5.0)
- Overseas deferred tax	**1.9**	(0.9)
Prior years	**(0.3)**	0.1
- UK corporation tax	**-**	1.8
- Overseas tax	**(0.3)**	(1.7)
Total tax charge	**(4.7)**	(32.3)
Comprising:		
Continuing operations	**(4.2)**	(1.9)
Discontinued operations (note 1)	**(0.5)**	(30.4)
	(4.7)	(32.3)

UK tax rate reconciliation

The change in the UK corporation tax rate from 24% to 23% with effect from 1 April 2013 gave rise to a blended tax rate for 2013 of 23.25% (2012: 24.5%). A further reduction in the tax rate to 21% with effect from 1 April 2014 and 20% with effect from 1 April 2015 has been enacted. The group applied 20% to all UK temporary differences expected to reverse after 1 April 2015.

The differences between the blended rate and effective rate are explained on page 77.

28 Income tax charge continued

	2013 **$m**	2012 $m
(Loss) / profit before taxation		
Continuing operations	**(35.6)**	(176.8)
Discontinued operations (note 1)	**28.2**	(123.3)
	(7.4)	(300.1)
Tax credit at the standard rate of 23.25% (2012: 24.5%)	**1.7**	73.5
Effects of:		
Adjustment to tax in respect of prior years	**(0.3)**	0.1
Temporary differences previously not recognised	**0.3**	2.3
Different tax rates in other countries	**(0.1)**	(0.1)
Non-deductible expenses	**(3.5)**	(6.3)
Re-measurement of deferred tax (impact of change in tax rate)	**(2.8)**	(3.8)
Deferred tax asset written off	**-**	(26.6)
Tax losses for which no deferred tax asset was recognised	**-**	(71.4)
Tax charge included in the income statement	**(4.7)**	(32.3)
Effective tax rate	**(63.5%)**	(10.8%)

29 Discontinued operations

On 8 November 2013, SBG announced the intention to sell a majority interest in SB Plc, the principal entity which houses the Global Markets business outside Africa. On 29 January 2014, SBG and ICBC entered into a sale and purchase agreement involving the London-based Global Markets business. ICBC will acquire 60 per cent of SB Plc and SBG's operations in the United States and Singapore. Completion of the transaction is subject to all the necessary regulatory approvals and requires a series of steps to craft SB Plc as the platform for a focused Global Markets business.

Other activities performed in SB Plc, comprising Investment Banking, Transactional Products and Services, Corporate Banking, Personal and Business Banking International and the Service Unit, are not part of the transaction and will be transferred to SBG entities. Standard Bank Plc and its subsidiaries will be renamed on completion of the transaction to reflect the joint ownership of the Outside Africa Global Markets business.

The intended disposal resulted in SB Plc classifying the excluded businesses as discontinued operations, as required by IFRS, which are shown as a single amount on the face of the income statement. The operating result of the discontinued operations is disclosed in note 1.

The discontinued business units contributed US$54.7 million (2012: US$71.9 million) to SB Plc's net operating cash flows.

Notes to the annual financial statements *continued*

	Group		Company	
	2013	2012	**2013**	2012
	$m	$m	**$m**	$m
30 Notes to the cash flow statement				
30.1 Decrease in income-earning assets				
Trading assets	**1 001.5**	(307.1)	**931.8**	(245.7)
Pledged assets	**(119.6)**	(376.9)	**(119.6)**	(376.9)
Assets held for sale to group companies	**(484.5)**	-	**(482.9)**	-
Financial investments	**33.9**	34.1	**54.0**	31.7
Loans and advances	**307.4**	6 339.6	**288.2**	6 354.7
Other assets	**52.2**	(5.6)	**13.7**	(13.3)
	790.9	5 684.1	**685.2**	5 750.5
30.2 Decrease in deposits and other liabilities				
Net derivative instruments	**(441.3)**	118.2	**(423.1)**	128.8
Trading liabilities	**(561.3)**	141.0	**(561.3)**	141.0
Deposits and current accounts	**(168.9)**	(4 065.8)	**(174.2)**	(4 084.7)
Other liabilities	**(293.5)**	10.5	**(277.7)**	7.8
	(1 465.0)	(3 796.1)	**(1 436.3)**	(3 807.1)
30.3 Tax (paid) / received				
Amounts (unpaid) / due at beginning of the year	**(5.9)**	8.2	**(0.1)**	14.3
Income tax (charge) / credit	**(4.7)**	(4.9)	**(3.5)**	0.9
Amounts unpaid at end of the year	**8.2**	5.9	**0.1**	0.1
	(2.4)	9.2	**(3.5)**	15.3
30.4 Cash and cash equivalents				
Balances with central banks	**1 343.8**	2 228.2	**1 343.8**	2 228.2
Other cash equivalents (included in loans and advances)[1]	**894.9**	946.2	**800.5**	933.4
Cash and cash equivalents at end of the year	**2 238.7**	3 174.4	**2 144.3**	3 161.6

[1] Other cash equivalents have been redefined to represent cash placements with deposit taking banks. Accordingly other cash equivalents, reported under loans and advances, have been restated from US$846.0 million to US$946.2 million for the group and from US$809.3 million to US$933.4 million for the company.

31 Related party transactions

31.1 Subsidiaries

The subsidiary company listed in note 12 comprises a limited part of SB Plc's activities and transactions with the entity are not significant. The principal nature of the transactions are payments for business introduced and trading facilitation activities. Intercompany transactions, balances and unrealised surpluses and deficits are eliminated on consolidation.

31.2 Fellow subsidiaries

SB Plc enters into transactions with other entities forming part of SBG. The transactions are entered into in the course of banking operations and are conducted in the ordinary course of business at arm's length. These transactions include lending, acceptance of interbank deposits and correspondent banking transactions. The transactions are priced at the prevailing market rates at the time of the transactions. A significant portion of this activity reflect amounts received under transfer pricing arrangements as well as the placement of excess liquidity by other entities with the company. The extent of these activities is presented in note 16. As part of its normal activities SB Plc also advances funds to other SBG entities, the extent of which is disclosed in note 9.

Collateralised guarantee transactions

In recent years, a number of collateralised guarantee transactions have been entered into with SBSA, of which US$21.6 million (2012: US$34.2 million) remains outstanding as at the reporting date. Under the transaction, SBSA provides financial guarantees to the company and places a deposit for the value of the loan exposure which is assigned as collateral for the obligations under the guarantee contract. Under IFRS, the loan exposure is not derecognised, with the deposit recognised on the balance sheet and guarantee fees being accrued over the life of the deal.

Loss on disposal of loan portfolio

The Investment Banking loan portfolio was transferred to Standard Bank of South Africa (SBSA) in 2012 as part of the change in business model in which SBSA is used as a central balance sheet. A total net carrying amount of US$913.1 million was transferred at fair value, resulting in a US$51.8 million loss on transfer. The loss arose as the loans were carried at recoverable value (amortised cost less impairments) and not at fair value.

31.3 Key management compensation

Key management comprises directors and the members of the governance committee of the principal operating entities.

	2013 Directors and key management $m	2012 Directors and key management $m
Salaries and other short-term benefits	**8.7**	9.7
Long-term incentives recognised in the income statement	**3.0**	3.0
Amounts included in the income statement	**11.7**	12.7
Gains on the exercise of long-term incentives	**9.9**	5.0

There were no other transactions with key management in 2013 (2012: nil).

32 Pensions and other post-retirement benefits

SB Plc makes defined contributions to employees' pension providers. The assets of these providers are held separately from the company. Included in staff costs are contributions paid for pensions and other post-retirement benefits which amounted to US$11.3 million (2012: US$12.3 million). There were no outstanding contributions at the end of the reporting period (2012: nil).

33 Financial risk management

33.1 Overview and executive summary

The effective management of risk within the stated risk appetite is fundamental to the banking activities of Standard Bank Plc and its subsidiaries (hereafter referred to as SB Plc). SB Plc seeks to achieve a measured balance between risk and reward in the businesses as described below. In this regard, SB Plc continues to build and enhance the risk management capabilities that assist in delivering growth plans in a controlled environment.

Risk management is at the core of the operating and management structures of SB Plc. Managing and controlling risks, and in particular avoiding undue concentrations of exposure, limiting potential losses from stress events, restricting significant positions in less quantifiable risk areas and constraining profit or loss volatility are essential elements of risk management and the control framework which serve to protect SB Plc's reputation and business franchise.

Overall responsibility for risk management within SB Plc rests with the Board of Directors (the Board). Accountability for risk management resides at all levels within SB Plc, from the executive down through the organisation to each business manager and risk specialist. The three lines of defence model is embedded in SB Plc's operating model.

In the first line of defence, business unit management is primarily responsible for risk management. The assessment, evaluation and measurement of risk is an ongoing process which is integrated into day-to-day business activities. This includes the continued development of SB Plc's operational risk management framework, identification of material issues and the implementation of remedial action where required. Business unit management is also accountable for appropriate reporting to the various governance bodies within SB Plc.

The second line of defence is represented by SB Plc's risk management function which is independent of line management within the business areas. The risk function is primarily accountable for establishing and maintaining SB Plc's risk management framework, standards and supporting policies, as well as for providing risk oversight and independent reporting of risk to executive management, board level committees and to the Board.

The third line of defence consists of internal audit which provides an independent assessment of the adequacy and effectiveness of SB Plc's overall system of internal control and risk governance structures. The audit function reports independently to both the Standard Bank Group (SBG) and SB Plc board audit committees.

The year under review

The year has again proved to be highly volatile, particularly in emerging markets and commodities. Attention shifted from the threat of a Eurozone breakup to when central banks globally would begin tightening ultra-loose monetary policy and the impact this would have on emerging markets in particular. Trading conditions have remained challenging throughout the year, with the second quarter especially difficult for emerging markets after the US Federal Reserve announced it may begin tapering quantitative easing earlier than expected. This resulted in markets experiencing significant dislocation with sharp intra-day falls in commodities such as gold. In light of potential monetary tightening, several key emerging economies such as South Africa, Turkey, India and Brazil have seen a slowdown in growth levels and currency weakness. The impact of monetary tightening and US debt ceiling negotiations will continue to weigh on emerging markets and commodities into 2014.

33.2 Risk management framework

Governance structure

Overall responsibility for risk management within SB Plc rests with the Board. Day-to-day responsibility is delegated to the governance committee and its sub-committees which review, inter alia, summaries of market, liquidity, credit, operational, country and regulatory risks.

The Board also delegates certain functions and responsibilities to the board audit committee (BAC) and the board risk management committee (BRMC).

Risk governance standards, policies and procedures

SB Plc has developed a set of risk governance standards for each major risk type to which it is exposed, as well as a standard for capital management. The standards set out minimum control requirements and are designed to ensure alignment and consistency in the manner in which the major risk types and capital management metrics across SB Plc are dealt with, from identification to reporting. All standards are applied consistently across the SBG and are approved by the BRMC. It is the responsibility of executive management in each business line to ensure the implementation of risk and capital management standards. Supporting policies and procedures are implemented by the management team and independently monitored by embedded risk resources. Compliance with risk standards is controlled through annual self-assessments and independent reviews by the second line of defence risk functions.

Risk appetite

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

The Board establishes the parameters for risk appetite by:

- providing strategic leadership and guidance;
- reviewing and approving annual budgets and forecasts, under normal and stressed conditions, for SB Plc and each division;
- regularly reviewing and monitoring SB Plc's performance in relation to risk through quarterly Board reports; and
- conducting forward-looking analysis of risk tendency against risk appetite in both normal and stressed conditions.

The chief risk officer (CRO) recommends to both the BRMC and the Board the level of risk appetite for SB Plc.

SB Plc's risk appetite is defined by the following metrics:

- earnings volatility;
- liquidity;
- regulatory capital;

- unacceptable risk; and
- economic capital.

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

Stress testing

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

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

The appropriateness and severity of the relevant stress scenarios are approved by the BRMC based on PRMC recommendations and are reviewed at least annually.

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

Stress testing supports a number of business processes across SB Plc, including:

- strategic planning and budgeting;
- capital planning and management, including setting capital buffers for SB Plc;
- communication with internal and external stakeholders; and
- assessment, as required, of the impact of changes in short-term macroeconomic factors on SB Plc's performance.

During 2013, SB Plc performed stress tests on scenarios defined by the Prudential Regulation Authority (PRA) in addition to internal group defined scenarios, which included a Eurozone break-up and a commodity price crash.

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

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

Risk profile

SB Plc's trading activities comprise both customer related and principal business. These activities result in SB Plc holding positions in foreign exchange, commodities and marketable securities for its own account and to facilitate client business.

SB Plc's non-trading portfolios of financial instruments include trade finance, deposits and debt securities.

33.3 Risk categories

The principal risks to which SB Plc is exposed and which it manages are defined as follows:

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 SB Plc as a result of failure by a counterparty to meet its financial and/or contractual obligations to SB Plc. This risk type has three components:
  - primary credit risk, which is the exposure at default (EAD) arising from lending and related banking product activities including underwriting the issue of these products in the primary market;
  - pre-settlement credit risk, which is the EAD arising from unsettled forward and derivative transactions. This risk arises from the default of the counterparty to the transaction and is measured as the cost of replacing the transaction at current market rates; and
  - issuer risk, which is the EAD arising from traded credit and equity products including underwriting the issue of these products in the primary market.
- Settlement risk is the risk of loss to SB Plc from settling a transaction where value is exchanged, but where SB Plc may not receive all or part of the counter value.
- Credit concentration risk is the risk of loss to SB Plc as a result of excessive build-up of exposure to a single counterparty or group, an industry, market, product, financial instrument or type of security, a country or geography, or a maturity. This concentration typically exists where a number of counterparties are engaged in similar activities and have similar characteristics, which could result in their ability to meet contractual obligations being similarly affected by changes in economic or other conditions.

Country risk

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

Liquidity risk

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

This type of event may arise when counterparties who provide SB Plc with funding withdraw or do not roll over that funding, due to perceived risks around SB Plc's financial position, concerns around general market conditions or a combination of both.

Market risk

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

*Operational risk**

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events.

Operational risk sub-sets include:

- Information risk
  The risk of accidental or intentional unauthorised use, modification, disclosure or destruction of information resources, which would compromise the confidentiality, integrity or availability of information.

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

- Tax 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 SB Plc is subject.

- Compliance risk
  The risk of legal or regulatory sanctions, financial loss or loss to reputation that SB Plc may suffer as a result of failure to comply with all laws, regulations, codes of conduct and standards of good practice applicable to its business activities.

- Model risk
  Model risk is described as the risk of loss resulting from the weaknesses in a model used in assessing, managing or pricing a risk. Weaknesses could include incorrect assumptions, incomplete information, inaccurate implementation, inappropriate use, or inappropriate methodologies leading to incorrect conclusions reached by the user. In addition, the model use should be accompanied by understanding of the model limitations.

- Environmental risk
  Environmental risk is described as a measure of the potential threats to the environment that SB Plc's activities may have. It combines the probability that events will cause or lead to the degradation of the environment and the magnitude of the degradation.

- Financial crime risk
  Financial crime risk is defined as the risk of economic loss, reputational impact and regulatory sanction arising from any type of financial crime against SB Plc. Financial crime includes fraud, money laundering, violent crime and misconduct by staff, customers, suppliers, business partners, stakeholders and third parties.

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 SB Plc's chosen target rating. SB Plc's ability to generate revenue is impacted by the external macroeconomic environment, its chosen strategy and reputation in the markets in which it operates.

Reputational risk

Reputational risk results from damage to SB Plc'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 SB Plc's reputation is of paramount importance to its continued success and is the responsibility of every member of staff.

33.4 Credit risk

Credit risk arises mostly from lending, related banking product activities (including underwriting activity), traded products (such as derivative contracts) and securities borrowing and lending products. In lending transactions, credit risk arises through non-performance by a customer or market counterparty for facilities granted. These facilities are typically loans and advances, including the advancement of securities and contracts to support customer obligations such as letters of credit and guarantees. In trading activities, credit losses arise due to non-performance by a counterparty for payments linked to trading-related financial obligations.

As a general rule, SB Plc will seek to mitigate the amount of open credit risk it is prepared to accept through either collateralisation and/or hedging. Trading book exposures are typically documented under International Swaps and Derivatives Association (ISDA) with/without credit support annex (CSA) arrangements (or their equivalent) and structured such that SB Plc has liquid collateral which is marked to market daily against agreed trigger thresholds and 'hard' limits. Banking book exposures can be collateralised by a range of assets, but the liquidity, jurisdiction diversification of collateral and ease of valuation of these assets will govern the amount and type of collateral taken. SB Plc also engages in contingent credit hedging which enables it to offset the economic risk to a client or counterparty by taking a position in a trading book instrument.

Framework and governance

Strategy and process to manage risk

Credit risk is SB Plc's most significant risk as measured by absolute amount and quantum of capital consumed. It is managed in accordance with SB Plc's risk management control framework. SB Plc's credit standard sets out the principles under which it is prepared to assume credit risk.

* Indicates risk management section not subject to audit.

33 Financial risk management continued

SB Plc's head of credit has functional responsibility for credit risk across SB Plc and reports to the CRO. The regional heads of credit report to the head of credit.

Structure and organisation of credit risk management function

A formal structure exists for the approval of credit limits which are agreed through delegated authority derived from the CIB credit governance committee to regional credit committees encompassing a legal entity focus and, finally, individual delegated authority. The committees have defined mandates, memberships and delegated authorities that are reviewed at least annually. CIB credit governance committee responsibilities include oversight of governance; recommending risk appetite; overseeing model performance; development and validation; establishment of counterparty and portfolio risk limits; setting industry, market, product, customer segment and maturity concentration risk; agreeing and overseeing risk mitigation; as well as reviewing watchlist and non-performing accounts.

Forums designed to review credit risk within the portfolio, or detect possible variance in the risk profile to the stated risk appetite include:

- Pre-credit committee (PCC) – global and regional forums, consisting of senior business and risk representatives to screen and review new transactions and proposals prior to a formal credit assessment. Approval by PCC is the first step in the risk sanctioning and approval process as it leads to the commitment of resources to pursue the opportunity both by business and risk; ensures that transactions are aligned to agreed business strategy; and determines upfront distribution, legal entity booking, ancillary business and related issues.
- CIB credit governance committee and CIB credit committee – credit decisions within SB Plc are governed by the CIB credit delegated authority policy. CIB credit governance committee is the highest credit approval body within CIB. SB Plc is represented at this committee by senior credit, risk, business and executive membership. The committee also has responsibility for oversight of the credit process and related governance and policy matters. Below the authority of the CIB credit governance committee is the CIB credit committee which is a transaction only committee. On a lower level than CIB credit committee, credit decisions are made on a 'four eyes' basis by individuals from within the credit and risk teams. Individual authorities are scaled to experience, seniority, sector and product specialisation, and are reviewed regularly.
- PRMC – meets monthly to review the key performance indicators in the portfolio (e.g. probability of default (PD), EAD, loss given default (LGD), unexpected loss (UL), regulatory and economic capital (Ecap) utilisation and concentration limits) and to stress the portfolio with a view to initiating management action where it is necessary to curtail the portfolio risk tendency within the stated risk appetite.
- Credit risk review function – reviews the quality of the credit decisions taken within delegated authority based on the information available to make those decisions.
- Watchlist committee – where customers show signs of financial stress, the facility will be referred to SB Plc's watchlist committee where senior members of the credit risk, business and business support and recovery (BS&R) team will review the current position and agree a remedial strategy which seeks to allow the customer to rectify the problem and return to normal monitoring.
- This control framework also considers the legal entity structure when assigning limits.

Methodology to assign credit limits

SB Plc uses internal models and practices to measure and manage credit risk, deploying considerable resources to ensure that it is properly understood, managed and controlled.

The credit modelling framework includes the use of PD, LGD, EAD, UL, expected loss (EL), Ecap consumption and economic profit (EP). SB Plc's risk appetite is in part calibrated to these economic risk drivers.

PD models are used to assess the probability of a counterparty not making full and timely repayment of credit obligations over a specific time horizon. The models use a combination of forward looking qualitative factors and quantitative inputs. Each customer is assigned an internal credit rating which in turn is mapped to a statistically calibrated PD as is illustrated in the table below. Different models are used for each discrete credit portfolio and counterparty, and each model has its own particular set of risk factors and inputs used for assessing the rating. All models are statistically tested and independently validated to ensure that they have an acceptable level of predictive power, provide an accurate forward looking rating assessment suitable for use in regulatory and economic capital assessment and are stable through an economic cycle. For Ecap management, SB Plc uses forward-looking ratings but also explores point in time (PIT) versus through the cycle (TTC) impacts through stress testing and deploys a credit migration model to assess the impact of risk rating downgrades.

SB Plc's 25 point master rating scale is shown calibrated against external credit assessment institutions' alphanumerical rating scales and group grading categories.

<table>
<tr><th>Group master rating scale</th><th>Moody's Investor Services</th><th>Standard & Poor's</th><th>Fitch</th><th>Grading</th><th>Credit quality</th></tr>
<tr><td>1 - 4</td><td>Aaa to Aa3</td><td>AAA to AA-</td><td>AAA to AA-</td><td rowspan="3">Investment grade</td><td rowspan="4">Normal monitoring</td></tr>
<tr><td>5 - 7</td><td>A1 to A3</td><td>A+ to A-</td><td>A+ to A-</td></tr>
<tr><td>8 - 12</td><td>Baa1 to Baa3</td><td>BBB+ to BBB-</td><td>BBB+ to BBB-</td></tr>
<tr><td>13 - 21</td><td>Ba1 to B3</td><td>BB+ to B-</td><td>BB+ to B-</td><td rowspan="2">Sub-investment grade</td></tr>
<tr><td>22 - 25</td><td>Caa1 to Ca</td><td>CCC+ to CCC-</td><td>CCC+ to CCC-</td><td>Close monitoring</td></tr>
<tr><td>Default</td><td>C</td><td>D</td><td>D</td><td>Default</td><td>Default</td></tr>
</table>

33 Financial risk management continued

Exposure to credit risk

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

- **Neither past due nor impaired** represents exposures that are current and fully compliant with all contractual terms and conditions. Normal and close monitoring exposures within this category are exposures rated 1 to 21 and 22 to 25 respectively using SB Plc's master rating scale.
- **Past due but not specifically impaired** include those exposures where the counterparty has failed to make its contractual payment or has breached a material covenant, but impairment losses have not yet been incurred due to the expected recoverability of future cash flows, including collateral. Ultimate loss is not expected but could occur if the adverse condition persists. These exposures are analysed further between those that are less than 90 days past due and those that are 90 days or more past due.
- **Specifically impaired** include those where there is objective evidence that an impairment loss has been incurred and for which there has been a measurable decrease in the estimated future cash flows as a result of its payment status or objective evidence of impairment. Other criteria that are used by SB Plc to determine that there is such objective evidence of impairment include:
  - known cash flow difficulties experienced by the borrower;
  - breach of loan covenants or conditions;
  - the probability that the borrower will enter bankruptcy or other financial realisation; and
  - a significant downgrading in credit rating by an external credit rating agency, where, owing to the borrower's financial difficulties, concessions are granted to the counterparty.

Specifically impaired advances are further analysed into the following categories:

1. **sub-standard items** that show underlying well-defined weaknesses and are considered to be specifically impaired;
2. **doubtful items** that are not yet considered final losses because of some pending factors that may strengthen the quality of the items; and
3. **loss items** that are considered to be uncollectible in whole or in part. SB Plc provides fully for its anticipated loss, after taking securities into account.

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

33 Financial risk management continued

Maximum exposure to credit risk

	Performing		Non-performing			
	Neither past due nor impaired		Past due but not specifically impaired		Specifically impaired	Gross credit exposure
	Normal monitoring $m	Close monitoring $m	< 90 days $m	>= 90 days $m	$m	$m
2013						
Derivative assets[1]	**4 064.1**	**-**	**-**	**19.3**	**-**	**4 083.4**
Loans and advances to banks[1]	**3 207.1**	**-**	**-**	**-**	**6.6**	**3 213.7**
Loans and advances to customers[1]	**2 977.0**	**7.2**	**-**	**25.6**	**63.5**	**3 073.3**
Gross loans and derivative assets[1]	**10 248.2**	**7.2**	**-**	**44.9**	**70.1**	**10 370.4**
Cash collateral on non-performing loans				**(21.6)**	**-**	
Net non-performing loans and derivative assets				**23.3**	**70.1**	
Balances with central banks						**1 343.8**
Trading assets						**4 334.5**
Financial investments[1]						**0.8**
Pledged assets						**244.4**
Total balance sheet exposure to credit risk[2]						**16 293.9**
Guarantees						**41.3**
Letters of credit						**362.4**
Irrevocable unutilised facilities						**142.9**
Leases						**521.2**
Total off-balance sheet exposure to credit risk						**1 067.8**
Total exposure to credit risk[3]						**17 361.7**
Reconciliation to the balance sheet						
Add: Commodity assets (disclosed in notes 5 and 7)						**1 827.7**
Add: Equity instruments (disclosed in notes 5 and 6)						**66.8**
Add: Equity instruments included in 'assets held for sale to group companies'						**23.6**
Add: Non-financial assets[1]						**430.7**
Less: Impairments for loans and advances (disclosed in notes 8 and 9)						**(63.7)**
Less: Off-balance sheet exposures						**(1 067.8)**
Total assets						**18 579.0**

[1] Includes exposures in 'assets held for sale to group companies'. Refer to note 8 for additional details.

[2] US$495.6 million represent 'assets held for sale to group companies'.

[3] US$505.6 million represent 'assets held for sale to group companies'.

Notes to the annual financial statements *continued*

33 Financial risk management continued

Maximum exposure to credit risk

	Performing		Non-performing			
	Neither past due nor impaired		Past due but not specifically impaired		Specifically impaired	Gross credit exposure
	Normal monitoring $m	Close monitoring $m	< 90 days $m	>= 90 days $m	$m	$m
2012						
Derivative assets	4 812.9	-	-	-	-	4 812.9
Loans and advances to banks	3 078.8	-	-	-	6.3	3 085.1
Loans and advances to customers	2 997.9	30.3	-	40.7	241.1	3 310.0
Gross loans and derivative assets	10 889.6	30.3	-	40.7	247.4	11 208.0
Cash collateral on non-performing loans				(34.2)	-	
Net non-performing loans and derivative assets				6.5	247.4	
Balances with central banks						2 228.2
Trading assets						5 502.6
Financial investments						4.0
Pledged assets						-
Total balance sheet exposure to credit risk						18 942.8
Guarantees						149.2
Letters of credit						479.6
Irrevocable unutilised facilities						168.6
Leases						945.2
Total off-balance sheet exposure to credit risk						1 742.6
Total exposure to credit risk						20 685.4
Reconciliation to the balance sheet						
Add: Commodity assets						1 727.5
Add: Equity instruments						154.5
Add: Non-financial assets						500.5
Less: Impairments for loans and advances						(234.3)
Less: Off-balance sheet exposures						(1 742.6)
Total assets						21 091.0

33 Financial risk management continued

Age analysis of loans and advances past due but not specifically impaired

	Less than 31 days	31 - 60 days	61 - 90 days	91 - 180 days	More than 180 days	Past due but not specifically impaired
	$m	$m	$m	$m	$m	$m
2013						
Loans and advances to customers	-	-	-	-	25.6	25.6
Cash collateral	-	-	-	-	(21.6)	(21.6)
	-	-	-	-	4.0	4.0

	Less than 31 days	31 - 60 days	61 - 90 days	91 - 180 days	More than 180 days	Past due but not specifically impaired
	$m	$m	$m	$m	$m	$m
2012						
Loans and advances to customers	-	-	-	-	40.7	40.7
Cash collateral	-	-	-	-	(34.2)	(34.2)
	-	-	-	-	6.5	6.5

Analysis of specifically impaired loans and advances

	Sub-standard	Doubtful	Loss	Specifically impaired	Securities and expected recoveries	Specific impairment	Impairment coverage[1]
	$m	$m	$m	$m	$m	$m	%
2013							
Loans and advances to banks	-	6.6	-	6.6	(6.1)	(0.5)	7.6
Loans and advances to customers	-	34.1	29.4	63.5	(10.3)	(53.2)	83.8
	-	40.7	29.4	70.1	(16.4)	(53.7)	76.6

	Sub-standard	Doubtful	Loss	Specifically impaired	Securities and expected recoveries	Specific impairment	Impairment coverage[1]
	$m	$m	$m	$m	$m	$m	%
2012							
Loans and advances to banks	-	6.3	-	6.3	(5.7)	(0.6)	9.5
Loans and advances to customers	5.5	193.2	42.4	241.1	(17.4)	(223.7)	92.8
	5.5	199.5	42.4	247.4	(23.1)	(224.3)	90.7

[1] As a percentage of gross specifically impaired loans.

Performing portfolio impairments

Portfolio credit impairments provide for latent losses in a group of loans which have not yet been identified as specifically impaired. The calculation of portfolio credit impairments is based on the EL of SB Plc's loan portfolio. The EL represents losses over a one year time horizon. EL is calculated by applying a TTC PD for the core portfolio and the higher of a TTC and PIT PD for the watchlist portfolio. LGD, based on the foundation internal ratings based (FIRB) approach under Basel II, is then also applied to the exposure. An emergence period is used to calibrate the one year EL calculated to incurred losses. The emergence period is the time lapsed from the loan default trigger to the point identifying the loss. The emergence period is currently assessed as 12 months (2012: 7 months), based on analysis of historical loss data, and is updated annually.

Renegotiated loans and advances

Renegotiated loans and advances are loans which have been refinanced, rescheduled, rolled over or otherwise modified during the year because of weaknesses in the counterparty's financial position and where it has been judged that normal repayment is expected to continue after the restructure. Loans and advances are assessed on an individual basis and monitored during the rehabilitation period before being transferred into the performing portfolio. Following rehabilitation, internally generated risk grades are assigned that reflect the revised risk of the exposure. Consequent impairment recognition is evaluated as part of the normal credit process. Renegotiated loans that would otherwise be past due or impaired, totalled US$ nil as at 31 December 2013 (2012: US$ nil).

The primary aim of providing forbearance facilities to customers is to enable the complete recovery of the exposure through the full repayment of arrears. SB Plc does not follow a general forbearance policy but each facility is treated on its own merits. Watchlist review is an early warning mechanism which identifies any deterioration in counterparty performance. These exposures are immediately subject to independent scrutiny and, where necessary, a programme of intensive monitoring and review until such time as the position can be transferred back to line management. In cases where the remedial strategy does not produce the expected corrective action, SB Plc may consider an alternative remedial strategy or referral to the BS&R team for active recovery management. An impairment charge is raised if the new terms are less favourable and result in the discounted cash flows to be lower than the carrying value of the exposures. At 31 December 2013, US$2.1 million (2012: US$0.3 million) of performing loans were under BS&R watchlist review.

The collective provision on the watchlist portfolio, including forbearance facilities, is mainly dependent on the internal credit grade allocated to it. Additionally, the management adjustments to the model also capture the enhanced risks attached to this portfolio.

Credit risk mitigation and hedging

Collateral, guarantees, credit derivatives and netting are widely used by SB Plc for credit risk mitigation. The amount and type of credit risk mitigation depends on the circumstances of each case. Credit risk mitigation policies and procedures ensure that credit risk mitigation techniques are acceptable, used consistently, valued appropriately and regularly, and meet the risk requirements of operational management for legal, practical and timely enforceability. Detailed processes and procedures are in place to guide each type of mitigation used.

The amount and type of collateral required depends on the nature of the underlying risk, an assessment of the credit risk of the counterparty as well as requirements or intentions with respect to reductions in capital requirements. Guidelines are in place regarding the acceptability of types of collateral, their strength as credit risk mitigation and valuation parameters.

SB Plc generally holds collateral against loans and advances to customers in the form of registered securities over assets, guarantees and mortgage interests over property. Other types of collateral required are plant and machinery, inventory and trade receivables and other assets such as physical commodities held to order. Reverse repurchase agreements are underpinned by the assets being financed, which are mostly liquid, tradable financial instruments.

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

For derivative transactions, SB Plc uses internationally recognised and enforceable ISDA agreements with a CSA, where necessary, with most of SB Plc's largest trading counterparts. Generally, exposures are marked-to-market daily, netting is applied to the full extent contractually agreed to between the parties, and cash and liquid collateral placed where contractually provided for.

To manage actual or potential portfolio risk concentrations, areas of higher credit risk and credit portfolio growth, SB Plc from time to time implements hedging and other strategies typically at the individual counterparty, sub-portfolio and portfolio levels. Syndication, distribution and sale of assets, asset and portfolio limit management and credit derivatives, credit insurance and credit protection are examples of the techniques used to manage this type of risk.

Wrong-way risk exposure

Wrong-way risk arises where there is a positive correlation between counterparty default and transaction exposure and a negative correlation between transaction exposure and the value of collateral at the point of counterparty default. Transactions where this may arise are, for example, reverse repurchase and collateralised forward sale transactions. This risk is addressed by taking into consideration the higher than normal correlation between the default event and exposure to a counterparty when calculating the potential exposure on these transactions.

Collateral required in respect of a rating downgrade

SB Plc enters into derivative contracts with rated and unrated counterparties. To mitigate counterparty credit risk, SB Plc 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 termination of the contract if certain credit events occur, including but not limited to a downgrade of the counterparty's public credit rating.

33 Financial risk management continued

Certain counterparties require that SB Plc provides similar credit protection terms. From time to time, SB Plc 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 and reciprocal basis. Exceptionally, such rating downgrades may be conceded to unrated counterparties when their size, credit strength and business potential are deemed acceptable. In these cases, the concessions must be approved by the CIB chief financial officer and the chief credit officer.

The impact on SB Plc of the amount of collateral it would have to provide given a credit downgrade would be determined by the then negative mark-to-market on derivative contracts where such a collateralisation trigger has been conceded. Where the impact on SB Plc's liquidity of a collateral call linked to a downgrading is deemed to be material, the potential exposure is taken into account in the capital management committee (CapCom) model stress testing.

Financial effect of collateral and other credit enhancements

The table on page 90 indicates the estimated financial effect that collateral has on SB Plc's maximum exposure to credit risk. The collateral disclosed is in relation to the gross credit exposure reported under IFRS and does not represent the collateral qualifying for prudential reporting purposes. The table displays the on-balance sheet and off-balance sheet credit exposures for SB Plc, further disseminated between netting arrangements, unsecured and secured exposures, and with an additional breakdown of collateral coverage for the secured portion.

Netting arrangements represent amounts which are legally enforceable upon default (US$2 817.3 million; 2012: US$3 067.9 million). This is in addition to offsetting principles as described in accounting policy 5.

Unsecured exposures of US$7 048.1 million (2012: US$11 233.0 million) largely represent corporate and government bonds, cash collateral placed with recognised exchanges and short-term placements with strong rated banks and non-banking financial institutions.

A significant portion of the secured exposures relates to reverse repo type securitised lending, where the collateral is typically highly rated, liquid and tradeable. For loans and advances, the collateral accepted normally includes property, other tangible assets across diverse jurisdictions, personal guarantees, floating charges over assets and credit enhancements such as credit default swaps. However, guarantees received based on future revenue streams and assets whose value is highly correlated to the counterparty and floating rate charges over assets have been excluded from the table. Total exposures of US$3 013.8 million (2012: US$2 297.9 million) are covered by more than 100%, primarily relating to the reverse repurchase lending activity.

Within the 1-50% coverage bucket, derivatives make up the bulk of the exposures (US$300.9 million; 2012: US$256.0 million) and these are predominantly with highly rated clearing houses and multinational banks.

Collateral obtained by SB Plc

It is SB Plc's policy to dispose of repossessed assets in an orderly manner. The proceeds are used to reduce or repay the outstanding claim. Generally, SB Plc does not use repossessed assets for business purposes. No collateral has been repossessed in 2013 or 2012.

Notes to the annual financial statements *continued*

33 Financial risk management continued

Financial effect of collateral and other credit enhancements[1]

	Total exposure	Netting[2] arrangements	Exposure after netting	Unsecured exposures	Secured exposures	Extent of collateral and risk mitigation		
						1 - 50%[3]	51-100%[4]	> 100%[5]
	$m	$m	$m	$m	$m	$m	$m	$m
2013								
Balances with central banks	**1 343.8**	**-**	**1 343.8**	**1 343.8**	**-**	**-**	**-**	**-**
Derivative assets[6]	**4 083.4**	**2 817.3**	**1 266.1**	**653.2**	**612.9**	**300.9**	**151.0**	**161.0**
Trading assets	**4 333.8**	**-**	**4 333.8**	**2 885.5**	**1 448.3**	**-**	**1 448.3**	**-**
Financial investments[6]	**0.8**	**-**	**0.8**	**0.8**	**-**	**-**	**-**	**-**
Pledged assets	**244.4**	**-**	**244.4**	**244.4**	**-**	**-**	**-**	**-**
Loans and advances to banks[6]	**3 213.7**	**-**	**3 213.7**	**699.2**	**2 514.5**	**-**	**1 271.2**	**1 243.3**
Loans and advances to customers[6]	**3 073.3**	**-**	**3 073.3**	**377.5**	**2 695.8**	**86.7**	**1 104.4**	**1 504.7**
Total balance sheet exposure to credit risk	**16 293.2**	**2 817.3**	**13 475.9**	**6 204.4**	**7 271.5**	**387.6**	**3 974.9**	**2 909.0**
Guarantees	**41.3**	**-**	**41.3**	**36.0**	**5.3**	**-**	**3.3**	**2.0**
Letters of credit	**362.4**	**-**	**362.4**	**160.9**	**201.5**	**45.9**	**55.1**	**100.5**
Irrevocable unutilised facilities	**142.9**	**-**	**142.9**	**125.6**	**17.3**	**-**	**15.0**	**2.3**
Leases	**521.2**	**-**	**521.2**	**521.2**	**-**	**-**	**-**	**-**
Total off-balance sheet exposure to credit risk	**1 067.8**	**-**	**1 067.8**	**843.7**	**224.1**	**45.9**	**73.4**	**104.8**
Total exposure to credit risk	**17 361.0**	**2 817.3**	**14 543.7**	**7 048.1**	**7 495.6**	**433.5**	**4 048.3**	**3 013.8**
2012								
Balances with central banks	2 228.2	-	2 228.2	2 228.2	-	-	-	-
Derivative assets	4 812.9	3 067.9	1 745.0	997.9	747.1	256.0	366.4	124.7
Trading assets	5 502.6	-	5 502.6	3 625.5	1 877.1	-	1 877.1	-
Financial investments	4.0	-	4.0	4.0	-	-	-	-
Pledged assets	-	-	-	-	-	-	-	-
Loans and advances to banks	3 085.1	-	3 085.1	1 340.3	1 744.8	257.7	805.2	681.9
Loans and advances to customers	3 310.0	-	3 310.0	1 510.9	1 799.1	29.6	362.8	1 406.7
Total balance sheet exposure to credit risk	18 942.8	3 067.9	15 874.9	9 706.8	6 168.1	543.3	3 411.5	2 213.3
Guarantees	149.2	-	149.2	141.0	8.2	-	4.3	3.9
Letters of credit	479.6	-	479.6	293.0	186.6	-	126.9	59.7
Irrevocable unutilised facilities	168.6	-	168.6	147.0	21.6	-	0.6	21.0
Leases	945.2	-	945.2	945.2	-	-	-	-
Total off-balance sheet exposure to credit risk	1 742.6	-	1 742.6	1 526.2	216.4	-	131.8	84.6
Total exposure to credit risk	20 685.4	3 067.9	17 617.5	11 233.0	6 384.5	543.3	3 543.3	2 297.9

[1] Collateral valuations are performed based on the nature and price volatility of the underlying collateral.
[2] Represents netting arrangements that can be applied in the event of default. This is in addition to offsetting applied in the balance sheet, as permitted by IAS 32.
[3] Represent exposures secured between 1% and 50%.
[4] Represent exposures secured between 51% and 100%.
[5] Represent exposures secured in excess of 100%.
[6] Includes exposures in 'assets held for sale to group companies'.

33.5 Country risk

Country risk is the risk of loss arising when political or economic conditions or events in a particular country reduce the ability of counterparties in that country to meet their financial obligations to SB Plc. Country risk events may include sovereign defaults, banking or currency crises, social instability and changes in governmental policies such as expropriation, nationalisation and confiscation of assets.

Country risk also encompasses cross-border risk, which is the risk that actions taken by a government may restrict the transfer and convertibility of funds (of local currency into non-local currency), thereby impacting the ability to obtain payment from counterparties on their financial obligations to SB Plc. Examples of restrictions on the transfer of funds are exchange controls and debt moratoria.

Cross-border obligations include cross-border claims on third parties as well as investments in and funding of local franchises. Cross-border claims on third parties include cross-border loans and deposits, credit equivalents of over-the-counter derivatives and securities financing, and the market value of the inventory of debt securities.

The global country risk committee approves country risk appetite limits for all countries. A country-rating model and a sovereign-rating model are used to determine country and sovereign ratings for every country. The internal models are continuously updated to reflect the economic and political changes in individual countries. The results are compared with those of reputable rating agencies to validate the consistency of the model.

Country risk limits are set to force diversification and to avoid a build up of concentration risk. In this regard, the country limits are calibrated to a risk appetite which constrains the level of unexpected loss in the portfolio.

Country risk is further monitored through reviews of economic and political data by country risk resources based in Johannesburg. Use is made of SBG's network of operations, country visits and external sources of information. Countries designated as higher risk are subject to increased central monitoring.

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

There was no significant sovereign risk included in loans and advances at the end of the year.

The table on page 92 illustrates customer risk by geographical segment.

Notes to the annual financial statements *continued*

33 Financial risk management continued

Geographic analysis of gross loans & advances (notes 8 and 9)[1]

	2013		2012	
	$m	%	$m	%
United Kingdom	**1 641.6**	**26.1**	1 600.5	25.0
Eurozone				
France	**187.2**		158.4	
Cyprus	**164.7**		-	
Germany	**125.7**		46.1	
Other	**161.9**		246.9	
	639.5	**10.2**	451.4	7.1
Rest of Europe				
Turkey	**692.3**		558.4	
Russian Federation	**605.0**		687.6	
Other	**194.7**		112.0	
	1 492.0	**23.7**	1 358.0	21.2
Asia-Pacific				
China	**308.5**		360.6	
Hong Kong	**303.2**		147.6	
Other	**162.2**		379.1	
	773.9	**12.3**	887.3	13.9
Sub-Saharan Africa				
Nigeria	**352.7**		124.2	
South Africa	**307.6**		294.8	
Other	**70.6**		128.5	
	730.9	**11.6**	547.5	8.5
North America				
United States	**96.4**		320.5	
Cayman Islands	**67.6**		154.0	
Canada	**60.2**		79.2	
Other	**49.1**		93.6	
	273.3	**4.4**	647.3	10.1
Latin America				
Argentina	**335.1**		338.5	
Brazil	**94.1**		133.3	
Other	**78.2**		62.5	
	507.4	**8.1**	534.3	8.4
Middle East & North Africa				
United Arab Emirates	**114.4**		266.8	
Morocco	**91.1**		0.1	
Other	**22.9**		101.9	
	228.4	**3.6**	368.8	5.8
	6 287.0	**100.0**	6 395.1	100.0

[1] Based on the borrower's country of risk

33 Financial risk management continued

Geographic analysis of trading assets[1]

	2013		2012	
	$m	%	$m	%
Sub-Saharan Africa	**1 785.9**	**64.2**	1 679.5	49.0
Rest of Europe	**512.7**	**18.4**	215.0	6.3
Eurozone	**198.3**	**7.1**	446.8	13.0
North America	**120.8**	**4.3**	668.9	19.5
Asia-Pacific	**81.8**	**3.0**	15.0	0.4
Middle East & North Africa	**61.4**	**2.2**	55.3	1.6
Latin America	**22.3**	**0.8**	344.7	10.2
	2 783.2	**100.0**	3 425.2	100.0
Composition of Eurozone				
Finland	**101.3**	**51.1**	115.8	25.9
Netherlands	**41.2**	**20.8**	184.6	41.3
Other	**55.8**	**28.1**	146.4	32.8
	198.3	**100.0**	446.8	100.0

[1] Analysis of 'Government, utility bonds and treasury bills' & 'Corporate bonds and floating rate notes' included in notes 5 and 8.

33.6 Liquidity risk

Framework and governance

SB Plc adopts a holistic approach to liquidity risk management which links strategy, policy, management and monitoring with appropriate escalation and feedback mechanisms. SB Plc's approach seeks to ensure that liquidity risks are identified promptly through the early warning indicator (EWI) and liquidity risk tolerance frameworks. These risks are escalated and mitigating action is taken. SB Plc deems that its risk framework is appropriate for the current nature, scale and complexity of its activities and seeks to be proactive in anticipating the impact of changes in its risk profile upon the risk management framework.

The core objectives of the liquidity risk framework are:

- To ensure strong governance, business management, risk and control structures;
- To ensure that SB Plc has adequate liquidity resources for both regulatory and internal purposes on a forward-looking basis, both under normal and stressed financial conditions;
- To ensure that heightened liquidity risk is identified promptly in order to enable effective mitigating action to be taken;
- To maintain an optimal liquidity structure in line with strategy; and
- To promote efficient use of liquidity through the internal allocation of costs, benefits and risks across the entity.

SB Plc operates a liquidity governance framework which provides Board level oversight of the liquidity risks to which SB Plc is exposed. The framework ensures active management of liquidity risk through the capital management committee (CapCom) and its sub-committees. The Board and its committees set liquidity risk tolerance and review and approve key liquidity policies. CapCom establishes liquidity risk standards in accordance with prudential and regulatory requirements. Limits and guidelines are set, reviewed and monitored by CapCom and reflect SB Plc's stated tolerance for liquidity risk.

Liquidity and funding management

SB Plc manages its liquidity risk exposure to ensure that at all times it is able to meet its liabilities as and when they fall due. SB Plc's liquidity framework is detailed in four key liquidity risk policies. The liquidity risk tolerance statement (LRTS) is central to this framework as it documents SB Plc's liquidity risk tolerance, how it is measured and monitored, and details the escalation procedures to be followed in the event of a breach of liquidity risk tolerance. This, together with the other liquidity policies and the early warning indicators (EWIs), establishes a liquidity risk management and governance framework across SB Plc. This framework is intended to be dynamic. Triggers and limits are continuously assessed to determine whether they still reflect the bank's liquidity risk tolerance.

SB Plc incorporates various elements into its cohesive liquidity management process, including the following:

- establishing liquidity risk tolerance, ensuring that there is consistency between this and SB Plc's strategy, resource availability and business requirements;
- maintaining and monitoring against an appropriate limit structure in line with risk appetite;
- maintaining a robust model for determining and monitoring liquidity usage and risk exposure;
- short-term and long-term cash flow management;
- maintaining a structurally sound balance sheet;
- foreign currency liquidity management;
- preserving a diversified funding base;
- undertaking regular liquidity stress testing;
- maintaining adequate contingency funding plans; and
- maintaining recovery and resolution plans.

Notes to the annual financial statements *continued*

33 Financial risk management continued

The Board delegates liquidity management responsibility to CapCom. This includes reviewing and making strategic decisions on matters relating to the composition and liquidity of assets and liabilities, reviewing and setting liquidity limits, reviewing and approving funds transfer pricing methodology, reviewing and monitoring the liquidity position and EWIs, reviewing regulatory compliance and reviewing the completeness and effectiveness of stress testing and key liquidity documents.

CapCom's sub-committees are the liquidity contingency management team (LCMT) which is generally convened in response to heightened liquidity risk, and the liquidity sub-committee (LSC), which is responsible for liquidity management during business as usual conditions. The LCMT is required to vote on whether to invoke the contingency funding plan (CFP) at each meeting, and is responsible for managing the implementation of the plan upon activation. The LSC is the first committee to convene in instances where any of the amber indicators on the risk tolerance metrics have been triggered or where the overall EWI status is amber. In carrying out all of its duties, the LSC is required to take into account SB Plc's liquidity risk tolerance.

Structural requirements

The maturity analysis of financial liabilities represents the basis for the management of exposure to structural liquidity risk. The table below shows the undiscounted cash flows for all financial liabilities on a contractual basis based on the earliest date on which SB Plc can be required to pay. This basis of disclosure differs from the balance sheet carrying value of financial liabilities since those values are typically disclosed on a discounted basis. The table also includes contractual cash flows with respect to off-balance sheet items which have not yet been recorded on the balance sheet. Where cash flows are exchanged simultaneously, the net amounts have been reflected.

	Redeemable on demand	Maturing within 1 month	Maturing 1 - 6 months	Maturing 6 - 12 months	Maturing after 12 months	Undated	Total
	$m	$m	$m	$m	$m	$m	$m
2013							
Financial liabilities							
Derivative liabilities	**11.5**	**370.5**	**1 181.5**	**501.4**	**1 984.8**	**-**	**4 049.7**
Trading liabilities	**509.0**	**53.0**	**190.5**	**224.1**	**847.1**	**-**	**1 823.7**
Deposit and current accounts	**4 266.8**	**3 897.8**	**1 614.0**	**159.7**	**291.5**	**-**	**10 229.8**
Subordinated debt	**-**	**-**	**3.3**	**29.9**	**641.7**	**-**	**674.9**
Total balance sheet financial liabilities	**4 787.3**	**4 321.3**	**2 989.3**	**915.1**	**3 765.1**	**-**	**16 778.1**
Letters of credit	**-**	**80.3**	**200.2**	**26.3**	**55.6**	**-**	**362.4**
Guarantees	**-**	**-**	**4.0**	**19.0**	**18.3**	**-**	**41.3**
Irrevocable unutilised facilities	**-**	**-**	**82.3**	**5.7**	**54.9**	**-**	**142.9**
Total off-balance sheet financial liabilities	**-**	**80.3**	**286.5**	**51.0**	**128.8**	**-**	**546.6**
Total financial liabilities	**4 787.3**	**4 401.6**	**3 275.8**	**966.1**	**3 893.9**	**-**	**17 324.7**
2012							
Financial liabilities							
Derivative liabilities	432.4	597.8	1 266.7	519.9	2 433.6	-	5 250.4
Trading liabilities	239.4	56.6	784.9	470.6	882.3	-	2 433.8
Deposit and current accounts	4 740.4	1 501.2	2 908.3	802.1	455.0	-	10 407.0
Subordinated debt	-	-	4.5	4.9	825.0	141.7	976.1
Total balance sheet financial liabilities	5 412.2	2 155.6	4 964.4	1 797.5	4 595.9	141.7	19 067.3
Letters of credit	0.5	91.2	232.5	42.5	112.9	-	479.6
Guarantees	-	34.4	23.3	31.7	59.8	-	149.2
Irrevocable unutilised facilities	-	7.9	74.4	20.6	65.7	-	168.6
Total off-balance sheet financial liabilities	0.5	133.5	330.2	94.8	238.4	-	797.4
Total financial liabilities	5 412.7	2 289.1	5 294.6	1 892.3	4 834.3	141.7	19 864.7

33 Financial risk management continued

Contingency liquidity

Portfolios of liquid assets are maintained as protection against unexpected disruptions in cash flows to ensure that SB Plc is able to meet liabilities as they fall due. These portfolios are managed within limits and, apart from acting as a buffer under going concern conditions, also form an integral part of the broader liquidity management strategy in the event of a liquidity crisis. These assets include deposits placed at the Bank of England, debt securities, reverse repos on qualifying assets and stocks of precious and base metals. In addition to the possibility of liquidating asset positions, there are a range of other management actions available to manage liquidity under stressed conditions, which include transfers of assets to other group companies to optimise liquidity and additionally declining to roll-over loans or reverse repos as they fall due from clients.

Liquidity contingency plans

The CFP sets out SB Plc's strategies for mitigating severe liquidity stress. The CFP details SB Plc's response to potential liquidity shortfalls as a result of idiosyncratic, market-wide or combined stress events. As the nature of a stress is unknown in advance, the contingency plans are flexible and contain a range of management actions. The LCMT is responsible for activating the CFP. The CFP addresses necessary internal and external communications, liquidity management, operations, as well as supplementary information requirements. The CFP is reviewed at least annually and updated to reflect current market trends and conditions, as well as reflecting the experience of recent historical market stress scenarios, rating changes and the range of management actions adopted to protect the SB Plc's position. A deterioration of EWIs can result in the invocation of the contingency plans (as noted, this would be at the decree of LCMT). The CFP is one of the contingent management components of SB Plc's recovery and resolution plan.

Funding strategy

The funding strategy seeks to assist in optimising funding whilst accommodating anticipated balance sheet changes, ensuring that the structure of the balance sheet remains secure and liabilities can be met as they fall due. The funding strategy is developed into a funding plan as part of the budget process where revenue, cost and capital forecasts are collected from the business units, with finance producing a balance sheet projection. These balance sheet forecasts, driven by expected asset growth, are used as the basis to establish a funding plan. Additionally, the use of funds by business is reviewed daily by both treasury and the business to identify any significant changes in business funding requirements.

Diversified funding base

Funding concentration risk indicators are used to monitor funding diversification across products, sectors, geographic regions and counterparties. Primary sources of funding are in the form of deposits across a spectrum of clients. Further funding is sourced from a number of African countries, leveraging SBG's operational footprint across the continent. SB Plc has rationalised deposit taking from SB Plc's offshore affiliate banks in Jersey and Isle of Man, reducing the amount of short-term funding taken from the operation. Surplus foreign currency liquidity within Standard Bank of South Africa is also utilised by SB Plc.

Liquidity stress testing

SB Plc seeks to comply with the PRA's overall liquidity adequacy rule, maintaining liquidity resources which are adequate, both as to amount and quality, to meet contractual, behavioural and contingent liquidity needs and ensure that there is no significant risk that liabilities cannot be met as they fall due.

The liquidity stress testing programme developed by SB Plc has two objectives:

1. It is designed to be compliant with the PRA framework on liquidity; and
2. It expresses SB Plc's liquidity risk tolerance, as set out in the LRTS.

SB Plc's risk tolerance requires survival for a three month period under both the regulatory stress test and the internal stress test. The parameters used within the internal stress test and the calibration of these are assessed by management as representing stress scenarios which could realistically occur and which would have a severe impact upon SB Plc, given its current business model and activities.

SB Plc models its liquidity position daily using these stress tests to ensure that there is no breach in the liquidity risk tolerance set by the SB Plc Board. As noted earlier, SB Plc also references a spectrum of EWIs that monitor both internal and external liquidity conditions. The EWIs are reviewed by senior management on a daily basis. The EWI framework is integrated into SB Plc's liquidity management escalation system by aggregating liquidity results that drive the decision to call either LSC or LCMT meetings.

33.7 Market risk

Definition

The object of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return on risk. Major exposures to market risk occur in markets served by formal financial exchanges and over-the-counter markets. These exposures arise primarily as a result of the execution of customers' orders. SB Plc's exposure to market risk can be categorised as follows:

Trading book market risk

These risks arise in trading activities where SB Plc acts as a principal with clients in the market.

Banking book interest rate risk

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

Foreign currency risk

These risks arise as a result of changes in the fair value or future cash flows of financial exposures as a result of changes in foreign exchange rates other than those changes included in the VaR analysis.

Equity investments

These risks arise from equity price changes caused by listed and unlisted investments, which are monitored and authorised by the investment committee.

Framework and governance

The SBG Board approves the market risk appetite for all types of market risk and grants general authority to take on market risk exposure to group risk oversight committee (GROC) which delegates responsibility for limit setting and exposure monitoring to the risk management committee (RMC) at a legal entity level. The asset &

liability committee (ALCO) also sets market risk standards to ensure that the measurement, reporting, monitoring and management of market risk associated with operations across SB Plc follow a common governance framework.

Market risk management units, independent of trading operations, monitor market risk exposures from both trading activities and banking activities. Exposures and any limit excesses are monitored daily, and reported monthly to CapCom. Level 1 limit breaches are also reported quarterly to SBG ALCO, GROC and RMC.

Market risk measurement

The techniques used to measure and control market risk include:

- daily value at risk (VaR) and stressed value at risk (SVaR);
- stress tests;
- risk factor market risk measures;
- annual net interest income at risk; and
- economic value of equity.

Daily VaR

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

- calculate hypothetical daily profit and loss for each position using observed market price movements based on 251 days of market data;
- aggregate all hypothetical profit or losses for day one across all positions, giving one total profit or loss. Repeat for all other 249 days; and
- VaR is the 95th percentile selected from the 250 days of daily hypothetical total profit or loss. Daily losses exceeding the VaR are likely to occur, on average, 13 times in every 250 days.

SB Plc has market risk regulatory model approval for its commodity trading, local markets (rates and foreign exchange), credit trading and equity businesses. Where SB Plc has received internal model approval, a VaR using a confidence level of 99% and a holding period of ten days is used to determine market risk regulatory capital. In addition, a stressed VaR, calibrated to a period of extreme financial stress and an incremental risk charge (IRC) are also used for regulatory capital purposes.

The use of historic VaR has limitations as it is based on historical correlations and volatilities in market prices and assumes that future prices will follow the observed historical distribution. Although VaR is a valuable guide to risk, it should always be viewed in the context of its limitations.

These limitations include:

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

Stress tests

In recognition of the limitations of VaR, stress testing provides an indication of the potential losses that could occur under extreme market conditions and where longer holding periods may be required to exit positions. The stress tests carried out by SB Plc include individual market risk factor testing and combinations of market factors per trading desk and combinations of trading desks. Stress tests include a combination of risk factor based, historical, hypothetical and point of weakness simulations and provide senior management with an assessment of the financial impact such events would have on SB Plc's profit. Movements in the stress VaR are driven by normal trading activity during the year.

Other market risk measures

Other market risk measures specific to individual business units include permissible instruments, concentration of exposures, gap limits, maximum tenor and stop loss triggers.

The quantitative analytics and risk methods department independently validate and document new pricing models and perform an annual review of existing models to ensure models are still relevant and behaving within expectations.

Analysis of trading book market risk exposures

The table on page 97 shows the aggregated historical VaR for SB Plc's trading positions. The maximum (and minimum) VaR amounts show the bands in which the values at risk fluctuated during the periods specified. Stop loss triggers are designed to contain losses for individual business units by enforcing management intervention at predetermined loss levels measured against the individual highwater mark year-to-date profit and loss. Other basic risk measures specific to individual business units are also used. These measures include permissible instruments, concentration of exposures, gap limits and maximum tenor.

SB Plc's trading units achieved a positive actual income for over 76% of the trading days in 2013 (2012: 78%). The average daily trading revenue earned in 2013 was US$1.07 million with a standard deviation of US$2 million. During the year, there were a total of four backtesting exceptions at a 95% confidence level (no exception at a 99% confidence level).

33 Financial risk management continued

	Normal VaR[2]			
	Maximum[1]	Minimum[1]	Average	Year end
	$m	$m	$m	$m
2013				
Commodities	**2.8**	**0.7**	**1.5**	**0.9**
Foreign exchange	**2.7**	**0.5**	**1.1**	**1.0**
Equities	**1.8**	**0.2**	**0.7**	**0.9**
Debt securities	**5.0**	**2.3**	**3.4**	**3.0**
Diversification benefit[4]				**(2.6)**
Total				**3.2**

	Stress VaR[3]
	Year end
	$m
2013	
Commodities	**20.2**
Foreign exchange	**10.0**
Equities	**17.3**
Debt securities	**28.9**
Diversification benefit[4]	**(41.0)**
Total	**35.4**

	Normal VaR[2]			
	Maximum[1]	Minimum[1]	Average	Year end
	$m	$m	$m	$m
2012				
Commodities	3.5	1.4	2.3	1.9
Foreign exchange	3.2	0.4	1.3	0.5
Equities	1.6	0.2	0.7	0.6
Debt securities	4.7	2.3	3.2	2.4
Diversification benefit[4]				(2.0)
Total				3.4

	Stress VaR[3]
	Year end
	$m
2012	
Commodities	14.2
Foreign exchange	3.9
Equities	4.2
Debt securities	17.2
Diversification benefit[4]	(14.7)
Total	24.8

[1] The maximum (and minimum) VaR figures reported for each market variable did 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 have occurred on different dates.

[2] Normal VaR is based on a holding period of one day and a confidence interval of 95%.

[3] Stress VaR is based on a holding period of 10 days and a confidence interval of 99%.

[4] Diversification benefit is the benefit of measuring the VaR of the trading portfolio as a whole, i.e. the difference between the sum of the individual VaRs and measuring the VaR of the whole trading portfolio.

Commodity exposure

SB Plc has capabilities in physical precious and base metals, predominantly in London, Dubai, Singapore and Shanghai, with access into all major physical markets in Europe, Asia, North and South America. The business consists of a diversified client base including producers, consumers (including jewellers), hedge funds, private banks, recycling and refining companies, financial institutions and central banks. The commodities business is primarily client driven, with price risk hedged on major exchanges offering all standardised products such as forwards, European and Asian options, swaps, leases and lease rate swaps.

To mitigate trading risk, a number of strategies are employed. Firstly, SB Plc trades on a cleared basis with counterparties posting margins to a central clearer. Alternatively, SB Plc executes credit support annex (CSA) agreements such that margin or collateral is posted on a daily basis to offset any exposure arising from any live trades. SB Plc may also actively manage any embedded credit spread via the contingent credit protection (CCP) process or take a credit calculation adjustment where no credit mitigation is possible.

Operational risk is managed through a dedicated commodities management unit and SB Plc's operations team, using a number of automated systematic confirmations with exchanges, brokers, warehouses and clients. A daily reconciliation is performed for open trades, cash accounts, inventory, collateral and client account balances with any discrepancies being escalated to the appropriate relationship manager for resolution directly with the client. SB Plc's separate operational risk department monitors key risk indicators (KRIs) around key business processes which are monitored and discussed with the business on a regular basis.

Analysis of banking book interest rate risk exposure

Banking related market risk exposure principally involves the management of the potential adverse effect of interest rate movements on net interest income and equity. This risk is transferred to and managed within SB Plc's asset & liability management team under monitoring of the local risk management committee and CapCom.

The main analytical techniques used to quantify banking book interest rate risk are earnings and valuation-based measures. The results obtained from simulations assist in evaluating the optimal hedging strategies on a risk-return basis. Desired changes to a particular interest rate risk profile are achieved through the restructuring of the balance sheet and, where possible, the use of derivative instruments, such as interest rate swaps. The shape of the yield curve and SB Plc's own view of future interest rates are used as inputs in developing hedging strategies. Interest rate risk limits are set in terms of both changes in forecast net interest income and economic value of equity.

The repricing gaps for SB Plc's non-trading portfolios are shown below. This view is for the purpose of illustration only, as positions are managed by currency to take account of the fact that interest rate changes are unlikely to be perfectly correlated. All assets, liabilities and derivative instruments are sited in gap intervals based on their repricing characteristics. Assets and liabilities for which no specific contractual repricing or maturity dates exist are placed in gap intervals based on management's judgment and statistical analysis, as determined by the most likely repricing behaviour.

Repricing gap for non-trading portfolios

	0 - 3 months $m	**3 - 6 months $m**	**6 - 12 months $m**	**> 12 months $m**
2013				
Interest rate sensitivity gap	**1 768.2**	**(322.8)**	**(57.7)**	**(183.4)**
Cumulative interest rate sensitivity gap	**1 768.2**	**1 445.4**	**1 387.7**	**1 204.3**
Cumulative interest rate sensitivity gap as a percentage of total banking assets	**57.9%**	**47.3%**	**45.4%**	**39.4%**
2012				
Interest rate sensitivity gap	1 579.8	(99.4)	(42.7)	(141.8)
Cumulative interest rate sensitivity gap	1 579.8	1 480.4	1 437.7	1 295.9
Cumulative interest rate sensitivity gap as a percentage of total banking assets	36.5%	34.2%	33.2%	29.9%

33 Financial risk management continued

Sensitivity of net interest income

The table below indicates the sensitivity in US Dollar equivalents of SB Plc's net interest income in response to a change in interest rates, after taking into account all risk mitigating instruments, with all other variables held constant.

	Increase in basis points	1 Month $m	2 Months $m	3 Months $m	4 - 6 Months $m
2013					
1% up (interest rate increase)	**100**	**(1.3)**	**-**	**1.4**	**1.2**
1% down (interest rate decrease)	**100**	**1.3**	**-**	**(1.4)**	**(1.2)**
2012					
1% up (interest rate increase)	100	(0.7)	-	0.1	0.4
1% down (interest rate decrease)	100	0.7	-	(0.1)	(0.4)

It is SB Plc's policy that banking book assets and liabilities with a duration greater than one week be match funded with the money markets desk, thus removing interest rate risk. However, a few business areas are exempt where their banking book interest rate risk is monitored in the same way as if it was a trading book, i.e. PV01 sensitivities are calculated. This is then aggregated in a similar manner to the other traded risks as detailed earlier.

Foreign currency risk

SB Plc's foreign exchange positions arise mainly from foreign exchange trading activities, which are governed by position limits approved by the risk management committee in accordance with SBG's market risk policy. These position limits are subject to review at least annually and foreign exchange exposures are monitored daily by the market risk function and reviewed monthly to ensure they remain within the approved risk appetite.

SB Plc policy is not to hold open exposures in respect of the banking book of any significance. Gains or losses on derivatives that have been designated in terms of cash flow hedging relationships are reported directly in equity, with all other gains and losses on derivatives being reported in profit or loss.

Net investment in foreign operations

Functional currency	2013 $m	2012 $m
Chinese Renminbi	**85.9**	79.7

Market risk on equity investments

The investment committee approves investments in listed and unlisted entities 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. Periodic reviews and reassessments are undertaken on the performance of the investments.

33.8 Operational risk*

Introduction

Operational risk is recognised as a distinct risk category which SB Plc strives to manage within acceptable levels through the promotion of sound operational risk management practices. Operational risk is defined as the risk of loss suffered as a result of inadequacy of, or a failure in, internal processes, people and systems or from external events.

This includes information risk and legal risk, but excludes reputational risk and strategic risk. Operational risk exists in the natural course of business activity. SB Plc's approach to managing operational risk is to adopt fit for purpose operational risk practices that assist business line management to understand their inherent risk and to reduce their risk profile, in line with SB Plc's risk appetite, while maximising their operational performance and efficiency. The current framework follows a primarily qualitative approach, being focused on ensuring underlying risks are identified and owned and that the residual risk is maintained within an acceptable level in the opinion of the relevant management, as overseen by an independent operational risk function within risk management. Independent assurance on the satisfactory management of operational risk is provided by internal audit. The day-to-day management of operational risk is embedded within the business areas in order for the risks to be managed where they arise.

Framework and governance

BRMC, as the appropriately delegated risk oversight body on behalf of the Board, has ultimate responsibility for operational risk. BRMC ensures that the operational risk management (ORM) framework for the management and reporting of operational risk is implemented across SB Plc, whilst ensuring regulatory compliance where applicable.

The GROC serves as the oversight body in the application of SBG's operational risk management framework, including business continuity management and information risk. This is achieved through enforcing standards for identification, assessing, controlling, monitoring and reporting. The GROC approves ORM policies and methodologies and oversees risk appetite and tolerance.

* Indicates risk management section not subject to audit.

Operational risk committee (OpCo) serves as the main operational risk management committee within SB Plc. The committee's primary responsibility is to monitor and control operational risk for SB Plc and oversee adherence to the agreed risk appetite. It is responsible for ensuring a robust operational risk framework is embedded across the organisation and promoting strong risk culture within the three lines of defence model.

The roles and responsibilities for managing operational risks are stipulated in the operational risk governance standard and various ORM policies. These policies indicate the responsibilities of operational risk specialists at all levels and of the risk owners. Local heads of ORM may develop their own policies and procedures that better suit their unique environments. These policies and procedures must align to the policies and procedures and must be approved by their respective governance committees.

The management and measurement of operational risk

The ORM framework serves to ensure that risk owners are clearly accountable for the risk inherent within the business activities of SB Plc. The key elements in the ORM framework include methodologies and tools to identify, assess, monitor and manage operational risks.

Management is required to identify risks that could threaten the achievement of business objectives and, together with the required set of controls and actions, to mitigate the risks as appropriate. Risk assessment incorporates a regular review of identified risks to monitor significant changes.

The incident data collection process ensures that all relevant operational risk incidents (including loss events, near misses and non-financial impacts) are captured into a centralised database. The flow of information into the incident database is a bottom-up approach. The capture process identifies and classifies all incidents in terms of an incident classification list. This information is used to monitor the state of operational risk, address trends, implement corrective action and manage recovery, where possible.

SB Plc uses key risk indicators to monitor the relevant risks and controls highlighted in the risk and control self-assessment process. The implementation of the key risk indicators process is an integral element of ORM and is therefore compulsory throughout SB Plc.

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

SB Plc maintains adequate insurance to cover key operational and other risks. SB Plc's insurance process and requirements are the responsibility of the ORM function.

Business resilience (including business continuity management and crisis management)

Business resilience is defined as the ability of SB Plc's business operations to rapidly adapt and respond to internal or external dynamic changes – opportunities, demands, disruptions or threats – and continue operations with limited impact to the business through pro-active management and resilient infrastructure. Business resilience is primarily focused on developing and maintaining a pro-active and holistic response. Crisis management is based on a streamlined command and control process for managing the business through a crisis to full recovery. These processes may also be deployed to manage non-operational crises, including business crises, at the discretion of senior management.

Information risk management

Information risk is defined as the risk of accidental or intentional unauthorised use, modification, disclosure or destruction of SB Plc's information resources, which compromises their confidentiality, integrity or availability.

From a strategic perspective, information risk management is treated as a particular discipline within the operational risk framework. Essentially, information risk management not only protects SB Plc's information resources from a wide range of threats, but also enhances business operations, ensures business continuity, maximises return on investments and supports the implementation of various services.

Legal risk*

SB Plc's legal obligations arise throughout its global operations and where SB Plc may be faced with risk where legal proceedings are brought against it.

Legal risk arises where:

- incorrect application of regulatory requirements takes place;
- SB Plc may be liable for damages to third parties; or
- contractual obligations may be enforced against SB Plc in an adverse way, resulting in legal proceedings being instituted against it.

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

Taxation risk*

Framework and governance

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 SB Plc is subject.

In terms of SB Plc tax policy, SB Plc will fulfill 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 SB Plc 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 SB Plc:

- pays neither more nor less tax than tax law requires in the context of SB Plc'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.

* Indicates risk management section not subject to audit.

33 Financial risk management continued

The framework to achieve compliance with SB Plc tax policy comprises four elements:

- 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 SB Plc.

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

The identification and management of tax risk is the primary objective of the SB Plc tax function and this objective is achieved through the application of a tax risk matrix approach, which measures the fulfillment of tax responsibilities against the specific requirements of each category of tax to which SB Plc is exposed in the context of the various types of activity SB Plc conducts.

Compliance risk*

Compliance risk refers to the risk of failing to comply with applicable laws, regulations, codes of conduct and standards of good practice which may result in regulatory sanctions, financial or reputational loss.

Framework and governance

The bank maintains a centralised compliance function led by the head of international compliance, who reports locally into the bank's chief executive officer and the bank's Board audit committee. As part of the wider Standard Bank Group, the head of international compliance also reports in to the SBG chief compliance officer.

It is the responsibility of the business units to ensure that their respective areas are acting in compliance with the relevant legislation. Each business unit has a responsibility to ensure that the compliance function receives the necessary support and for reporting compliance matters to compliance where required.

To support the bank's approach to compliance risk management, which includes the adherence to the implementation of SBG compliance policy and standards, a centrally based monitoring discipline undertakes a programme of review of business areas and higher risk compliance exposures using a risk-based approach. This approach is substantially aligned to the methodologies used by the bank's other risk assurance functions.

Regulation and supervision

The bank operates within a highly regulated industry and across multiple jurisdictions. The bank is supervised by various regulatory bodies, with the Prudential Regulation Authority (PRA) and Financial Conduct Authority (FCA) being its primary regulators. The bank's ultimate holding company, Standard Bank Group Limited, is incorporated in South Africa and regulated by the Bank Supervision Department of the South African Reserve Bank (SARB), who also regulates the subsidiaries of SBG.

Financial crime risk

Financial crime risk is defined as the risk of economic loss, reputational impact and regulatory sanction arising from any type of financial crime against the bank. Financial crime includes fraud, money laundering, violent crime and misconduct by staff, customers, suppliers, business partners, stakeholders and third parties.

Framework and governance

Responsibility for ensuring that the bank has effective systems and controls for compliance with applicable financial crime regulatory requirements and standards lies with senior management of the bank. The need for senior management to take an active role in the financial crime prevention regime and the provision of direction to and oversight of that regime is emphasised in the FCA's Rulebook.

Senior management take their obligations seriously in relation to regulatory compliance, including financial crime, and the bank's governance structures include a number of senior management committees that have specific regulatory compliance responsibilities.

Standard Bank Plc is required to appoint, and has appointed, a money laundering reporting officer (MLRO), who is responsible for oversight of the firm's compliance with the FCA's rules on systems and controls against money laundering. The firm's senior management commissions a report from its MLRO on an annual basis which assesses the operation and effectiveness of the bank's systems and controls in relation to managing money laundering risk.

Standard Bank Plc's MLRO is also its head of financial crime and this role covers sanctions, fraud, bribery and corruption in addition to money laundering responsibilities. The MLRO owns the relevant policies and procedures and is responsible for putting in place appropriate systems and controls in relation thereto, as well as being the principal point of contact between the bank and law enforcement agencies.

Money laundering and terrorist financing control

The bank is required to establish and maintain appropriate systems and controls to assist it in complying with the statutory and regulatory money laundering and terrorist financing control requirements in each of the jurisdictions in which it operates. The bank allocates sufficient resources, including appropriate staff and technology, to develop, implement and maintain policies and procedures to meet these requirements.

Legislation pertaining to money laundering and terrorist financing control imposes several key areas for the bank to address, namely: customer due diligence; monitoring customer activity; reporting suspicious activity to the relevant authorities; training staff in their responsibilities; record keeping and management information.

The bank adopts a risk-based approach to managing its money laundering and terrorist financing risk, thereby allowing resources to be focussed on areas of higher risk. In implementing a risk-based approach, the bank will take the actions necessary to identify and assess the money laundering and terrorist financing risks relevant to it, and will implement systems and controls that are proportionate to these risks and appropriate to the bank's circumstances given the nature, scale and complexity of its activities.

Sanctions

The bank is required to have systems and controls in place to ensure that it adheres to sanctions imposed by HM Treasury and the European Union. These controls include ensuring that business relationships are not formed or continued with individuals, entities or bodies subject to sanctions and ensuring that funds are not made available, either directly or indirectly to individuals, entities or bodies who are subject to sanctions.

* Indicates risk management section not subject to audit.

Although there is no explicit obligation for the bank to have regard to sanctions imposed by other bodies or authorities in other jurisdictions, in practice there is an expectation that institutions undertaking business outside of the UK will have regard to the relevant sanctions regimes in the jurisdictions in which they operate. This is particularly important given the extraterritorial reach of the US authorities.

In respect of sanctions requirements, the bank works with Standard Bank Group to share expertise and align approaches to potentially sanctioned entities or transactions.

Fraud, bribery and corruption risk management

The bank is committed to carrying out business fairly, honestly and openly, and adopts a zero tolerance approach to fraud, bribery and corruption. The bank requires all staff to act honestly and with integrity at all times, and to report all reasonable suspicions of fraud, bribery or corruption.

The bank requires compliance with all anti-bribery and anti-corruption laws in the countries in which it conducts business (whether through a third party or otherwise), and recognises that over and above the commission of any crime, any involvement in bribery or corruption will also reflect adversely on its image and reputation.

The responsibility for identifying instances of suspected or actual fraud, bribery or corruption lies with each business unit. It is the responsibility of all staff to be vigilant of the risk of fraud, bribery or corruption and report any suspicion of incidents of these.

The bank is committed to investigating all fraud, bribery or corruption whether suspected or discovered. Where an initial report has been made as above, the MLRO, consulting as appropriate with group financial crime control (GFCC), will determine whether a detailed investigation is required and take appropriate steps to oversee the investigation.

The compliance department is responsible for the risk strategy in relation to fraud, bribery or corruption, which includes the continuous assessment of risk and the control framework, overseen by the MLRO.

Client money

The bank has established policies and procedures to comply with specific FCA guidelines regarding client money. Where the bank places client money with a third party bank, the account is designated as a client account and maintained separate from any account used to hold the bank's own money.

33.9 Reputational risk*

Reputational risk is the risk caused by damage to an organisation's reputation, name or brand. Such damage may result from a breakdown of trust, confidence or business relationships. Safeguarding SB Plc's reputation is of paramount importance to its continued success and is the responsibility of every member of staff. As a banking group, Standard Bank's good reputation depends upon the way in which it conducts its business, but it can also be affected by the way in which clients, to whom it provides financial services, conduct themselves.

33.10 Capital management

SB Plc manages its capital resource and requirements to:

- achieve a prudent balance between maintaining capital ratios to support business strategy and depositor confidence, and providing competitive returns to shareholders;
- ensure that each group entity maintains sufficient capital levels for legal and regulatory compliance purposes; and
- ensure that its actions do not compromise sound governance and appropriate business practices and it eliminates any negative effect on payment capacity, liquidity or profitability.

SB Plc is subject to regulation and supervision by the Prudential Regulation Authority (PRA) and forms part of SBG which is supervised by the SARB.

SB Plc has been subject to the Basel 3 regulatory frameworks for calculating minimum capital requirements published by the Basel Committee on Banking Supervision (the Basel Committee) for reporting to the SARB from 1 January 2013. Basel 3 was implemented by the PRA with effect from 1 January 2014. The impact of Basel 3 has been reviewed by the group and has been factored into capital projections.

SB Plc calculates credit and counterparty risk capital requirements using the PRA standardised rules as well as on the Foundation Internal Ratings Based approach (FIRB) for reporting to the SARB. Market risk capital is calculated as a combination of approved VaR models and standardised methods. Operational risk is calculated on the standardised approach.

As part of the pillar II process, the group updates its ICAAP (Internal Capital Adequacy Assessment Process) document which is the firm's self assessment of capital requirements including for those risks not captured by pillar I. SB Plc has implemented a macro economic stress testing model to assess the additional capital requirements and the impact on capital resource of adverse economic conditions. This forms part of the governance process and is incorporated into the ICAAP.

Economic capital

In addition to managing against the regulatory capital requirements, management also increasingly utilise more risk sensitive internal economic capital models to monitor and control the risk profile of the organisation. These cover:

- capital adequacy as measured by the ratio of available financial resources to economic capital consumption which forms part of the risk appetite;
- concentrations in exposures which are reviewed against limits and managed by the risk management committee; and
- economic capital utilisation and various related performance metrics which are reviewed by management and form part of the capital allocation process.

Regulatory capital

In addition to compliance with the requirements prescribed by the PRA, the group is required to meet minimum capital requirements of regulators in those countries in which it operates. Banking regulations are generally based on the guidelines developed by the Basel Committee under the auspices of the Bank for International Settlements. In addition to the requirements of host country regulators, all banking operations are also expected to comply with the capital adequacy requirements on a consolidated basis. SB Plc maintained surplus capital over the minimum requirements prescribed by both the PRA and SARB throughout the year.

* Indicates risk management section not subject to audit.

33 Financial risk management continued

The capital adequacy ratio, which reflects the capital strength of an entity compared to the minimum regulatory requirement, is calculated by dividing the capital held by that entity by its risk-weighted assets.

Capital is split into two tiers:

- Core tier I (primary capital) represents permanent forms of capital such as share capital, share premium and retained earnings less regulatory deductions; and
- Tier II (secondary capital) includes medium to long-term subordinated debt, revaluation reserves and performing portfolio credit impairments;

Risk-weighted assets are determined by applying prescribed risk weightings to on and off balance sheet exposures according to the relative credit risk of the counterparty. Included in overall risk-weighted assets is a notional risk weighting for market risks, counterparty risks and large exposure risks relating to trading activities.

Capital resources

The table below sets out the qualifying capital of the regulated entity.

	2013	2012
	$m	$m
Regulatory capital		
Core Tier I		
Share capital	**1 083.5**	1 083.5
Share premium	**431.0**	431.0
Qualifying reserves	**(152.7)**	(147.2)
Less regulatory deductions	**(60.7)**	(71.6)
Total Core Tier I	**1 301.1**	1 295.7
Tier II		
Subordinated debt instruments	**657.8**	966.7
Credit impairment against performing loans	**10.0**	10.0
Tier II Excess	**-**	(177.2)
Total Tier II	**667.8**	799.5
Less deductions from Tier I and Tier II	**(101.6)**	(161.2)
Total qualifying Tier I and Tier II capital	**1 867.3**	1 934.0
Tier III		
Tier II excess	**-**	177.2
Total Tier III	**-**	177.2
Less deductions from total capital	**(1.4)**	-
Total eligible capital	**1 865.9**	2 111.2

34 Ultimate holding company

The largest group in which the results of the company are consolidated is that headed by Standard Bank Group Limited, a company incorporated in the Republic of South Africa. These consolidated financial statements are available to the public for inspection at:

Standard Bank Group Limited

9th Floor

Standard Bank Centre

5 Simmonds Street

Johannesburg 2001

Republic of South Africa

Acronyms and abbreviations

ALCO	Asset and liability committee
ALM	Asset and liability management
APB	Auditing Practices Board
BAC	Board audit committee
BIC	Business infrastructure committee
BRICS	Brazil, Russia, India, China and South Africa
BRMC	Board risk management committee
BS&R	Business support and recovery
CAM	Global markets core account management
Capcom	Capital and liquidity management committee
CCP	Contingent credit protection
CEEMECA	Central and Eastern Europe / Middle East / Central Asia
CEO	Chief Executive Officer
CFP	Contingency funding plan
CIB	Corporate and Investment Banking division
CGC	Credit governance committee
COMEX	Commodity exchange
company	Standard Bank Plc
CRD	Capital requirement directive
CRO	Chief Risk Officer
CSA	Credit Support Annex
CSE	Consolidated structured entity
CVA	Credit valuation adjustment
DVA	Own credit valuation adjustments
EAD	Exposure at default
Ecap	Economic capital
ECB	European Central Bank
EL	Expected loss
EMIR	European Market Infrastructure Regulation
EP	Economic profit
ERC	Equity risk committee
EU	European Union
EWI	Early warning indicator
FATCA	Foreign Account Tax Compliance Act
FIRB	Foundation internal ratings based
GAC	Group audit committee
GROC	Group risk oversight committee
group	Standard Bank Plc, its subsidiary and CSEs
IAS	International Accounting Standards
ICAAP	Internal Capital Adequacy Assessment Process
ICBC	Industrial and Commercial Bank of China Limited
ICMA	International Capital Market Association
IFRIC	International Financial Reporting Interpretations Committee
IFRS	International Financial Reporting Standards as adopted by the EU
ILG	Individual liquidity guidance
IMF	International Monetary Fund
ISDA	International Swap Dealers Association
KRI	Key risk indicators
LGD	Loss given default
LCMT	Liquidity contingency management team
LME	London Metal Exchange
LRTS	Liquidity risk tolerance statement
LSC	Liquidity sub-committee
M&A	Merger and acquisition
MENA	Middle East and North Africa
MTF	Metal trading facilities
NBFI	Non-bank financial institution
OCI	Other comprehensive income
OIS	Overnight index based swap curves
OpCo	Operational risk committee
OTC	Over-the-counter
PBB	Personal and Business Banking
PCC	Pre-credit committee
PCMU	Physical commodities management unit
PCS	Private Client Services
PD	Probability of default
PFE	Potential future exposure
PIM	Principal Investment Management
PIT	Point in time
Plan	Quanto stock unit plan
PRA	Prudential regulation authority
PRMC	Portfolio risk management committee
QARM	Quantitative analytics and risk methods
Remco	Remuneration committee of the group
Repos	Repurchase agreements
RMC	Risk management committee
SARB	South African Reserve Bank
SB Plc	Standard Bank Plc, its subsidiary and CSEs
SBG	Standard Bank Group Limited and subsidiaries
SBLH	Standard Bank London Holdings Limited
SBSA	Standard Bank of South Africa Limited
SIFMA	Securities Industry and Financial Markets Association
SIH	Standard International Holdings S.A.
STC	Structured transactions committee
TTC	Through the cycle
UL	Unexpected loss
VaR	Value-at-risk
VAT	Value added tax
ZAR	South African Rand

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M Chiaviello
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[1] Represents new address from August 2014

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