The Standard Bank of South Africa

Annual financial statements 2005

Standard Bank

Contents

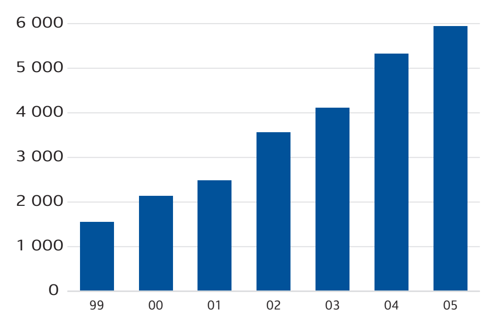
We are committed to providing appropriate long-term returns to our shareholders.

Financial highlights

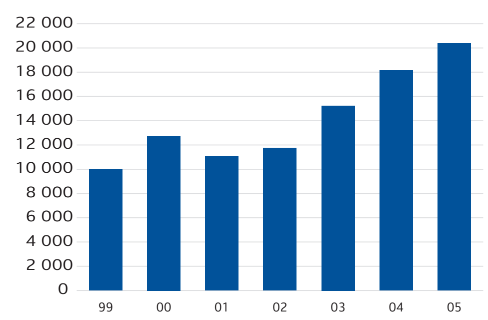
	2005	2004	% change	2005 USD equivalent
Group				
Headline earnings (Rm)	6 453	5 560	16	1 015
Total assets (Rm)	451 513	391 152	15	70 993
Return on equity (%)	31,7	31,9		
Headline earnings (cents per ordinary share)	10 756	9 267	16	1 691
Company				
Income statement (Rm)				
Net income before taxation	8 005	7 406	8	1 259
Headline earnings	5 948	5 325	12	935
Income attributable to ordinary shareholder	6 056	5 382	13	952
Balance sheet (Rm)				
Ordinary shareholder's funds	20 376	18 163	12	3 204
Total assets	435 507	384 876	13	68 476
Loans and advances	250 939	202 229	24	39 456
Financial performance				
Return on equity (%)	30,9	31,9		
Cost-to-income ratio (%)	56,6	56,5		
Credit loss ratio (%)	0,54	0,47		
Capital adequacy				
Total risk-weighted assets (Rm)	235 540	201 232	17	37 035
Primary capital (Rm)	20 218	18 258	11	3 179
Total capital (Rm)	29 400	26 969	9	4 623
Primary capital to risk-weighted assets (%)	8,6	9,1		
Total capital to risk-weighted assets (%)	12,5	13,4		

The 2005 rand/US dollar exchange rates:
Period end rate – R6,36 (2004: R5,63)
Average rate – R6,36 (2004: R6,44)

Headline earnings – company (Rm)



Ordinary shareholder's funds – company (Rm)



Risk management, capital adequacy and corporate governance

Risk management

Managing risk effectively in a diverse and complex organisation such as the Standard Bank of South Africa and its subsidiaries (SBSA group or group) requires a strong risk management culture that supports sound commercial decision-making by adequately balancing risk and reward.

Risk management approach

The group's risk management approach balances strong corporate oversight with independent risk management structures within the business units.

During 2005, the group's risk management structures, policies and processes were reviewed. The process of updating them is underway. In future all principal risks will be subject to overarching governance standards. These standards are to be applied consistently across the group, in line with minimum control requirements for each risk type.

The standards will form an integral part of the group's governance infrastructure, reflecting the expectations and requirements of the board in respect of key areas of control across the group.

The standards will ensure alignment and consistency in the way that prevalent risk types are managed across the group with regard to:

- identification;
- measurement;
- management and control; and
- reporting of risk.

The standards will underpin the group's governance principles, which are:

- Shareholder value based

  The group's primary objective is to protect and enhance shareholder value and the risks to this objective drive the group's system of internal control.

- Embedded

  The culture of the group reflects its appetite for risk. A suitable organisational structure, policies and procedures, and appropriate staff training are in place to enable risk to be managed at all levels of the business.

- Supported and assured

  The group's system of governance and internal control provides management with assurance that risks are being managed appropriately. The board regularly receives and reviews reports on governance and control processes.

- Reviewed

  The board undertakes a specific review of the effectiveness of the internal control and risk management systems and processes at least annually.

For financial institutions, a combination of major risks (set out below) occurring at the same time would be the most likely cause of significant losses. It is therefore important to ensure a holistic risk management approach – that risk types are not managed in isolation. This is one of the key reasons for the group's approach of balancing decentralised risk management structures within business units with a central risk function exercising coordination and control.

Although audit assurance is the primary objective of the internal audit function within the group, it also assists the executive management team in meeting their business objectives by examining the group's activities, assessing the risks involved and evaluating the adequacy and effectiveness of processes, systems and controls to manage these risks. A risk-based audit approach has been adopted. Material or significant control weaknesses and planned management remedial actions are reported and the implementation tracked on a quarterly basis.

Major risks

Risks to which the group is exposed can be classified into the following major categories.

Credit risk – arises from customer or counterparty non-performance or default. Considerable resources, expertise and controls are in place to ensure efficient and effective management of credit risk. In lending transactions, credit risk arises through non-performance by a counterparty for facilities used. 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.

There are three components to credit risk:

- settlement risk – arises in transactions involving the non-simultaneous exchange of values when the group honours its obligations to deliver value and the counterparty does not;
- pre-settlement risk – arises where a counterparty is unable or unwilling to honour its future obligation. The group is then exposed to replacement cost risk when it subsequently arranges a transaction with a second counterparty to replace the defaulted deal; and
- issuer risk – arises where the issuer of a debt instrument defaults on a particular principal payment or set of payments due under the instrument.

Market risk and credit risk overlap in traded credit products (whether traded as principal or held as collateral) including debt instruments and credit derivatives. In these circumstances, issuer concentration and default risks are managed through credit and country risk processes, and market price sensitivity through market risk processes.

Country risk – arises from the uncertainty that obligors may not be able to fulfil their obligations to the group because of political or economic conditions in the host country. Country risk is monitored through reviews of economic and political data by the country risk teams based in Johannesburg and London. The group uses its extensive network of representative offices and subsidiaries, travels to countries when necessary and uses external sources of information to assess each country to which it is exposed. Mitigants such as political risk insurance are used to reduce country risk as appropriate.

Market risk – arises from a decrease in the market value of a portfolio of financial instruments caused by an adverse move in market variables such as equity, bond and commodity prices, currency exchange rates, interest rates and credit spreads, and implied volatilities on all of the above. Market risk exists wherever the group has trading, banking or investment positions. Major exposures to market risk occur in markets served by formal financial exchanges and over-the-counter markets. These exposures arise from customer-driven business and proprietary positions.

The different components of market risk include:

- **Market risk on trading positions and capital funds**

  The board grants general authority to take on market risk exposure to the Africa asset and liability committee (ALCO), which is chaired by the chief executive. The group manages market risk through risk limits and uses a range of risk measurement methodologies and tools to establish limits, including Value-at-Risk (VaR), stress testing, loss triggers and basic risk management measures.

- **Market risk on equity investments**

  Equity management committees approve investments in listed and unlisted entities in an approval limit framework. 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.

- **Market risk exposure on banking positions**

  Banking-related market risk exposure is primarily due to structural interest rate risk arising from the differing repricing characteristics of banking assets and liabilities. Asset and liability management (ALM) functions monitor exposures to interest rate risk. The main analytical techniques used to measure banking book interest rate risk are earnings-based measures such as forward looking dynamic scenario analyses, including Monte Carlo simulations, and static repricing gap analyses, which measure interest rate risk at a point in time, as well as valuation-based measures in the form of economic value of equity. The results obtained from these analytical techniques assist the group in evaluating the optimal hedging strategies on a risk-return basis.

Liquidity risk – arises should the group have insufficient funds or marketable assets available to fulfil their future cash flow obligations. The nature of banking, investment and trading activities results in a continuous exposure to liquidity risk. Liquidity obligations arise from requirements to repay deposits, advance committed funds, and make interest and other expense payments. The group's liquidity risk management framework is designed to identify, measure and manage the liquidity risk position to protect the group's depositor base, maintain market confidence and ensure future growth.

Structural liquidity limits and guidelines are set to restrict the mismatches between cash inflows and outflows in different time buckets. These limits and guidelines are set by group ALCO and conform to international best practice.

Operational risk – results from inadequate or failed internal processes, people and systems errors or external events. The group recognises the significance of operational risk, which is inherent in all areas of our business. Operational risk is managed within acceptable levels through an appropriate level of management focus and resources. For the future calculation of regulatory capital, the group has adopted the Basel II standardised approach to quantifying operational risk.

The group's operational risk strategy provides for ongoing development to keep abreast of legislative and regulatory requirements. In addition, we continue to develop and enhance our standards, policies, methodologies and systems in line with best practice. The group maintains a comprehensive insurance programme to cover losses from fraud, theft and damage to physical assets and professional liability claims.

Business continuity ensures the availability of all key processes, which are required to support essential activities in the event of an interruption to, or disruption of, business. Within the group, business continuity management has been strengthened through good governance, improved recovery plan quality and advanced levels of testing.

Information risk is the possibility of loss or damage arising from a breach in the confidentiality, integrity or availability of the group's information. The group's information risk management practices play a key role in protecting information from a wide range of threats to ensure business continuity, minimise business damage and to maximise return on investments and business opportunities.

Fraud risk management is applied throughout the group and is supported by a forensic services function, which operates under the group's internal audit unit. The strategic focus is on preventing, detecting, investigating and whistle blowing on fraudulent activities. The group maintains a zero-tolerance approach towards fraud and dishonesty.

Risk management, capital adequacy and corporate governance continued

Compliance risk – involves sanctions, financial loss, or loss to reputation as a result of failure to comply with applicable laws, regulations, codes of conduct and standards of good practice. The South African Reserve Bank's (SARB) Banking Supervision Department is the lead regulator while the Financial Services Board (FSB) has jurisdiction over consumer protection issues relating to bank insurance products. Key challenges during 2005 in this area have continued to relate to Financial Intelligence Centre Act requirements for the re-identification and verification of clients, and the FSB's accreditation of financial service providers.

Money laundering control and Occupational Health and Safety (including aspects of environmental risk management) are managed by the compliance function and there is increasing legislation being imposed in both these areas.

Reputational risk – involves damage to the group's image, which may impair its ability to retain and generate business. The group manages reputational risk through its evaluation and control of the major risk types set out above. In addition, a culture of open communication is encouraged, to allow for all issues to be appropriately dealt with in a timely manner.

Taxation risk – results from the group incurring a financial loss due to an incorrect interpretation and application of taxation legislation or due to the impact of new taxation legislation on existing business.

The Basel Capital Accord

The Basel II Capital Adequacy Framework (Basel II) aims to incentivise banks, through lower capital requirements, to improve risk management processes.

During June 2004, the Bank for International Settlements released the final version of Basel II. The revisions focused mainly on improving the quantification and management of credit and operational risks, enhancements to supervisory review processes and more extensive risk disclosure.

The SARB has announced that the South African implementation date of Basel II will be 1 January 2008, with local banks and the regulator evaluating the impact of the new framework on capital requirements and risk management processes during a parallel run, to be conducted for a year prior to implementation (i.e. commencing on 1 January 2007).

The group is currently working towards meeting the 'advanced approaches' requirements for all risk categories. The approaches on commencement will be Advanced IRB (Internal Ratings Based) for Retail, Foundation IRB for Wholesale and Standardised approach for Operational Risk. The Basel II programme of initiatives is on track to meet the regulatory timeline of January 2008.

Progress has been significant in aligning Probability of Default (PD) for credit risk rating models with Basel II specifications. Loss Given Default (LGD) and Exposure At Default (EAD) models are being tested and validated. As LGD significantly impacts the level of capital required under Basel II, particular focus is being placed on ensuring that collateral and other credit risk mitigations meet the Basel II eligibility criteria. The group will however be able to leverage off recent investments in sophisticated collateral and collections management systems.

The group's operational loss database has been in effect since 2003. It is being supplemented with risk and control self-assessments and Key Risk Indicators (KRIs) in the identification and monitoring of operational risks in line with Basel II requirements. No significant initiatives are required to achieve Basel II Market Risk compliance for the group. Applications for regulatory approval for internal models for market risk are in progress and other aspects such as changes to regulatory reporting are being addressed.

Capital adequacy

Minimum requirements

The capital adequacy ratio reflects the capital strength of an entity when compared to the minimum requirement set out by the regulator.

The Standard Bank of South Africa (SBSA) is required to meet the SARB capital requirements, being a minimum capital adequacy ratio of 10%. These regulations are based on guidelines developed by the Bank for International Settlements.

Qualifying capital

Qualifying capital is divided into three tiers: primary, secondary and tertiary capital.

Primary capital (Tier I) comprises funds raised through the issue of ordinary shares; non-redeemable, non-cumulative preference shares; retained earnings and reserves (other than statutory revaluation reserves).

Secondary capital (Tier II) comprises cumulative preference shares, certain subordinated loan funding, general debt provisions net of any related deferred tax and 50% of statutory revaluation reserves.

Tertiary capital (Tier III) comprises certain subordinated loan funding and may only be used to support trading activities.

Risk-weighted assets

Risk-weighted assets are determined by applying a set risk weighting to on- and off-balance sheet financial instruments, according to the relative credit risk of the counterparty. Included in the overall risk-weighted assets is a notional risk-weighting for the trading book, calculated based on the market, counterparty and large exposure risks.

Capital adequacy ratio

The capital adequacy ratio decreased from 13,4% in 2004 to 12,5% in 2005.

Strong risk-weighted assets (RWA) growth was only partially matched by an increase in the capital base due to increased dividend payments following a reduction in dividend cover of the Standard Bank Group. Prior year Tier II capital ratios were higher than normal due to the issue of Tier II bonds in anticipation of 2005 redemptions.

Corporate governance

The Standard Bank Group (SBG) continues to ensure that the highest levels of corporate governance are observed in the conduct of the group's affairs. As a major subsidiary of SBG, SBSA group implements the governance objectives and philosophies adopted by SBG.

SBSA group applies the code of banking practice (the code) and subscribes to the values underlying the code. The code provides valuable safeguards for our clients and promotes good banking practice by formalising standards of disclosure and conduct. There are systems in place to ensure compliance with the principles and recommendations set out in the code. The group's internal audit function audits compliance with the code.

Full details of group governance practices are detailed in SBG's annual report that can be found at www.standardbank.co.za.

Board of directors

The board has ultimate responsibility for the management and strategic direction of the SBSA group and complies with legislative, regulatory and best practice requirements. There are 18 directors on the board of whom two are executive and 16 are non-executive, with 13 of these being independent. The presence of a strong contingent of independent non-executive directors ensures that independent thought is brought to bear on decisions of the board.

The board meets regularly and during 2005, six board meetings were held:

Board of directors at 31 December 2005	Mar	May	Aug	Aug	Oct	Dec
DE Cooper (Chairman)[1]	✓	✓	✓	✓	✓	✓
DDB Band[2]	✓	✓	✓	✓	✓	✓
E Bradley[1]	✓	✓	✓	✓	✓	✓
T Evans[1, 10]	✓	✓	✓	✓	✓	✓
TS Gcabashe[1]	✓	✓	A	A	✓	✓
DA Hawton[1]	✓	✓	✓	✓	✓	✓
Sir Paul Judge[1, 11]	✓	✓	✓	✓	✓	✓
SE Jonah KBE[1, 8, 12]	–	–	–	–	–	–
SJ Macozoma[2]	✓	✓	✓	✓	✓	✓
JH Maree[3]	✓	✓	✓	✓	✓	✓
RP Menell[1]	✓	✓	✓	✓	A	A
Adv KD Moroka[1]	✓	✓	A	A	✓	✓
AC Nissen[1]	✓	✓	✓	✓	✓	✓
RA Plumbridge[1, 5]	✓	✓	–	–	–	–
MC Ramaphosa[2]	✓	✓	A	A	✓	✓
Dr MA Ramphele[1, 4]	–	A	✓	✓	✓	✓
SP Ridley[3, 7]	–	–	✓	✓	✓	✓
MJD Ruck[3, 6]	✓	✓	–	–	–	–
MJ Shaw[1]	✓	✓	✓	✓	✓	✓
Sir Robert Smith[1, 11]	✓	✓	✓	✓	✓	✓
Dr CL Stals[1, 5]	✓	✓	–	–	–	–
Dr CB Strauss[1]	✓	✓	✓	✓	✓	✓

✓ = Attendance
A = Apology
[1]Independent non-executive director.
[2]Non-executive director.
[3]Executive director.
[4]Appointed on 17 March 2005.
[5]Retired on 25 May 2005.
[6]Resigned on 5 August 2005.
[7]Appointed on 5 August 2005.
[8]Appointed on 1 February 2006.
[9]SARB bi-lateral meeting.
[10]Resigned on 8 March 2006.
[11]British.
[12]Ghanaian.

Risk management, capital adequacy and corporate governance continued

All directors have unlimited access to the advice and services of the company secretary, who assists in providing any information or documentation they may require to facilitate the discharge of their duties and responsibilities.

The ultimate responsibility for the operations of the organisation rests with the board. The board, through a well-developed governance structure, is assisted in its task by various board committees who provide detailed attention to specific areas.

The board and board committees operate in accordance with agreed mandates that set out their terms of reference. During the year an evaluation of board committees was conducted to assess the adequacy and effectiveness of their performance and thus assist the board in performing more effectively.

The board delegates authority to the chief executive to manage the business and affairs of the bank together with his executive committee. Further delegations are managed through a delegation process that is monitored by the secretary.

Appointments

During the year, the board appointed two new independent non-executive directors, Dr Mamphela Ramphele and Sam Jonah KBE, and one executive director, Simon Ridley, in line with the requirements of the Companies Act, Banks Act, JSE Limited Listings Requirements as well as the board's agreed nomination policy. Myles Ruck resigned from the board on 5 August 2005 but remained on the executive committee of Standard Bank Group. The nomination policy sets out the directors' nomination and appointment process that must be followed with every appointment.

Induction and training

On appointment, each new director receives a governance manual that consists of relevant information such as mandates, management structures, significant reports and important legislation. In addition, one-on-one meetings are scheduled with management to properly introduce new directors to the group, its operations and key management.

Going concern

The directors review the basis of going concern for the preparation of financial statements at the year end and renew this conclusion at the interim reporting period. The directors have sufficient reason to believe that SBSA has adequate resources to continue operating as a going concern.

Financial definitions

CAGR (%)	Compound annual growth rate.
Cost-to-income ratio (%)	Operating expenses as a percentage of total income before deducting impairment charges on loans and advances.
Credit loss ratio (%)	Total credit impairment charges per the income statement as a percentage of average gross loans and advances.
Dividends per share (cents)	Total ordinary dividends declared per share in respect of the year.
Effective taxation rate (%)	Direct and indirect taxation as a percentage of income before taxation.
Earnings per share (EPS) (cents)	Earnings attributable to ordinary shareholders divided by the weighted average number of ordinary shares in issue.
Headline earnings (Rm)	Earnings attributable to ordinary shareholders excluding goodwill impairment, capital profits and losses, and recycled profits and losses on available-for-sale financial instruments.
Headline earnings per share (HEPS) (cents)	Headline earnings divided by the weighted average number of ordinary shares in issue.
Net asset value per share (cents)	Net asset value divided by the number of ordinary shares in issue at year end.
Return on equity (%)	Headline earnings as a percentage of average ordinary shareholder's funds.
Return on risk-weighted assets (%)	Headline earnings as a percentage of average risk-weighted assets.

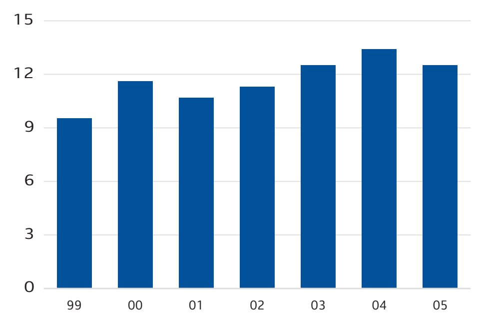
Seven-year review

Balance sheet

Company	CAGR %	2005 Rm	2004 Rm	2003 Rm	2002 Rm	2001 Rm	2000 Rm	1999 Rm
Assets								
Cash and balances with banks	21	41 005	8 750	8 201	25 312	19 397	10 192	12 755
Short-term negotiable securities	21	19 642	16 306	15 440	5 936	4 627	9 426	6 278
Trading assets	41	11 295	6 545	9 068	6 145	3 639	3 550	1 433
Investments	21	13 429	16 451	14 932	9 870	11 978	4 086	4 216
Loans and advances	17	250 939	202 229	154 424	125 710	111 362	103 425	96 084
Derivative and other assets	55	73 710	102 841	85 843	19 892	20 394	10 935	5 335
Interest in group companies, associates and joint ventures	8	22 870	29 450	30 587	18 968	13 387	11 304	14 682
Goodwill and other intangible assets		196	205	209	226	225	107	–
Property and equipment	1	2 421	2 099	2 149	2 136	1 924	2 204	2 220
Total assets	20	435 507	384 876	320 853	214 195	186 933	155 229	143 003
Equity and liabilities								
Equity	13	20 376	18 163	15 237	11 744	11 062	12 726	10 010
Liabilities	21	415 131	366 713	305 616	202 451	175 871	142 503	132 993
Deposit and current accounts	17	314 703	249 237	204 325	177 579	154 394	128 147	124 451
Derivative, trading and other liabilities	60	77 716	102 384	86 057	12 411	10 229	7 258	4 597
Subordinated bonds		7 832	8 014	5 950	5 820	4 772	2 700	35
Liabilities to group companies	25	14 880	7 078	9 284	6 641	6 476	4 398	3 910
Total equity and liabilities	20	435 507	384 876	320 853	214 195	186 933	155 229	143 003

Figures included in the seven-year review have been restated where necessary to provide a meaningful comparison of performance over the period.

Total capital to risk-weighted assets – company (%)



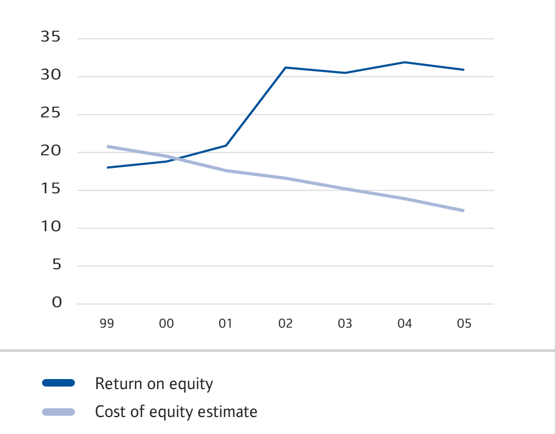
Seven-year review continued

Income statement

Company	CAGR %	2005 Rm	2004 Rm	2003 Rm	2002 Rm	2001 Rm	2000 Rm	1999 Rm
Net interest income	13	10 605	9 605	8 865	7 917	6 207	5 717	5 215
Interest income	10	33 289	30 735	31 517	26 249	19 403	17 050	18 662
Interest expense	9	22 684	21 130	22 652	18 332	13 196	11 333	13 447
Non-interest revenue	15	10 709	9 370	7 923	7 262	5 745	5 531	4 654
Total income		21 314	18 975	16 788	15 179	11 952	11 248	9 869
Credit impairment charges	(3)	1 248	851	1 341	1 359	1 330	1 303	1 545
Income after credit impairment charges	16	20 066	18 124	15 447	13 820	10 622	9 945	8 324
Operating expenses	11	12 061	10 718	9 351	8 233	6 979	6 305	6 296
Net income	26	8 005	7 406	6 096	5 587	3 643	3 640	2 028
Income from associates and joint ventures[1]	(100)			32	36	61	117	102
Net income before indirect taxation	25	8 005	7 406	6 128	5 623	3 704	3 757	2 130
Indirect taxation	4	458	316	325	331	261	308	356
Profit before direct taxation	27	7 547	7 090	5 803	5 292	3 443	3 449	1 774
Direct taxation	40	1 491	1 708	1 570	1 475	953	539	197
Profit attributable to ordinary shareholder	25	6 056	5 382	4 233	3 817	2 490	2 910	1 577

[1]Associates and joint ventures were previously equity accounted in the SBSA company financial statements. Following the adoption of IFRS, associates and joint ventures are accounted for at cost in the company financial statements and the 2004 results were restated for the change. Associates and joint ventures are now equity-accounted in the consolidated financial statements.

Financial performance – company (%)



Statistics, return and capital adequacy

Company	CAGR %	2005	2004	2003	2002	2001	2000	1999
Share statistics								
Number of ordinary shares in issue (millions)								
– weighted average		60	60	60	59	57	56	53
– end of period		60	60	60	60	59	56	56
Headline earnings (Rm)	25	5 948	5 325	4 110	3 561	2 490	2 142	1 557
Share statistics per ordinary share (cents)								
Earnings	23	10 094	8 970	7 057	6 490	4 384	5 153	2 955
Headline earnings	23	9 914	8 875	6 852	6 054	4 384	3 793	2 918
Dividends	84	9 583	9 998	2 416	7 684	6 963	2 047	243
Net asset value	11	33 962	30 273	25 396	19 600	18 820	22 537	17 727
Selected returns and ratios								
Return on equity (%)		30,9	31,9	30,5	31,2	20,9	18,8	18,0
Return on average risk-weighted assets (%)		2,7	2,8	2,5	2,3	1,8	1,8	1,5
Average ordinary shareholder's funds to average total assets (%)		4,7	4,7	5,0	5,7	7,0	7,6	6,3
Cost-to-income ratio (%)		56,6	56,5	55,7	54,2	58,4	56,1	63,8
Effective tax rate (%)		24,3	27,3	30,9	32,1	32,8	22,5	26,0
Headline earnings per employee (rand)	25	221 370	200 974	158 620	135 989	98 186	85 179	58 045
Number of employees at year end		26 869	26 496	25 911	26 186	25 360	25 147	26 824
Capital adequacy								
Risk-weighted assets (Rm)	13	235 540	201 232	174 423	159 320	151 469	121 094	110 905
Primary capital (Rm)	14	20 218	18 224	14 853	11 414	10 756	10 182	9 126
Total capital (Rm)	19	29 400	26 935	21 705	17 991	16 243	14 045	10 554
Primary capital to risk-weighted assets (%)		8,6	9,1	8,5	7,2	7,1	8,4	8,2
Total capital to risk-weighted assets (%)		12,5	13,4	12,5	11,3	10,7	11,6	9,5
Exchange rates at 31 December								
US$	1	6,36	5,63	6,68	8,58	12,00	7,57	6,16
UK£	2	10,95	10,82	11,95	13,82	17,45	11,30	9,92
Euro	3	7,52	7,66	8,42	9,01	10,68	7,10	6,17
Market indicators								
Prime overdraft rate (%)		10,5	11,00	11,50	17,00	13,00	14,50	15,50
JSE All Share Index (closing)	14	18 097	12 657	10 387	9 277	10 457	8 164	8 357
JSE Banks Index (closing)	15	29 234	22 975	14 153	12 035	12 812	13 697	12 482

Report of the independent auditors

To the member of The Standard Bank of South Africa Limited

We have audited the annual financial statements and the group annual financial statements of The Standard Bank of South Africa Limited set out on pages 12 to 90 for the year ended 31 December 2005. These financial statements are the responsibility of the company's directors. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with International Standards of Auditing. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements present fairly, in all material respects, the financial position of the company and of the group at 31 December 2005, and the results of their operations and cash flows for the year then ended in accordance with International Financial Reporting Standards and in the manner required by the Companies Act of South Africa.

KPMG Inc

KPMG Inc.
Registered Accountants and Auditors

PricewaterhouseCoopers Inc.
Registered Accountants and Auditors

Johannesburg
8 March 2006

Directors' responsibility for financial reporting

In accordance with Companies Act requirements, the directors are responsible for the preparation of the annual financial statements which conform with International Financial Reporting Standards (IFRS) and which, in accordance with those statements, fairly present the state of affairs of the group and the company as at the end of the financial year, and the net income and cash flows for that period.

It is the responsibility of the independent auditors to report on the fair presentation of the financial statements.

The directors are ultimately responsible for the internal controls. Management enables the directors to meet these responsibilities. Standards and systems of internal control are designed and implemented by management to provide reasonable assurance as to the integrity and reliability of the financial statements in accordance with IFRS and to adequately safeguard, verify and maintain accountability for group assets. Accounting policies supported by judgements, estimates and assumptions, which comply with IFRS, are applied on a consistent and going concern basis. Systems and controls include the proper delegation of responsibilities within a clearly defined framework, effective accounting procedures and adequate segregation of duties.

Systems and controls are monitored throughout the group. Greater detail of such, including the operation of the internal audit function, is provided in the risk management and corporate governance sections of the report on pages 2 and 5 respectively.

Based on the information and explanations given by management and the internal and external auditors, the directors are of the opinion that the accounting controls are adequate and that the financial records may be relied upon for preparing the financial statements in accordance with IFRS and maintaining accountability for the group's assets and liabilities. Nothing has come to the attention of the directors to indicate that any breakdown in the functioning of these controls, resulting in material loss to the group, has occurred during the year and up to the date of this report. The directors have a reasonable expectation that the company and the group have adequate resources to continue in operational existence for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the financial statements. No directors' report has been prepared as SBSA is a wholly owned subsidiary of SBG.

The financial statements, prepared in accordance with IFRS, which appear on pages 12 to 90, were approved by the board of directors on 8 March 2006 and signed on its behalf by:

Derek Cooper
Chairman

Jacko Maree
Chief executive officer

Group secretary's certification

Compliance with Companies Act 61 of 1973

In terms of the Companies Act 61 of 1973 (the Act), and for the year ended 31 December 2005, I certify that The Standard Bank of South Africa Limited has lodged all returns required by the Act with the Registrar of Companies and that all such returns are true, correct and up to date.

Loren Wulfsohn
Group secretary

8 March 2006

Balance sheet at 31 December 2005

		Group		Company	
	Note	2005 Rm	2004 Rm	2005 Rm	2004 Rm
Assets					
Cash and balances with banks	3	42 169	8 876	41 005	8 750
Short-term negotiable securities	4	25 797	16 321	19 642	16 306
Derivative assets	5	69 428	97 805	68 979	97 619
Trading assets	6	11 492	6 625	11 295	6 545
Investments	7	14 166	16 725	13 429	16 451
Loans and advances	8	260 181	204 995	250 939	202 229
Current tax asset		319	282	319	282
Deferred tax asset	17	84	100	36	50
Other assets	9	5 301	9 304	4 376	4 890
Interest in group companies, associates and joint ventures	10	19 775	27 627	22 870	29 450
Goodwill and other intangible assets	11	196	205	196	205
Property and equipment	12	2 605	2 287	2 421	2 099
Total assets		451 513	391 152	435 507	384 876
Equity and liabilities					
Equity		21 724	19 019	20 376	18 163
Equity attributable to ordinary shareholder		21 718	19 010	20 376	18 163
Ordinary share capital	13	60	60	60	60
Ordinary share premium	14	10 730	8 137	10 730	8 137
Reserves		10 928	10 813	9 586	9 966
Minority interest		6	9		
Liabilities		429 789	372 133	415 131	366 713
Derivative liabilities	5	65 596	92 541	65 084	92 349
Trading liabilities	15	12 938	4 989	3 324	1 860
Deposit and current accounts	16	329 033	255 371	314 703	249 237
Current tax liability		1 262	294	1 253	396
Deferred tax liability	17	2 152	2 445	2 018	2 391
Other liabilities	18	6 729	5 946	6 037	5 388
Subordinated bonds	19	7 832	8 014	7 832	8 014
Liabilities to group companies	10	4 247	2 533	14 880	7 078
Total equity and liabilities		451 513	391 152	435 507	384 876

Income statement for the year ended 31 December 2005

		Group		Company	
	Note	2005 Rm	2004 Rm	2005 Rm	2004 Rm
Net interest income		10 414	9 273	10 605	9 605
Interest income	21.1	33 459	30 727	33 289	30 735
Interest expense	21.2	23 045	21 454	22 684	21 130
Non-interest revenue	21.3	11 815	10 362	10 709	9 370
Total income		22 229	19 635	21 314	18 975
Credit impairment charges	21.4	1 256	859	1 248	851
Income after credit impairment charges		20 973	18 776	20 066	18 124
Operating expenses		12 420	11 100	12 061	10 718
Staff costs	21.5	7 060	6 007	6 933	5 893
Other operating expenses	21.6	5 360	5 093	5 128	4 825
Net income before goodwill		8 553	7 676	8 005	7 406
Goodwill impairment	11.1	13	–	–	–
Net income		8 540	7 676	8 005	7 406
Income from associates and joint ventures	10.2	206	101	–	–
Net income before indirect taxation		8 746	7 777	8 005	7 406
Indirect taxation	23.1	461	320	458	316
Profit before direct taxation		8 285	7 457	7 547	7 090
Direct taxation	23.2	1 737	1 871	1 491	1 708
Profit attributable to ordinary shareholder		6 548	5 586	6 056	5 382
Earnings per share (cents)	26	10 914	9 310	10 094	8 970
Dividends per share (cents)	24	9 583	9 998	9 583	9 998

Statement of changes in shareholder's funds for the year ended 31 December 2005

Group	Note	Ordinary share capital and premium Rm	Translation reserve Rm
Balance at 1 January 2004		5 703	36
Reallocation of reserves			
Items directly accounted for in reserves			(84)
– currency translation movement			(84)
– cash flow hedges – net fair value losses			
Issue of share capital and share premium	14	2 494	
Equity-settled share-based payment transactions			
Attributable earnings for the year			
Dividends paid	24		
Balance at 31 December 2004		8 197	(48)
Balance at 1 January 2005		8 197	(48)
Adjustment on adoption of IFRS[1]			
Restated balance at 1 January 2005		8 197	(48)
Items directly accounted for in reserves			34
– currency translation movement			34
– cash flow hedges – recycled to income statement			
– gains on available-for-sale assets recycled to the income statement			
– available-for-sale assets – mark-to-market			
Issue of share capital and share premium	14	2 593	
Equity-settled share-based payment transactions			
Change in shareholding of subsidiaries			
Attributable earnings for the year			
Dividends paid	24		
Balance at 31 December 2005		10 790	(14)

[1]*Details of the company's adjustments on adoption of IFRS are provided in Annexure A. The group's adjustments to reserves amounting to R50 million on 1 January 2005 closely approximate those of the company of R55 million.*

No statutory general credit risk reserve is required as the current level of provisions exceeds the minimum prudential return requirements according to the South African banking regulations.

Cash flow hedging reserve Rm	Available-for-sale reserve Rm	Share-based payment reserve Rm	Retained earnings Rm	Ordinary shareholder's funds Rm	Minority interest Rm	Total equity Rm
23	(1)	15	10 108	15 884	9	15 893
21			(21)			
(64)				(148)		(148)
				(84)		(84)
(64)				(64)		(64)
				2 494		2 494
		44		44		44
			5 586	5 586		5 586
			(4 850)	(4 850)		(4 850)
(20)	(1)	59	10 823	19 010	9	19 019
(20)	(1)	59	10 823	19 010	9	19 019
			50	50		50
(20)	(1)	59	10 873	19 060	9	19 069
3	62			99		99
				34		34
3				3		3
	(64)			(64)		(64)
	126			126		126
				2 593		2 593
		118		118		118
					(3)	(3)
			6 548	6 548		6 548
			(6 700)	(6 700)		(6 700)
(17)	61	177	10 721	21 718	6	21 724

Statement of changes in shareholder's funds for the year ended 31 December 2005 continued

Company	Note	Ordinary share capital and premium Rm	Translation reserve Rm
Balance at 1 January 2004 as previously reported		5 703	(3)
Adjustment on adoption of IFRS	Annexure A		
Restated balance at 1 January 2004		5 703	(3)
Reallocation of reserves			
Items directly accounted for in reserves			(58)
– currency translation movement			(58)
– cash flow hedges – net fair value losses			
Issue of share capital and share premium	14	2 494	
Equity-settled share-based payment transactions			
Attributable earnings for the year			
Dividends paid	24		
Balance at 31 December 2004		8 197	(61)
Balance at 1 January 2005		8 197	(61)
Adjustment on adoption of IFRS	Annexure A		
Restated balance at 1 January 2005		8 197	(61)
Items directly accounted for in reserves			29
– currency translation movement			29
– cash flow hedges – net fair value gains			
– recycled gains on available-for-sale assets to the income statement			
– available-for-sale assets – mark-to-market			
Issue of share capital and share premium	14	2 593	
Equity-settled share-based payment transactions			
Attributable earnings for the year			
Dividends paid	24		
Balance at 31 December 2005		10 790	(32)

No statutory general credit risk reserve is required as the current level of provisions exceeds the minimum prudential return requirements according to the South African banking regulations.

Cash flow hedging reserve Rm	Available-for-sale reserve Rm	Share-based payment reserve Rm	Retained earnings Rm	Ordinary shareholder's funds Rm	Minority interest Rm	Total equity Rm
23	(1)		9 515	15 237		15 237
		14	(34)	(20)		(20)
23	(1)	14	9 481	15 217		15 217
21			(21)			
(64)				(122)		(122)
				(58)		(58)
(64)				(64)		(64)
				2 494		2 494
		42		42		42
			5 382	5 382		5 382
			(4 850)	(4 850)		(4 850)
(20)	(1)	56	9 992	18 163		18 163
(20)	(1)	56	9 992	18 163		18 163
			55	55		55
(20)	(1)	56	10 047	18 218		18 218
1	62			92		92
				29		29
1				1		1
	(64)			(64)		(64)
	126			126		126
				2 593		2 593
		117		117		117
			6 056	6 056		6 056
			(6 700)	(6 700)		(6 700)
(19)	61	173	9 403	20 376		20 376

Cash flow statement for the year ended 31 December 2005

		Group		Company	
	Note	2005 Rm	2004 Rm	2005 Rm	2004 Rm
Operating activities					
Cash receipts from customers	27.2	43 790	40 000	42 374	38 723
Cash paid to customers, employees and suppliers	27.3	(34 663)	(31 793)	(33 956)	(31 103)
Dividends received	27.4	1 072	884	1 122	1 073
Cash flows from operating activities	27.1	10 199	9 091	9 540	8 693
Changes in operating funds					
Increase in income-earning assets	27.5	(44 468)	(44 605)	(42 322)	(44 553)
Increase in deposits and other liabilities	27.6	83 988	39 927	75 261	40 050
Net cash flows from/(used in) operating funds		39 520	(4 678)	32 939	(4 503)
Taxation paid	27.7	(1 544)	(1 976)	(1 488)	(1 790)
Investing activities					
Capital expenditure on – property		(231)	(3)	(231)	(3)
– equipment, furniture and vehicles		(785)	(699)	(777)	(696)
– intangible assets		(59)	(65)	(59)	(65)
Proceeds from sales of – property		103	39	103	39
– equipment, furniture and vehicles		126	127	126	127
Proceeds from sale of shares in associates		41	47	41	47
Investment in associates		(425)	(20)	(425)	(20)
Net cash flows used in investing activities		(1 230)	(574)	(1 222)	(571)
Financing activities					
Proceeds from issue of share capital to shareholders	27.8	2 593	2 494	2 593	2 494
Change in shareholding of subsidiaries		(3)	–		
Net (decrease)/increase in subordinated bonds		(100)	2 000	(100)	2 000
Dividends paid	27.9	(6 700)	(4 850)	(6 700)	(4 850)
Net cash flows used in financing activities		(4 210)	(356)	(4 207)	(356)
Effects of exchange rate changes		34	(84)	29	(58)
Net increase in cash and cash equivalents		42 769	1 423	35 591	1 415
Cash and cash equivalents at beginning of the year		25 197	23 774	25 056	23 641
Cash and cash equivalents at end of the year[1]		67 966	25 197	60 647	25 056

[1]*Cash and cash equivalents at end of the year comprise cash, balances with banks and short-term negotiable securities.*

Accounting policies

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

1 Basis of presentation

These consolidated financial statements are prepared in accordance with, and comply with International Financial Reporting Standards (IFRS) and the South African Companies Act of 1973. Following adoption of IFRS, consolidated financial statements have been prepared for the first time for The Standard Bank of South Africa. The company was previously exempt from preparing consolidated financial statements as it is a wholly owned subsidiary of Standard Bank Group, however, IFRS requires consolidated financial statements to be prepared if an entity's debt instruments are publicly traded. The consolidated financial statements are prepared in accordance with the going concern principle under the historical cost basis as modified by the revaluation of financial instruments classified as available-for-sale, financial assets and liabilities held at fair value through profit or loss, and derivative instruments.

The accounting policies of the company are consistent with those adopted in the previous year, except for changes made as a result of the adoption of IFRS. The revised IFRS policies have been consistently applied to both years presented with the exception of policies where the group elected to apply IFRS with effect from 1 January 2005 as described below.

The key principle of IFRS 1 – First-time Adoption of International Financial Reporting Standards is full retrospective application of IFRS but this statement provides exemptions from retrospective application in certain instances. The group's transitional elections are set out below:

Elections applicable 1 January 2004

- Business combinations: The group elected not to retrospectively apply the requirements of IFRS 3 for business combinations that occurred prior to 1 January 2004. As a result, the carrying amount of goodwill is the amortised amount on 31 December 2003, and previously amortised goodwill and goodwill eliminated against reserves were not reinstated.
- Property, equipment and intangible assets: A first-time adopter may elect to use the fair value of individual property, equipment and intangible assets at transition date as the deemed cost. The group did not make use of this transitional exemption and elected to measure individual items of property, equipment and intangible assets at depreciated cost determined in accordance with IFRS.
- Employee benefits: The group elected not to apply the exemption to account for all deferred actuarial gains or losses, including a 10% tolerance limit for differences in actuarial assumptions, in opening equity as at 1 January 2004. This exemption was not elected as the accounting policy for employee benefits under previous South African Generally Accepted Accounting Practice (SA GAAP) was already substantially in compliance with IAS 19 – Employee Benefits. After consideration of retrospective application of IAS 19 on adoption of IFRS, no adjustments were required.
- Cumulative foreign currency translation adjustment: The cumulative foreign currency translation reserve existing on transition to IFRS has been retained and the option to reset the reserve to zero was not elected as the accounting policy for translation adjustments under previous SA GAAP was already substantially in compliance with IAS 21 – The Effects of Changes in Foreign Exchange Rates and after consideration of retrospective application of IAS 21, no adjustments were required.
- Share-based payments: The group elected not to apply the provisions of IFRS 2 – Share-based Payments to equity-settled awards granted on or before 7 November 2002, or to awards granted after that date but which had vested prior to 1 January 2005.

Elections applicable 1 January 2005

- Comparative numbers restated for financial instruments: The group elected the exemption not to restate its comparatives for IAS 32 – Financial Instruments: Disclosure and Presentation and IAS 39 – Financial Instruments: Recognition and Measurement. The group has therefore applied SA GAAP applicable as at 31 December 2004 to financial instruments in its 2004 numbers disclosed as comparatives for the 2005 IFRS results.
- Designation of financial assets and financial liabilities in terms of IAS 39: In terms of the transitional arrangements the group elected the option to reclassify certain financial assets and liabilities. These reclassifications were not material.

There are no changes to estimates made under previous SA GAAP for transition to IFRS. Where estimates have previously been made under SA GAAP, consistent estimates (after adjustments to reflect any difference in accounting policies) have been made at the same date.

Primary differences between SA GAAP applicable at 31 December 2004 and IFRS

The primary differences between SA GAAP and IFRS are set out below and the quantification of the restatements and opening reserve adjustments, following the adoption of IFRS, are set out in Annexure A.

Accounting policies continued

Accounting policies before adoption of IFRS	Accounting policies adopted for IFRS
Impairment for credit losses	
Impairment for credit losses on performing loans was based on an expected loss model. In terms of this model expected future cash flows were discounted using the effective interest rate excluding the credit premium inherent in the contract.	Impairment for credit losses on performing loans is now based on an incurred loss model and estimated future cash flows are discounted using the original effective interest rate inherent in the loan, including the credit premium.
Origination fees received on financial assets	
Some origination fees received, including documentation and assessment fees, were previously accounted for as income when the related origination services were performed. Where origination fees were deferred it was generally brought to income on a straight-line basis.	All origination fees received on financial assets are now accounted for as part of the carrying value of the financial asset and recognised in income by adjusting the effective interest rate over the term of the financial asset.
Equity-linked transactions	
Equity-linked instruments issued by the group's holding company, Standard Bank Group, in terms of the Group Share Incentive Scheme and the Black Economic Empowerment Ownership (Tutuwa) initiative were not recognised as an expense in the entity's accounts.	Equity-linked instruments issued after 7 November 2002 that have not vested by 31 December 2004 are now accounted for at the fair value of the instruments granted and expensed over the vesting period of the instruments.
Goodwill	
Goodwill arising on the acquisition of subsidiaries, associates or joint ventures occurring on or after 1 January 2000 was capitalised and amortised over its estimated useful life. Goodwill arising on acquisitions before 1 January 2000 was accounted for in equity.	Goodwill arising on acquisitions after 31 December 2003 and the carrying values of goodwill that existed at this date are not amortised, but allocated to cash generating units and tested annually for impairment.
Depreciation of buildings and equipment	
Buildings and equipment were previously depreciated on a straight-line basis to their estimated residual values. These residual values were fixed at the date of acquisition and not reassessed annually.	The residual values of buildings and equipment are now reassessed at each balance sheet date. Depreciation ceases when the carrying value of the asset equals the residual value. The carrying values that were previously fully depreciated have been partially reinstated to reflect the residual value at the time when the carrying value equalled the revalued residual value.
Profit on initial recognition	
Unquoted financial instruments acquired were previously recognised at cost and any profit or loss on remeasurement to fair value based on valuation models was accounted for on the date of remeasurement.	Unquoted financial instruments are now recognised at fair value on initial recognition. Any profit or loss on initial recognition, calculated based on valuation models that include unobservable market data, is deferred and recognised on a straight-line basis over the life of the instrument. Any profit or loss on initial recognition, based only on observable market data, is recognised immediately.

2 Basis of consolidation

The financial statements of subsidiaries are consolidated from the date on which the group acquires effective control, up to the date that such effective control ceases. For this purpose, subsidiaries are companies over which the group, directly or indirectly, has the power to govern the financial and operating policies so as to obtain the benefits from its activities. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the group controls another entity.

Special purpose entities, including securitisation vehicles, are consolidated when the substance of the relationship between the group and the special purpose entity indicates that the group effectively controls the entity.

The purchase method of accounting is used to account for the acquisition of subsidiaries. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of an acquisition over the fair value of identifiable net assets acquired is recorded as goodwill and accounted for in terms of accounting policy 13. Negative goodwill arising on acquisition is recognised directly in the income statement.

Inter-company transactions, balances and unrealised gains and losses are eliminated on consolidation. Accounting policies of subsidiaries conform to the policies adopted by the group.

Investments in subsidiaries are accounted for at cost in the company accounts. The carrying amounts of these investments are reviewed annually and written down for impairment where considered necessary.

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). SBSA's company and consolidated functional and presentation currency is rands and all amounts, unless otherwise indicated, are stated in millions of rands (Rm).

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 presentation currency as follows:

- assets and liabilities are translated at the closing rate on the balance sheet date; and
- income and expenses are translated at average exchange rates for the year, to the extent that such average rates approximate actual rates.

On consolidation, exchange differences arising from the translation of the net investment in foreign operations, and of borrowings and other currency instruments designated as hedges of such investments, are accounted for directly in a separate component of equity. On disposal of foreign operations, such exchange differences are recognised in the income statement as part of the profit or loss on disposal. Goodwill and fair value adjustments arising on the acquisition of foreign operations are treated as assets and liabilities of the foreign operation and translated at closing rates at balance sheet date.

Transactions and balances

Foreign currency transactions are translated into the functional currency using the 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 at year end exchange rates of monetary assets and liabilities denominated in foreign currencies, are recognised in the income statement except when deferred in equity as qualifying cash flow hedges and qualifying net investment hedges. Exchange differences on non-monetary items are accounted for based on the classification of the underlying items. Foreign exchange gains and losses on equities classified as available-for-sale financial assets are included in the available-for-sale reserve in equity whereas the exchange differences on equities held at fair value through profit or loss are reported as part of the fair value gain or loss.

4 Cash and cash equivalents

Cash and cash equivalents disclosed in the cash flow statement consist of cash and balances with banks and short-term negotiable securities. Cash flows arising from operating funds are stated after excluding the impact of foreign currency translation differences on asset and liability classes.

Accounting policies continued

Cash and balances with banks comprise coins and bank notes and balances with central and other banks. Short-term negotiable securities are highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

5 Short-term negotiable securities, trading assets and investment securities

Recognition and measurement

Financial assets are held for liquidity, investment, trading or hedging purposes. All financial assets are initially recognised at fair value plus transaction costs, except those carried at fair value through profit or loss. These financial assets are recognised on the date the group commits to purchase the assets (trade date) and are derecognised when the rights to receive cash flows from the financial assets have expired or where the group has transferred substantially all the risks and rewards of ownership. Gains or losses on disposal are determined using the average costing method.

Classification

Management determines the appropriate classification of financial assets on acquisition.

Held-to-maturity

Short-term negotiable securities and investment securities with fixed maturity and fixed or determinable payments, where management has both the intent and the ability to hold the securities to maturity, are classified as held-to-maturity. Were the group to sell more than an insignificant amount of held-to-maturity assets, the entire category would be tainted and reclassified as available-for-sale assets and the difference between amortised cost and fair value will be accounted for in equity. Financial assets classified as held-to-maturity by the group are carried at amortised cost, using the effective interest method, less any provisions for impairment.

Financial assets at fair value through profit or loss

- Financial assets that the group holds for short-term profit taking (trading assets) are classified as financial assets at fair value through profit or loss. Subsequent to initial recognition, these trading assets are measured at fair value. All related realised and unrealised gains and losses arising from the change in fair value are included in trading revenue under non-interest revenue in the income statement. Interest earned and dividends received while holding trading assets are included in trading revenue.

- Financial assets that the group designates at inception as financial assets at fair value through profit or loss are carried at fair value subsequent to initial recognition. All income and realised and unrealised gains and losses arising from the change in fair value of these financial assets are included in interest income for all dated financial assets and in other revenue within non-interest revenue for all undated financial assets. Such classification is not changed subsequent to initial recognition.

Available-for-sale

Available-for-sale financial assets are held for an indefinite period of time and may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices. Financial assets that are not classified as loans and receivables, held-to-maturity or financial assets at fair value through profit or loss, are classified as available-for-sale assets and carried at fair value. Unrealised gains or losses arising from the changes in the fair value of available-for-sale assets are recognised in equity. On disposal of available-for-sale assets, the fair value adjustments accumulated in equity are recognised in the income statement. Interest, calculated using the effective interest method, and dividends received on available-for-sale instruments are recognised directly in the income statement.

Fair value

The best evidence of the fair value on initial recognition is the transaction price, unless the fair value is evidenced by comparison with other observable current market transactions in the same instrument or based on discounted cash flow models and option pricing valuation techniques whose variables include only data from observable markets. When such valuation models, with only observable market data as input, indicate that fair value differs from cost on initial recognition, the resulting profit or loss is recognised immediately. If non-observable market data is used as part of the input to the valuation models, any resulting profit or loss is deferred and recognised over the period of the instrument.

Subsequent to initial recognition, the fair values of financial assets are based on quoted bid prices, excluding transaction costs. If the market for a financial asset is not active or the instrument is an unlisted instrument, the fair value is estimated using applicable valuation techniques. These include the use of recent arm's length transactions, discounted cash flow analyses, pricing models and valuation techniques commonly used by market participants.

Where discounted cash flow analyses are used, estimated future cash flows are based on management's best estimates and the discount rate is a market-related rate at the balance sheet date for a financial asset with similar terms and conditions. Where pricing models are used, inputs are based on observable market indicators at the balance sheet date and profits or losses are only recognised to the extent that they relate to changes in factors that market participants will consider in setting a price.

6 Repurchase and resale agreements and lending of securities

Securities sold subject to linked repurchase agreements are retained in the financial statements as trading or investment securities and valued in terms of accounting policy 5. The liability to the counterparty is included under deposit and current accounts.

Securities purchased under agreements to resell are recorded as loans granted under resale agreements and included under loans and advances to other banks or clients as appropriate.

The difference between the sale and repurchase price is treated as interest and accrued over the life of the repurchase agreement using the effective interest method.

Securities lent to counterparties are retained in the financial statements and are classified and measured in accordance with accounting policy 5. Securities borrowed are not recognised in the financial statements unless these are 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 on an accrual basis over the period of the transactions.

7 Derivative financial instruments

A derivative is a financial instrument whose value changes in response to an underlying variable, that requires little or no initial investment and that is settled at a future date. All derivatives are accounted for as trading instruments unless they meet the criteria for hedge accounting. Derivatives are initially recognised at fair value on the date on which the derivatives are entered into and subsequent to initial recognition remeasured at fair value as described in accounting policy 5.

All derivative instruments of the group are carried as assets when the fair value is positive and as liabilities when the fair value is negative, subject to offsetting principles as described in accounting policy 21.

Embedded derivatives included in hybrid instruments are treated and disclosed as derivatives when their risks and characteristics are not closely related to those of the host contract and the host contract is not carried at fair value with fair value changes recognised in the income statement. Where separated from the host contracts, embedded derivatives are accounted for and measured at fair value with any gains or losses from the change in fair value included in the income statement. The host contracts are accounted for and measured applying the rules of the relevant category of that financial instrument.

8 Hedge accounting

On the date that a derivative contract is designated as a hedging instrument, the group designates the derivative as either:

- a hedge of the fair value of a recognised asset or liability or a firm commitment (fair value hedge); or
- a hedge of a highly probable future cash flow attributable to a recognised asset or liability or a forecast transaction (cash flow hedge); or
- a hedge of a net investment in a foreign entity.

A hedging relationship exists where:

- at the inception of the hedge there is formal documentation of the hedge;
- the hedge is expected to be highly effective;
- the effectiveness of the hedge can be reliably measured;
- the hedge is highly effective throughout the reporting period; and
- for a hedge of a forecast transaction, the transaction is highly probable and presents an exposure to variations in cash flows that could ultimately affect net profit.

Hedge accounting requires that the hedging instrument be measured at fair value. The fair value of a derivative hedging instrument is calculated in the same manner as the fair value of a trading instrument.

Fair value hedges

Where a hedge relationship is designated as a fair value hedge, the hedged item is stated at fair value in respect of the risk being hedged. Gains or losses on the remeasurement of both the fair value hedge and the hedged item are recognised in the income statement. Fair value adjustments relating to the hedged instrument are allocated to the same income statement category as the related hedged item. If the hedge relationship is discontinued on a hedged debt instrument carried at amortised cost, the fair value adjustment to the carrying value of the hedged item is amortised over the debt instrument's remaining life using the effective interest rate method.

Cash flow hedges

The effective portion of changes in the fair value of derivatives that are cash flow hedges are recognised in equity. The ineffective part of any gain or loss is recognised in the income statement as trading revenue. Where a forecast transaction results in the recognition of a non-financial asset, non-financial liability, income or expense, the cumulative gains or losses previously deferred in equity are transferred from equity and included in the initial measurement of the cost of the non-financial asset, liability, income or expense. If the hedged transaction subsequently results in the recognition of a financial asset or financial liability, the associated gains and losses that were recognised directly in equity are classified into the income statement in the same period or periods during which the asset or liability affects the income statement (i.e. when interest income and expense is recognised) and into the same income statement line item.

When a hedging instrument or hedge relationship is terminated, but the hedged transaction is still expected to occur, the cumulative gains or losses recognised in equity remain in equity and are recognised in accordance with the above policy. If the hedged transaction is no longer expected to occur, the cumulative gains or losses recognised in equity are immediately recognised in the income statement and are classified as trading revenue.

9 Loans and advances

Loans and advances are classified on initial recognition as loans and receivables or financial assets at fair value through profit or loss. Loans and advances classified as financial assets at fair value through profit or loss are accounted for in terms of accounting policy 5.

Loans and advances classified as loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market and include purchased loans. Loans and receivables are accounted for at amortised cost using the effective interest method. Origination transaction costs and origination fees received are capitalised to the value of the loan and amortised through interest income.

Where the group has elected to classify and account for any loan as a financial asset at fair value through profit or loss, the movement in the fair value is accounted for in the income statement as interest income.

10 Impairment of financial assets

Financial assets are reviewed at each balance sheet date to determine whether there is objective evidence of impairment. A financial asset or group of financial assets is impaired and impairment losses are incurred if there is objective evidence of impairment, resulting from one or more loss events that occurred after initial recognition but before the balance sheet date, that indicates that it is probable that the group will be unable to collect all amounts due. The carrying amount of a financial asset identified as impaired is reduced to its estimated recoverable amount.

Available-for-sale financial assets

An available-for-sale equity financial instrument is generally considered impaired if a significant or prolonged decline in the fair value of the instrument below its cost has occurred. An available-for-sale debt instrument is impaired if there is objective evidence of impairment, resulting from one or more loss events that occurred after initial recognition but before the balance sheet date, that indicates that it is probable that the group will be unable to collect all amounts due. Where an available-for-sale asset, which has been remeasured to fair value directly through equity, is impaired, the impairment loss is recognised in the income statement. If any loss on the financial asset was previously recognised directly in equity as a reduction in fair value, the cumulative net loss that had been recognised in equity is transferred to the income statement and is recognised as part of the impairment loss. The amount of the loss recognised in the income statement is the difference between the acquisition cost and the current fair value, less any previously recognised impairment 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 write-down, where the instrument is a debt instrument, the write-down is reversed through the income statement. An impairment loss in respect of an equity instrument classified as available-for-sale is not reversed through the income statement but accounted for directly in equity.

Loans and receivables

Non-performing loans are impaired for doubtful debts identified during periodic evaluations of advances. The impairment to non-performing loans takes account of past loss experience adjusted for changes in economic conditions and the nature and level of risk exposure since the recording of the historic losses. The methodology and assumptions used for estimating future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

Retail loans and advances are considered non-performing when amounts are due and unpaid for three months. Corporate loans are analysed on a case-by-case basis taking into account breaches of key loan conditions.

When a loan carried at amortised cost has been identified as impaired the carrying amount of the loan is reduced to an amount equal to the present value of expected future cash flows, including the recoverable amount of any collateral, discounted at the instrument's original effective interest rate. The resulting loss is accounted for as a credit impairment of a financial asset in the income statement.

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

Impairment of performing loans can only be accounted for if there is objective evidence that a loss event has occurred after the initial recognition of the financial asset but before the balance sheet date. In order to provide for latent losses in a portfolio of loans that have not yet been individually identified as impaired, a credit impairment for incurred but not reported losses is created based on historic loss patterns and estimated emergence periods. Loans are also impaired when adverse economic conditions developed after initial recognition which may impact future cash flows.

Increases in loan impairments and any subsequent reversals thereof, or recoveries of amounts previously impaired, are reflected in the income statement. Advances impaired are written off once all reasonable attempts at collection have been made and there is no realistic prospect of recovering outstanding amounts. Any subsequent recoveries or reductions in amounts previously impaired are accounted for as a reduction in impairment for credit losses in the income statement.

11 Assets leased to clients and instalment sale contracts – lessor accounting

Lease and instalment sale contracts are primarily financing transactions in the banking operations, with rentals and instalments receivable, less unearned finance charges, being included in loans and advances on the balance sheet.

Finance charges earned are computed using the net investment method which reflects a constant periodic return on the investment in the finance lease. Initial direct costs paid are capitalised to the value of the lease amount receivable and accounted for over the lease term as an adjustment to the effective rate of return. The benefits arising from investment allowances on assets leased to clients are accounted for in taxation.

Leases of assets under which the lessor effectively retains all the risks and benefits of ownership are classified as operating leases. Receipts of operating leases are accounted for as income on the straight-line basis over the period of the lease. When an operating lease is terminated, any payment required by the lessee by way of penalty is recognised as income in the period in which termination takes place.

12 Interest in associates and joint ventures

Associates and jointly controlled entities

An associate is an entity, not being a subsidiary, in which an investment is held and over whose financial and operating policies the group is able to exercise significant influence.

A jointly controlled entity is a contractual arrangement that establishes joint control over the economic activity of an entity.

Interests in associates and jointly controlled entities are accounted for using the equity method and are carried in the balance sheet at an amount that reflects the group's share of the net assets of the associate or jointly controlled entity and includes goodwill. Equity accounting involves recognising the investment initially at cost, including goodwill, and subsequently adjusting the carrying value for the group's share of the associate's profit or loss for the year, recognised in the income statement, and other direct reserve movements. Equity accounting of losses in associates or joint ventures is restricted to the interests in these entities, including unsecured receivables or other commitments. Inter-company profits and losses are eliminated in determining the group's share of equity accounted profits. This method is applied from the date on which the enterprise becomes an associate, up to the date on which it ceases to be an associate. Accounting policies of associates and joint ventures have been changed where necessary to ensure consistency with the policies of the group.

Investments in associates and joint ventures are accounted for at cost in the investor's separate financial statements.

Jointly controlled operations

Jointly controlled operations exist where two or more venturers combine their operations, resources or expertise to market or distribute jointly a particular product. Each venturer recognises the assets it controls, the liabilities and expenses that it incurs, and its share of the income in respect of its interest in the joint venture.

13 Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the group's share of the net assets of the acquired subsidiary, associate or joint venture at the date of acquisition. Acquisition costs include any directly attributable transaction costs.

Goodwill arising on the acquisition of subsidiaries, associates or joint ventures occurring on or after 1 January 2000, is reported in the balance sheet as an intangible asset. Goodwill arising on acquisitions on or after 1 January 2000 but before or on 31 December 2003 has been amortised using the straight-line method over its estimated useful life and is carried at cost less any accumulated amortisation recognised up to 31 December 2003.

Goodwill arising on acquisitions after 31 December 2003 and the carrying values of goodwill that existed on this date is not amortised, but allocated to cash generating units and is tested annually for impairment. Cash generating units are the smallest identifiable groups of assets that generate cash inflows that are largely independent of cash inflows from other assets or groups of assets. An impairment loss is recognised if the carrying amount of a cash generating unit exceeds its recoverable amount. Negative goodwill is recognised as income in the period in which it arises. Gains or losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

14 Other intangible assets

Computer software

Generally, costs associated with developing or maintaining computer software programs and the acquisition of software licences are 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 benefit exceeding one year, are recognised as intangible assets. Direct costs include software development employee costs and an appropriate portion of relevant overheads.

Direct computer software development costs recognised as assets are amortised on the straight-line basis at rates appropriate to the expected useful lives of the assets (two to five years), and are carried at cost less any accumulated amortisation and any accumulated impairment losses. The carrying amount of capitalised computer software is reviewed annually and is written down when the carrying amount exceeds the recoverable amount.

15 Fixed assets

Equipment and owner-occupied properties

Equipment, furniture, vehicles and other tangible assets are stated at historical cost less accumulated depreciation. Historic cost includes expenditure that is directly attributable to the acquisition of property and equipment. Subsequent costs are included in the asset's carrying amount or are recognised as a separate asset, as appropriate, only when it is probable that future economic benefits will flow to the group and the cost of the item can be measured reliably. Maintenance and repairs, which do not meet these criteria, are charged against income as incurred. Gains or losses on disposal of assets are included in the income statement.

Owner-occupied properties are held for use in the supply of services or for administrative purposes.

Property and equipment are depreciated on the straight-line basis over the estimated useful lives of the assets to the current values of their expected residual values. The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date and the depreciation method is reviewed annually.

Freehold buildings, comprising mainly offices and branches, are generally classified as owner-occupied properties and accounted for in terms of the cost method. These buildings are depreciated on the straight-line basis over their estimated useful lives to the current value of their estimated residual value. The freehold land portion is not depreciated. Leasehold buildings are depreciated over the period of the lease or over such lesser period as is considered appropriate.

The carrying value of assets is reviewed regularly to assess whether there is any indication of impairment and where the carrying amounts of assets are greater than their recoverable amounts, the assets are written down to these recoverable amounts. The recoverable amount is the greater of the fair value of the asset less costs to sell or the value in use. Depreciation and impairment losses are included in the income statement.

The estimated useful lives of tangible assets are as follows:

Property	– 40 years
Computer equipment	– 3 to 5 years
Motor vehicles	– 5 years
Office equipment	– 5 to 10 years
Furniture and fittings	– 5 to 13 years
Capitalised leased assets	– over the shorter of the lease term or its useful life

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

16 Financial liabilities

Financial liabilities are recognised initially at fair value, generally being their issue proceeds net of transaction costs incurred. Financial liabilities are subsequently stated at amortised cost and interest is recognised over the period of the borrowing using the effective interest method.

Preference shares, which carry a mandatory coupon, or are redeemable on a specific date, at the option of the shareholder or if dividend payments are not discretionary, are classified as financial liabilities. All other preference shares are classified as equity. Dividends on preference shares classified as financial liabilities are recognised in the income statement as interest expense on an amortised cost basis using the effective interest methodology.

The group classifies certain liabilities at fair value through profit or loss, mainly to match the accounting classification of assets with similar risks. Such liabilities are accounted for at fair value with changes in fair value recognised in the income statement.

17 Lessee accounting

Leases, where the group assumes substantially all the benefits and risks of ownership, are classified as finance leases. Finance leases are capitalised 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 charged against income 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 effectively retains all the risks and benefits. Payments made under operating leases are charged to the income statement on a straight-line basis over the period of the lease, unless another systematic basis is more representative of the time pattern in which the benefit is derived from the leased asset.

18 Provision for leave pay

Employee benefits in the form of annual leave entitlements are provided for when they accrue to employees with reference to services rendered up to the balance sheet date.

19 Other provisions

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.

When the effect of discounting is material, provisions are discounted using a pre-tax discount rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

20 Tax

Normal tax

Income tax and capital gains tax on the profit or loss for the year comprise current and deferred tax. Current tax represents the expected tax payable on taxable income for the year, using tax rates enacted at the balance sheet date, and any adjustments to tax payable in respect of previous years.

Deferred income tax and deferred capital gains tax are provided for on the comprehensive basis, using the balance sheet liability method, for all temporary differences arising between the tax bases of assets and liabilities and their carrying values for financial reporting purposes, using tax rates enacted at the balance sheet date. Deferred tax is not recognised on:

- temporary differences relating to goodwill;
- the initial recognition of assets and liabilities which affect neither accounting nor taxable profits or losses; and
- investments in subsidiaries and joint ventures 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.

Deferred tax assets are recognised to the extent that it is probable that future taxable income will be available against which the unused tax losses can be utilised. 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 relating to items which are charged or credited directly to equity, is also charged or credited directly to equity and is subsequently recognised in the income statement when the related deferred gain or loss is recognised.

Secondary tax on companies (STC)

To the extent that it is probable that dividends will be declared against which unused STC credits can be utilised, a deferred tax asset is recognised for STC credits.

The STC effect of dividends paid on equity instruments is recognised in the period in which the company declares the dividend. For financial instruments that are classified as liabilities, the STC relating to any contractual payments is accrued in the same period as the interest accrual.

Indirect tax

Indirect taxes, including non-recoverable value added tax (VAT), regional service council (RSC) levies, skills development levies and other duties for banking operations are separately disclosed in the income statement.

21 Offsetting

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

22 Equity

Share issue costs

Incremental external costs directly attributable to a transaction that increases or decreases equity are deducted from equity, net of related tax. All other share issue costs are expensed immediately.

Dividends on ordinary shares

Dividends are recognised in the period in which they are declared. Dividends declared after balance sheet date are disclosed in the dividends note.

23 Share-based payments

Equity compensation plans

SBSA operates equity-settled and cash-settled share-based compensation plans. All equity compensation plan instruments issued after 7 November 2002 that have not vested by 31 December 2004 are accounted for as share-based payment transactions.

The fair value of equity-settled share options is determined on the grant date and is accounted for as an employee expense over the vesting period of the share options, with a corresponding increase in the share-based payment reserve.

The fair value of cash-settled share appreciation rights is determined on grant date, and recalculated regularly until final settlement of the share appreciation rights. The cost is accounted for as an employee expense over the vesting period of the share rights with a corresponding increase in liabilities.

Non-market vesting conditions are not considered in the valuation but are included in the estimate of the number of options and rights expected to vest. At each balance sheet date the estimate of the number of options and rights expected to vest is reassessed and adjusted against income and equity over the vesting period.

On vesting of share options, amounts previously credited to the share-based payment reserve are released to retained earnings through an equity transfer.

Share-based payments settled in cash are accounted for as liabilities at fair value until settled. The liability is recognised over the vesting period and is revalued at every balance sheet date. Any changes in the liability are accounted for through profit or loss.

Equity participation plans

Equity participation rights of SBG, issued to black managers of SBSA in terms of the group's Tutuwa initiative, have not vested by 31 December 2004 and are accounted for as equity-settled share-based payment transactions as described under equity compensation plans above.

24 Revenue and expenditure

Revenues described below represent the most appropriate equivalent of turnover.

Revenue is derived substantially from the business of banking and related activities and comprises net interest income and non-interest revenue.

Net interest income

Interest income and expenses are recognised in the income statement for all interest-bearing instruments on an accrual basis using the effective interest method. 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 to the carrying amount on the financial statements. Direct incremental transaction costs incurred and origination fees received as a result of bringing margin-yielding assets on balance sheet, are capitalised to the carrying amount of financial instruments (excluding financial instruments at fair value through profit or loss) and amortised as interest income over the life of the asset.

Where financial assets have been impaired, interest income continues to be recognised on the impaired value based on the original effective interest rate. Net interest income includes fair value adjustments on interest-bearing financial instruments held at fair value, excluding financial instruments held for trading. Dividends received on preference share investments form part of the group's lending activities and are included in interest income.

Non-interest revenue

Non-interest revenue includes dividends from investments, fees and commission from banking, insurance and related transactions, net revenue from exchange and securities trading and net gains on the realisation or revaluation of investment banking assets.

Dividends are recognised in the period in which right to receipt is established. Scrip dividends are recognised as dividends received to the extent that they compare to cash dividends in a similar entity. Fees and commission are generally recognised on an incurred basis when the related services are provided or on execution of a significant act. Fees charged for servicing a loan are recognised as revenue as the service is provided.

Loan syndication fees, where the group does not participate in the syndication or participate 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.

25 Post-retirement benefits

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 charged to the income statement in the period to which they relate.

The group also operates a number of defined benefit funds, with membership generally limited to employees who were in the employment of the various companies at specified dates. These funds are governed by the Pension Funds Act 1956. Employer companies contribute to the cost of benefits taking account of the recommendations of the actuaries. Statutory actuarial valuations are required every three years using the projected unit credit method. Interim valuations are also performed annually at the balance sheet date.

These obligations are measured at the present value of the estimated future cash outflows using interest rates of government bonds with maturity dates that approximate the expected maturity of the obligations.

The group's current service costs to the defined benefit funds are recognised as expenses in the current year. Past service costs, experience adjustments and the effect of changes in actuarial assumptions are recognised as expenses or income in the current year to the extent that they relate to retired employees or past service. For active employees, these items are recognised as expenses or income systematically over a period not exceeding the expected remaining service period of employees.

The group operates an unfunded post-retirement medical aid scheme, with membership limited to employees who were retired or in the employment of the various companies at specified dates and complying with specific criteria. For past service, the group recognises and provides for the actuarially determined present value of post-retirement medical aid employer contributions on an accrual basis using the projected unit credit method. Independent qualified actuaries carry out annual valuations of these obligations. Unrecognised actuarial gains or losses are accounted for over a period not exceeding the remaining working life of active employees.

26 Segment reporting

A segment is a distinguishable component of the group engaged in providing products or services within a particular economic environment, which is subject to risks and rewards that are different from those of other segments. The group's primary business segmentation is based on the group's internal reporting format to management. It represents the classification of the group's activities in segments that reflect the risk and return of the group's product offerings in different geographical markets.

Segments with a majority of income earned from external clients and whose total income, operating profit or total assets are 10% or more of the group total, are reported separately. Transactions between segments are priced at market-related rates.

27 Fiduciary activities

The group commonly acts as trustees and in other fiduciary capacities that result in the holding or placing of assets on behalf of individuals, trusts, retirement benefit plans and other institutions. These assets and the income arising thereon are excluded from these financial statements, as they are not assets of the group.

28 Comparative figures

Where necessary, comparative figures within notes have been reclassified to conform to changes in presentation in the current year and for changes relating to the implementation of IFRS as described in Annexure A.

Accounting policies continued

Standards and interpretations not yet effective

	Standard/interpretation	Effective date[1]
IFRS 6	Exploration for and Evaluation of Mineral Resources This statement is not applicable to the business of the group.	Annual periods commencing on or after 1 January 2006
IFRS 7	Financial Instruments: Disclosures (including amendments to IAS 1, Presentation of Financial Statements: Capital Disclosures) The statement deals mainly with the disclosure of financial instruments and the related qualitative and quantitative risks. Most of these disclosure requirements are currently provided in terms of IAS 30 and IAS 32. The statement will therefore not impact the results of the group but will impact the format of disclosure of financial instruments.	Annual periods commencing on or after 1 January 2007
IAS 19 amendment	Employee Benefits (December 2004) The statement permits an entity to recognise all actuarial gains and losses in the period in which they occur, outside profit or loss, in a statement of recognised income and expense. The group will consider the appropriateness of this option.	Annual periods commencing on or after 1 January 2006
IAS 39 amendment	Financial Instruments: Recognition and Measurement (April 2005) – Cash flow hedge accounting of forecast intragroup transactions The amendment to IAS 39 allows the designation, as a hedged item in consolidated financial statements, of the foreign currency risk of a highly probable forecast intragroup transaction under certain conditions. The group will consider the amendment but the application is expected to be limited.	Annual periods commencing on or after 1 January 2006
IAS 39 amendment	Financial Instruments: Recognition and Measurement (June 2005) – Fair value option The revisions to IAS 39 restrict the extent to which entities can designate a financial asset or financial liability as fair value through profit or loss only to specific situations. The statement is not expected to reduce the group's current application of the fair value option materially.	Annual periods commencing on or after 1 January 2006
IAS 39	Financial Instruments: Recognition and Measurement (August 2005) and Insurance Contracts – Financial Guarantee Contracts Under the revised statements the issuer of a financial guarantee contract would generally measure the contract: • initially at fair value; and • subsequently at the higher of the amount determined in accordance with IAS 37 and the amount initially recognised less, when appropriate, cumulative amortisation. The group's current policy is substantially in line with this approach and no significant adjustment is expected.	Annual periods commencing on or after 1 January 2006

[1]The group will comply with the new standards and interpretations from the effective date.

Standards and interpretations not yet effective

	Standard/interpretation	*Effective date*
IAS 21 amendment	The Effects of Changes in a Foreign Operation (December 2005) The amendment clarifies that a group entity that may have a monetary item receivable from or payable to a foreign operation, which is classified in substance as part of the net investment in a foreign operation may be any subsidiary of the group and not only the parent. The amendment further specifies that the exchange differences arising from the translation of these monetary items will be classified in equity in the consolidated financial statements. The amendment will not have a significant impact on the group's results.	Annual periods commencing on or after 1 January 2006
IFRIC 4	Determining Whether an Arrangement Contains a Lease This interpretation provides guidance on determining whether an arrangement that does not take the legal form of a lease contains a lease and should be accounted for in terms of IAS 17 – Leases. An arrangement contains a lease if the fulfilment of the arrangement is dependent on the use of a specific asset or assets, and the arrangement conveys the right to use the asset. This interpretation is substantially in line with the group's current application of the standard.	Annual periods commencing on or after 1 January 2006
IFRIC 5	Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds This statement is not applicable to the business of the group.	Annual periods commencing on or after 1 January 2006
IFRIC 6	Liabilities arising from Participating in a Specific Market – Waste Electrical and Electronic Equipment This statement is not applicable to the business of the group.	Annual periods commencing on or after 1 December 2005
IFRIC 7	Applying the Restatement Approach under IAS 29 – Financial Reporting in Hyperinflationary Economies This statement is not applicable to the business of the group.	Annual periods commencing on or after 1 March 2006
IFRIC 8	Scope of IFRS 2 The interpretation clarifies that IFRS 2 applies to transactions in which the entity cannot specifically identify the goods or services received in return for a share-based payment, but where other circumstances indicate that goods or services have been received. This interpretation is consistent with the group's application of IFRS 2 for shares issued in terms of its Tutuwa initiative.	Annual periods commencing on or after 1 May 2006

Notes to the annual financial statements for the year ended 31 December 2005

Group 2005	Personal & Business Banking SA Rm	Corporate & Investment Banking SA Rm	Other services Rm	Total Rm
1 Segment reporting				
Net interest income	8 302	2 368	(256)	10 414
Non-interest revenue	7 572	3 867	376	11 815
Total income	15 874	6 235	120	22 229
Credit impairment charges	1 262	2	(8)	1 256
Income after credit impairment charges	14 612	6 233	128	20 973
Operating expenses	9 525	2 662	233	12 420
Staff costs	3 034	1 462	2 564	7 060
Other operating expenses	6 491	1 200	(2 331)	5 360
Net income before goodwill	5 087	3 571	(105)	8 553
Goodwill impairment	13	–	–	13
Net income	5 074	3 571	(105)	8 540
Income from associates and joint ventures	154	52	–	206
Net income before indirect taxation	5 228	3 623	(105)	8 746
Indirect taxation	221	76	164	461
Profit before direct taxation	5 007	3 547	(269)	8 285
Direct taxation	1 583	349	(195)	1 737
Profit attributable to ordinary shareholder	3 424	3 198	(74)	6 548
Headline earnings	3 434	3 152	(133)	6 453
Operating information				
Total assets	192 840	247 364	11 309	451 513
Total liabilities	185 077	239 634	5 078	429 789
Number of employees	17 653	3 213	7 825	28 691
Other information				
Interest in associates and joint ventures	207	560	–	767
Capital expenditure	427	154	494	1 075
Depreciation and amortisation	328	130	204	662
Impairments	13	–	–	13

Group 2004	Personal & Business Banking SA Rm	Corporate & Investment Banking SA Rm	Other services Rm	Total Rm
1 Segment reporting continued				
Net interest income	7 098	2 677	(502)	9 273
Non-interest revenue	6 290	3 691	381	10 362
Total income	13 388	6 368	(121)	19 635
Credit impairment charges	787	28	44	859
Income after credit impairment charges	12 601	6 340	(165)	18 776
Operating expenses	8 581	2 593	(74)	11 100
Staff costs	3 011	1 327	1 669	6 007
Other operating expenses	5 570	1 266	(1 743)	5 093
Net income before goodwill	4 020	3 747	(91)	7 676
Goodwill impairment	–	–	–	–
Net income	4 020	3 747	(91)	7 676
Income from associates and joint ventures	77	24	–	101
Net income before indirect taxation	4 097	3 771	(91)	7 777
Indirect taxation	182	50	88	320
Profit before direct taxation	3 915	3 721	(179)	7 457
Direct taxation	1 256	658	(43)	1 871
Profit attributable to ordinary shareholder	2 659	3 063	(136)	5 586
Headline earnings	2 640	3 063	(143)	5 560
Operating information				
Total assets	153 652	227 447	10 053	391 152
Total liabilities	144 310	220 780	7 043	372 133
Number of employees	17 587	3 029	7 711	28 327
Other information				
Interest in associates and joint ventures	104	163	–	267
Capital expenditure	393	99	275	767
Depreciation and amortisation	309	71	339	719
Impairments	14	–	13	27

Notes to the annual financial statements for the year ended 31 December 2005 continued

Company 2005	Personal & Business Banking SA Rm	Corporate & Investment Banking SA Rm	Other services Rm	Total Rm
1 Segment reporting continued				
Net interest income	8 258	2 173	174	10 605
Non-interest revenue	7 057	3 422	230	10 709
Total income	15 315	5 595	404	21 314
Credit impairment charges	1 256	(1)	(7)	1 248
Income after credit impairment charges	14 059	5 596	411	20 066
Operating expenses	9 230	2 624	207	12 061
Staff costs	2 925	1 443	2 565	6 933
Other operating expenses	6 305	1 181	(2 358)	5 128
Net income before indirect taxation	4 829	2 972	204	8 005
Indirect taxation	219	74	165	458
Profit before direct taxation	4 610	2 898	39	7 547
Direct taxation	1 517	368	(394)	1 491
Profit attributable to ordinary shareholder	3 093	2 530	433	6 056
Headline earnings	3 091	2 484	373	5 948
Operating information				
Total assets	188 601	237 633	9 273	435 507
Total liabilities	181 185	230 215	3 731	415 131
Number of employees	15 831	3 213	7 825	26 869
Other information				
Interest in associates and joint ventures	28	459	–	487
Capital expenditure	419	154	494	1 067
Depreciation and amortisation	321	130	200	651
Impairments	–	–	–	–

Company 2004	Personal & Business Banking SA Rm	Corporate & Investment Banking SA Rm	Other services Rm	Total Rm
1 Segment reporting continued				
Net interest income	7 111	2 664	(170)	9 605
Non-interest revenue	5 918	3 297	155	9 370
Total income	13 029	5 961	(15)	18 975
Credit impairment charges	781	28	42	851
Income after credit impairment charges	12 248	5 933	(57)	18 124
Operating expenses	8 182	2 536	–	10 718
Staff costs	2 880	1 311	1 702	5 893
Other operating expenses	5 302	1 225	(1 702)	4 825
Net income before indirect taxation	4 066	3 397	(57)	7 406
Indirect taxation	180	49	87	316
Profit before direct taxation	3 886	3 348	(144)	7 090
Direct taxation	1 198	639	(129)	1 708
Profit attributable to ordinary shareholder	2 688	2 709	(15)	5 382
Headline earnings	2 677	2 709	(61)	5 325
Operating information				
Total assets	152 231	223 363	9 282	384 876
Total liabilities	143 282	216 905	6 526	366 713
Number of employees	15 756	3 029	7 711	26 496
Other information				
Interest in associates and joint ventures	28	75	–	103
Capital expenditure	390	99	275	764
Depreciation and amortisation	307	71	332	710
Impairments	14	–	13	27

1 Segment reporting continued

The principal business units in the group are as follows:

Business unit	Scope of operations
Personal & Business Banking SA	Banking, investment, insurance and other financial services to individual customers and small- to medium-sized enterprises.
Corporate & Investment Banking SA	Commercial and investment banking services in South Africa to corporates, foreign banks and international counterparties.
Other services	Support functions to business units and advisory services.

The segment report includes only those business unit activities conducted within the SBSA group and legal entity. No secondary segment information is disclosed, due to the fact that all business activities relate to South Africa. The consolidated results of each business unit, containing all the activities of the business units across SBG, are reflected in the segment reporting in the SBG annual financial statements.

Where reporting responsibility for individual divisions within business units changes, the segmental analysis is reclassified accordingly.

2 Key management assumptions

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

2.1 Credit impairment losses on loans and advances

Performing loans

The group assesses its loan portfolios for impairment at each balance sheet date. In determining whether an impairment loss should be recorded in the income statement, the group makes judgements as to whether there is observable data indicating a measurable decrease in the estimated future cash flows from a portfolio of loans before the decrease can be allocated to an individual loan in that portfolio. Estimates are made of the duration between the occurrence of a loss event and the identification of a loss on an individual basis. The impairment for performing loans is calculated on a portfolio basis, based on historical loss ratios, adjusted for national and industry-specific economic conditions and other indicators present at the reporting date that correlate with defaults on the portfolio. These annual loss ratios are applied to loan balances in the portfolio and scaled to the estimated loss emergence period. The group applied the following loss emergence periods:

	Average loss emergence period 2005 Months	Sensitivity[1] 2005 Rm
Personal & Business Banking SA	3 – 6	110
Corporate & Investments Banking SA	15	27
		137

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

Non-performing loans

Retail loans are individually impaired if the amounts are due and unpaid for three or more months. Corporate 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 individual impaired loans are based on historical loss experience for assets with similar credit risk characteristics. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience. Recoveries of individual loans as a percentage of the outstanding balances are:

	Recoveries as a percentage of impaired loans		Sensitivity[1]	
	2005 (%)	2004 (%)	2005 Rm	2004 Rm
Personal & Business Banking SA	62	55	19	14
Corporate & Investments Banking SA	41	57	2	4
			21	18

[1]*Sensitivity is based on the effect of a change of one percentage point in the estimated recovery on the value of the impairment.*

2 Key management assumptions continued

2.2 Fair value of derivatives

The fair value of financial instruments that are not quoted in active markets is determined by using valuation techniques. Where valuation techniques (for example, models) are used to determine fair values, they are validated and periodically reviewed by independent qualified senior personnel. All models are certified 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.

2.3 Impairment of available-for-sale equity investments

The group determines that available-for-sale equity investments are impaired and recognised as such in the income statement when there has been a significant or prolonged decline in the fair value below its cost. This determination of what is significant or prolonged requires judgement. In making this judgement, the group evaluates among other factors, the normal volatility in the share price. In addition, impairment may be appropriate when there is evidence of a deterioration in the financial health of the investee, industry and sector performance, changes in technology, and operational and financing cash flows.

2.4 Securitisations and special purpose entities

The group sponsors the formation of special purpose entities (SPEs) primarily for the purpose of allowing clients to hold investments, for asset securitisation transactions and for buying or selling credit protection. The group does not consolidate SPEs that it does not control. As it can sometimes be difficult to determine whether the group controls an SPE, it makes judgements about its exposure to the risks and rewards, as well as its ability to make operational decisions for the SPE in question. In many instances, elements are present that, considered in isolation, indicate control or lack of control over a SPE, but when considered together make it difficult to reach a clear conclusion.

The group consolidated SPEs with assets of R6 956 million (2004: R3 666 million) and no profit (2004: Rnil million). The group has not consolidated SPEs with assets of R250 million (2004: Rnil million) and no profit (2004: Rnil million) as these entities were not considered to be controlled by the group.

2.5 Held-to-maturity investments

The group follows the guidance of IAS 39 on classifying non-derivative financial assets with fixed or determinable payments and fixed maturity as held-to-maturity. This classification requires judgement of the group's ability to hold such investments to maturity. If the group fails to keep these investments to maturity other than for specific defined circumstances, it will be required to classify the entire class as available-for-sale. The investments would be measured at fair value not amortised cost. If the entire class of held-to-maturity investments were tainted, the fair value would increase by R68 million (2004: R154 million), for the group and company with a corresponding entry in the available-for-sale reserve in shareholders' equity.

2.6 Income taxes

The group 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. The group recognises liabilities based on objective estimates of the quantum of taxes that may be due. Where the final tax determination is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax expense in the period in which such determination is made.

2.7 Financial risk management

The group's risk management policies and procedures are disclosed in the risk management section starting on page 2 of the annual report.

	Group		Company	
	2005 Rm	2004 Rm	2005 Rm	2004 Rm
3 Cash and balances with banks				
Coins and bank notes	2 850	2 479	2 850	2 479
Balances with central banks	5 299	4 848	5 299	4 848
Balances with other banks	34 020	1 549	32 856	1 423
	42 169	8 876	41 005	8 750
Cash and balances with banks include R5 299 million (2004: R4 237 million) for the group and company that was not available for use. These balances comprise primarily reserving requirements held with the central bank.				
4 Short-term negotiable securities				
Held at fair value through profit or loss	25 418	16 060	19 319	16 045
Accrued interest	379	261	323	261
	25 797	16 321	19 642	16 306
Fair value	25 797	16 321	19 642	16 306

5 Derivative instruments

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

5.1 Fair values

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

5.2 Notional amount

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

5. Derivative instruments continued

5.3 Derivative assets and liabilities

Group	2005 Maturity analysis of net fair value <1 year Rm	1 – 5 years Rm	>5 years Rm	Net fair value Rm
Derivatives held for trading				
Foreign exchange derivatives	1 922	1 825	(650)	3 097
Forwards	984	268	24	1 276
Futures	–	–	–	–
Options	938	1 557	(674)	1 821
Interest rate derivatives	1 360	(1 863)	235	(268)
Bond and options	(29)	–	(489)	(518)
Caps and floors	1	43	–	44
Future options	–	–	–	–
Forwards	2	(19)	–	(17)
Swaps	1 366	(1 894)	724	196
Swaptions	20	7	–	27
Commodity derivatives	550	(123)	29	456
Forwards	431	(201)	(19)	211
Futures	–	–	–	–
Options	119	78	48	245
Credit derivatives	244	9	25	278
Credit default swaps	244	9	25	278
Total return swaps	–	–	–	–
Forward rate note	–	–	–	–
Convertible bonds	–	–	–	–
Equity derivatives	214	(270)	-	(56)
Forwards	55	–	–	55
Futures	7	9	–	16
Index options	242	(299)	–	(57)
Options	–	–	–	–
Swaps	(9)	20	–	11
Other	(81)	–	–	(81)
Total derivative assets/(liabilities) held for trading	4 290	(422)	(361)	3 507
Derivatives held for hedging				
Derivatives designated as fair value hedges – interest rate swaps	379	794	(835)	338
Derivatives designated as cash flow hedges – currency swaps	–	–	–	–
Derivatives designated as cash flow hedges – interest rate swaps	1	(6)	(8)	(13)
Derivatives designated as fair value portfolio hedges – interest rate swaps	–	–	–	–
Total derivative assets/(liabilities) held for hedging	380	788	(843)	325
Total derivative assets/(liabilities)	4 670	366	(1 204)	3 832

2005			2004			
Fair value of assets Rm	Fair value of liabilities Rm	Contract/ notional amount Rm	Net fair value Rm	Fair value of assets Rm	Fair value of liabilities Rm	Contract/ notional amount Rm
13 678	(10 581)	719 149	1 558	16 976	(15 418)	200 452
7 222	(5 946)	674 540	1 875	12 685	(10 810)	133 092
1	(1)	1 576	(1)	–	(1)	1 617
6 455	(4 634)	43 033	(316)	4 291	(4 607)	65 743
47 588	(47 856)	1 920 057	4 409	73 158	(68 749)	2 466 210
1 453	(1 971)	116 561	(450)	1 303	(1 753)	113 636
111	(67)	40 089	71	176	(105)	38 687
–	–	–	(2)	1	(3)	0
225	(242)	279 025	59	922	(863)	526 040
45 620	(45 424)	1 472 810	4 723	70 690	(65 967)	1 783 354
179	(152)	11 572	8	66	(58)	4 493
1 732	(1 276)	24 736	25	1 468	(1 443)	23 982
1 380	(1 169)	14 654	(115)	1 298	(1 413)	15 916
1	(1)	217	1	1	–	100
351	(106)	9 865	139	169	(30)	7 966
420	(142)	18 252	306	316	(10)	2 144
369	(91)	17 274	125	125	–	2 045
51	(51)	978	62	63	(1)	68
–	–	–	56	56	–	10
–	–	–	63	72	(9)	21
3 386	(3 442)	118 101	(373)	1 545	(1 918)	115 118
367	(312)	3 172	41	44	(3)	239
129	(113)	83 973	6	19	(13)	79 897
2 850	(2 907)	28 321	(488)	1 066	(1 554)	28 913
–	–	7	51	383	(332)	4 643
40	(29)	2 628	21	37	(16)	1 426
–	(81)	–	(4)	(4)	–	–
66 804	(63 297)	2 800 295	5 925	93 463	(87 538)	2 807 906
2 620	(2 282)	54 914	(199)	3 506	(3 705)	53 133
–	–	–	(20)	49	(69)	21
4	(17)	3 581	(3)	47	(50)	800
–	–	–	(439)	740	(1 179)	3 200
2 624	(2 299)	58 495	(661)	4 342	(5 003)	57 154
69 428	(65 596)	2 858 790	5 264	97 805	(92 541)	2 865 060

Notes to the annual financial statements for the year ended 31 December 2005 continued

5. Derivative instruments continued

5.3 Derivative assets and liabilities continued

Company	2005 Maturity analysis of net fair value <1 year Rm	1 – 5 years Rm	>5 years Rm	Net fair value Rm
Derivatives held for trading				
Foreign exchange derivatives	1 922	1 825	(650)	3 097
Forwards	984	268	24	1 276
Futures	–	–	–	–
Options	938	1 557	(674)	1 821
Interest rate derivatives	1 361	(1 863)	218	(284)
Bond and options	(29)	–	(489)	(518)
Caps and floors	1	43	–	44
Future options	–	–	–	–
Forwards	2	(19)	–	(17)
Swaps	1 367	(1 894)	707	180
Swaptions	20	7	–	27
Commodity derivatives	550	(123)	29	456
Forwards	431	(201)	(19)	211
Futures	–	–	–	–
Options	119	78	48	245
Credit derivatives	244	9	25	278
Credit default swaps	244	9	25	278
Total return swaps	–	–	–	–
Equity derivatives	295	(272)	–	23
Forwards	55	–	–	55
Futures	7	9	–	16
Index options	242	(299)	–	(57)
Options	–	–	–	–
Swaps	(9)	18	–	9
Total derivative assets/(liabilities) held for trading	4 372	(424)	(378)	3 570
Derivatives held for hedging				
Derivatives designated as fair value hedges – interest rate swaps	379	794	(835)	338
Derivatives designated as cash flow hedges – currency swaps	–	–	–	–
Derivatives designated as cash flow hedges – interest rate swaps	1	(6)	(8)	(13)
Derivatives designated as fair value portfolio hedges – interest rate swaps	–	–	–	–
Total derivative assets/(liabilities) held for hedging	380	788	(843)	325
Total derivative assets/(liabilities)	4 752	364	(1 221)	3 895

2005 Fair value of assets Rm	2005 Fair value of liabilities Rm	2005 Contract/ notional amount Rm	2004 Net fair value Rm	2004 Fair value of assets Rm	2004 Fair value of liabilities Rm	2004 Contract/ notional amount Rm
13 678	(10 581)	719 149	1 558	16 976	(15 418)	200 452
7 222	(5 946)	674 540	1 875	12 685	(10 810)	133 092
1	(1)	1 576	(1)	–	(1)	1 617
6 455	(4 634)	43 033	(316)	4 291	(4 607)	65 743
47 571	(47 855)	1 920 057	4 528	73 286	(68 758)	2 466 241
1 453	(1 971)	116 561	(387)	1 375	(1 762)	113 657
111	(67)	40 089	71	176	(105)	38 687
–	–	–	(2)	1	(3)	–
225	(242)	279 025	115	978	(863)	526 050
45 603	(45 423)	1 472 810	4 723	70 690	(65 967)	1 783 354
179	(152)	11 572	8	66	(58)	4 493
1 732	(1 276)	24 736	25	1 468	(1 443)	23 982
1 380	(1 169)	14 654	(115)	1 298	(1 413)	15 916
1	(1)	217	1	1	–	100
351	(106)	9 865	139	169	(30)	7 966
420	(142)	18 252	187	188	(1)	2 113
369	(91)	17 274	125	125	–	2 045
51	(51)	978	62	63	(1)	68
2 954	(2 931)	118 101	(367)	1 359	(1 726)	115 118
367	(312)	3 172	41	44	(3)	239
129	(113)	83 973	6	19	(13)	79 897
2 420	(2 477)	28 321	(486)	876	(1 362)	28 913
–	–	7	51	383	(332)	4 643
38	(29)	2 628	21	37	(16)	1 426
66 355	(62 785)	2 800 295	5 931	93 277	(87 346)	2 807 906
2 620	(2 282)	54 914	(199)	3 506	(3 705)	53 133
–	–	–	(20)	49	(69)	21
4	(17)	3 581	(3)	47	(50)	800
–	–	–	(439)	740	(1 179)	3 200
2 624	(2 299)	58 495	(661)	4 342	(5 003)	57 154
68 979	(65 084)	2 858 790	5 270	97 619	(92 349)	2 865 060

5. Derivative instruments continued

5.4 Use and measurement of derivative instruments

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

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

The fair value of all derivatives is recognised on the 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 the group are as follows:

- Interest rate swap contracts generally entail the contractual exchange of fixed and floating rate interest payments in a single currency, based on a notional amount and an interest reference rate.
- 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 effected by way of an exchange of cash flows that mirror changes in the value of the underlying asset and any income derived therefrom.

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

5.5 Derivatives held for trading

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

5.5.1 Foreign exchange derivatives

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

5. Derivative instruments continued

5.5 Derivatives held for trading continued

5.5.2 Interest rate derivatives

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

5.5.3 Commodity derivatives

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

5.5.4 Credit derivatives

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

5.5.5 Equity derivatives

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

5.6 Derivatives held for hedging

The group enters into derivative transactions, which are designated and qualify as either fair value, cash flow, or net investment hedges for recognised assets or liabilities or forecasted transactions. Derivatives held for hedging consist of:

5.6.1 Derivatives designated as fair value hedges

The group's fair value hedges principally consist of currency futures, interest rate swaps and cross currency interest rate swaps that are used to protect against changes in market interest rates and currencies.

5.6.2 Derivatives designated as cash flow hedges

The group uses currency swaps and exchange traded currency options to protect against changes in cash flows of certain variable rate debt issues. The group applies hedge accounting for its non-trading interest rate risk in major currencies by analysing expected cash flows on a group basis. The objective is to protect against changes in future interest cash flows resulting from the impact of changes in market interest rates, and reinvestment or reborrowing of current balances.

5.6.3 Derivatives designated as fair value portfolio hedges

The group uses interest rate swaps for portfolio hedging of interest rate risk.

5.6.4 Derivatives designated as hedges of net investments in subsidiaries

The objective of the hedge of net investments is to limit the risk of a decline in net asset value of the investment in a foreign entity brought about by changes in exchange rates.

Notes to the annual financial statements for the year ended 31 December 2005 continued

	Group		Company	
	2005 Rm	2004 Rm	2005 Rm	2004 Rm
6 Trading assets				
Listed	9 568	4 892	9 371	4 812
– Securities of, or guaranteed by, the South African Government	5 266	2 419	5 266	2 419
– Other	4 302	2 473	4 105	2 393
Unlisted	1 924	1 733	1 924	1 733
	11 492	6 625	11 295	6 545
Dated assets	8 991	5 997	8 991	5 997
Undated assets	2 501	628	2 304	548
	11 492	6 625	11 295	6 545
Maturity analysis				
The maturities represent periods to contractual redemption of the trading assets recorded.				
– Redeemable on demand	90	–	90	–
– Maturing within 1 month	1 926	1 733	1 926	1 733
– Maturing after 1 month but within 6 months	1 748	–	1 748	–
– Maturing after 6 months but within 12 months	168	1	168	1
– Maturing after 12 months	5 059	4 263	5 059	4 263
– Undated assets	2 501	628	2 304	548
	11 492	6 625	11 295	6 545

Redemption value

Dated trading assets had a redemption value at 31 December 2005 of R11 285 million (2004: R6 995 million) for the group and company.

Directors' valuation

The directors' valuation of unlisted investments is equal to the carrying value. All unlisted investments were valued at 31 December 2005.

	Group		Company	
	2005 Rm	2004 Rm	2005 Rm	2004 Rm
7 Investments				
Listed	11 878	12 213	11 153	11 939
– Securities of, or guaranteed by, the South African Government	10 534	11 435	10 534	11 435
– Other	1 344	778	619	504
Unlisted	1 993	4 171	1 981	4 171
Accrued interest	295	341	295	341
	14 166	16 725	13 429	16 451
Comprising:				
Investment securities held at fair value through profit or loss	11 200	11 561	10 463	11 287
Investment securities available-for-sale	76	73	76	73
Investment securities held-to-maturity	2 595	4 750	2 595	4 750
Accrued interest	295	341	295	341
	14 166	16 725	13 429	16 451
Dated securities	10 565	11 676	10 565	11 675
Undated securities	3 306	4 708	2 569	4 435
Accrued interest	295	341	295	341
	14 166	16 725	13 429	16 451
Fair value	14 234	16 879	13 497	16 605
Maturity analysis				
The maturities represent periods to contractual redemption of the investment securities recorded.				
– Redeemable on demand and within 1 month	2 603	193	2 603	193
– Maturing after 1 month but within 6 months	3 515	2 302	3 515	2 302
– Maturing after 6 months but within 12 months	196	128	196	128
– Maturing after 12 months	4 546	9 394	4 546	9 393
– Undated securities	3 306	4 708	2 569	4 435
	14 166	16 725	13 429	16 451

Redemption value

Dated investment securities had a redemption value at 31 December 2005 of R10 167 million (2004: R11 454 million) for the group and company.

Investment registers

Registers of the investment securities are available for inspection by members, or their authorised agents at the registered offices of the company and its subsidiaries.

Directors' valuation

The directors' valuation of unlisted investments is equal to the carrying value. All unlisted investments were valued at 31 December 2005.

Notes to the annual financial statements for the year ended 31 December 2005 continued

	Group		Company	
	2005 Rm	2004 Rm	2005 Rm	2004 Rm
8 Loans and advances				
The company extends advances to the personal, commercial and corporate sectors as well as to the public sector. Advances made to individuals are mostly in the form of mortgages, instalment credit, overdrafts and credit card borrowings.				
A significant portion of the company's advances to commercial and corporate borrowers consists of advances made to companies engaged in manufacturing, finance and service industries.				
8.1 Loans and advances net of impairment				
Loans and receivables	261 787	206 286	252 542	203 426
Loans and advances to banks	5 344	1 985	5 344	1 985
– Call loans	271	621	271	621
– Loans granted under resale agreements	5 073	1 364	5 073	1 364
Loans and advances to customers	256 443	204 301	247 198	201 441
– Overnight lending	21 300	17 530	21 764	16 546
– Card debtors	11 968	7 854	10 956	6 950
– Revolving credit accounts	6 112	5 497	6 112	5 497
– Term lending	33 643	28 798	32 857	28 798
– Mortgage lending[1]	122 661	93 797	117 768	93 234
– Commercial property finance	16 196	12 136	16 191	12 136
– Instalment sale and finance leases[1]	39 626	34 271	36 639	33 862
– Loans granted under resale agreements	2 483	2 647	2 479	2 647
– Foreign currency lending	1 269	900	1 268	900
– Other loans and advances	1 185	871	1 164	871
Held-to-maturity				
Instalment sale and finance leases to customers[2]	–	689	–	689
Accrued interest	1 482	926	1 469	1 004
	263 269	207 901	254 011	205 119
Credit impairments for loans and advances (note 8.3)	3 088	2 906	3 072	2 890
	260 181	204 995	250 939	202 229
Fair value	264 962	209 663	255 567	206 894
Loans and advances included net positive fair value adjustments of R1 077 million (2004: R1 242 million) for the group and the company relating to loans and receivables which were subject to fair value hedging relationships and therefore only fair valued for the risk subject to hedging.				
[1]Loans and advances securitised				
Mortgage lending	4 258	–	–	–
Instalment sale and finance leases	2 633	–	–	–
	6 891	–	–	–

The group retained the credit risk in both securitisations which is considered to be substantially all of the risks relating to these loans. The securitisation vehicles containing these loans have therefore been consolidated and the liability to noteholders has been disclosed as part of deposits, refer to note 16.

[2]On adoption of IFRS, the held-to-maturity loans were reclassified to loans and receivables. The reclassification is only applicable from 1 January 2005.

	Group		Company	
	2005 Rm	2004 Rm	2005 Rm	2004 Rm
8 Loans and advances continued				
8.1 Loans and advances net of impairment continued				
Maturity analysis				
The maturity analysis is based on the remaining periods to contractual maturity from year end.				
– Redeemable on demand	23 629	18 632	22 782	17 925
– Maturing within 1 month	29 693	22 855	29 630	22 357
– Maturing after 1 month but within 6 months	18 382	16 774	18 123	15 907
– Maturing after 6 months but within 12 months	15 934	12 043	14 846	11 859
– Maturing after 12 months	175 631	137 597	168 630	137 071
	263 269	207 901	254 011	205 119
Segmental analysis – industry				
Agriculture	6 027	5 968	6 027	5 968
Construction	1 693	1 429	1 693	1 429
Electricity	1 348	1 039	1 348	1 039
Finance, real estate and other business services	36 173	39 284	35 084	37 125
Individuals	162 306	111 193	154 837	110 849
Manufacturing	13 416	10 507	13 416	10 507
Mining	3 881	2 772	3 881	2 722
Other services	29 558	24 552	29 502	24 323
Transport	5 190	6 256	5 190	6 256
Wholesale	3 677	4 901	3 033	4 901
	263 269	207 901	254 011	205 119
Segmental analysis – geographic area				
The following table sets out the distribution of the company's loans and advances by geographic area where the loans are recorded.				
Eastern Cape	10 417	8 567	10 042	8 369
Free State	5 330	4 793	5 120	4 683
Gauteng	150 586	111 058	145 591	110 515
KwaZulu-Natal	29 255	24 722	27 947	24 150
Limpopo	4 114	4 657	3 934	4 549
Mpumalanga	9 139	8 146	8 763	7 958
North West	5 433	6 053	4 955	5 913
Northern Cape	1 593	1 751	1 570	1 710
Western Cape	38 414	31 753	37 101	31 019
International	8 988	6 401	8 988	6 253
	263 269	207 901	254 011	205 119
8.2 Instalment finance				
Gross investment in instalment finance	46 837	40 844	43 320	40 424
Unearned finance charges deducted	7 211	6 573	6 681	6 562
Net investment in instalment finance	39 626	34 271	36 639	33 862

Notes to the annual financial statements for the year ended 31 December 2005 continued

	Group		Company	
	2005 Rm	2004 Rm	2005 Rm	2004 Rm
8 Loans and advances continued				
8.3 Credit impairments for loans and advances				
Balance at beginning of the year	2 906	2 783	2 890	2 775
Adoption of IFRS	(109)		(109)	
Restated balance	2 797	2 783	2 781	2 775
Credit losses written off	(1 010)	(812)	(984)	(812)
Discount element recognised in interest income	(230)	(220)	(230)	(220)
Exchange and other movements	3	(4)	3	(4)
Net credit impairments raised and released (note 21.4)	1 528	1 159	1 502	1 151
Balance at end of the year	3 088	2 906	3 072	2 890
Comprising:				
Impairment for non-performing loans	1 553	1 637	1 539	1 626
Impairment for performing loans	1 535	1 269	1 533	1 264
	3 088	2 906	3 072	2 890
Segmental analysis of impairments for non-performing loans – industry				
Agriculture	47	48	47	48
Construction	35	33	35	33
Electricity	1	–	1	–
Finance, real estates and other business services	315	310	315	310
Individuals	670	796	656	785
Manufacturing	50	70	50	70
Mining	57	52	57	52
Other services	280	241	280	241
Transport	19	20	19	20
Wholesale	79	67	79	67
	1 553	1 637	1 539	1 626
9 Other assets				
Trading settlement assets	2 459	5 097	2 237	2 010
Items in the course of collection	329	525	396	373
Other debtors	2 513	3 682	1 743	2 507
	5 301	9 304	4 376	4 890

	Group 2005 Rm	Group 2004 Rm	Company 2005 Rm	Company 2004 Rm
10 Interest in group companies, associates and joint ventures				
10.1 Interest in group companies				
Holding company				
– Indebtedness to the group/company	853	687	751	585
Interest in subsidiary companies	–	–	6 190	4 730
– Shares at cost	–	–	27	27
– Indebtedness to the company	–	–	6 163	4 703
Interest in fellow subsidiary companies				
– Indebtedness to the group/company	18 155	26 673	15 442	24 032
	19 008	27 360	22 383	29 347
Subsidiaries are listed in Annexure B on page 86.				
10.2 Interest in associates and joint ventures				
Carrying value at beginning of the year	267	276	103	104
Share of profit	206	101	–	–
Net acquisitions/(disposals)	384	(32)	384	(1)
Distribution of profit	(90)	(78)	–	–
Carrying value at end of the year	767	267	487	103
Comprising:				
Cost of investment	536	152	487	103
Share of reserves	231	115	–	–
	767	267	487	103
Total interest in group companies, associates and joint ventures	19 775	27 627	22 870	29 450
Directors' valuation				
The directors' valuation of the investments in associates and joint ventures is R942 million (2004: R267 million) for the group and the company.				
Associates and joint ventures are listed in Annexure C on page 87.				
10.3 Liabilities to group companies				
Indebtedness by the group/company to :				
Holding company	286	387	284	383
Subsidiaries	–	–	10 635	4 563
Fellow subsidiaries	3 961	2 146	3 961	2 132
	4 247	2 533	14 880	7 078

Notes to the annual financial statements for the year ended 31 December 2005 continued

	Group		Company	
	2005 Rm	2004 Rm	2005 Rm	2004 Rm
11 Goodwill and other intangible assets				
Goodwill (note 11.1)	–	–	–	–
Other intangible assets (note 11.2)	196	205	196	205
	196	205	196	205
11.1 Goodwill				
Goodwill on acquisition of subsidiaries				
Acquisitions	13	–	–	–
Impairments	(13)	–	–	–
Net goodwill	–	–	–	–
11.2 Other intangible assets				
Computer software				
Cost at beginning of the year	339	307	339	307
Additions	59	65	59	65
Assets decommissioned	–	(33)		(33)
Cost at end of the year	398	339	398	339
Accumulated amortisation at beginning of the year	134	98	134	98
Amortisation	68	57	68	57
Impairments	–	12	–	12
Assets decommissioned	–	(33)	–	(33)
Accumulated amortisation at end of the year	202	134	202	134
Balance at end of the year	196	205	196	205

	2005			2004		
	Cost Rm	Accumulated depreciation Rm	Carrying value Rm	Cost Rm	Accumulated depreciation Rm	Carrying value Rm
12 Property and equipment						
12.1 Group						
Summary						
Property						
Freehold	878	246	632	758	252	506
Leasehold	61	10	51	9	7	2
	939	256	683	767	259	508
Equipment						
Computer equipment	2 037	933	1 104	2 012	994	1 018
Motor vehicles	494	215	279	505	209	296
Office equipment	168	65	103	164	57	107
Furniture and fittings	746	310	436	708	350	358
	3 445	1 523	1 922	3 389	1 610	1 779
Total	4 384	1 779	2 605	4 156	1 869	2 287

12 Property and equipment continued

12.1 Group continued

	2004 Carrying value Rm	Additions Rm	Disposals Rm	Depreciation Rm	Impairments Rm	2005 Carrying value Rm
Movement						
Property						
Freehold	506	179	(39)	(14)	–	632
Leasehold	2	52	–	(3)	–	51
	508	231	(39)	(17)	–	683
Equipment						
Computer equipment	1 018	474	(5)	(383)	–	1 104
Motor vehicles	296	148	(53)	(112)	–	279
Office equipment	107	14	(2)	(16)	–	103
Furniture and fittings	358	149	(5)	(66)	–	436
	1 779	785	(65)	(577)	–	1 922
Total	2 287	1 016	(104)	(594)	–	2 605

	2003					2004
Property						
Freehold	546	3	(15)	(15)	(13)	506
Leasehold	2	–	–	–	–	2
	548	3	(15)	(15)	(13)	508
Equipment						
Computer equipment	1 108	401	(8)	(481)	(2)	1 018
Motor vehicles	290	168	(73)	(89)	–	296
Office equipment	113	20	(7)	(19)	–	107
Furniture and fittings	311	110	(5)	(58)	–	358
	1 822	699	(93)	(647)	(2)	1 779
Total	2 370	702	(108)	(662)	(15)	2 287

12.2 Company

	2005 Cost Rm	2005 Accumulated depreciation Rm	2005 Carrying value Rm	2004 Cost Rm	2004 Accumulated depreciation Rm	2004 Carrying value Rm
Summary						
Property						
Freehold	703	234	469	582	243	339
Leasehold	61	10	51	9	7	2
	764	244	520	591	250	341
Equipment						
Computer equipment	2 009	911	1 098	1 987	976	1 011
Motor vehicles	474	207	267	487	202	285
Office equipment	165	62	103	161	54	107
Furniture and fittings	740	307	433	702	347	355
	3 388	1 487	1 901	3 337	1 579	1 758
Total	4 152	1 731	2 421	3 928	1 829	2 099

Notes to the annual financial statements for the year ended 31 December 2005 continued

12 Property and equipment continued

12.2 Company continued

	2004 Carrying value Rm	Additions Rm	Disposals Rm	Depreciation Rm	Impairments Rm	2005 Carrying value Rm
Movement						
Property						
Freehold	339	179	(39)	(10)	–	469
Leasehold	2	52	–	(3)	–	51
	341	231	(39)	(13)	–	520
Equipment						
Computer equipment	1 011	472	(5)	(380)	–	1 098
Motor vehicles	285	143	(52)	(109)	–	267
Office equipment	107	14	(2)	(16)	–	103
Furniture and fittings	355	148	(5)	(65)	–	433
	1 758	777	(64)	(570)	–	1 901
Total	2 099	1 008	(103)	(583)	–	2 421

	2003					2004
Property						
Freehold	373	3	(15)	(9)	(13)	339
Leasehold	2	–	–	–	–	2
	375	3	(15)	(9)	(13)	341
Equipment						
Computer equipment	1 100	401	(8)	(480)	(2)	1 011
Motor vehicles	278	166	(73)	(86)	–	285
Office equipment	114	20	(7)	(20)	–	107
Furniture and fittings	309	109	(5)	(58)	–	355
	1 801	696	(93)	(644)	(2)	1 758
Total	2 176	699	(108)	(653)	(15)	2 099

12.3 Valuation

The open-market value of freehold property, based on valuations undertaken during 2005 by valuers registered under the Valuers Act 1982, was estimated at R791 million (2004: R546 million) for the group and R580 million (2004: R335 million) for the company.

	Group		Company	
	2005 Rm	2004 Rm	2005 Rm	2004 Rm
13 Ordinary share capital				
13.1 Authorised				
80 000 000 (2004: 80 000 000) ordinary shares of R1 each	80	80	80	80
1 000 000 000 (2004: 1 000 000 000) non-redeemable, non-cumulative, non-participating preference shares of R0,01 each.	10	10	10	10
	90	90	90	90
13.2 Issued				
59 997 109 (2004: 59 997 106) ordinary shares of R1 each	60	60	60	60
During the year, 3 (2004: 3) ordinary shares of R1 each were issued at premium of R866,6 million (2004: R833,3 million) per ordinary share.				
	60	60	60	60
13.3 Unissued shares				
20 002 891 (2004: 20 002 894) ordinary shares of R1 each are under the general authority of the directors, whose authority expires at the annual general meeting to be held on 24 May 2006.	20	20	20	20
1 000 000 000 (2004: 1 000 000 000) non-redeemable, non-cumulative, non-participating preference shares of R0,01 each are under the general authority of the directors, whose authority expires at the annual general meeting to be held on 24 May 2006.	10	10	10	10
	30	30	30	30
14 Ordinary share premium				
Share premium on issue of shares	10 730	8 137	10 730	8 137
Shares issued at a premium of R2 593 million (2004: R2 494 million) net of stamp duty of R6,5 million (2004: R6 million).				
	10 730	8 137	10 730	8 137

Notes to the annual financial statements for the year ended 31 December 2005 continued

	Group 2005 Rm	Group 2004 Rm	Company 2005 Rm	Company 2004 Rm
15 Trading liabilities				
Listed	12 938	4 989	3 324	1 860
Dated liabilities	3 324	1 860	3 324	1 860
Undated liabilities	9 614	3 129	–	–
	12 938	4 989	3 324	1 860
Maturity analysis				
The maturities represent periods to contractual redemption of the trading liabilities recorded.				
– Redeemable on demand	–	–	–	–
– Maturing within 1 month	–	–	–	–
– Maturing after 1 month but within 6 months	26	–	26	–
– Maturing after 6 months but within 12 months	–	551	–	551
– Maturing after 12 months	3 298	1 309	3 298	1 309
– Undated liabilities	9 614	3 129	–	–
	12 938	4 989	3 324	1 860
16 Deposit and current accounts				
Deposit products include cheque accounts, savings accounts, call and notice deposits, fixed deposits and negotiable certificates of deposit.				
Held at amortised cost	314 318	250 495	300 165	244 423
Deposit and loans from banks	4 023	7 114	4 029	7 114
– Deposits from banks and central banks	3 221	5 183	3 227	5 183
– Deposits from banks under repurchase agreements	802	1 931	802	1 931
Deposit and loans from customers	310 295	243 381	296 136	237 309
– Current accounts	37 268	29 261	37 272	29 261
– Cash management deposits	55 003	44 886	55 003	44 886
– Card creditors	1 188	1 059	1 188	1 059
– Call deposits	55 390	37 129	55 390	37 129
– Savings accounts	13 373	11 566	13 373	11 566
– Securitisation fundings	7 326	–	–	–
– Term deposits	70 425	71 223	63 588	65 151
– Negotiable certificates of deposit	41 406	26 570	41 406	26 570
– Repurchase agreements	9 301	1 347	9 301	1 347
– Foreign currency lending	9 420	12 375	9 420	12 375
– Other funding and loans	10 195	7 965	10 195	7 965
Held at fair value through profit or loss	10 224	–	10 224	–
Deposits and loans from banks				
– Deposits from banks under repurchase agreements	3	–	3	–
Customer deposit accounts	10 221	–	10 221	–
Accrued interest	4 491	4 876	4 314	4 814
	329 033	255 371	314 703	249 237

	Group		Company	
	2005 Rm	2004 Rm	2005 Rm	2004 Rm
16 Deposit and current accounts continued				
Deposits and current accounts were increased by fair value adjustments of R436 million (2004: R575 million) relating to deposit and current accounts which were subject to specific hedging relationships and therefore only fair valued for the risk subject to hedging.				
Maturity analysis				
The maturity analysis is based on the remaining periods to contractual maturity from year end.				
– Repayable on demand	172 186	122 289	170 590	141 142
– Maturing within 1 month	41 465	52 046	37 515	29 353
– Maturing after 1 month but within 6 months	61 873	44 840	59 513	44 827
– Maturing after 6 months but within 12 months	20 911	18 477	20 911	18 451
– Maturing after 12 months	32 598	17 719	26 174	15 464
	329 033	255 371	314 703	249 237
17 Deferred tax liability				
17.1 Deferred tax analysis				
Accrued interest receivable	17	36	17	36
Assets on lease	186	173	186	173
Assessed losses	(46)	(43)	–	–
Depreciation	35	80	34	79
Derivatives	2 169	1 760	2 169	1 760
Fair value adjustments of financial instruments	72	56	35	26
Impairment charges on loans and advances	(516)	(405)	(514)	(405)
Post-retirement benefits	(368)	–	(368)	–
Secondary tax on companies	(46)	(50)	(23)	(50)
Capital gains tax	(13)	–	(13)	–
Other differences	578	738	459	722
Net deferred tax liability	2 068	2 345	1 982	2 341
Deferred tax liability	2 152	2 445	2 018	2 391
Deferred tax asset	(84)	(100)	(36)	(50)

Notes to the annual financial statements for the year ended 31 December 2005 continued

	Group		Company	
	2005 Rm	2004 Rm	2005 Rm	2004 Rm
17 Deferred tax liability continued				
17.2 Deferred tax reconciliation				
Balance at beginning of year	2 345	2 282	2 341	2 361
Change in company tax rate	(80)	–	(80)	–
Adoption of IFRS	24	–	24	–
Restated balance	2 289	2 282	2 285	2 361
Various categories (reversing)/originating temporary differences for the year:	(221)	63	(303)	(20)
Accrued interest	(18)	(55)	(17)	(55)
Assessed losses	(4)	29	–	–
Assets on lease	19	(251)	19	(251)
Depreciation	(42)	(16)	(43)	(17)
Derivatives	468	46	467	46
Fair value adjustments of financial instruments	18	37	10	7
Impairment charges on loans and advances	(162)	66	(160)	66
Post-retirement benefits	(263)	–	(263)	–
Secondary tax on companies	4	12	28	12
Capital gains tax	(13)	–	(13)	–
Other differences	(228)	195	(331)	172
Deferred tax balance at end of year	2 068	2 345	1 982	2 341
18 Other liabilities				
18.1 Summary				
Trading settlement liabilities	1 508	1 647	464	1 030
Items in the course of transmission	109	319	194	127
Provision for post-retirement benefits (note 18.2)	745	680	745	680
Cash-settled share-based payment liability	18	–	18	–
Other liabilities	4 349	3 300	4 616	3 551
	6 729	5 946	6 037	5 388
18.2 Provisions for post-retirement benefits				
Balance at beginning of year	680	543	680	543
Net provisions raised	65	137	65	137
Balance at end of year	745	680	745	680

Details on post-retirement benefits are provided in note 29 on page 76.

	Group		Company	
	2005 Rm	2004 Rm	2005 Rm	2004 Rm
19 Subordinated bonds				
Unsecured subordinated redeemable				
Qualifying as secondary capital in terms of applicable banking legislation:	7 124	6 869	7 124	6 869
Redeemable in 2010[1] (SBK1)	–	1 219	–	1 219
Redeemable in 2010[2] (SBK2)	–	1 500	–	1 500
Redeemable in 2013[3] (SBK3)	2 050	2 066	2 050	2 066
Redeemable in 2016[4] (SBK5)	2 067	2 084	2 067	2 084
Redeemable in 2020[5] (SBK7)	3 007	–	3 007	–
Qualifying as tertiary capital in terms of applicable banking legislation:	600	1 000	600	1 000
Redeemable in 2005[6] (SBK4)	–	1 000	–	1 000
Redeemable in 2007[7] (SBK6)	600	–	600	–
Accrued interest	108	145	108	145
Total bonds	7 832	8 014	7 832	8 014
Fair value	8 491	8 235	8 491	8 235

Certain subordinated bonds have been fair valued for interest rate risk due to being hedged items in interest rate hedges. When these hedge relationships expire, the fair value adjustment is amortised over the remaining life of the bonds.

The group did not default on principal or interest and no other breaches with respect to its liabilities occurred during the period (2004: nil).

[1] 15,5% bonds issued in rands and paid a fixed semi-annual coupon. The bonds carried an option to be called at their nominal value on 1 June 2005 or on any interest payment date thereafter. This option was exercised on 1 June 2005 and the bonds were redeemed at the nominal value.

[2] 13,75% bonds issued in rands and paid a fixed semi-annual coupon. The bonds carried an option to be called at their nominal value on 2 December 2005 or on any interest payment date thereafter. This option was exercised on 2 December 2005 and the bonds were redeemed at the nominal value.

[3] 11,25% bonds issued in rands and paying a fixed semi-annual coupon. The bonds carry an option to be called at their nominal value on 31 October 2008 or on any interest payment date thereafter. After this option date, the coupon rate switches to a floating average mid-market rate per annum for three-month ZAR deposits plus 209 basis points, until maturity on 31 October 2013.

[4] 9,5% bonds issued in rands and paying a fixed annual coupon. The bonds carry an option to be called at their nominal value on 17 November 2011 or on any interest payment date thereafter. After this option date, the coupon rate switches to a three-month floating Johannesburg interbank agreed rate plus 162 basis points, until maturity on 17 November 2016.

[5] 9,63% bonds issued in rands and paying a fixed semi-annual coupon. The bonds carry an option to be called at their nominal value on 24 May 2015 or on any interest payment date thereafter. After this option date, the coupon rate switches to a three-month floating Johannesburg interbank agreed rate plus 197 basis points, until maturity on 24 May 2020.

[6] 12,5% bonds issued in rands and paid a fixed semi-annual coupon. The bonds were redeemed on 15 February 2005.

[7] 7,7% bonds issued in rands and paying a fixed semi-annual coupon. SBSA is entitled to defer the due date for payment of any principal or interest in respect of the bonds if so required by the Registrar of Banks. Such deferment would be subject to conditions prescribed by the Registrar of Banks. The bonds are redeemable on 1 March 2007.

	Group		Company	
	2005 Rm	2004 Rm	2005 Rm	2004 Rm

20 Contingent liabilities and capital commitments

20.1 Contingent liabilities

	Group 2005 Rm	Group 2004 Rm	Company 2005 Rm	Company 2004 Rm
Letters of credit	1 997	2 059	1 997	2 059
Guarantees	15 076	14 918	15 076	14 918
Irrevocable unutilised facilities	25 056	17 845	25 056	17 845
	42 129	34 822	42 129	34 822

No material losses are anticipated as a result of these transactions.

20.2 Capital commitments

	Group 2005 Rm	Group 2004 Rm	Company 2005 Rm	Company 2004 Rm
Contracted capital expenditure	304	182	304	182
Capital expenditure authorised but not yet contracted	849	743	836	743
	1 153	925	1 140	925

The expenditure will be funded from internal resources.

20.3 Financial assets pledged

Assets are pledged as collateral under repurchase agreements with other banks and for security deposits relating to local futures, options and stock exchange memberships. Mandatory reserve deposits are also held with central banks in accordance with statutory requirements.

	Asset		Related liability	
	2005 Rm	2004 Rm	2005 Rm	2004 Rm
Trading assets subject to repurchase commitments	5 237	2 037	8 324	727
Investment securities subject to repurchase commitments	1 602	2 148	1 302	1 931
	6 839	4 185	9 626	2 658

Financial assets of securitisation and other special purpose vehicles amounting to R6 956 million (2004: R3 666 million) has been pledged.

	Group		Company	
	2005 Rm	2004 Rm	2005 Rm	2004 Rm
20 Contingent liabilities and capital commitments continued				
20.4 Operating lease commitments				
The future minimum lease payments under non-cancellable operating leases are as follows:				
Properties				
Within 1 year	387	83	387	83
After 1 year but within 5 years	721	370	721	370
After 5 years	–	472	–	472
	1 108	925	1 108	925
Equipment				
Within 1 year	11	8	11	8
After 1 year but within 5 years	23	12	23	12
After 5 years	–	–	–	–
	34	20	34	20
21 Income statement information				
21.1 Interest income				
Interest on loans and advances and short-term funds	30 774	28 047	30 787	28 039
Interest on investment securities	1 634	1 839	1 252	1 588
Discount element recognised from credit impairments for loans and advances	230	220	230	220
Fair value adjustments on dated financial instruments	163	34	163	34
Dividends on unlisted investment securities	658	587	857	854
	33 459	30 727	33 289	30 735
Dividends on unlisted investment securities as shown above arose as follows:				
Subsidiaries and fellow subsidiaries			394	455
Unlisted equities	658	587	463	399
	658	587	857	854
21.2 Interest expense				
Current accounts	244	272	122	139
Savings and deposit accounts	2 669	2 017	2 669	2 017
Market bid accounts	9 733	9 117	9 648	9 105
Foreign finance creditors	320	224	320	224
Subordinated bonds	874	830	874	830
Other interest-bearing liabilities	9 205	8 994	9 051	8 815
	23 045	21 454	22 684	21 130

Notes to the annual financial statements for the year ended 31 December 2005 continued

	Group		Company	
	2005 Rm	2004 Rm	2005 Rm	2004 Rm
21 Income statement information continued				
21.3 Non-interest revenue				
Fees and commission revenue	8 775	7 411	8 243	7 034
– Point of representation fees	4 015	3 545	4 010	3 541
– Card-based commission	1 831	1 422	1 507	1 121
– Knowledge-based fees and commission	214	195	156	158
– Electronic banking fees	803	672	800	669
– Foreign currency service fees	373	331	373	331
– Documentation and administration fees	224	184	224	183
– Subsidiaries and fellow subsidiaries	–	68	–	210
– Other	1 315	994	1 173	821
Trading revenue	1 647	1 547	1 635	1 511
– Foreign exchange	1 156	1 071	1 156	1 071
– Debt securities	29	277	29	277
– Commodities	–	58	–	58
– Equities	(54)	152	(66)	116
– Other	516	(11)	516	(11)
Other revenue	1 393	1 404	831	825
– Banking	640	719	525	489
– Property related revenue	689	556	242	144
– Profit on realisation of available-for-sale financial assets	64	–	64	–
– Subsidiaries and other income	–	129	–	192
	11 815	10 362	10 709	9 370
Interest and dividend income included in trading income:				
Interest income	662	463	601	463
Dividend income – listed	324	219	265	219
21.4 Credit impairment charges				
Net credit impairment raised and reversed for loans and advances (note 8.3)	1 528	1 159	1 502	1 151
Credit impairments for non-performing loans	1 298	981	1 272	973
Credit impairments for performing loans	230	178	230	178
Recoveries on loans and advances previously written off	(272)	(300)	(254)	(300)
	1 256	859	1 248	851
21.5 Staff costs				
Salaries and allowances	6 246	5 682	6 126	5 574
Equity-linked transactions	136	44	135	42
SBG equity compensation plans – equity settled	57	36	57	34
– cash settled	18	–	18	–
SBG equity participation plan	61	8	60	8
Retirement benefit costs	678	281	672	277
	7 060	6 007	6 933	5 893

21 Income statement information continued

21.6 Other operating expenses

	Group 2005 Rm	Group 2004 Rm	Company 2005 Rm	Company 2004 Rm
Amortisation – intangible assets	68	57	68	57
Auditors' remuneration	38	41	37	40
Audit fees				
– Current year	27	20	26	19
Fees for other services	11	21	11	21
Depreciation	594	662	583	653
Property				
– Freehold	14	15	10	9
– Leasehold	3	–	3	–
Equipment				
– Computer equipment	383	481	380	480
– Motor vehicles	112	89	109	86
– Office equipment	16	19	16	20
– Furniture and fittings	66	58	65	58
Impairment – property and equipment (note 12)	–	15	–	15
Impairment – intangible assets (note 11.2)	–	12	–	12
Operating lease charges	512	475	508	473
Premises	512	440	508	438
Equipment	–	35	–	35
Premises	467	423	443	393
Professional fees	506	288	501	281
Managerial	54	22	51	15
Technical and other	452	266	450	266
Profit on disposal of property	(64)	(24)	(64)	(24)
Loss/(profit) on disposal of fixed assets	3	(34)	2	(34)
Recoveries on motor vehicles	(64)	–	(64)	–
Other expenses	3 300	3 178	3 114	2 959
	5 360	5 093	5 128	4 825

Notes to the annual financial statements for the year ended 31 December 2005 continued

	Group		Company	
	2005 Rm	2004 Rm	2005 Rm	2004 Rm
22 Supplementary income statement information				
22.1 Directors' emoluments				
Executive directors				
Emoluments of directors in respect of services rendered[1]:				
As directors of SBSA[2]	16	12	16	12
While directors of SBSA				
– as directors of subsidiary companies				
– otherwise in connection with the affairs of SBSA or its subsidiaries[2]	12	39	12	39
Non-executive directors				
Emoluments of directors in respect of services rendered:				
As directors of SBSA	2	1	2	1
While directors of SBSA				
– as directors of subsidiary companies				
– otherwise in connection with the affairs of SBSA or its subsidiaries	7	3	7	3
	37	55	37	55

[1]*In order to align emoluments with the performance to which they relate, emoluments reflect the amounts accrued in respect of each year and not the amounts paid.*

	Group		Company	
	2005 Rm	2004 Rm	2005 Rm	2004 Rm
23 Taxation				
23.1 Indirect taxation				
Regional services council levies	89	78	86	75
Value added tax	320	231	320	231
Duties	1	(9)	1	(9)
Skills development levy (net of recoveries)	51	20	51	19
	461	320	458	316

	Group		Company	
	2005 Rm	2004 Rm	2005 Rm	2004 Rm
23 Taxation continued				
23.2 Direct taxation				
Current year	1 742	1 871	1 494	1 708
– South African normal tax	1 974	1 887	1 851	1 705
– South African deferred tax	(192)	(51)	(297)	(32)
– Secondary tax on companies	48	12	28	12
– Foreign normal and withholding tax	5	23	5	23
– Capital gains tax	(13)	–	(13)	–
– South African deferred tax – rate change	(80)	–	(80)	–
Prior years	(5)	–	(3)	–
– South African normal tax	(8)	–	(3)	–
– South African deferred tax	3	–	–	–
	1 737	1 871	1 491	1 708
The aggregate current and deferred tax relating to items charged or credited to equity amounted to R20 million (credit) (2004: R6 million).				
South African tax rate reconciliation (%)				
The total taxation charge for the year as a percentage of net income before taxation:	25	28	24	27
Regional services council levies and stamp duties	(1)	(1)	(1)	(1)
Value added tax	(4)	(3)	(4)	(3)
Duties, STC and skills development	(1)	–	(1)	–
The direct taxation charge for the year as a percentage of profit before taxation:	19	24	18	23
Net tax charge	19	24	18	23
The charge for the year has been reduced/(increased) as a consequence of:				
– Dividends received	5	5	5	5
– Other non-taxable income	3	5	3	5
– Other permanent differences	1	(4)	2	(3)
Change in the company tax rate	1	–	1	–
Standard rate of South African tax	29	30	29	30

In 2005, the South African government decreased the corporate tax rate from 30% to 29%.

24 Dividends

	Group		Company	
	2005 Rm	2004 Rm	2005 Rm	2004 Rm
Ordinary dividends				
Dividend 91 of 833 cents per share paid on 31 January 2004 to the shareholder registered on 31 January 2004		500		500
Dividend 92 of 233 cents per share paid on 24 March 2004 to the shareholder registered on 24 March 2004		140		140
Dividend 93 of 1 100 cents per share paid on 25 March 2004 to the shareholder registered on 25 March 2004		660		660
Dividend 94 of 2 500 cents per share paid on 14 July 2004 to the shareholder registered on 14 July 2004		1 500		1 500
Dividend 95 of 566 cents per share paid on 7 September 2004 to the shareholder registered on 7 September 2004		340		340
Dividend 96 of 183 cents per share paid on 7 September 2004 to the shareholder registered on 7 September 2004		110		110
Dividend 97 of 1 833 cents per share paid on 28 September 2004 to the shareholder registered on 28 September 2004		1 100		1 100
Dividend 98 of 833 cents per share paid on 28 December 2004 to the shareholder registered on 28 December 2004		500		500
Dividend 99 of 833 cents per share paid on 15 March 2005 to the shareholder registered on 15 March 2005	500		500	
Dividend 100 of 833 cents per share paid on 7 April 2005 to the shareholder registered on 7 April 2005	500		500	
Dividend 101 of 2 417 cents per share paid on 8 April 2005 to the shareholder registered on 8 April 2005	1 450		1 450	
Dividend 102 of 833 cents per share paid on 22 April 2005 to the shareholder registered on 22 April 2005	500		500	
Dividend 103 of 2 317 cents per share paid on 8 September 2005 to the shareholder registered on 8 September 2005	1 390		1 390	
Dividend 104 of 433 cents per share paid on 8 September 2005 to the shareholder registered on 8 September 2005	260		260	
Dividend 105 of 1 250 cents per share paid on 9 December 2005 to the shareholder registered on 9 December 2005	750		750	
Dividend 106 of 2 250 cents per share paid on 12 December 2005 to the shareholder registered on 12 December 2005	1 350		1 350	
	6 700	4 850	6 700	4 850

On 8 March 2006 the following dividend was declared.

Dividend 107 of 2 500 cents per share payable on 15 March 2006, to the shareholder registered on 15 March 2006, bringing the total dividends declared in respect of 2005 to 9 583 cents per share (2004: 9 998 cents).

25 Headline earnings

	2005 Group			2004 Group	2005 Company			2004 Company
	Gross Rm	Tax Rm	Net Rm	Net Rm	Gross Rm	Tax Rm	Net Rm	Net Rm
Profit attributable to ordinary shareholder	8 746	(2 198)	6 548	5 586	8 005	(1 949)	6 056	5 382
Adjusted for the following:								
Exceptional items:	(128)	20	(108)	3	(128)	20	(108)	(28)
– Profit on sale of properties	(64)	1	(63)	(23)	(64)	1	(63)	(23)
– Gain on disposal of businesses and divisions			–	3			–	(28)
– Impairment of fixed assets			–	14			–	14
– Impairment of intangible assets			–	9			–	9
– Recycled investment gains on available-for-sale assets	(64)	19	(45)	–	(64)	19	(45)	–
Goodwill impairment	13		13	–			–	–
Profit on the sale of fixed assets			–	(29)			–	(29)
Headline earnings	8 631	(2 178)	6 453	5 560	7 877	(1 929)	5 948	5 325

26 Earnings per share

	Group		Company	
	2005 Rm	2004 Rm	2005 Rm	2004 Rm
The calculations of basic earnings and headline earnings per share are as follows:				
Earnings based on weighted average shares in issue				
Headline earnings (Rm)	6 453	5 560	5 948	5 325
Basic earnings (Rm)	6 548	5 586	6 056	5 382
Weighted average number of ordinary shares in issue (thousands)	59 997	59 997	59 997	59 997
Headline earnings per share (cents)	10 756	9 267	9 914	8 875
Basic earnings per share (cents)	10 914	9 310	10 094	8 970
Reconciliation of weighted average number of ordinary shares in issue (thousands)				
Shares in issue at beginning of the year	59 997	59 997	59 997	59 997
The effect of shares issued during the year	–	–	–	–
Weighted average number of ordinary shares in issue (thousands)	59 997	59 997	59 997	59 997

Notes to the annual financial statements for the year ended 31 December 2005 continued

	Group		Company	
	2005 Rm	2004 Rm	2005 Rm	2004 Rm
27 Cash flow statement				
27.1 Reconciliation of net income before taxation to cash flows from operating activities				
Net income before taxation	8 746	7 777	8 005	7 406
Adjusted for:	1 453	1 314	1 535	1 287
– Amortisation of bond hedging relationships	(45)	–	(45)	–
– Amortisation of intangible assets	68	57	68	57
– Credit impairment charges on loans and advances	1 256	859	1 248	851
– Depreciation – property and equipment	594	662	583	653
– Discount element recognised from credit impairments for loans and advances	(230)	(220)	(230)	(220)
– Fair value adjustments on dated financial instruments	(163)	(34)	(163)	(34)
– Goodwill impairment	13	–	–	–
– Impairment losses	–	27	–	27
– Income less dividends from associates and joint venture	(116)	(23)	–	–
– Loss/(profit) on disposal of business units	–	5	–	(26)
– Profit on sale of equipment	(61)	(34)	(62)	(34)
– Profit on sale of properties	(64)	(24)	(64)	(24)
– Share-based payments	136	44	135	42
– Other	65	(5)	65	(5)
Cash flows from operating activities	10 199	9 091	9 540	8 693
27.2 Cash receipts from customers				
Interest income	33 025	30 319	32 595	30 060
Fees and commission revenue	8 775	7 436	8 243	7 059
Trading and other revenue	1 990	2 245	1 536	1 604
	43 790	40 000	42 374	38 723
27.3 Cash paid to customers, employees and suppliers				
Interest expense	(23 045)	(21 454)	(22 684)	(21 130)
Total operating expenses	(11 618)	(10 339)	(11 272)	(9 973)
	(34 663)	(31 793)	(33 956)	(31 103)
27.4 Dividends received				
Dividends from subsidiaries	–	–	394	455
Dividends from associates	90	78	–	28
Dividends from dated investment securities	658	587	463	371
Dividends from trading activities	324	219	265	219
	1 072	884	1 122	1 073
27.5 Increase in income-earning assets				
Investments	2 621	(1 485)	3 084	(1 485)
Trading assets	(4 867)	2 523	(4 750)	2 523
Loans and advances	(55 962)	(48 444)	(49 477)	(48 436)
Net derivative assets	1 427	578	1 365	579
Investments in group companies	8 339	1 045	6 964	1 088
Other assets	3 974	1 178	492	1 178
	(44 468)	(44 605)	(42 322)	(44 553)

	Group		Company	
	2005 Rm	2004 Rm	2005 Rm	2004 Rm
27 Cash flow statement continued				
27.6 Increase in deposits and other liabilities				
Customers' current, savings and other deposits, and deposits and loans from banks	51 998	32 016	43 802	28 928
Deposits received under repurchase agreements	6 828	(3 860)	6 828	(459)
Negotiable certificates of deposit	14 836	16 493	14 836	16 493
Trading liabilities	7 949	(2 897)	1 464	(2 897)
Liabilities to group companies	1 714	(2 206)	7 802	(2 206)
Other liabilities	663	381	529	191
	83 988	39 927	75 261	40 050
27.7 Taxation paid				
Current and deferred tax at beginning of the year	(2 357)	(2 142)	(2 455)	(2 221)
Income statement charge	(2 198)	(2 191)	(1 949)	(2 024)
Current and deferred tax at end of the year	3 011	2 357	2 916	2 455
	(1 544)	(1 976)	(1 488)	(1 790)
27.8 Proceeds from issue of share capital to shareholder				
Ordinary share capital and share premium	2 593	2 494	2 593	2 494
Proceeds from issue of share capital	2 593	2 494	2 593	2 494
27.9 Dividends paid				
Dividends to ordinary shareholder	(6 700)	(4 850)	(6 700)	(4 850)
	(6 700)	(4 850)	(6 700)	(4 850)

28 Related party transactions

28.1 Parent

The Standard Bank of South Africa is a wholly owned subsidiary of Standard Bank Group Limited.

28.2 Subsidiaries

Details of effective interest, investments and loans to subsidiaries are disclosed in Annexure B.

28.3 Associates and joint ventures

Details of effective interest, investments and loans to associates and joint ventures are disclosed in Annexure C.

28.4 Key management personnel

Key management personnel for the group and company has been defined as: The Standard Bank of South Africa board of directors and the executive committee of Standard Bank Group. The definition of key management includes the close members of family of key management personnel and any entity over which key management exercise control. Close members of family are those family members who may be expected to influence or be influenced by that individual in their dealings with The Standard Bank of South Africa. They may include the individual's domestic partner and children, the children of the individual's domestic partner, and dependents of the individual or the individual's domestic partner.

Notes to the annual financial statements for the year ended 31 December 2005 continued

	2005 Rand	2004 Rand
28 Related party transactions continued		
28.4 Key management personnel continued		
Key management compensation		
Salaries and other short-term benefits	98 911 917	87 192 427
Post-employment benefits	3 337 297	3 113 063
Other long-term benefits	22 255 325	30 729 564
Share-based payment expense in terms of IFRS	6 186 455	4 806 839
	130 690 994	125 841 893
Mortgage loans		
Loans outstanding at beginning of year	5 764 440	4 328 379
Loans granted during the year	8 081 394	5 011 985
Loan repayments during the year	(6 363 624)	(4 092 951)
Interest earned	601 945	517 027
Loans outstanding at end of year	8 084 155	5 764 440
Average effective interest rate earned for the year	8,69%	10,25%

No credit impairments have been recognised in respect of loans granted to key management (2004: Rnil). Mortgage loans are repayable monthly over 20 years. These loans are collaterised by properties with a total fair value of R31 238 293.

	2005 Rand	2004 Rand
Other loans		
Loans outstanding at beginning of year (14% interest rate)	–	2 200 000
Net repayments	–	(2 200 000)
Loans outstanding at end of year	–	–
Vehicle and asset finance		
Loans outstanding at beginning of year	3 982 250	405 015
Net new loans granted	2 597 203	3 927 076
Net repayments	(1 630 595)	(487 393)
Net interest earned	409 466	137 552
Loans outstanding at end of year	5 358 324	3 982 250
Average effective interest rate earned for the year	8,77%	6,27%
Credit cards		
Balance outstanding at beginning of year	737 856	555 089
Annual spend	8 747 960	7 666 595
Annual fees	12 024	4 380
Net interest earned	16 180	12 859
Repayments	(8 693 991)	(7 501 067)
Balance outstanding at end of year	820 029	737 856
Average effective interest rate earned for the year	2,08%	1,99%

No credit impairments have been recognised in respect of credit cards and vehicle and asset finance lending to key management (2004: Rnil). Credit card loans are unsecured. The effective interest rates disclosed are calculated on a simple average. The effective interest rates for credit card accounts are low as interest is only charged on amounts not settled in the month following the card transactions. Interest rates are in line with rates available to staff.

28 Related party transactions continued

28.4 Key management personnel continued

	2005 Rand	2004 Rand
Cheque and current accounts		
Credit balance at beginning of year	35 432 835	43 183 128
Interest paid	726 872	776 536
Interest earned	(474 593)	(517 140)
Net deposits and withdrawals	565 977	(5 256 884)
Net service fees and bank charges	(76 616)	(138 347)
Exchange difference	(126 624)	(2 614 458)
Credit balance at end of year	36 047 851	35 432 835
Average effective interest rate paid for the year	2,03%	1,98%
Savings accounts		
Credit balance at beginning of year	18 199 541	13 571 847
Interest paid	1 018 103	1 088 896
Net new investments	816 566	3 538 798
Credit balance at end of year	20 034 210	18 199 541
Average effective interest rate paid for the year	5,33%	6,85%
Insurance and investment		
Details of key management personnel's investment transactions and balances with fellow subsidiaries.		
Insurance:		
Life and disability insurance		
Aggregate insured cover	9 887 000	4 138 000
Premiums received	99 997	71 284
Claims paid	10 218	8 000
Surrender value	187 000	138 000
Other insurance		
Premiums received	351 134	336 543
Claims paid	26 266	–
Investment products		
Fund value balance at beginning of year	168 822 525	91 679 921
Deposits	13 196 587	36 810 304
Net investment return credited	48 690 787	41 154 403
Commission and other transaction fees	(991 956)	(822 103)
Fund value balance at end of year	229 717 943	168 822 525
Other fees		
Financial consulting fees and commission	11 474	28 957
Shares and share options and rights held		
Aggregate details of Standard Bank Group Limited shares, share options and rights held by key management personnel.		
Shares beneficially owned[1]	2 010 775	1 425 273
Share options held	7 301 082	8 062 482

[1] *The beneficial ownership of shares held by Saki Macozoma and Cyril Ramaphosa are discussed in note 28.6.*

28 Related party transactions continued

28.5 Subsidiaries and fellow subsidiaries

	Subsidiaries 2005 Rm	Subsidiaries 2004 Rm	Fellow subsidiaries 2005 Rm	Fellow subsidiaries 2004 Rm
Other loans				
Group				
Loans outstanding at beginning of year			26 673	25 204
Net movement for the year			(8 518)	1 469
Loans outstanding at end of year			18 155	26 673
Company				
Loans outstanding at beginning of year	4 703	4 706	24 032	25 204
Net movement for the year	1 460	(3)	(8 590)	(1 172)
Loans outstanding at end of year	6 163	4 703	15 442	24 032
Interest income earned	250	416	885	894
The loans issued to subsidiaries, joint ventures and associates are repayable on demand. Interest is charged based on the group's internal calculated funding rate and loans are unsecured.				
Deposits, cheques and current accounts				
Group				
Deposits outstanding at beginning of year	–	–	2 146	4 101
Net movement for the year	–	–	1 815	(1 955)
Deposits outstanding at end of year	–	–	3 961	2 146
Company				
Deposits outstanding at beginning of year	4 563	4 656	2 132	4 101
Net movement for the year	6 072	(93)	1 829	(1 969)
Deposits outstanding at end of year	10 635	4 563	3 961	2 132
Interest expense on deposits	238	522	340	154

Fixed interest bonds

Liberty Life and Liberty Active hold the following fixed interest bonds in The Standard Bank of South Africa.

	Nominal holding 2005 Millions	Nominal holding 2004 Millions	Market value 2005 Rm	Market value 2004 Rm
Holdings at beginning of year	207	–	248	–
– Liberty Life	93	–	112	–
– Liberty Active	114	–	136	–
Purchases	480	207	494	236
– Liberty Life	475	93	489	106
– Liberty Active	5	114	5	130
Sales	(207)	–	(244)	–
– Liberty Life	(93)	–	(110)	–
– Liberty Active	(114)	–	(134)	–
Fair value adjustments	–	–	(10)	12
– Liberty Life	–	–	(8)	6
– Liberty Active	–	–	(2)	6
Holdings at end of year	480	207	488	248
– Liberty Life	475	93	483	112
– Liberty Active	5	114	5	136

	Nominal holding 2005 Millions	Nominal holding 2004 Millions	Market value 2005 Rm	Market value 2004 Rm

28 Related party transactions continued

28.5 Subsidiaries and fellow subsidiaries continued

Unsecured quoted debentures

Liberty Life holds the following unsecured quoted debentures in The Standard Bank of South Africa.

	Nominal holding 2005 Millions	Nominal holding 2004 Millions	Market value 2005 Rm	Market value 2004 Rm
Holdings at beginning of year	1 427	728	1 476	757
– Liberty Life	1 104	531	1 140	548
– Liberty Active	323	197	336	209
Additions through business acquisitions				
– Capital Alliance Life	80	–	80	–
Purchases	637	856	661	864
– Liberty Life	509	685	528	692
– Liberty Active	128	171	133	172
Sales	(577)	(157)	(602)	(171)
– Liberty Life	(419)	(112)	(440)	(123)
– Liberty Active	(158)	(45)	(162)	(48)
Fair value adjustments	–	–	19	26
– Liberty Life	–	–	12	23
– Capital Alliance Life	–	–	7	–
– Liberty Active	–	–	–	3
Holdings at end of year	1 567	1 427	1 634	1 476
– Liberty Life	1 194	1 104	1 240	1 140
– Capital Alliance Life	80	–	87	–
– Liberty Active	293	323	307	336

Unsecured unquoted debentures

Liberty Life holds the following unsecured unquoted debentures in The Standard Bank of South Africa.

	Nominal holding 2005 Millions	Nominal holding 2004 Millions	Market value 2005 Rm	Market value 2004 Rm
Holdings at beginning of year	–	–	–	–
Additions through business acquisitions				
– Capital Alliance Life	17	–	17	–
Purchases	1 878	–	864	–
– Liberty Life	1 415	–	542	–
– Liberty Active	463	–	322	–
Fair value adjustments	–	–	37	–
– Liberty Life	–	–	32	–
– Liberty Active	–	–	5	–
Holdings at end of year	1 895	–	918	–
– Liberty Life	1 415	–	574	–
– Capital Alliance Life	17	–	17	–
– Liberty Active	463	–	327	–

28 Related party transactions continued

28.5 Subsidiaries and fellow subsidiaries continued

Banking arrangements

Liberty Life and its subsidiaries make use of banking facilities provided by The Standard Bank of South Africa.

	Cash balances		Interest earned		Fees charged	
	2005 Rm	2004 Rm	2005 Rm	2004 Rm	2005 Rm	2004 Rm
Cash and cash equivalents						
– Liberty Holdings	4	459	13	5	–	–
– Liberty Life	448	883	32	27	2	2
– Liberty subsidiaries	1 986	1 266	36	21	1	1
	2 438	2 608	81	53	3	3

Forward exchange contracts

Liberty Ermitage Jersey entered into forward exchange contracts with The Standard Bank of South Africa and certain offshore subsidiaries.

	2005		2004	
	Sell US Dollars US$m	Settlement British Pounds GBPm	Sell US Dollars US$m	Settlement British Pounds GBPm
Liberty Ermitage Jersey	13	7	22	13

Corporate action

The Standard Bank of South Africa provided consultancy services to Liberty Life with respect to various corporate actions. Fees charged are as follows:

	2005 Rm	2004 Rm
Issue of callable capital bonds	4	–
Acquisition of Capital Alliance Holdings Limited	2	–
BEE ownership transactions	10	2
	16	2

Acquisition of proportionate share of Sandton Property Consortium

Liberty Life on 1 July 2005 acquired 7,5% of the Sandton Property Consortium (which includes properties such as Sandton City, Sandton Sun and Towers, Nelson Mandela Square) from Main Street 9 (Pty) Limited (a 100% held subsidiary of Standard Bank Group Retirement Fund) for R709 million. Administration fees charged to Main Street 9 (Pty) Limited by Liberty were R2,8 million (2004: R5,4 million).

Information technology outsourcing arrangement

With effect from 1 October 2004, Liberty Life partially outsourced its information technology services to The Standard Bank of South Africa in terms of an agreement until 31 March 2010. Fees charged for 2005 amounted to R30 million (2004: R6 million).

Software development

Liberty Life has been contracted to develop a commission and specific customer information system for The Standard Bank of South Africa. Fees associated with this development will be charged over five years. Fees charged for 2005 are R2,7 million (2004: Rnil).

28 Related party transactions continued

28.5 Subsidiaries and fellow subsidiaries continued

Operating lease

Lease income

The Standard Bank of South Africa leases a Pretoria property to Liberty Life in terms of a lease entered into on 22 December 1999 for a period of 13,5 years terminating on 31 May 2013. Lease escalations are fixed at 12% per annum. Total lease income for 2005: R51 million (2004: R45 million).

Lease expense

Liberty Life leases several properties to The Standard Bank of South Africa, including the bank's head office at 5 Simmonds Street, Johannesburg and various retail branches in shopping centres. These leases are governed by numerous separate lease agreements. Total lease expense for 2005: R47 million (2004: R45 million).

Bancassurance

Liberty Life and Liberty Active have entered into profit share agreement (renegotiated on 25 April 2002 for a period until 31 December 2010) with The Standard Bank of South Africa for the sale and promotion of insurance products. New business premium income received in respect of this business in 2005 amounted to R4 513 million (2004: R3 608 million). In terms of the agreement Liberty Active pays 90% of profits on simple products and 50% of profits on complex products through a preference dividend to The Standard Bank of South Africa. Income recognised for 2005 is R156 million (2004: R96 million).

28.6 Other contracts

Saki Macozoma, a director of the group, has a shareholding of 20% in Safika, which is a member of three different consortia that were party to Andisa, Stanlib and Tutuwa empowerment transactions in the prior years. Safika holds effective interests of 23,4% in Andisa Capital, 12,85% in Stanlib, 2,23% in Liberty Group and 1,78% in Standard Bank Group. The group holds an effective interest of 15% in Safika.

Cyril Ramaphosa, a director of the group, has a 35,9% shareholding in Shanduka, which is a member of the Tutuwa consortium. Shanduka holds an effective interest of 1,48% in Liberty Group and 1,19% in Standard Bank Group. The group holds an effective interest of 15% in Shanduka.

Doug Band, a director of the group, has a shareholding of 33% in Gymnogene Investments. This company had a contractual relationship with the bank. Payments arise from a share of the profit on disposal of private equity investments in a portfolio sourced and arranged by Gymnogene Investments on behalf of the bank. Although the contract expired on 31 December 2004, payments relating to this contract are likely to occur if and when the three remaining investments in the private equity portfolio are realised on a profitable basis to the bank.

After year end, Standard Bank advanced a loan to Circle Capital Ventures. A portion of the loan is convertible into 15% of the issued share capital of Circle Capital Ventures. Mamphela Ramphele, a director of the group, has a 37,45% shareholding in this company.

28.7 Post-employment benefit plan

Details of transactions between The Standard Bank of South Africa and the group's post-employment benefit plans are listed below:

	2005 Rand	2004 Rand
Asset management fee income received by Stanlib	26 568 000	34 022 000
Deposits held with the bank	245 560 000	183 134 000
Interest paid	49 430 000	43 656 000
Value of assets under management	12 234 608 000	10 501 904 000
Deposits held in bonds and money market	278 309 000	267 538 000
Number of Standard Bank Group shares held	7 680 547	8 605 494

	Group		Company	
	2005 Rm	2004 Rm	2005 Rm	2004 Rm
29 Post-retirement benefits				
Amounts recognised in the balance sheet (note 18.2)				
Retirement fund	374	311	374	311
Post-retirement healthcare benefits				
– Provider fund	13	21	13	21
– Other	358	348	358	348
	745	680	745	680

The total amount recognised as an expense for the defined contribution plan operated by the group amounted to R373 million (2004: R328 million).

Retirement fund

Membership of the principal fund, the Standard Bank Group Retirement Fund (SBGRF), exceeds 95% of Standard Bank operations' permanent staff in South Africa. The fund, one of the largest in South Africa, is a trustee-administered defined contribution fund governed by the Pension Funds Act, 1956. Member-elected trustees represent 50% of the trustee board. The assets of the fund are held independently of the company's assets.

The fund is subject to statutory financial review by actuaries at an interval of not more than three years. As a result of delays in relevant regulations and pension fund guidelines being published in late 2004, the Financial Services Board (FSB) approved an extension in submitting the 31 December 2001 valuation, which has now been submitted.

Employees who were members of the fund on 31 December 1994 have guaranteed benefits available under the rules of the defined benefit fund. A specific liability has been recognised within the fund to provide for guaranteed benefits which may arise under the rules of the scheme. New members from 1 January 1995 participate only in the benefits of the defined contribution fund.

As previously reported, an employer surplus account was credited on approval from the FSB which at 31 December 2004 amounted to R122 million (2003: R338 million). At 31 December 2005, the valuation of the fund, the determination of its financial position and the determination of any shortfall or surplus position has been finalised but has not yet been approved by the Registrar of Pension Funds in terms of the Pension Fund Second Amendment Act, 39 of 2001. Consequently, account has not been taken of any potential shortfall or surplus.

	Group		Company	
	2005 Rm	2004 Rm	2005 Rm	2004 Rm
The amounts recognised in the balance sheet are determined as follows:				
Asset arising from an approved surplus	–	(122)	–	(122)
Present value of unfunded obligations	16 877	12 923	16 877	12 923
Fair value of plan assets	(16 877)	(13 045)	(16 877)	(13 045)
Unrecognised actuarial gain	374	433	374	433
Included in other liabilities and provisions in the balance sheet	374	311	374	311

Unrecognised actuarial gains or losses are deferred and fully recognised in the income statement over a period not exceeding the estimated service lives of the employees.

	Group		Company	
	2005 Rm	2004 Rm	2005 Rm	2004 Rm
29 Post-retirement benefits continued				
The amounts recognised in the income statement are determined as follows:				
Current service cost	238	227	238	227
Interest cost	1 197	1 024	1 197	1 024
Expected return on plan assets	(1 251)	(1 086)	(1 251)	(1 086)
Net actuarial gain recognised in the year	(27)	(32)	(27)	(32)
Included in staff costs	157	133	157	133
Movement in the liability recognised in the balance sheet:				
Balance at the beginning of the year	311	180	311	180
Income statement charge	157	133	157	133
Contributions paid	(94)	(2)	(94)	(2)
Balance at the end of the year	374	311	374	311

Post-retirement healthcare benefits

The bank provides the following post-retirement healthcare benefits to its employees:

Provider fund

A post-retirement healthcare benefit fund provides eligible employees, who were employed in South Africa on 1 March 2000, with a lump sum benefit on retirement enabling them to purchase an annuity to be applied towards their post-retirement healthcare costs. This benefit is pre-funded in a provident fund. Any shortfall in the payment to be made by these employees towards their healthcare costs subsequent to retirement is the responsibility of the employee. The last actuarial valuation was performed on 1 March 2001 and reflected an excess in the fund.

The company received approval from the FSB to transfer the excess to an employer reserve.

Other

The liability represents a post-retirement healthcare benefit scheme that covers all employees who retired before 1 March 2000. The liability is unfunded and is valued every year using the projected unit credit method. The latest full statutory actuarial valuation was performed on 31 December 2004.

	Group		Company	
	2005 Rm	2004 Rm	2005 Rm	2004 Rm
The amounts recognised in the balance sheet in respect of post-retirement healthcare benefits are determined as follows:				
Unfunded obligation	241	216	241	216
Present value of unfunded obligations	1 232	1 014	1 232	1 014
Fair value of plan assets	(991)	(798)	(991)	(798)
Unrecognised actuarial gains	130	153	130	153
Included in other liabilities and provisions in the balance sheet	371	369	371	369

29 Post-retirement benefits continued

	Group 2005 Rm	Group 2004 Rm	Company 2005 Rm	Company 2004 Rm
The amounts recognised in the income statement are determined as follows:				
Current service cost	31	28	31	28
Interest cost	89	81	89	81
Expected return on plan assets	(72)	(65)	(72)	(65)
Net actuarial gain recognised in the year	(6)	(6)	(6)	(6)
Included in staff costs	42	38	42	38
Movement in the liability recognised in the balance sheet				
Balance at the beginning of the year	369	363	369	363
Income statement charge	42	38	42	38
Contributions paid	(40)	(32)	(40)	(32)
Balance at the end of the year	371	369	371	369

	Retirement fund %	Provider fund %	Retired employees %
The principal actuarial assumptions used for accounting purposes were:			
Discount rate	8,5	8,5	8,5
Return on investments	10,0	9,0	–
Salary/benefit inflation	5,0	7,0	–
CPI inflation	4,0	5,0	5,0
Medical inflation	–	–	7,0
Estimated service life of employees (years)	15,0	19,0	–

Introduction

For the year ended 31 December 2004, The Standard Bank of South Africa (SBSA) prepared financial statements in accordance with SA GAAP. The company has adopted International Financial Reporting Standards (IFRS) with effect from 1 January 2005.

The company was previously exempt from preparing consolidated financial statements as it is a wholly owned subsidiary of the Standard Bank Group. IFRS require companies with listed debt instruments to prepare consolidated financial statements. As a result, consolidated financial statements have been prepared for the first time for SBSA.

As the group publishes comparative information for one year in its financial statements, the date of transition to IFRS is effectively 1 January 2004, which represents the start of the earliest period of comparative information presented. The opening balance sheets at 1 January 2004 and 1 January 2005 have been restated accordingly.

Comparative information for 2004 is restated to take into account the requirements of all the standards except for IAS 32 – Financial Instruments: Disclosure and Presentation and IAS 39 – Financial Instruments: Recognition and Measurement. These standards are implemented with effect from 1 January 2005 and the opening balance sheet at this date is adjusted accordingly. Balance sheets prior to this date have been prepared in accordance with SA GAAP.

The adjustments to the published company accounts required to comply with IFRS are set out below.

Transitional arrangements

The key principle of IFRS 1 – First-time Adoption of International Financial Reporting Standards is full retrospective application of IFRS. However, in addition to exempting companies from the requirement to restate comparatives under IAS 32 and IAS 39, this statement provides exemptions from retrospective application in certain instances due to cost and practical considerations. The group's transitional elections in this regard are set out in the accounting policies on page 19.

Adjustments implemented with effect from 1 January 2004

Note 1: IFRS 1 – Reversal of equity accounted earnings

Previously, the company equity accounted earnings from associates and joint ventures. Following the adoption of IFRS all associates and joint ventures are accounted for at cost in the company accounts and are equity accounted in the group accounts. Equity accounted earnings have accordingly been reversed in the company accounts and dividend income received reflected as interest income.

Note 2: IAS 18 – Revenue recognition

The previous South African version of IAS 39 (AC 133 – Financial Instruments: Recognition and Measurement) required that fees which form an integral part of the effective interest rate, including transaction costs, be taken into account in calculating the original effective yield. Initial fees that relate to the origination of loans are therefore deferred and amortised as an adjustment to the effective interest rate. The same accounting principle was carried forward in the revised IAS 18 with fees relating to the future provision of services deferred and amortised over the anticipated period in which the services will be provided. A small adjustment was required to align the previous deferral methodologies with the revised IAS 18, primarily for instalment finance on moveable assets.

Note 3: IFRS 2 – Share-based payments

Share options are granted to employees under equity compensation plans. Other than costs incurred in administering the schemes, which were expensed as incurred, the schemes did not result in any expense in the income statement. In accordance with the requirements of IFRS 2, the company now recognises an expense in the income statement, with a corresponding credit to equity, representing the fair value of employee share options granted, recognised on a straight-line basis over the vesting period of the options.

The company also applied IFRS 2 to the Tutuwa initiative. The standard is applicable to awards that have not vested by 31 December 2004 and, as a result, the ownership of shares allocated to black managers that vest over a period ending on 31 December 2010 is accounted for in terms of this standard. The shares owned by the community trust and strategic partners have vested before 31 December 2004 and, as a result of the election not to apply IFRS 2 retrospectively, no expense is therefore required.

Note 4: IAS 16 – Revaluation of residual values in property and equipment

In calculating its depreciation charge, an entity reduces the depreciable amount of an asset by its residual value. Previously under SA GAAP, the estimated residual value was fixed on recognition of the asset and was not subject to reassessment. IAS 16 revised requires that the residual value of the assets should be reassessed at each balance sheet date. Annual increases in asset values result in annual upward adjustments of residual values. The continuous reassessment of residual values typically leads to a reduction in depreciation charges and depreciation charges cease when the carrying value of an asset equals the residual value.

Buildings' carrying values that were previously fully depreciated are now partially reinstated to reflect the applicable residual value.

Where buildings are not fully depreciated, there has generally been a reduction in depreciation as residual values are reassessed. The depreciation previously recognised in the income statement has accordingly been reversed or reduced, resulting in a corresponding increase in equity.

Adjustments implemented with effect from 1 January 2005

Note 5: IAS 39 – Credit impairments

Previously the company raised an impairment for credit losses on performing loans as the shortfall between the carrying value of a loan and the present value of expected future cash flows discounted at the original effective interest rate of loans, taking changes in expected cash flows and the average maturity of loans into account. Under IFRS an impairment loss can only be accounted for if there is objective evidence that a loss event has occurred after the initial recognition of the financial asset but before the balance sheet date. IFRS also allows for the creation of a credit impairment for incurred but not reported losses in order to provide for latent losses in a portfolio of loans that have not yet been individually identified as impaired. This change results in a net release of credit impairments and a consequent increase in the opening 2005 equity.

Note 6: IAS 39 – Financial instrument reclassifications

The company has elected the exemption not to restate its comparatives for IAS 32 – Financial Instruments: Disclosure and Presentation and IAS 39 – Financial Instruments: Recognition and Measurement. The company and group has therefore applied SA GAAP applicable at 31 December 2004 to financial instruments in its 2004 numbers disclosed as comparatives for the 2005 results. Following the adoption of IFRS certain financial assets were reclassified with a small impact on equity.

Note 7: IAS 39 – Fair value adjustments for day one profits

Unquoted financial instruments acquired were previously recognised at cost and any profit or loss on remeasurement to fair value based on valuation models was accounted for on the date of such remeasurement (day two).

The IAS 39 revision to Financial Instruments: Recognition and Measurement, issued in February 2005, provided further criteria on the recognition of gains or losses on initial recognition of financial instruments. Where pricing models use inputs that are based on observable market indicators only, all profits or losses are recognised on initital recognition. Any gain or loss on initial recognition, based on unobservable market indicators, is deferred and recognised over the life of the instrument on a straight-line basis.

As a result of the IAS 39 revision a net decrease to trading assets is reflected in the 2005 opening balance sheet with a corresponding decrease in equity.

Disclosure reclassifications

Note 8: IAS 1 – Reclassifications

Exceptional items

Items that were previously disclosed separately as exceptional items, have been re-allocated to appropriate line items in the income statement for the year ended 31 December 2004.

Accrued interest

Balance sheet – Accrued interest previously included in other assets and other liabilities has been re-allocated to the appropriate underlying financial assets and liabilities.

IFRS reconciliation of assets, liabilities and equity

Company	Note	1 Jan 2005 Rm	31 Dec 2004 Rm	1 Jan 2004 Rm
Assets				
Restated/as previously reported		384 876	384 913	320 853
IFRS adjustments:		93	(37)	(20)
IFRS 1 – Reversal of equity accounted earnings	1		(67)	(47)
IAS 16 – Revaluation of residual values in property and equipment	4		30	27
IAS 39 – Financial instrument reclassifications	6	(6)		
IAS 39 – Fair value adjustments	7	(16)		
IAS 39 – Credit impairments	5	115		
Restated under IFRS		384 969	384 876	320 833
Liabilities				
Restated/as previously reported		366 713	366 716	305 616
IFRS adjustments:		38	(3)	–
IAS 18 – Revenue recognition	2		(3)	
IAS 39 – Credit impairments	5	38		
Restated under IFRS		366 751	366 713	305 616
Equity				
Restated/as previously reported		18 163	18 197	15 237
IFRS adjustments (net of taxation):		55	(34)	(20)
IFRS 1 – Reversal of equity accounted earnings	1		(67)	(47)
IAS 16 – Revaluation of residual values in property and equipment	4		30	27
IAS 18 – Revenue recognition	2		3	
IAS 39 – Financial instrument reclassifications	6	(6)		
IAS 39 – Fair value adjustments	7	(16)		
IAS 39 – Credit impairments	5	77		
Restated under IFRS		18 218	18 163	15 217

IFRS reconciliation of balance sheet at 31 December 2004

Company	2004 as previously reported SA GAAP Rm	Other IFRS adjustments Rm	Reclassification of accrued interest Rm	2004 restated IFRS Rm
Assets				
Cash and balances with banks	8 750	–	–	8 750
Short-term negotiable securities	16 045	–	261	16 306
Derivative assets	97 619	–	–	97 619
Trading assets	6 545	–	–	6 545
Investments	16 110	–	341	16 451
Loans and advances	201 225	–	1 004	202 229
Current tax asset	282	–	–	282
Deferred tax asset	50	–	–	50
Other assets	6 496	–	(1 606)	4 890
Interest in group companies, associates and joint ventures	29 517	(67)	–	29 450
Goodwill and other intangible assets	205	–	–	205
Property and equipment	2 069	30	–	2 099
Total assets	384 913	(37)	–	384 876
Equity and liabilities				
Equity	18 197	(34)	–	18 163
Ordinary share capital and premium	8 197	–	–	8 197
Reserves	10 000	(34)	–	9 966
Liabilities	366 716	(3)	–	366 713
Derivative liabilities	92 349	–	–	92 349
Trading liabilities	1 860	–	–	1 860
Deposit and current accounts	244 423	–	4 814	249 237
Current tax liability	396	–	–	396
Deferred tax liability	2 390	1	–	2 391
Other liabilities	10 351	(4)	(4 959)	5 388
Subordinated bonds	7 869	–	145	8 014
Liabilities to group companies	7 078	–	–	7 078
Total equity and liabilities	384 913	(37)	–	384 876

Reconciliation of equity

Company	Note	Ordinary share capital and premium Rm	Translation reserve Rm	Cash flow hedging reserve Rm	Available-for-sale reserve Rm	Share-based payment reserve Rm	Retained earnings Rm	Ordinary shareholder's funds Rm
Balance at 1 January 2004 as previously reported		5 703	(3)	23	(1)	–	9 515	15 237
Adjustment on adoption of IFRS		–	–	–	–	14	(34)	(20)
IFRS 1 – Reversal of equity accounted earnings	1						(47)	(47)
IFRS 2 – Share-based payments	3					14	(14)	–
IAS 16 – Revaluation of residual values in property and equipment	4						27	27
Restated balance at 1 January 2004		5 703	(3)	23	(1)	14	9 481	15 217
Adjustments for the year ended 31 December 2004		–	–	–	–	42	(56)	(14)
Income statement adjustments (refer income statement impact for detailed reconciliation)							(56)	(56)
Equity adjustments								
IFRS 2 – Share-based payments	3					42		42
Changes in shareholder's funds as previously reported per SA GAAP		2 494	(58)	(43)			567	2 960
Balance at 1 January 2005		8 197	(61)	(20)	(1)	56	9 992	18 163
Adjustment on adoption of IFRS		–	–	–	–	–	55	55
IAS 39 – Financial instrument reclassifications	6						(9)	(9)
IAS 39 – Fair value adjustments	7						(22)	(22)
IAS 39 – Credit impairments	5						109	109
Taxation impact							(23)	(23)
Restated balance at 1 January 2005		8 197	(61)	(20)	(1)	56	10 047	18 218

Annexure A | Implementation of IFRS continued

IFRS income statement impact

			Relevant accounting standards					
	2004 as previously reported Rm	Total IFRS adjustments Rm	IFRS 1 Rm	IFRS 2 Rm	IAS 16 Rm	IAS 18 Rm	IAS 1 Rm	2004 restated Rm
Company		Note	1	3	4	2	8	
Net interest income	9 547	58						9 605
Interest income	30 677	58	28			30		30 735
Interest expense	21 130	–						21 130
Non-interest revenue	9 345	25	26			(25)	24	9 370
Total income	18 892	83						18 975
Credit impairment charges	851							851
Income after credit impairment charges	18 041	83						18 124
Operating expenses	10 651	67						10 718
Staff costs	5 850	43		43				5 893
Other operating expenses	4 801	24	(5)		(3)		32	4 825
Net income before goowill	7 390	16						7 406
Goodwill amortisation and exceptional items	(8)	8					8	–
Net income	7 382	24						7 406
Income from associates and joint ventures	79	(79)	(79)					–
Net income before indirect taxation	7 461	(55)						7 406
Indirect taxation	316	–						316
Net income before direct taxation	7 145	(55)						7 090
Direct taxation	1 707	1		(1)		2		1 708
Profit attributable to ordinary shareholder	5 438	(56)	(20)	(42)	3	3	–	5 382

IFRS balance sheet impact

Company	1 Jan 2005 IFRS restated Rm	31 Dec 2004 IFRS Rm	31 Dec 2004 SA GAAP Rm	1 Jan 2004 IFRS Rm	1 Jan 2004 SA GAAP Rm
Assets					
Cash and balances with banks	8 750	8 750	8 750	8 201	8 201
Short-term negotiable securities	16 306	16 306	16 045	15 440	15 160
Derivative assets	97 610	97 619	97 619	79 573	79 573
Trading assets	6 545	6 545	6 545	9 068	9 068
Investments	16 451	16 451	16 110	14 932	14 566
Loans and advances	202 338	202 229	201 225	154 424	153 345
Current tax asset	282	282	282	140	140
Deferred tax asset	65	50	50	62	62
Other assets	4 868	4 890	6 496	6 068	7 793
Interest in group companies, associates and joint ventures	29 450	29 450	29 517	30 540	30 587
Goodwill and other intangible assets	205	205	205	209	209
Property and equipment	2 099	2 099	2 069	2 176	2 149
Total assets	384 969	384 876	384 913	320 833	320 853
Equity and liabilities					
Equity	18 218	18 163	18 197	15 217	15 237
Ordinary share capital and premium	8 197	8 197	8 197	5 703	5 703
Reserves	10 021	9 966	10 000	9 514	9 534
Liabilities	366 751	366 713	366 716	305 616	305 616
Derivative liabilities	92 349	92 349	92 349	73 701	73 701
Trading liabilities	1 860	1 860	1 860	4 757	4 757
Deposit and current accounts	249 237	249 237	244 423	204 325	198 982
Current tax liability	396	396	396	–	–
Deferred tax liability	2 429	2 391	2 390	2 423	2 423
Other liabilities	5 388	5 388	10 351	5 176	10 639
Subordinated bonds	8 014	8 014	7 869	5 950	5 830
Liabilities to group companies	7 078	7 078	7 078	9 284	9 284
Total equity and liabilities	384 969	384 876	384 913	320 833	320 853

Annexure B | Subsidiaries

Subsidiaries	Nature of operation	Issued capital Rm	Effective holding 2005 %	Effective holding 2004 %	Book value of shares 2005 Rm	Book value of shares 2004 Rm	Net indebtedness 2005 Rm	Net indebtedness 2004 Rm
Non-banking subsidiaries								
Accelerator Fund 1 (Pty) Limited[1]	Securitisation vehicle						(331)	–
Andisa Securities (Pty) Limited	Stockbrokers	*	100	100	3	3	(9 488)	(2 365)
Blue Banner[1]	Mortgage financing						–	–
Blue Bond Investments Limited	Participation mortgage bond finance	*	100	100	**	**	636	544
Blue Granite Investments No 1 (Pty) Limited[1]	Securitisation vehicle						47	–
Blue Titanium Conduit[1]	Asset backed commercial paper conduit						–	–
Diners Club (S.A.) (Pty) Limited	Travel and entertainment card	*	100	100	**	**	598	555
FHP Managers (Pty) Limited	Investment holding company	*	100	100	**	**	59	151
Standard Bank Financial Services Holding (Pty) Limited	Long- and short-term insurance broking	*	100	100	**	**	–	(1)
Standard Bank Insurance Brokers (Pty) Limited	Insurance broking	*	100	100	***	***	(72)	(59)
Standard Bank Properties (Pty) Limited	Finance company	*	100	100	**	**	258	289
Stanvest (Pty) Limited	Investment holding company	1	100	100	**	**	1 268	1 444
Miscellaneous	Finance companies		100	100	24	24	2 553	(418)
Total investment in subsidiaries					27	27	(4 472)	140

The detailed information is only given in respect of subsidiaries which are material to the financial position of the company.

* *Issued share capital less than R1 million.*

** *Book value less than R1 million.*

*** *Held indirectly.*

[1] *Special purpose entity, no shareholding.*

Annexure C | Associates and joint ventures

	Edu-Loan (Proprietary) Limited		Mathomo Group Limited		RCS Investment Holdings (Proprietary) Limited	
Ownership structure	Associate		Associate		Associate	
Nature of business	Student loans		Retailer		Finance	
Year end	December		September		March	
Date to which equity accounted	31 December 2005		31 December 2005		31 December 2005	
	2005	2004	2005	2004	2005	2004
Effective holding	45%	45%	26%	26%	25%	
	Rm	Rm	Rm	Rm	Rm	
Carrying value	35	31	–	29	388	
Goodwill	2	2	–	–	–	
Balance sheet						
Non-current assets	18	26	16	19	31	
Current assets	187	164	106	98	1 213	
Non-current liabilities	(43)	(54)	(27)	(23)	(784)	
Current liabilities	(93)	(73)	(917)	(82)	(119)	
Loans to entity	–	–	–	–	131	
Income statement						
Attributable income	6	5	(9)	(1)	30	

	JR163 Investments (Pty) Limited		Other associates	
Ownership structure	Associate		Associate	
Nature of business	Photographic equipment		Various	
Year end	April		Various	
Date to which equity accounted	31 December 2005		31 December 2005	
	2005	2004	2005	2004
Effective holding	38%	30%	Various	Various
	Rm	Rm	Rm	Rm
Carrying value	19	66	137	67
Goodwill	–	–	–	–
Balance sheet				
Non-current assets	56	293	112	135
Current assets	67	138	3 170	453
Non-current liabilities	(11)	(23)	(1 718)	(101)
Current liabilities	–	(73)	(632)	(285)
Loans to entity	–	–	–	–
Income statement				
Attributable income	(15)	8	29	17

Annexure C | Associates and joint ventures continued

	The Standard Bank African Bank partnership		Defy (Proprietary) Limited		Other joint ventures	
Ownership structure	Joint venture		Joint venture		Joint ventures	
Nature of business	Banking		Manufacturing		Various	
Year end	September		March		Various	
Date to which equity accounted	31 December 2005		31 December 2005		31 December 2005	
	2005	2004	2005	2004	2005	2004
Effective holding	60%	60%	50%		Various	Various
	Rm	Rm	Rm		Rm	Rm
Carrying value	136	69	47		5	5
Goodwill	–	–	–			–
Balance sheet						
Non-current assets	–	568	413		–	1
Current assets	775	32	720		36	41
Non-current liabilities	–	(445)	(675)		–	–
Current liabilities	(24)	(18)	(361)		(26)	(29)
Loans to entity	237	209	172		–	–
Income statement						
Attributable income	119	68	46		–	4

	Total associates and joint ventures	
	2005	2004
	Rm	Rm
Carrying value	767	267
Goodwill	2	2
Balance sheet		
Non-current assets	646	1 042
Current assets	6 274	926
Non-current liabilities	(3 258)	(646)
Current liabilities	(2 172)	(560)
Loans to entities	540	209
Income statement		
Attributable income	206	101

Annexure D | Equity-linked transactions

Equity compensation plans

Standard Bank's share incentive schemes enable key management personnel and senior employees to benefit from the performance of Standard Bank Group Limited shares.

Standard Bank Group has two compensation plans, namely the Group Share Incentive Scheme and the Standard Bank Equity Growth Scheme. The Group Share Incentive Scheme confers rights to employees to acquire ordinary shares at the value of the Standard Bank Group (SBG) share at the date the option is granted. This scheme is being phased out. The Standard Bank Equity Growth Scheme was implemented in 2005 and allocates appreciation rights to employees. The eventual value of the right is settled by receipt of shares purchased by the employer company, equivalent to the full value of the rights.

The two schemes have three different sub-types of vesting categories as illustrated in the table below:

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

Refer the Corporate Governance report, in the Standard Bank Group's annual report, for a detailed schedule of movements in share options issued to executive directors during the year. A reconciliation of the movement of all share options and appreciation rights is detailed below.

Equity-settled share-based payments

	Option price range (rands)	Number	
Group Share Incentive Scheme	2005	2005	2004
Reconciliation			
Options outstanding at beginning of the year		55 687 100	59 105 900
Granted	59,90 - 65,60	670 400	10 920 600
Exercised	12,50 - 65,60	(10 126 761)	(12 033 100)
Lapsed	12,50 - 65,60	(1 689 500)	(2 306 300)
Options outstanding at end of the year		44 541 239	55 687 100

Share options were exercised regularly throughout the year. The weighted average share price for the year was R66,98.

The following options granted to employees, including executive directors, had not been exercised at 31 December 2005:

Number of ordinary shares	Option price range (rands)	Weighted average price (rands)	Option expiry period
541 800	17,10 – 31,90	18,00	Year to 31 December 2006
1 226 600	18,30 – 32,00	20,74	Year to 31 December 2007
2 757 100	13,50 – 32,69	18,94	Year to 31 December 2008
2 594 700	17,15 – 26,40	18,26	Year to 31 December 2009
3 641 300	25,00 – 29,50	25,36	Year to 31 December 2010
6 759 639	27,70 – 35,90	31,84	Year to 31 December 2011
5 888 500	27,25 – 35,70	28,03	Year to 31 December 2012
10 489 200	27,70 – 34,85	27,97	Year to 31 December 2013
9 978 200	39,70 – 62,00	40,99	Year to 31 December 2014
664 200	59,90 – 65,60	65,02	Year to 31 December 2015
44 541 239			

The share options granted during the year were valued using a Black-Scholes option pricing model. Each grant was valued separately. The weighted fair value of the options granted per vesting type and the weighted assumptions utilised is illustrated on the next page.

Annexure D | Equity-linked transactions continued

	Type A 2005	Type A 2004	Type B 2005	Type B 2004	Type C 2005	Type C 2004
Number of options granted	329 700	9 523 800	340 700	746 800	–	650 000
Weighted average fair value at grant date (rands)	20,43	12,15	21,93	13,33	–	7,70
The principal inputs are as follows:						
Weighted average share price (rands)	64,43	40,90	65,60	42,02		40,66
Weighted average exercise price (rands)	64,43	40,90	65,60	42,02		40,66
Expected life (years)	6,1	6,1	7,0	7,0		4,0
Expected volatility (%)	30,0	31,9	30,0	31,7		32,0
Risk-free interest rate (%)	8,3	10,3	8,4	10,2		10,3
Dividend yield (%)	3,5	3,9	3,5	3,9		3,9

The options granted during the year which are expected to vest, have an estimated fair value of R12 million (2004: R103 million).

Cash-settled share-based payments

Equity Growth Scheme	Average price range (rands) 2005	Number of rights 2005
Reconciliation		
Rights outstanding at beginning of the year	–	–
Granted	60,35 – 75,01	7 449 100
Exercised[1]	65,60	(4 200)
Lapsed	65,60	(259 800)
Rights outstanding at end of the year[2]		**7 185 100**

[1] *During the year 106 SBG shares were acquired to settle the appreciated rights value, at a weighted average share price of R67,30, in terms of severance packages.*

[2] *Assuming all rights had vested and were exercised by year end, the group would need to purchase 1 020 399 SBG shares from SBG at R75,81 per share, being the year-end share price, to settle the outstanding appreciated rights' value of R77 million.*

The following rights granted to employees, including executive directors, had not been exercised at 31 December 2005:

Number of rights	Option price range (rands)	Weighted average price (rands)	Option expiry period
7 185 100	60,35 – 75,01	65,47	Year to 31 December 2015

The share appreciation rights granted during the year were valued using a Black-Scholes option pricing model. Each grant was valued separately. The weighted fair value of the options granted per vesting type and the weighted assumptions utilised is illustrated below:

	Type A 2005	Type B 2005
Number of appreciation rights granted	2 925 200	4 523 900
Weighted average fair value at grant date (rands)	20,88	21,88
The principal inputs are as follows:		
Weighted average share price (rands)	65,50	65,43
Weighted average exercise price (rands)	65,50	65,43
Expected life (years)	6,1	7,0
Expected volatility (%)	30,0	30,0
Risk-free interest rate (%)	8,4	8,4
Dividend yield (%)	3,5	3,5

The appreciation rights granted during the year which are estimated to vest had an estimated fair value of R119 million at grant date.

Tutuwa initiative

Equity-settled share-based payments

SBG entered into a Black Economic Empowerment (BEE) transaction during 2004, which also resulted in the recognition of an equity-settled share-based payment expense for SBSA. In terms of the transaction, SBG issued a derivative equity-linked instrument. The beneficiaries of the transaction are the strategic partners, communities and black managers. IFRS 2 requires the employer company to recognise an expense relating to the instrument even though the transaction was initiated by the group's holding company. Therefore as the black managers perform employment services for SBSA, it is required to recognise an expense. The instrument was valued using a number of valuation techniques including the Black-Scholes and discounted cash flow methods. Due to the uniqueness of the instrument, the mid-point of the range of valuations was used arriving at a value of R8,50 per Standard Bank Group instrument granted to black managers. This value is expensed over the vesting period ending 31 December 2010.

Amounts expensed relating to equity compensation are disclosed in note 21.5 on page 62.

Credit ratings

The latest credit ratings for The Standard Bank of South Africa Limited (SBSA) are detailed below:

Standard Bank ratings	Short-term	Long-term	Outlook
Fitch Ratings (August 2005)			
Foreign currency	F2	BBB+	Stable
Local currency		A-	Positive
National	F1+(zaf)	AA+(zaf)	Stable
Moody's Investors Services (January 2005) public information rating			
Bank deposit rating	P-2	Baa1	Stable
Financial strength rating			C+
Standard & Poor's (November 2005) public information rating			
Local currency		BBBpi	
RSA Sovereign ratings: Foreign currency			
Fitch Ratings		BBB+	
Moody's Investors Services		Baa1	
Standard & Poor's		BBB+	
RSA Sovereign ratings: Local currency			
Fitch Ratings		A-	
Moody's Investors Services		A2	
Standard & Poor's		A+	

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E Bradley
T Evans[2]
TS Gcabashe
DA Hawton
SE Jonah KBE[3,9]
Sir Paul Judge[8]
SJ Macozoma
RP Menell
Adv KD Moroka
AC Nissen
RA Plumbridge[4]
MC Ramaphosa
Dr MA Ramphele[5]
SP Ridley[1, 6]
MJD Ruck[7]
MJ Shaw
Sir Robert Smith[8]
Dr CL Stals[4]
Dr CB Strauss

[1]*Executive director.*

[2]*Resigned 8 March 2006.*

[3]*Appointed 1 February 2006.*

[4]*Retired 25 May 2005.*

[5]*Appointed 17 March 2005.*

[6]*Appointed 5 August 2005.*

[7]*Resigned 5 August 2005.*

[8]*British.*

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