The Standard Bank of South Africa

Annual report 2007

Standard Bank

Contents

1 Financial highlights
2 Seven-year review
5 Corporate governance

Risk management

9 Introduction
9 Risk management framework
10 Risk categories
11 Basel II
11 Capital management
13 Credit risk
21 Country and cross-border risk
21 Market risk
25 Liquidity risk
27 Operational risk
29 Taxation risk
29 Compliance risk
30 Reputational risk
30 Independent assurance

Annual financial statements

32 Independent auditors' report
33 Directors' responsibility for financial reporting
33 Group secretary's certification
34 Balance sheet
35 Income statement
36 Statement of changes in equity
40 Cash flow statement
41 Accounting policies
58 Notes to the annual financial statements
116 Annexure A – restatements
118 Annexure B – subsidiaries
119 Annexure C – associates and joint ventures
121 Annexure D – equity-linked transactions

Additional information

125 Credit ratings
126 Directorate
127 Financial and other definitions
128 Acronyms and abbreviations
ibc Contact details

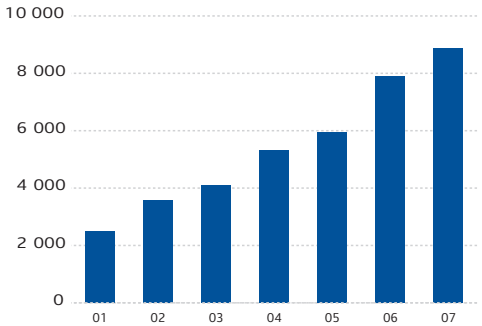
Financial highlights

	2007	2006	% change	2007 USD equivalent USDm
Group[1]				
Headline earnings (Rm)	**8 879**	7 980	11	**1 259**
Total assets (Rm)	**698 769**	561 215	25	**102 609**
Return on equity (%)	**29,7**	33,0		
Headline earnings per ordinary share (cents)	**14 799**	13 301	11	**2 099**
Company[1]				
Income statement (Rm)				
Net income before indirect taxation	**12 587**	11 002	14	**1 785**
Headline earnings	**8 885**	7 911	12	**1 260**
Profit attributable to ordinary shareholder	**9 352**	8 078	16	**1 327**
Balance sheet (Rm)				
Ordinary shareholder's equity	**32 300**	25 885	25	**4 743**
Total assets	**668 934**	542 585	23	**98 228**
Loans and advances	**434 909**	363 454	20	**63 863**
Financial performance (%)				
Return on equity	**30,5**	34,2		
Cost-to-income ratio	**48,3**	49,3		
Cost-to-income ratio (excluding capital profit on disposal of MasterCard)	**49,0**	49,6		
Credit loss ratio	**1,03**	0,70		
Capital adequacy				
Risk-weighted assets (Rm)	**370 660**	306 620	21	**54 429**
Tier I capital (Rm)	**31 905**	25 620	25	**4 685**
Total capital (Rm)	**46 288**	37 752	23	**6 797**
Tier I capital to risk-weighted assets (%)	**8,6**	8,4		
Total capital to risk-weighted assets (%)	**12,5**	12,4		

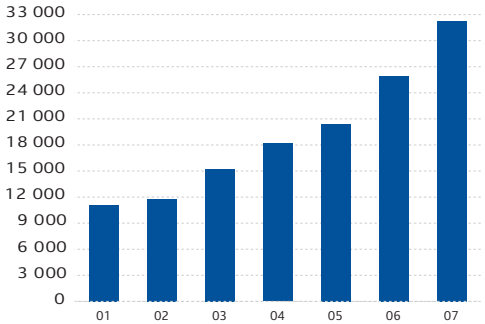
[1]*The Standard Bank of South Africa (the company) and its subsidiaries (the group).*

The 2007 Rand/US Dollar exchange rates:
Year end rate – R6,81 (2006: R7,05)
Average rate – R7,05 (2006: R6,77)

Headline earnings – company (Rm)



Ordinary shareholder's equity – company (Rm)



Seven-year review

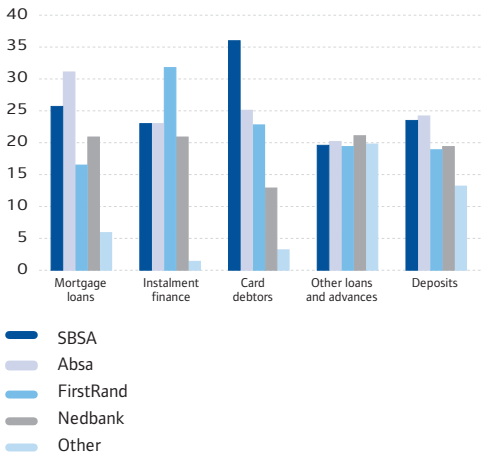
Balance sheet[1]

Company

	CAGR[2] %	2007 Rm	2006 Rm	2005 Rm	2004 Rm	2003 Rm	2002 Rm	2001 Rm
Assets								
Cash and balances with the central bank	1	**14 286**	11 058	8 149	7 327	5 988	23 286	13 210
Trading assets	3	**4 423**	6 397	8 713	6 117	8 436	6 145	3 639
Pledged assets[3]		**1 750**	2 914	4 204	2 613	2 937	1 419	
Financial investments	16	**39 814**	33 063	31 449	30 572	28 067	14 387	16 605
Loans and advances	24	**434 909**	363 454	288 451	203 652	156 637	127 736	117 549
Derivative and other assets	25	**77 374**	73 042	75 024	102 841	85 843	19 892	20 394
Interest in group companies, associates and joint ventures	38	**91 463**	49 252	22 870	29 450	30 587	18 968	13 387
Intangible assets	35	**1 357**	592	196	205	209	226	225
Property and equipment	11	**3 558**	2 813	2 421	2 099	2 149	2 136	1 924
Total assets	24	**668 934**	542 585	441 477	384 876	320 853	214 195	186 933
Equity and liabilities								
Equity	20	**32 300**	25 885	20 376	18 163	15 237	11 744	11 062
Liabilities	24	**636 634**	516 700	421 101	366 713	305 616	202 451	175 871
Deposit and current accounts	23	**522 067**	395 762	316 017	249 237	204 325	177 579	154 394
Derivative, trading and other liabilities	43	**86 076**	86 509	82 372	102 384	86 057	12 411	10 229
Subordinated debt	18	**12 985**	10 862	7 832	8 014	5 950	5 820	4 772
Liabilities to group companies	16	**15 506**	23 567	14 880	7 078	9 284	6 641	6 476
Total equity and liabilities	24	**668 934**	542 585	441 477	384 876	320 853	214 195	186 933

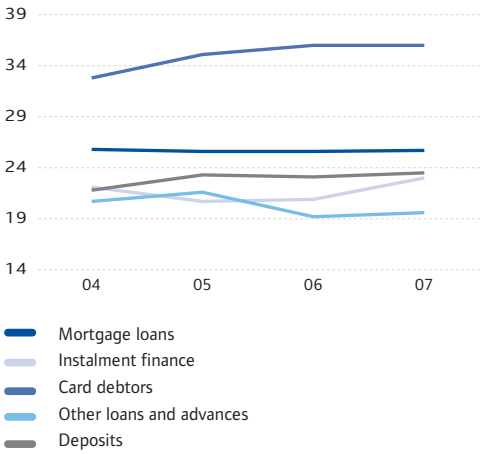
[1]Figures included in the seven-year review have been restated where necessary to provide a meaningful comparison of performance over the period.
[2]CAGR refers to compound annual growth rate for the period 2001 to 2007.
[3]Pledged assets have been disclosed separately from 2002.

South African market share analysis (%)



Source: DI900

Standard Bank's market share movement (%)



Source: DI900

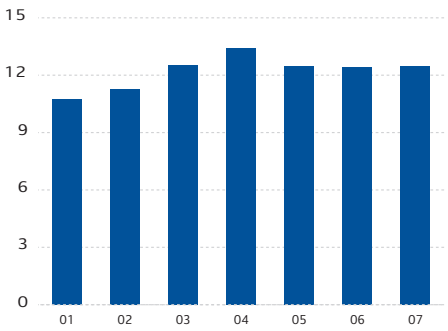
Income statement[1]

Company

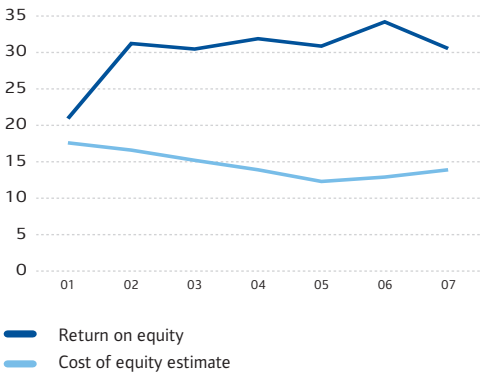
	CAGR[2] %	2007 Rm	2006 Rm	2005 Rm	2004 Rm	2003 Rm	2002 Rm	2001 Rm
Net interest income	18	**16 998**	12 894	10 605	9 605	8 865	7 917	6 207
Interest income	19	**50 944**	38 507	28 918	26 443	25 823	21 356	18 322
Interest expense	19	**33 946**	25 613	18 313	16 838	16 958	13 439	12 115
Non-interest revenue	18	**15 316**	13 385	10 367	9 146	7 784	7 150	5 576
Total income	18	**32 314**	26 279	20 972	18 751	16 649	15 067	11 783
Credit impairment charges	21	**4 114**	2 323	1 248	851	1 341	1 359	1 330
Income after credit impairment charges	18	**28 200**	23 956	19 724	17 900	15 308	13 708	10 453
Operating expenses	15	**15 613**	12 954	11 719	10 494	9 212	8 121	6 810
Net income	23	**12 587**	11 002	8 005	7 406	6 096	5 587	3 643
Share of profit from associates and joint ventures[3]						32	36	61
Net income before indirect taxation	23	**12 587**	11 002	8 005	7 406	6 128	5 623	3 704
Indirect taxation	15	**605**	474	458	316	325	331	261
Profit before direct taxation	23	**11 982**	10 528	7 547	7 090	5 803	5 292	3 443
Direct taxation	18	**2 630**	2 450	1 491	1 708	1 570	1 475	953
Profit attributable to ordinary shareholder	25	**9 352**	8 078	6 056	5 382	4 233	3 817	2 490

[1]Figures included in the seven-year review have been restated where necessary to provide a meaningful comparison of performance over the period.
[2]CAGR refers to compound annual growth rate for the period 2001 to 2007.
[3]Associates and joint ventures were previously equity accounted in the company financial statements as the group consolidated financial statements were not required. Since 2004, associates and joint ventures have been equity accounted in the group financial statements and accounted for at cost in the company financial statements.

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



Financial performance – company (%)



Statistics, returns and capital adequacy[1]

Company

	CAGR[2] %	2007 Rm	2006 Rm	2005 Rm	2004 Rm	2003 Rm	2002 Rm	2001 Rm
Share statistics								
Number of ordinary shares in issue (thousands)								
– weighted average		**59 997**	59 997	59 997	59 997	59 979	58 818	56 803
– end of period		**59 997**	59 997	59 997	59 997	59 997	59 917	58 777
Headline earnings (Rm)	24	**8 885**	7 911	5 948	5 325	4 110	3 561	2 490
Share statistics per ordinary share (cents)								
Basic earnings	24	**15 587**	13 464	10 094	8 970	7 057	6 490	4 384
Headline earnings	22	**14 809**	13 186	9 914	8 875	6 852	6 054	4 384
Dividends	16	**17 084**	12 834	9 583	9 998	2 416	7 684	6 963
Net asset value	19	**53 836**	43 144	33 962	30 273	25 396	19 600	18 820
Selected returns and ratios								
Return on equity (%)		**30,5**	34,2	30,9	31,9	30,5	31,2	20,9
Non-interest revenue to total income (%)		**47,4**	50,9	49,4	48,8	46,8	47,5	47,3
Return on average risk-weighted assets (%)		**2,6**	2,9	2,7	2,8	2,5	2,3	1,8
Average ordinary shareholder's equity to average total assets (%)		**4,8**	4,7	4,7	4,7	5,0	5,7	7,0
Cost-to-income ratio (%)		**48,3**	49,3	55,9	56,0	55,3	53,9	57,8
Cost-to-income ratio (excluding capital profit on disposal of MasterCard) (%)		**49,0**	49,6	55,9	56,0	55,3	53,9	57,8
Credit loss ratio (%)		**1,03**	0,70	0,51	0,47	0,94	1,11	1,20
Effective tax rate (%)		**25,7**	26,6	24,3	27,3	30,9	32,1	32,8
Headline earnings per employee (Rand)	20	**295 762**	269 467	221 370	200 974	158 620	135 989	98 186
Number of employees		**30 041**	29 358	26 869	26 496	25 911	26 186	25 360
Capital adequacy								
Risk-weighted assets (Rm)	16	**370 660**	306 620	235 540	201 232	174 423	159 320	151 469
Tier I capital (Rm)	20	**31 905**	25 620	20 218	18 224	14 853	11 414	10 756
Total capital (Rm)	19	**46 288**	37 752	29 400	26 935	21 705	17 991	16 243
Tier I capital to risk-weighted assets (%)		**8,6**	8,4	8,6	9,1	8,5	7,2	7,1
Total capital to risk-weighted assets (%)		**12,5**	12,4	12,5	13,4	12,5	11,3	10,7
Rand exchange rates at 31 December								
US Dollar	(9)	**6,81**	7,05	6,36	5,63	6,68	8,58	12,00
Sterling	(4)	**13,64**	13,80	10,95	10,82	11,95	13,82	17,45
Euro	(1)	**10,00**	9,29	7,52	7,66	8,42	9,01	10,68
Market indicators								
Prime overdraft rate (%)		**14,50**	12,50	10,50	11,00	11,50	17,00	13,00
JSE All Share Index (closing)	19	**28 958**	24 915	18 097	12 657	10 387	9 277	10 457
JSE Banks Index (closing)	19	**35 876**	36 121	29 234	22 975	14 153	12 035	12 812

[1]Figures included in the seven-year review have been restated where necessary to provide a meaningful comparison of performance over the period.
[2]CAGR refers to compound annual growth rate for the period 2001 to 2007.

Corporate governance

Framework and developments during 2007

Introduction

Standard Bank Group Limited (SBG) has during the period under review complied with the principles of the Code of Corporate Practices and Conduct (King Code). The principles of the King Code determine the standards for the SBG governance framework and practices. Subsidiary entities within SBG are guided by these principles in establishing their respective governance frameworks.

The company, as a major subsidiary of SBG, is guided by this framework.

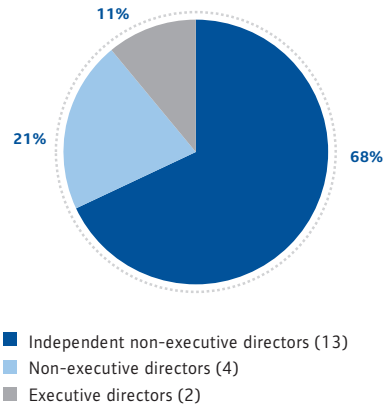
Codes and regulations

Compliance with applicable legislation, regulations, standards and codes remains an essential characteristic of the company's culture. The board, through the governance framework, is able to monitor compliance through management reports as well as report backs by the chairmen of each board sub-committee. These reports would include information on outcomes of engagement with key stakeholders such as the company's various regulators.

The Banking Association of South Africa has drawn up a Code of Banking Practice embraced by all member banks, providing valuable safeguards for customers. The company is assisting the Banking Association to redraft the Code of Banking Practice to align it with recently introduced consumer protection legislation, notably the National Credit Act.

The company has customised educational material on the code, obtained from Bankseta, to make it Standard Bank specific. Compliance with the code is audited by group internal audit.

Board composition



Board and directors

Board structure and composition

Ultimate responsibility for the company's governance rests with the board of directors. A unitary board structure is maintained with the roles of chairman and chief executive being separate and distinct. The chairman is an independent non-executive director. The number and stature of the independent non-executive directors is such that an independent decision making process is ensured.

Independence of board directors is determined in accordance with the definitions of the King Code. The definition of "independence" as set out in the Company Laws Amendment Act in relation to members of the audit committee also determines the board's categorisation of non-executive directors. There are a number of directors who have served on the board for more than three terms. In each of these instances, the board considers that the ability of these directors to act in an independent manner, and to fulfil their duties in an independent manner, has not been impacted by the length of time that they have served as directors.

Koosum Kalyan was appointed as an independent non-executive director to the board. This appointment was made in terms of the company policy. In addition, Buddy Hawton will retire as an independent non-executive director after the company's annual general meeting.

The board remains ultimately responsible for ensuring that effective management is in place to implement the company's strategy. The board as a whole considers issues relating to succession planning. During the year, the board also considered other key people-related challenges, including retention. Interaction between the board and executive management is encouraged with SBG executive committee attending all board meetings. Employees are invited as required to make presentations to the board on material issues under consideration. The full board (including executive directors) meets without other management during closed sessions at each board meeting. The board is satisfied that the current talent pool and ongoing work being conducted to grow the talent pool will ensure that the company's succession plans are adequate for both the short and long term.

Directors are provided with access to company information, resources required to carry out their responsibilities and access to external legal advice at the company's expense. This includes unrestricted access to the company's management.

Skills, knowledge, experience and attributes of directors
The board is of the opinion that the current body of directors possess the range of skills, knowledge and experience that are necessary for them to fulfil their obligations, including:

- international and domestic experience;
- operational experience;
- knowledge and understanding of both the macroeconomic and the microeconomic factors affecting the company; and
- financial, legal, entrepreneurial and banking skills.

The skills, knowledge and experience as well as the demographic profile of the board are regularly reviewed by the directors' affairs committee, to ensure that the board composition remains appropriate for both current operations and the strategic intent of the company.

Appointment policy
The board regularly reviews the nominations and appointments policy. The policy ensures alignment with all the necessary legislation and regulations.

The nominations and appointments policy defines the process to be followed for the nomination and appointment of directors and key executives. The policy distinguishes between executive and non-executive appointments as well as internal and external candidates. In terms of the policy, executive management require permission to be appointed to external boards to reduce the potential for conflicts of interest, and to ensure that they can dedicate sufficient time and resources to the company business.

In effecting appointments in accordance with the policy, the board takes cognisance of the skills, knowledge and experience of the candidate, as well as all the other traits that may be considered necessary in determining the calibre of the prospective appointee. The board is also cognisant of the need to ensure demographic representation when making a new appointment together with the needs of the board and the company in line with the agreed strategy. Furthermore, the prospective appointees are subject to a "fit and proper" test, as required by the Banks Act.

Strategy
The board is responsible for setting strategy. It has an annual meeting with SBG executive committee to consider and approve this strategy.

Delegation of authority
The ultimate responsibility for the company's operations rests with the board. The board retains effective control through a well developed governance structure of board committees. These committees provide in-depth focus on specific areas of board responsibility. The company has always used SBG committees and will be applying for an exemption from the provisions of the Banks Act to have separate governance committees. The board is of the view that SBG committees are in a position to provide the relevant oversight required and minutes of these meetings are submitted to the board for consideration.

Authority has been delegated to the chief executive to manage the business and affairs of the company. SBG executive committee assists the chief executive to manage the business of the company when the board is not in session, subject to statutory limits and the board's limits on the delegation of authority to the chief executive. In addition, there is a SBG executive management governance framework which assists the chief executive in his task of managing the affairs of the company. Details of the risk management structure are set out in the risk management section starting on page 9.

Board-delegated authorities are regularly monitored by the group secretary's office.

Board meetings

The board meets once every quarter with an additional meeting to discuss strategy. Ad hoc meetings are held when necessary. No ad hoc meeting was held during the year.

Board of directors – meeting attendance

Member	Mar	May	Aug	Oct	Dec
DE Cooper (chairman)[1]	✓	✓	✓	✓	✓
DDB Band[2]	✓	✓	✓	✓	✓
E Bradley[1]	✓	✓	✓	✓	A
TS Gcabashe[1]	✓	✓	✓	✓	✓
DA Hawton[1]	✓	✓	✓	✓	✓
SE Jonah KBE[1]	A	✓	✓	A	✓
Sir Paul Judge[1]	✓	✓	✓	✓	✓
KP Kalyan[1,3]	–	–	–	–	–
SJ Macozoma[2]	✓	✓	✓	✓	✓
JH Maree[4]	✓	✓	✓	✓	✓
RP Menell[1]	✓	✓	A	✓	✓
Adv KD Moroka[1]	✓	✓	✓	✓	✓
AC Nissen[1]	✓	✓	✓	✓	✓
MC Ramaphosa[2]	✓	✓	A	✓	✓
Dr MA Ramphele[1,5]	A	–	–	–	–
SP Ridley[4]	✓	✓	✓	✓	✓
MJD Ruck[2]	✓	✓	✓	✓	✓
MJ Shaw[1]	✓	✓	✓	✓	✓
Sir Robert Smith[1]	✓	✓	✓	✓	✓
EM Woods[1,6]	✓	✓	✓	✓	✓

✓ = Attendance A = Apology – = Not applicable
[1]Independent non-executive director.
[2]Non-executive director.
[3]Appointed 28 December 2007.
[4]Executive director.
[5]Resigned 17 May 2007.
[6]Appointed 1 February 2007.

Board effectiveness and evaluation

The board measures its own effectiveness. The performance of the board and its committees is assessed annually against their respective mandates. External auditors review these findings and a report is submitted to the directors' affairs committee.

Induction and training

One of the key board highlights for 2007 has been the increased focus on director training, with particular reference to Basel II requirements. The revised induction programme for new appointees was also implemented.

On appointment, each new director receives a governance manual that includes all relevant SBG governance information such as mandates, management structures, significant reports, important legislation and important SBG policy. In addition, one-on-one meetings are scheduled with management to properly introduce new directors to the company and its operations. The induction and ongoing training of directors is the responsibility of the group secretary.

The directors are kept abreast of all relevant legislation and regulations as well as relevant developments from a sector perspective that could potentially impact the company and its operations. This is achieved by way of reporting and quarterly board sessions, held as part of the board meeting, aimed specifically at ongoing training. There was a significant emphasis on Basel II training during the course of 2007.

Group secretary

It is the role of the group secretary to ensure that the board remains cognisant of its duties and responsibilities. In addition to providing the board with guidance on its responsibilities, the group secretary makes the board aware of changes in relevant legislation as well as governance best practices. The group secretary oversees the induction of new directors, including subsidiary directors, as well as the ongoing training of these directors. All directors have access to the services of the group secretary.

Going concern

On the recommendation of the group audit committee (GAC), the board annually considers and assesses the going concern basis for the preparation of financial statements at the year end. At the interim reporting period, a similar process is followed to enable the board to consider whether or not there is sufficient reason for this conclusion to be affirmed.

Sustainability

Social and environmental responsibility remains an important part of Standard Bank's culture. The SBG Black Economic Empowerment and Sustainability Report aims to provide comprehensive commentary and technical overview of Standard Bank's progress in its sustainability and transformation efforts, and includes key non-financial performance indicators. The report presents a balanced view, with relevant and material information disclosed.

The report can be accessed on the website: www.standardbank.co.za. Printed copies of the report can be obtained from the group secretary. Reference should be made to this report for more information on such issues as corporate social investment, communication with shareholders and stakeholders and any other non-financial issues not covered in this annual report.

Ethics and organisational integrity

Standard Bank's revised code of ethics was finalised at the end of 2007. This code is designed to empower employees and enable faster decision making at all levels of our business according to defined ethical principles. It also aims to ensure that, as a significant organisation in the financial services industry, we adhere to the highest standards of responsible business practice.

The code interprets and defines Standard Bank's values in greater detail and provides values-based decision making principles to guide our conduct. It is aligned with other Standard Bank policies and procedures, and supports the relevant industry regulations and laws of the countries in which we operate.

The code of ethics will be supported by the appropriate organisational structure, namely an ethics advice process and an ethics reporting process. These processes will link into existing human relations and compliance structures wherever possible, including grievance processes and the fraud hotline. New structures and roles, including those of business unit ethics officers, will be created to ensure that our values and ethics are effectively embedded.

SBG's ethics officer and SBG's chief executive are the custodians of the code and are responsible for its management and improvement. Standard Bank's code was certified by the Ethics Institute of South Africa as conforming to the highest international best practice standards.

An annual ethics survey will be conducted to proactively manage values and ethics. This survey will take the form of fifteen minute telephonic interviews with a random sample of employees from across the company. The results of the survey will be presented to business unit ethics officers and executive committees.

The code of ethics will be rolled out during the course of 2008. Roll out mechanisms will include communications, training, reference guides and induction packs. These mechanisms will be tailored to the specific requirements and communications channels available in specific countries and business units.

Financial Sector Charter

The Financial Sector Charter (the charter) sets out the commitment of banks and other players in the financial services sector to achieving the ideals of transformation and empowerment in our society. As a signatory to the charter, the company has made considerable progress in meeting the objectives of the charter.

The charter provides the framework for promoting black economic empowerment in the financial sector. The goals that the company intends achieving include skills development and increased participation of black people in the leadership of the company as well as the promotion of empowerment through procurement, enterprise development, access to financial services, empowerment financing, ownership and control. A detailed and transparent analysis of SBG performance against charter requirements is set out in the SBG Black Economic Empowerment and Sustainability Report.

Risk management

Introduction

The effective management of risk is fundamental to the business activities of the group as we remain committed to the objective of increasing shareholder value by developing and growing business that is consistent with agreed risk appetite. We seek to achieve an appropriate balance between risk and reward in our business, and continue to build and enhance the risk management capabilities that will assist in delivering our growth plans in a controlled environment.

Risk management is at the core of the operating and management structures of the group. The group seeks to limit adverse variations in earnings and equity by managing the balance sheet and capital within agreed levels of risk appetite. Managing and controlling risks, and in particular avoiding undue concentrations of exposure, limiting potential losses from stress events, and restricting significant positions in less quantifiable risk areas, are essential elements of the group's risk management and control framework which ultimately leads to the protection of the group's reputation.

Responsibility and accountability for risk management resides at all levels within the group, from the executive down through the organisation to each business manager and risk specialist. The group uses the three lines of defence model.

- In the first line of defence, business unit management is primarily responsible for risk management. Their assessment, evaluation and measurement of risk is to be an ongoing process integrated with the day-to-day activities of the business. This process includes the implementation of the group's risk management framework, identification of issues and the implementation of remedial action where required. Business unit management is also accountable for appropriate reporting to the governance bodies within the group.
- The second line of defence consists of the group and business unit risk management functions which are independent of business unit management. This group function is primarily accountable for setting the group's risk management framework and policy, providing oversight and independent reporting to executive management at the group risk oversight committee (GROC), and to the board at the group credit committee (GCC) and the group risk and capital management committee (GRCMC). The business unit risk management functions assist the first line of defence in the implementation of the group's risk management framework and policy, approving risks within specific mandates and providing an independent overview of the effectiveness of risk management implemented by the first line of defence.
- The third line of defence consists of internal audit which provides an independent assessment of the adequacy and effectiveness of the overall risk management framework and risk governance structures and reports independently to the GAC.

The external auditors have a statutory duty to report their independent opinion on the group's financial statements to the shareholder.

Key aspects of risk management are the risk governance and the organisational structures established by the group to manage risk according to a set of group risk governance standards which are implemented across the group and are supported by appropriate risk policies and procedures.

Risks are controlled at the level of individual exposures, at a portfolio level, and in aggregate across all business and risk types to protect the group's earnings. The group has an independent control process which provides an objective view of risk taking activities when required by the nature of the risks, in particular to balance short-term profit incentives and the long-term interests of the group. All exposures are independently monitored and reviewed.

Capital and risk management information within the following sections forms an integral part of the financial statements and has been audited:

- risk categories, pages 10 to 11;
- capital management, pages 11 to 12;
- credit risk, pages 13 to 20;
- market risk, pages 21 to 24; and
- liquidity risk, pages 25 to 27.

All tables and diagrams within the above sections are unaudited unless otherwise specified.

Risk management framework

Risk governance standards, policies and procedures

Risk governance standards have been developed for each major risk type. The standards set out and ensure alignment and consistency in the manner in which the major risk types across the group are governed, identified, measured, managed, controlled and reported.

All standards are applied consistently across the group and are approved by GCC or GRCMC. It is the responsibility of business unit executive management to ensure that the requirements of the risk governance standards, policies and procedures are implemented within their business units and independently monitored by their own risk management teams.

Each standard is supported by business unit policies and procedural documents as required.

Business units and group risk functions are required to self-assess at least annually their compliance with group risk standards and policies.

Risk appetite

Risk appetite is an expression of the maximum level of residual risk that the group is prepared to accept in order to deliver its business objectives. It is ultimately quantified as the target credit rating for the group.

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

- providing strategic leadership and guidance;
- reviewing and approving annual budgets and forecasts for the group and each division; and
- regularly reviewing and monitoring the group's performance in relation to risk through quarterly board reports.

The board delegates the determination of risk appetite to GRCMC and ensures that this is in line with the strategy and the desired risk reward trade-off for the group.

GROC recommends to GRCMC and the board the level of risk appetite for the group. Risk appetite is the balance of return and risk determined by GROC in consultation with the business units as the group implements business plans, recognising a range of possible outcomes. It is expressed by balancing:

- budgetary provisions for expected loss that are consistent with the risk appetite implied by the business plans;
- an agreed tolerance for profit and loss volatility – an acceptable scenario that is lower than budget by an amount that is consistent with the risk appetite implied by the business plans;
- the economic capital requirement implied by the business plans being consistent with the available capital;
- the risk adjusted returns generated from risk-taking being acceptable; and
- in the context of stress tests, portfolio analyses and concentration limits, risk assessments, risk indicators and other measures devised by business unit risk functions which serve to identify and constrain threats to earnings volatility, capital adequacy, or concentration risks, not being disproportionate to the group's communicated strategy.

Stress testing

Stress testing serves as a diagnostic and forward-looking tool to improve the group's understanding of its risk profile under potential macroeconomic and event based scenarios. A group stress testing framework guides the regular execution of stress tests at portfolio, legal entity and group level. A global econometric stress testing tool calculates the impact of stress scenarios on earnings and capital adequacy on a consolidated basis across all risk types. Management reviews the outcomes of stress tests and selects appropriate mitigating actions to minimise and manage the risk to the group. Examples of actions taken include:

- reviewing and changing limits;
- limiting exposures in specific sectors, countries, regions or portfolios;
- securitisation and/or rebalancing of the portfolio to reduce risk sensitivity; and
- hedging strategies.

Residual risk is evaluated against the set group risk appetite and informs the following processes on a forward-looking basis:

- improved understanding of risk and the risk appetite setting of the group;
- the setting of capital buffers for the group;
- the impact of stresses on earnings volatility;
- internal capital planning;
- the budgeting and strategic planning process; and
- ad-hoc assessment of the impact of short-term macro-economic factors on the group's performance.

Risk categories

The principal risks to which the group is exposed and which it manages are defined as follows:

Credit risk

Credit risk is the risk of loss to the group as a result of the failure by a client or counterparty to meet its contractual obligations to the group.

Country and cross-border risk

Country risk is the risk of loss arising when political or economic conditions or events in a particular country reduce the ability of counterparties in that country to meet their financial obligations to the group. Cross-border risk is the risk that actions taken by a government may restrict the transfer and convertibility of funds of local currency into non-local currency, thereby impacting the ability to obtain payment from counterparties on their financial obligation to the group.

Market risk

Market risk is defined as the risk of a change in the actual or effective market value or earnings of a portfolio of financial instruments caused by adverse movements in market variables such as equity, bond and commodity prices, currency exchange

rates and interest rates, credit spreads, recovery rates, correlations and implied volatilities in all of the above.

Liquidity risk

Liquidity risk arises when the group is unable to meet its payment obligations when they fall due. This may be caused by the group's inability to liquidate assets or to obtain funding to meet its liquidity needs.

Operational risk

Operational risk is defined as the risk of loss resulting from inadequate or failed processes, people and systems or from external events. This includes information risk and legal risk.

Business risk

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

Basel II

Scope of application

Banks in South Africa adopted the new Basel II Capital Adequacy Framework (Basel II) banking regulations with effect from 1 January 2008. Basel II incentivises banks, through lower capital requirements, to improve their risk management processes. The focus of the Basel II framework is mainly on improving the quantification and management of credit and operational risks, enhancements to the supervisory review process and more extensive risk disclosure by banks.

Basel II was successfully implemented with approval being obtained from the Regulator for use of the Advanced Internal Ratings Based approach for credit risk consistent with the group's desire of following global best practice and standards. In addition, approval was obtained for the use of the standardised approach in respect of operational risk. Certain aspects of the advanced measurement approach's building blocks for operational risk have been implemented to ensure good risk management practices. The market risk department continued to improve their infrastructure and internal model recognition was granted by the South African Reserve Bank (SARB) for all Corporate & Investment Banking South African trading businesses with the exception of exotic products and specific risk arising from interest rate products.

As Basel II disclosure is legislatively required for financial periods commencing on or after 1 January 2008, SBG has deemed it of value to stakeholders to disclose specific aspects already in line with Basel II guidelines.

Capital management

Basel I

Regulatory capital

During the period under review the group complied with all externally imposed capital requirements to which its banking activities are subject, mainly, but not limited to, the relevant requirements as set out in the South African Banks Act and regulations, and the Financial Services Board (FSB) in South Africa.

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

Qualifying capital is split into three tiers:

- Tier I (primary capital) represents the permanent forms of capital such as share capital, share premium and retained earnings. Perpetual, non-cumulative preference shares also qualify as Tier I capital.
- Tier II (secondary capital) includes medium- to long-term subordinated debt, revaluation reserves and general debt provisions.
- Tier III (tertiary capital) represents short-dated subordinated debt instruments to support a bank's trading activities.

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

The use of non-equity forms of regulatory capital plays an important role in the group's capital management process. The group undertook a Tier II private placing in the United States of America, raising USD355 million (R2,5 billion) to accommodate increased capital requirements arising from strong advances growth within both Personal & Business Banking and Corporate & Investment Banking.

Capital adequacy ratios

The company's total capital adequacy ratio increased to 12,5% from 12,4% at December 2006 and Tier I capital adequacy increased to 8,6% from 8,4% at December 2006.

Impact of Basel II

Conversion to the Basel II requirements from 1 January 2008 will result in a decrease in the company's capital adequacy ratios. The company's aggregated risk-weighted exposures will decrease by 7% due to reduced capital requirements associated with retail assets, being partially off-set by higher capital

requirements on corporate exposures (that are influenced by their emerging markets profile) together with capital requirements for operational risk.

Certain qualifying capital under Basel I is disallowed and certain financial investments and intangibles are now impaired under the new regulations and the expected losses in credit portfolios in excess of incurred losses under International Financial Reporting Standards (IFRS) give rise to further capital reduction under new regulations and have resulted in a significant reduction in the group's regulatory qualifying capital base.

The net impact of the decrease in risk-weighted exposures and the reduction in qualifying capital is that the company's total capital adequacy ratio at 31 December 2007 falls to 11,4% under the new regulations from 12,5% under Basel I rules. The company's Tier I ratio falls to 8,1% from 8,6% as a result of the changed regulations.

The company assesses its capital adequacy against estimates of the capital requirement to absorb unexpected losses that may arise from the risks inherent in the business. Regulatory capital requirements are determined on the basis of prescribed regulatory approaches that apply to each of the main risk types and in each of the jurisdictions in which the company operates. In addition, the company has adopted an internal capital adequacy assessment process (ICAAP), which reflects management's internal assessment of risk. The ICAAP requires capital to be held for risks as assessed by management instead of a prescribed regulatory formula, and as such is more widely encompassing. Available capital is then compared to required regulatory minimum capital, and a buffer is held for uncertainties to ensure that the company is adequately capitalised. The company's governance process includes a robust assessment of capital forecasts, allowing for capital to be raised in a timely manner, ensuring that minimum capital ratios are maintained in all jurisdictions in which the company operates.

The following table summarises the Basel I and Basel II capital requirements:

Available qualifying capital	Basel I 2007 Rm	Pro-forma Basel II 2007 Rm
Tier I	31 905	28 162
Tier II	14 083	10 923
Tier III	300	300
Total qualifying capital	46 288	39 385
Risk-weighted assets		
Credit risk	356 393	304 397
Personal & Business Banking SA	228 120	164 649
Corporate & Investment Banking SA	126 298	136 438
Other services	1 975	3 310
Trading/market risk		
Corporate & Investment Banking SA	14 267	3 317
Operational risk	–	37 999
Personal & Business Banking SA	–	12 882
Corporate & Investment Banking SA	–	23 328
Other services	–	1 789
Total risk-weighted assets	370 660	345 713
Capital ratios	%	%
Tier I		
The Standard Bank of South Africa	8,6	8,1
Total		
The Standard Bank of South Africa	12,5	11,4

Unappropriated profits have been included in Tier I capital.

Credit risk

Credit risk arises mostly from lending and related banking product activities, including their underwriting, and traded products such as derivative contracts and securities borrowing and lending products. It may also arise when there is a fall in the fair value of the group's exposure to financial instruments.

Credit risk is the group's most material risk and is managed in accordance with the group's comprehensive risk management control framework, which is consistent with the previous financial reporting period. The credit standard sets out the principles under which the group is prepared to assume credit risk.

The internal ratings process

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

The credit modelling framework developed over recent years has been enhanced during 2007, as the group has progressed its Basel II implementation, achieving internal ratings based status and embedding the use of probability of default (PD), exposure at default (EAD), loss given default (LGD) and economic measures in the way we run our business. Ongoing enhancements will continue in this focus area for the group.

Measuring credit risk requires an understanding of its core components, which are PD, EAD and LGD. The way in which the group measures these is described in the following section.

PD models are used to assess the probability of a counterparty not making full and timely repayment of credit obligations over a specific time horizon. The models use a combination of forward-looking qualitative factors and quantitative inputs. Each customer is assigned an internal credit rating which is in turn mapped to a statistically calibrated PD. Different models are used for each diverse credit portfolio in the group and each model has its own particular set of factors and inputs used for assessing the rating. Personal & Business Banking counterparties are generally rated using application and behavioural scorecards. All models are statistically tested and validated to ensure that they have predictive power, provide an accurate forward-looking rating assessment suitable for use for regulatory and economic capital assessment and are stable through an economic cycle. For regulatory capital purposes these ratings are associated with "through the cycle" PDs. For economic capital management the group uses forward-looking ratings but also explores "point in time" versus "through the cycle" impacts through stress testing and deploys a credit migration model to assess the impact of risk rating downgrades.

The group makes use of an internationally comparable 25 point master rating scale for all counterparties. This is shown below, calibrated against SARB risk buckets, External Credit Assessment Institutions alphanumerical rating scales and grading category.

Group master rating scale

Group master rating scale	SARB risk bucket	Moody's	Standard and Poor's	Fitch	Group grading category
1-4	AAA to AA-	Aaa, Aa1, Aa2, Aa3	AAA, AA+, AA, AA-	AAA, AA+, AA, AA-	
5-7	A+ to A-	A1, A2, A3	A+, A, A-	A+, A, A-	
8-12	BBB+ to BBB-	Baa1, Baa2, Baa3	BBB+, BBB, BBB-	BBB+, BBB, BBB-	Normal monitoring
13-21	BB+ to B-	Ba1, Ba2, Ba3, B1, B2, B3	BB+, BB, BB-, B+, B, B-	BB+, BB, BB-, B+, B, B-	
22-25	Below B-	Caa1, Caa2, Caa3, Ca	CCC+, CCC, CCC-	CCC+, CCC, CCC-	Close monitoring
Default	Default	C	D	D	Default

EAD models are used to estimate a counterparty's expected exposure to the group at the time a default occurs. EAD modelling recognises counterparties' propensity to increase the use of facilities near an event of default. In addition to the behavioural effect of draw-downs against limits, EAD for Corporate & Investment Banking exposures also captures the potential exposure for a derivative or other financial instrument where the exposure depends upon the evolution of the mark-to-market value. Potential exposures are measured using market standard statistical techniques. Expected potential exposures are used in economic capital calculations, and peak potential exposures are used when assessing exposure against credit limits or other concentration risks such as country risk.

LGD models estimate the likely credit economic loss on defaulted claims. The LGD of a facility represents the amount of a counterparty's obligation to the group that is not expected to be recovered after default and is expressed as a percentage of the EAD. LGDs are estimated from the group's own data or from conservative benchmarks and will typically take into account the type of counterparty and facility, any collateral or other risk mitigation held, the legal jurisdiction and general economic conditions.

Risk limits for counterparties and other portfolio concentrations such as country risk are set to ensure that portfolio risks are diversified and that no concentration can unduly affect the portfolio whether on a gross exposure, expected loss or economic capital basis.

The group has moved to an economic capital-based credit decision making model. This involves an assessment of each application for credit facilities in the light of the true economic nature of its risk, as a stand alone asset as well as its impact on the group's existing portfolios. The return of each asset is then measured in the light of the economic capital needed in respect of the asset. The group uses Moody's KMV structural model to assess credit economic capital.

Credit risk mitigation and hedging

Collateral, guarantees, credit derivatives and on- and off-balance sheet netting are widely used by the group for credit risk mitigation. The amount and type of credit risk mitigation depends on the circumstances of each case. A general principle is that credit exposures may not be justified solely on the grounds that adequate collateral is provided. Credit risk mitigation policy and procedure guidelines for credit risk mitigation techniques are used in a consistent manner, are acceptable types of mitigation, are valued appropriately and regularly meet operational management risk requirements for their legal, practical and timely enforceability. These are supported by detailed processes and procedures for the ongoing management of each type of mitigant used.

The main types of collateral taken comprise mortgage bonds over residential, commercial and industrial properties, cession of book debts, bonds over plant and equipment and, for leases and instalment sales, the underlying moveable assets financed. Reverse repurchase agreements are underpinned by the assets being financed, which in the financial institutions business are mostly liquid, tradeable financial instruments. Guarantees and analogous legal contracts are often required particularly in support of credit extension to groups of companies and weaker credits. Guarantor counterparties include banks, parent companies, shareholders and associated counterparties. Creditworthiness is established for the guarantor in the normal course for counterparty credit approvals.

For derivative transactions, the group uses internationally recognised and enforceable Institute of Swap Dealers Association agreements with a credit support annex, where necessary, with most of the group's largest trading counterparts. Generally exposures are marked-to-market daily, netting is applied to the full extent contractually agreed to between the parties, and cash or near cash collateral posted where contractually provided for. Because counterparty credit risk of derivatives generally can vary over time with the movement of underlying market factors, exposures to counterparty credit risk are calculated by adding increases in future potential exposure to the balance of present exposure.

To manage actual or potential portfolio risk concentrations, areas of higher credit risk and credit portfolio growth, the group from time to time implements hedging and other strategies typically at the individual counterparty, sub-portfolio and portfolio levels. Syndication, distribution and sale of assets, asset and portfolio limit management, credit derivatives and credit protection are used. Implementation and performance are measured regularly and reporting tools are in place to ensure effective ongoing monitoring.

Wrong way risk exposures

Wrong way risk arises where there is positive correlation between counterparty default and transaction exposure. Examples of where this may arise are reverse repurchase agreements and collateralised forward sale agreements. This risk is addressed by taking into consideration the higher than normal correlation between the default event and the exposure to the counterparty when calculating the potential exposure on these transactions. Counterparty assessments are conducted at the time the contract is entered into and a risk weighting is assigned based on the length and value of the contract. The value of the contract is calculated according to mark-to-market values. On longer-term contracts further periodic assessments are conducted.

Collateral required in respect of a rating downgrade

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

Certain counterparties require that the group provides similar credit protection terms. From time to time, the group may agree to provide those terms, on a restrictive basis. Rating downgrades as a collateralisation or termination event are generally conceded only to highly rated counterparties and, whenever possible, on a bilateral and reciprocal basis. Such rating downgrades may be conceded to unrated counterparties when their size, credit strength and business potential are deemed acceptable. In these cases, the concessions must be approved by the responsible business unit chief credit officer.

The impact on the group of the amount of collateral it would have to provide given a credit downgrade would be determined by the then negative mark-to-market on derivative contracts where such a collateralisation trigger has been conceded. Where the impact on the group's liquidity of a collateral call linked to a downgrading is deemed to be material, the potential exposure is taken into account in the business unit's asset and liability committee (ALCO) model stress testing. Generally, however, the extent of legal commitments which could result in collateral calls triggered by a rating downgrade is not material and would not have an adverse effect on the group's financial position.

Securitisation

The group uses securitisation primarily as an alternative source of funding for its operations, providing added flexibility in terms of mitigating structural liquidity risk and diversifying the funding base. Credit risk transfer and capital relief are factored in when deciding the economic particulars of each new securitisation issue.

The group fulfils a number of roles in the process of securitising any of its assets including that of sponsor, administrator, hedge counterparty, commercial paper dealer, liquidity facility provider of asset backed commercial paper conduits (special purpose legal entities), originator, seller, dealer, settlement agent, subordinated lender, shareholder, calculating agent, settlement agent and account bank.

The group complies with IFRS in recognising and accounting for securitisation transactions. Special purpose vehicles are consolidated when required by IFRS. The bank discloses undrawn facilities provided to the conduits as part of the notes to the financial statements. Securitised assets are derecognised when required in terms of IFRS to reflect the element of risk and reward transfer. No gain or loss on sale is recognised, as these assets are sold at book value. The group's investment in these securities is classified as available-for-sale, with the change in fair value recognised in equity.

Maximum on-balance sheet exposure to credit risk by credit quality

The quality of the exposures in terms of creditworthiness, varying from normal monitoring to close monitoring, as determined by the internal model, are defined in terms of the group master rating scale set out on page 13:

	Neither past due nor impaired							
	Normal monitoring Rm	Close monitoring Rm	Past due but not impaired Rm	Unrated stan-dardised Rm	Impaired Rm	Gross maximum exposures Rm	Security against impaired exposures Rm	Net impaired exposures Rm
2007								
To banks								
Corporate & Investment Banking SA	166 007	–	–	–	–	166 007	–	–
To customers								
Personal & Business Banking SA	249 596	8 007	29 226	17 922	7 889	312 640	5 243	2 646
Corporate & Investment Banking SA	200 136	947	26	–	84	201 193	24	60
Other services	–	–	–	3 652	4	3 656	2	2
Total customers	449 732	8 954	29 252	21 574	7 977	517 489	5 269	2 708
Total banks and customers	615 739	8 954	29 252	21 574	7 977	683 496	5 269	2 708
Add:								
Equity financial instruments (not exposed to credit risk)						3 718		
Less:								
Credit impairments for loans and advances						(5 774)		
Total						681 440		
Balances as reflected on the balance sheet								
Cash and balances with the central bank						14 286		
Derivative assets						69 090		
Trading assets						4 423		
Pledged assets						1 750		
Financial investments						49 570		
Loans and advances						457 641		
Interest in group companies excluding other assets						84 680		
Total						681 440		

Audited.

	Neither past due nor impaired							
	Normal monitoring Rm	Close monitoring Rm	Past due but not impaired Rm	Unrated stan-dardised Rm	Impaired Rm	Gross maximum exposures Rm	Security against impaired exposures Rm	Net impaired exposures Rm
2006								
To banks								
Corporate & Investment Banking SA	132 071	–	–	–	–	132 071	–	–
To customers								
Personal & Business Banking SA	215 546	7 184	21 959	16 640	3 972	265 301	2 479	1 493
Corporate & Investment Banking SA	145 038	3 075	36	–	298	148 447	94	204
Other services	–	–	–	3 500	4	3 504	2	2
Total customers	360 584	10 259	21 995	20 140	4 274	417 252	2 575	1 699
Total banks and customers	492 655	10 259	21 995	20 140	4 274	549 323	2 575	1 699
Add:								
Equity financial instruments (not exposed to credit risk)						5 019		
Less:								
Credit impairments for loans and advances						(3 973)		
Total						550 369		
Balances as reflected on the balance sheet								
Cash and balances with the central bank						11 058		
Derivative assets						67 058		
Trading assets						6 397		
Pledged assets						2 914		
Financial investments						41 593		
Loans and advances						375 280		
Interest in group companies excluding other assets						46 069		
Total						550 369		

Audited.

Other assets of R7 685 million (2006: R5 718 million) not represented in the above tables are credit exposures that mainly relate to trading settlement accounts, items that are in the course of collection, accruals and other operating receivables.

No allowance for impairment accounts has been recognised nor have any impairments been recognised on these items during the course of either 2007 or 2006.

Maximum off-balance sheet exposure to credit risk by credit quality

	Neither past due nor impaired							
	Normal monitoring Rm	Close monitoring Rm	Past due but not impaired Rm	Unrated stan-dardised Rm	Impaired Rm	Gross maximum exposures Rm	Security against impaired exposures Rm	Net impaired exposures Rm
2007								
Personal & Business Banking SA	**8 538**	**252**	**921**	**565**	**–**	**10 276**	**–**	**–**
Corporate & Investment Banking SA	**62 274**	**611**	**17**	**–**	**44**	**62 946**	**15**	**29**
Total off-balance sheet exposures	**70 812**	**863**	**938**	**565**	**44**	**73 222**	**15**	**29**
2006								
Personal & Business Banking SA	6 144	206	631	478	–	7 459	–	–
Corporate & Investment Banking SA	54 838	2 062	24	–	50	56 974	18	32
Total off-balance sheet exposures	60 982	2 268	655	478	50	64 433	18	32

Audited.

Past due loans and advances

The table below shows past due loans and advances by number of days after the due date that are not due to technical arrears or delays in payment due to timing. For the Personal & Business Banking portfolio, loans and advances are considered past due when an account is one day past due for instalment types up to 89 days after which it is considered to be non-performing. For loans and advances other than instalment types, ie cheque account and overdrafts, an account is considered past due where the limit has been breached. For the Corporate & Investment Banking portfolio, accounts appearing on the watchlist at the end of the year that have not been restructured or impaired are considered past due.

Ageing of group loans and advances past due but not impaired

	Less than 30 days Rm	31-60 days Rm	61-90 days Rm	91-180 days Rm	More than 180 days Rm	Total Rm
2007						
To banks						
Corporate & Investment Banking SA	–	–	–	–	–	–
To customers						
Personal & Business Banking SA	**24 097**	**3 604**	**1 517**	**8**	**–**	**29 226**
Corporate & Investment Banking SA	**11**	**15**	**–**	**–**	**–**	**26**
Total banks and customers	**24 108**	**3 619**	**1 517**	**8**	**–**	**29 252**
2006						
To banks						
Corporate & Investment Banking SA	–	–	–	–	–	–
To customers						
Personal & Business Banking SA	18 179	2 228	1 316	236	–	21 959
Corporate & Investment Banking SA	18	18	–	–	–	36
Total banks and customers	18 197	2 246	1 316	236	–	21 995

Audited.

Impaired loans and advances

For individually assessed accounts, loans are treated as impaired where amounts are due and unpaid for three or more months and/or where there is such objective evidence that an impairment loss has been incurred. The criteria used by the group to determine that there is such objective evidence includes the following:

- known cash flow difficulties experienced by the borrower;
- overdue contractual payments of either principal or interest;
- breach of loan covenants or conditions;
- the probability that the borrower will enter bankruptcy or other financial realisation; and
- a significant downgrading in credit rating by an external credit rating agency.

Group impaired loans and advances by impairment category

	Substandard[1] Rm	Doubtful[2] Rm	Loss[3] Rm	Total Rm
2007				
Personal & Business Banking SA	**4 872**	**2 563**	**454**	**7 889**
Corporate & Investment Banking SA	**62**	**13**	**9**	**84**
Other services	**–**	**–**	**4**	**4**
Total	**4 934**	**2 576**	**467**	**7 977**
2006				
Personal & Business Banking SA	2 015	1 656	301	3 972
Corporate & Investment Banking SA	227	56	15	298
Other services	–	–	4	4
Total	2 242	1 712	320	4 274

Audited.

[1] *Items that show underlying well defined weaknesses that could lead to probable loss if not corrected. The risk that these items may be impaired is probable and the group relies to a large extent on the available security.*

[2] *Items that are considered to be impaired, but are not yet considered final losses because of some pending factors which may strengthen the quality of the items.*

[3] *Items that are considered to be uncollectible and where the realisation of collateral and institution of legal proceedings has been unsuccessful. These items are considered of such little value that they should no longer be included in the net assets of the group.*

Renegotiated loans and advances

Restructured loans and advances are exposures which have been refinanced, rescheduled, rolled over or otherwise modified because of weaknesses in the counterparty's financial position and where it has been judged that normal repayment will probably continue after the restructure. Renegotiated loans that would otherwise be past due or impaired totalled R15,1 billion as at 31 December 2007 (2006: R12,1 billion). Over 93% of renegotiated loans have arisen from secured lending, mainly mortgage advances.

Collateral obtained by the group

It is the group's policy to dispose of repossessed assets in a structured manner. The proceeds are used to reduce or repay the outstanding claim. In general, the group does not use repossessed assets for business purposes. The collateral obtained by the group for 2007 amounted to R92 million (2006: R65 million).

Country and cross-border risk

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

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

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

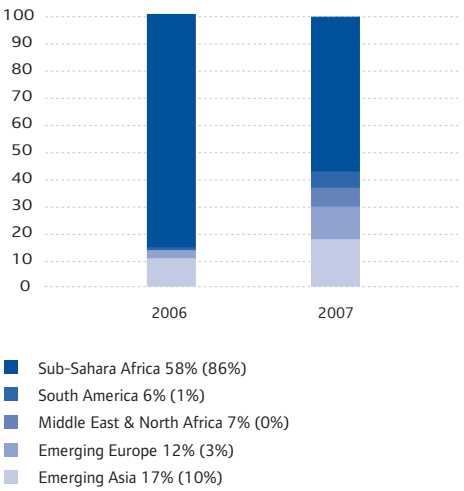
The group country risk committee, a sub-committee of GROC, sets the maximum cross-border risk appetite for each country and ensures the effective approval, measurement, monitoring and control of cross-border risk.

The management of cross-border country limits is delegated to the country risk committee. For all countries with limits, there is a formal review process which concentrates on countries rated 7 and higher, on a 1 to 25 rating scale, referred to as medium and high risk countries. A country internal rating model is used to determine the relative ranking of each country. The model is continuously updated to reflect economic and political changes in individual countries. Model results are compared with those of reputable rating agencies and other credible sources.

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

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

Cross-border exposures by region (%)



Market risk

Definition

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

Trading market risk

These risks arise in trading activities where the group acts as a principal with clients in the market. The group's policy is that all trading activities are contained within the group's Corporate & Investment Banking trading operations.

Banking book interest rate risk

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

Foreign currency risk

These risks arise as a result of changes in the fair value or future cash flows of financial exposures as a result of changes in foreign exchange rates other than those included in the value-at-risk (VaR) analysis for Corporate & Investment Banking's trading positions.

Equity investments

These risks arise from equity price changes caused by listed and unlisted investments authorised by the Corporate & Investment Banking, Africa equity investment committees and the Personal & Business Banking strategic investments and alliance executive committee.

Framework and governance

The board approves the market risk appetite for all types of market risk. The board grants general authority to take on market risk exposure to GROC which delegates to the group ALCO. Group ALCO sets market risk standards to ensure that the measurement, reporting, monitoring and management of market risk associated with operations across the group follow a common governance framework. Each bank within the group has an ALCO to monitor compliance with these market risk standards.

Market risk management units, independent of trading operations and accountable to business unit ALCOs, monitor market risk exposures due to trading activities and banking activities. These units monitor exposures and respective excesses daily, report monthly to business unit ALCOs and quarterly to the group ALCO, GROC and GRCMC.

Market risk measurement

The techniques used to measure and control market risk include:

- daily VaR;
- stress tests;
- other market risk measures;
- annual net interest income at risk;
- economic value of equity; and
- economic capital.

Daily value at risk

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

The use of historic VaR has limitations as it is based on historical correlations and volatilities in market prices and assumes that future prices will follow the observed historical distribution. The group back-tests its VaR models to verify the predictive ability of the VaR calculations thereby ensuring the appropriateness of models. Back-testing compares the daily hypothetical profit and losses under the one-day buy and hold assumption to the prior day VaR.

Stress tests

Stress testing provides an indication of the potential losses that could occur in extreme market conditions. The stress tests carried out include individual market risk factor testing and combinations of market factors per trading desk and for combinations of trading desks. Stress tests include a combination of historical, hypothetical and Monte-Carlo type simulations.

Other market risk measures

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

The market risk departments independently validate and document new pricing models and perform an annual review of existing models to ensure models are still relevant and behaving within expectations. In addition, the market risk departments assess the liquid closing price inputs used to value instruments daily and perform at least a monthly review of less liquid prices from a reasonableness perspective. Where differences are significant, mark-to-market adjustments are made.

Annual net interest income at risk

A dynamic forward-looking annual net interest income forecast is used to quantify the group's anticipated interest rate exposure. This approach involves the forecasting of both changing balance sheet structures and interest rate scenarios to determine the effect these changes may have on future earnings. The analysis is completed under both normal market conditions as well as stressed market conditions.

Economic value of equity

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

Economic capital

Economic capital methodologies are used to calculate all categories of market risk sensitive capital allocations and are used to determine each business's capital charge.

Analysis of trading book market risk exposures

The table on the following page shows the aggregated historical VaR for Corporate & Investment Banking's trading positions. The maximum and minimum VaR amounts show the bands in which the values at risk fluctuated during the periods specified. VaR models have been approved by the regulators for all Corporate & Investment Banking South Africa trading units except exotics and specific risk on interest rate.

Trading book VaR analysis

Market variable	Maximum[1] Rm	Minimum[1] Rm	Normal VaR Average Rm	Normal VaR 31 December Rm
2007				
Commodities	**8,1**	**2,6**	**4,8**	**3,1**
Forex	**11,0**	**1,2**	**3,5**	**2,9**
Equities	**13,3**	**0,7**	**3,3**	**3,3**
Debt securities	**39,3**	**11,9**	**20,7**	**16,4**
Diversification benefit[2]	**–**	**–**	**(11,6)**	**(10,6)**
Aggregate	**41,9**	**11,7**	**20,7**	**15,1**
2006				
Commodities	7,2	1,0	3,9	4,6
Forex	5,1	0,6	2,1	2,6
Equities	17,4	1,9	4,4	4,6
Debt securities	43,4	19,8	28,0	23,9
Diversification benefit[2]	–	–	(13,2)	(13,5)
Aggregate	35,7	18,1	25,2	22,2

Audited.

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

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

Analysis of banking book interest rate risk exposure

Banking-related market risk exposure principally involves the management of the potential adverse effect of interest rate movements on net interest income and equity. This risk is transferred to and managed within the group's treasury operations under supervision of the local ALCO. Each bank within the group manages this risk on a stand-alone basis.

The main analytical techniques used to quantify banking book interest rate risk are earnings and valuation-based measures. In doing so, cognisance is taken of embedded optionality, such as loan prepayments and accounts where the behaviour differs from the contractual position. The results obtained from forward-looking dynamic scenario analyses, as well as Monte-Carlo simulations, assist in evaluating the optimal hedging strategies on a risk-return basis. Desired changes to a particular interest rate risk profile are achieved through the restructuring of the balance sheet and, where possible, the use of derivative instruments, such as interest rate swaps. The shape of the yield curve and the group's own view of future interest rates are used as inputs in developing hedging strategies. Interest rate risk limits are set in terms of changes in both forecast net interest income and economic value of equity.

The following tables indicate the sensitivity in ZAR equivalents, the group's net interest income and equity in response to a parallel yield curve rate shock, after taking into account all risk mitigating instruments, with all other variables held constant.

Interest rate sensitivity

		Rand	US Dollar	Sterling	Euro	Other	Total
2007							
Increase in basis points		**200**	**100**	**100**	**100**	**100**	**–**
Sensitivity of annual net interest income	Rm	**1 286**	**(15)**	**(1)**	**(4)**	**–**	**1 266**
Sensitivity of equity	Rm	**133**	**(83)**	**–**	**–**	**–**	**50**
2006							
Increase in basis points		200	100	100	100	100	–
Sensitivity of annual net interest income	Rm	1 022	(19)	1	(4)	–	1 000
Sensitivity of equity	Rm	–	–	–	–	–	–

Audited.

Sensitivity shown before any tax implications.

Assuming no management intervention, a parallel 100 basis points increase in all yield curves would increase the forecast net interest income for the next financial year by R623 million, while parallel decreases in all yield curves would decrease the forecast net interest income by R624 million. The foreign currency risk associated with the above interest-bearing foreign denominated items has been included in the VaR analysis.

Foreign currency risk

The group's primary exposures to foreign currency risk arise as a result of foreign denominated assets, the translation effect on foreign denominated debt, foreign denominated transactions and cash exposures. Foreign denominated debt and transactional exposures are fully hedged back into local currency by the foreign exchange forwards desk on a daily basis.

Other than foreign denominated cash, the group does not ordinarily hold open exposures in respect of the banking book of any significance. All gains and losses on foreign exposures and derivatives are reported in profit and loss.

Foreign currency risk sensitivity analysis

The foreign currency risk sensitivity analysis above reflects the expected financial impact in ZAR equivalent resulting from a 5% shock to foreign currency risk exposures with respect to foreign denominated cash exposures. The sensitivity analysis reflects the sensitivity to profit or loss on the group's foreign denominated exposures other than those trading positions whose sensitivity has been included in the trading book VaR analysis.

The following table reflects that a +5% (2006: +5%) change in foreign currency rates would result in R30 million (2006: R24 million) of losses to the group.

ZAR equivalents

2007		
Sensitivity	%	**5**
Total net long/short exposure	Rm	**(595)**
Impact on profit and loss	Rm	**(30)**
2006		
Sensitivity	%	5
Total net long/short exposure	Rm	(472)
Impact on profit and loss	Rm	(24)

Audited.

Market risk on equity investments

The Corporate & Investment Banking African equity investment committees and the Personal & Business Banking strategic investment and alliance committee approve investments in listed and unlisted entities, in accordance with delegated authority limits. Market risk on investments is managed in accordance with the purpose and strategic benefits of such investments, rather than purely on mark-to-market considerations. Periodic reviews and reassessments are undertaken on the performance of the investments.

Equity price risk sensitivity analysis

The table below illustrates the market risk sensitivity for all non-trading equity investments assuming a 10% shift in the share price.

Market risk sensitivity of non-trading equity investments

	10% reduction in fair value Rm	Fair value Rm	10% increase in fair value Rm
2007			
Equity securities listed and unlisted	**1 659**	**1 843**	**2 027**
Impact on profit and loss	**(170)**		**170**
Impact on equity	**(14)**		**14**
2006			
Equity securities listed and unlisted	1 266	1 407	1 548
Impact on profit and loss	(81)		81
Impact on equity	(60)		60

Audited.

Sensitivity shown before any tax implications.

Liquidity risk

Framework and governance

The nature of banking and trading activities results in a continuous exposure to liquidity risk. The group's liquidity risk management framework, which is consistent with the previous financial reporting period, is designed to measure and manage the liquidity position at various levels of consolidation such that payment obligations can be met at all times under both normal and considerably stressed conditions. Under the delegated authority of the board of directors, the group ALCO sets liquidity risk standards in accordance with regulatory requirements and international best practice. This ensures that a comprehensive and consistent governance framework for liquidity risk management is followed across the group. Limits and guidelines are prudently set and reflect the group's conservative appetite for liquidity risk. Each banking entity within the group has an ALCO charged with ensuring compliance with liquidity risk standards and policies.

Liquidity and funding management

In terms of the group's decentralised approach to the management of liquidity and funding, the bank is required to incorporate the following elements as part of its cohesive liquidity management process:

- short-term and long-term cash flow management;
- maintaining a structurally sound balance sheet;
- foreign currency liquidity management;
- ensuring the availability of sufficient contingency liquidity;
- preserving a diversified funding base;
- undertaking regular liquidity stress testing; and
- maintaining adequate liquidity contingency plans.

The cumulative impact of the above elements is monitored on at least a monthly basis by the group's ALCO and the process is underpinned by a system of extensive controls. The latter includes the application of purpose built technology, documented processes and procedures, independent oversight and regular independent reviews and evaluations of the effectiveness of the system.

Cash flow management

Active liquidity and funding management is an integrated effort across a number of functional areas. Short-term cash flow projections are used to plan for and meet the day-to-day requirements of the business, including adherence to prudential and ALCO requirements. Long-term funding needs are derived from projected balance sheet structures and positions are regularly updated. An active presence is maintained in professional markets, supported by efforts in relationship management with corporate and institutional clients.

Structural requirements

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

Maturity analysis of financial liabilities

Rm	Redeemable on demand	Maturing within 1 month	Maturing 1-6 months	Maturing 6-12 months	Maturing over 12 months	Undated	Total
2007							
Derivative financial instruments	**277**	**3 560**	**15 972**	**8 287**	**58 650**	**–**	**86 746**
Instruments settled on a net basis	**254**	**2 071**	**13 443**	**7 457**	**57 666**	**–**	**80 891**
Instruments settled on a gross basis	**23**	**1 489**	**2 529**	**830**	**984**	**–**	**5 855**
Trading liabilities	**–**	**(403)**	**225**	**155**	**2 604**	**3 718**	**6 299**
Deposits from customers and banks	**245 401**	**103 238**	**71 240**	**48 296**	**88 599**	**–**	**556 774**
Subordinated debt	**–**	**–**	**489**	**377**	**16 848**	**–**	**17 714**
Total	**245 678**	**106 395**	**87 926**	**57 115**	**166 701**	**3 718**	**667 533**
Letters of credit	**4 796**						**4 796**
Financial guarantees	**26 483**						**26 483**
Irrevocable unutilised facilities	**41 943**						**41 943**
Total unrecognised financial instruments	**73 222**						**73 222**
2006							
Derivative financial instruments	1 129	3 786	12 244	12 519	57 515	–	87 193
Instruments settled on a net basis	(769)	(2 305)	3 309	(4 603)	57 515	–	53 147
Instruments settled on a gross basis	1 898	6 091	8 935	17 122	–	–	34 046
Trading liabilities	–	822	4 268	6	5 096	4 747	14 939
Deposits from customers and banks	173 605	90 604	68 299	35 170	59 341	–	427 019
Subordinated debt	–	–	1 112	473	14 798	–	16 383
Total	174 734	95 212	85 923	48 168	136 750	4 747	545 534
Letters of credit	3 028						3 028
Financial guarantees	20 962						20 962
Irrevocable unutilised facilities	40 443						40 443
Total unrecognised financial instruments	64 433						64 433

Audited.

Expected cash flows vary significantly from the above analysis. For this reason, behavioural profiling is applied to assets, liabilities and off-balance sheet commitments with an indeterminable maturity or draw-down period, as well as to certain liquid assets. This process is used to identify significant additional sources of structural liquidity in the form of liquid assets and core deposits, such as current and savings accounts that, although repayable on demand or at short notice, exhibit stable behaviour.

Foreign currency liquidity management
A number of parameters are observed in order to monitor changes in either market liquidity or exchange rates. Key to this is the restriction of foreign currency loans and advances in relation to foreign currency deposits.

Contingency liquidity
Portfolios of highly marketable assets over and above prudential requirements are maintained as protection against unexpected disruptions in cash flows. These portfolios are managed within limits and, apart from acting as a buffer under going concern conditions, also form an integral part of the broader liquidity generation strategy in the unlikely event of a liquidity crisis. The value of total unencumbered marketable assets, over and above prudential requirements, was R16 billion as at 31 December 2007, compared to R40 billion as at 31 December 2006. The range of contingency liquidity furthermore includes access to a USD600 million committed liquidity facility.

Diversified funding base
Concentration risk limits are used to ensure that funding diversification is maintained across products, sectors, geographic regions and counterparties. Primary sources of funding are in the form of deposits across a spectrum of retail and wholesale clients, as well as long-term capital market funding. The group remains committed to increasing its core deposits and in terms of its capital market activities, securitisation during 2007 continued to provide flexibility in meeting the funding demands. During 2007, a total of R7 billion of assets was securitised including R2 billion offshore issuance. The group will continue to build on the successes of its existing securitisation programmes in broadening the range and value of asset classes securitised. To the extent that offshore markets present a viable and prudent alternative to domestic funding activities, the group exploits opportunities in commercial paper, medium-term note, private placement and public markets.

Liquidity stress testing
Anticipated on- and off-balance sheet cash flows are subjected to a variety of bank specific and systemic stress scenarios in order to evaluate the impact of unlikely but plausible events on liquidity positions. Scenarios are based on both historical events, such as past emerging markets crises, and hypothetical events, such as a bank specific crisis. The results obtained from stress testing provide meaningful input when defining target liquidity risk positions.

Liquidity contingency plans
Liquidity contingency plans are designed to, as far as possible, protect stakeholder interests and maintain market confidence in order to ensure a positive outcome in the event of a liquidity crisis. The plans incorporate an extensive early warning indicator methodology supported by a clear and decisive crisis response strategy. Early warning indicators span both bank specific and systemic crises and are monitored based on assigned frequencies and tolerance levels. The crisis response strategy is formulated around the relevant crisis management structures and addresses internal and external communications, liquidity generation, operations, as well as heightened and supplementary information requirements.

Operational risk

Approach to operational risk management

The group's approach to managing operational risk is to adopt practices that are fit for purpose to suit the organisational maturity and particular environments in which our businesses operate. Operational risk management (ORM) has been entrenched to increase the efficiency and effectiveness of the group's resources, minimise losses and utilise opportunities.

Framework and governance

The GRCMC, as the appropriately delegated risk oversight body on behalf of the board, has ultimate responsibility for operational risk. GROC ensures that the ORM framework for the management and reporting of operational risk is implemented across the group whilst ensuring regulatory compliance where applicable.

The group operational risk committee (GORC) serves as the oversight body in the application of the group's ORM framework, including business continuity management (BCM) and information risk. This is achieved through enforcing standards for identification, assessing, controlling, monitoring and reporting. GORC approves group-level ORM policies and methodologies and recommends risk appetite and risk tolerance to GROC for approval.

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

The management and measurement of operational risk

The ORM framework serves to ensure that risk owners are clearly accountable for the risk inherent within the business activities of the group. The key elements in the ORM framework include methodologies and tools to identify, measure, monitor and manage operational risks, a governance model, and processes

to ensure internal training, communication and change management.

Risk and control self-assessments are designed to be forward-looking. Management is required to identify risks that could threaten the achievement of business objectives, together with the required set of controls and actions, to mitigate the risks. Risk assessment incorporates a regular review of identified risks to monitor significant changes.

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

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

Business units are required to report on both a regular and an event-driven basis. The reports include a profile of the key risks to the achievement of their business objectives, control issues of group-level significance, and operational risk events. The group maintains adequate insurance to cover key operational and other risks. Our insurance process and requirements are the responsibility of the group insurance division.

Business continuity management

The group continues to use the South African Business Continuity Institute definition for BCM as a guide for developing its BCM programme. In line with this definition, the core focus for 2007 was building resilience with the establishment of dual site processing for additional core and critical business areas. The remaining business areas focused on establishing and testing their recovery site infrastructure to determine its suitability for meeting its recovery time objectives.

As part of an ongoing process, the group conducted the "executive crisis team" simulation with Corporate & Investment Banking and Personal & Business Banking to rehearse the business continuity plans that focus on:

- long-term recovery;
- communication flows between various teams; and
- management of scarce resources.

Increased levels of BCM maturity have resulted in BCM ownership and accountability residing within the business units, whilst monitoring and oversight is undertaken by group ORM. BCM governance continues to become more comprehensive with the revised BCM framework reflecting the current state of BCM maturity.

Information risk management

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

From a strategic perspective, information risk management is treated as a particular discipline within the operational risk framework. Essentially, information risk management not only protects the group's information resources from a wide range of threats, but also enhances business operations, ensures business continuity, maximises return on investments and supports the implementation of various services. The approach to the management of information risk in the group is in accordance with global best practice, applicable laws and regulations.

Notably, a number of information risk management specific policies and standards were approved in 2007. These will be accompanied by an enterprise-wide comprehensive awareness and education campaign to ensure that the culture of information protection is entrenched and the risks associated with information handling are mitigated.

Fraud risk management

Group forensic services, which is mandated by the GAC, is responsible for fraud risk management practices throughout the group. There is a "zero tolerance" approach to fraud and corruption. Where necessary, disciplinary, civil and criminal action is taken against staff. Staff found guilty of dishonesty through the group's disciplinary processes will be listed on appropriate industry databases of dismissed staff. Losses incurred as a result of criminal activity from staff and third parties are investigated in conjunction with law enforcement agencies with the end result being a criminal conviction and recovery of the proceeds of the crime. Most of our large losses are incurred in cheque, card and cash centre environments. There are numerous anti-fraud mechanisms and campaigns in place to mitigate these losses. These anti–fraud campaigns and mechanisms include constant reviewing and re-engineering of our internal processes, and the engagement of law enforcement agencies and industry forums to discuss initiatives to adopt best practice to combat fraud and theft.

Environmental risk

The group acknowledges that the development of a corporate culture whereby environmental protection and the sound management of natural resources in both its own operating environment and with all the parties with which it has a business association is crucial to sustainable development. The group adopts a precautionary approach to environmental risk management, striving to anticipate and prevent environmental

degradation. For more information on the group's initiatives please refer to the SBG Black Economic Empowerment and Sustainability Report.

Legal risk

The group's legal obligations arise throughout its operations and where the group may be faced with risk where legal proceedings are brought against it.

Legal risk arises where:

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

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

Taxation risk

Taxation risk is the possibility of suffering unexpected loss, financial or otherwise, as a result of the application of tax systems, whether in legislative systems, rulings or practices, applicable to the entire spectrum of taxes and other fiscal imposts to which the group is subject.

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

Compliance with this policy is aimed at ensuring that:

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

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

- **Tax risk:** Identification and management of tax risk.
- **Human resources:** An optimal mix of staffing and outsourcing.
- **Skills development:** Methods to maintain and improve managerial and technical competency.
- **Communication:** Communication of information affecting tax within the group.

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

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

Compliance risk

Compliance risk management is an independent core risk management activity overseen by the group chief risk and compliance officer, who provides independent reports to the GAC and has unrestricted access to the chief executive and the chairman of the board. The group's approach to managing legislative risk exposures is proactive and premised on internationally accepted principles of risk management. The group fosters a culture of compliance which is seen not only as a requirement of law but also as good business practice.

The group's business planning processes reflect the continuing changes in the regulatory environment. The challenge of the increasing pace and organisational impact of regulatory change continued in 2007. Ongoing open and positive engagement with regulators has greatly facilitated the implementation of current, amended and new legislation and regulations. Notable regulatory interventions in South Africa during 2007 have included an increased focus on consumer protection legislation and the preparation for the implementation of Basel II at the beginning of 2008. The latter necessitated the implementation of significant amendments to the Banks Act as well as the related regulations. Increasing focus on environmental legislation will continue to impact on wide aspects of the group's operations, while money laundering and terrorist financing control legislation is being enhanced to allow for increased supervision.

Compliance risk management

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

Outside of the country-specific context, the group considers international best practice in the development of its compliance framework. Included in this framework are the principles of effective compliance risk management issued by the Basel Committee on Banking Supervision and the requirements of the Banks Act. The group operates a decentralised compliance risk management structure. Each primary business operations unit has central independent compliance functions.

Executives with responsibility for all aspects of compliance risk management are subject to the appropriate corporate governance reporting structures. All business units are responsible for compliance with the relevant legislation and have a reporting responsibility for compliance matters to the chief risk and compliance officer. This position of head of compliance has a statutory responsibility accorded by the Banks Act and takes its mandate from the GAC, to which significant compliance risk management matters are reported on a quarterly basis. To support the group's approach to compliance risk management, which includes the adherence to the implementation of the group compliance policy and standards, a centrally based monitoring discipline undertakes a programme of review of business areas and high risk compliance exposures, using a risk-based approach. This approach is substantially aligned to the methodologies used by the group's other risk assurance functions. In addition, all the decentralised business unit compliance functions are enhancing their independent monitoring assurance capabilities.

Group compliance provides leadership through specialist support units on compliance with money laundering and terrorist financing control, occupational health and safety and emerging legislative developments.

Money laundering control

Legislation pertaining to money laundering and terrorist financing control imposes significant record keeping and customer identification requirements on financial institutions, as well as obligations to detect, prevent and report money laundering and terrorist financing. The group continues to strengthen its commitment to combat money laundering and terrorist financing by improving control measures as the regulatory environment becomes more dynamic. To this end, the group's automated monitoring and detection system is being extended to include correspondent banking.

Occupational health and safety

The health and safety of employees, clients and other stakeholders continues to be a priority and the group aims to effectively identify and reduce the potential for accidents or injuries. The key focus areas during the year have been on actively promoting compliance with current and pending legislation and ensuring that occupational health and safety procedures are closely linked to the operational needs of the business.

Regulatory training

As part of our commitment to training and development, the group encourages ongoing training of compliance staff to maintain a team of skilled and capable risk professionals, in order to ensure that the group has the appropriate skills to achieve its business objectives.

The regulatory services unit in South Africa provides training and awareness on regulatory developments, particularly in the areas of consumer protection, money laundering and terrorist financing control and health and safety. During 2007, South African-based employees received computer-based training to gain an understanding of money laundering and terrorist financing control regulations and requirements, as well as those pertaining to consumer protection. E-learning is monitored and recorded on a recently developed compliance training tracking system.

Reputational risk

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

Independent assurance

Internal audit

The group internal audit function operates under a mandate from the GAC and has the authority to independently determine the scope and extent of work to be performed. Group internal audit's primary objective is the provision of assurance to the GAC. It assists executive management teams in meeting their business objectives by examining the group's activities, including risk management, control and governance processes, 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 to the GAC and to subsidiary audit committees. These issues are tracked to ensure that agreed remedial actions have been implemented. Overdue issues are reported to the GAC on a quarterly basis. Internal audit was subjected to an independent review by two independent external audit firms. The results of the reviews were extremely positive.

Annual financial statements

32 Independent auditors' report
33 Directors' responsibility for financial reporting
33 Group secretary's certification
34 Balance sheet
35 Income statement
36 Statement of changes in equity
40 Cash flow statement
41 Accounting policies
58 Notes to the annual financial statements
116 Annexure A – restatements
118 Annexure B – subsidiaries
119 Annexure C – associates and joint ventures
121 Annexure D – equity-linked transactions

Standard Bank

Independent auditors' report

To the member of The Standard Bank of South Africa Limited

We have audited the group annual financial statements and the annual financial statements of The Standard Bank of South Africa Limited, which comprise the balance sheets at 31 December 2007, the income statements, the statements of changes in equity and cash flow statements for the year then ended, and the notes to the financial statements, which include a summary of significant accounting policies and other explanatory notes as set out on pages 34 to 124 and the risk management report on pages 9 to 30.

Directors' responsibility for the financial statements

The company's directors are responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards and in the manner required by the Companies Act of South Africa. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditors' responsibility

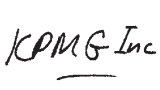
Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

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

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

Opinion

In our opinion, these financial statements present fairly, in all material respects, the consolidated and separate financial position of The Standard Bank of South Africa Limited at 31 December 2007, its consolidated and separate financial performance and consolidated and separate cash flows for the year then ended in accordance with International Financial Reporting Standards, and in the manner required by the Companies Act of South Africa.



KPMG Inc.
Registered Auditor

Per Heather Berrange
Chartered Accountant (SA)
Registered Auditor

Director

4 March 2008

85 Empire Road
Parktown
2193

PricewaterhouseCoopers Inc.
Registered Auditor

Per John Bennett
Chartered Accountant (SA)
Registered Auditor

Director

4 March 2008

2 Eglin Road
Sunninghill
2157

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 standards, fairly present the state of affairs of the company and the group 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 terms of 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.

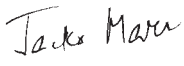
Systems and controls are monitored throughout the group. Greater detail of such, including the operation of the internal audit function, is provided in the corporate governance section of the report starting on page 5 and the risk management section of the report on pages 9 to 30.

Based on the information and explanations given by management and the internal 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.

The company and group financial statements prepared in accordance with IFRS, which appear on pages 34 to 124, were approved by the board of directors on 4 March 2008 and signed on its behalf by:

Derek Cooper
Chairman



Jacko Maree
Chief executive

Group secretary's certification

Compliance with the Companies Act, 61 of 1973

In terms of the Companies Act of South Africa (the Act), and for the year ended 31 December 2007, 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

4 March 2008

Balance sheet

at 31 December 2007

	Note	Group 2007 Rm	Group 2006[1] Rm	Company 2007 Rm	Company 2006[1] Rm
Assets					
Cash and balances with the central bank	3	**14 286**	11 058	**14 286**	11 058
Derivative assets	4	**69 090**	67 058	**69 198**	67 056
Trading assets	5	**4 423**	6 397	**4 423**	6 397
Pledged assets	6.1	**1 750**	2 914	**1 750**	2 914
Financial investments	7	**49 570**	41 593	**39 814**	33 063
Loans and advances	8	**457 641**	375 280	**434 909**	363 454
Loans and advances to banks	8	**41 014**	48 209	**40 978**	47 883
Loans and advances to customers	8	**416 627**	327 071	**393 931**	315 571
Current taxation asset		**405**	397	**405**	397
Deferred taxation asset	17	**113**	83	**88**	63
Other assets	9	**7 685**	5 718	**7 683**	5 526
Interest in group companies, associates and joint ventures	10	**88 779**	47 296	**91 463**	49 252
Intangible assets	11	**1 450**	592	**1 357**	592
Property and equipment	12	**3 577**	2 829	**3 558**	2 813
Total assets		**698 769**	561 215	**668 934**	542 585
Equity and liabilities					
Equity		**33 066**	26 655	**32 300**	25 885
Ordinary share capital	13	**60**	60	**60**	60
Ordinary share premium	14	**21 230**	15 730	**21 230**	15 730
Reserves		**11 776**	10 865	**11 010**	10 095
Liabilities		**665 703**	534 560	**636 634**	516 700
Derivative liabilities	4	**71 489**	69 069	**71 466**	69 030
Trading liabilities	15	**2 883**	6 147	**2 883**	6 147
Deposit and current accounts	16	**552 864**	415 196	**522 067**	395 762
Deposits from banks	16	**37 644**	9 226	**37 644**	8 508
Deposits from customers	16	**515 220**	405 970	**484 423**	387 254
Current taxation liability		**977**	675	**969**	660
Deferred taxation liability	17	**2 883**	2 817	**2 888**	2 815
Other liabilities	18	**8 125**	7 984	**7 870**	7 857
Subordinated debt	19	**12 985**	10 862	**12 985**	10 862
Liabilities to group companies	10.3	**13 497**	21 810	**15 506**	23 567
Total equity and liabilities		**698 769**	561 215	**668 934**	542 585

[1] *2006 figures restated, refer Annexure A – restatements.*

Income statement

for the year ended 31 December 2007

		Group		Company	
	Note	**2007 Rm**	2006[1] Rm	**2007 Rm**	2006[1] Rm
Net interest income		**17 134**	12 817	**16 998**	12 894
Interest income	23.1	**53 701**	39 550	**50 944**	38 507
Interest expense	23.2	**36 567**	26 733	**33 946**	25 613
Non-interest revenue		**15 430**	13 818	**15 316**	13 385
Net fee and commission revenue		**10 996**	9 782	**10 387**	9 275
Fee and commission revenue	23.3	**12 660**	11 259	**12 037**	10 752
Fee and commission expense	23.4	**1 664**	1 477	**1 650**	1 477
Trading revenue	23.5	**2 449**	1 844	**2 449**	1 844
Other revenue	23.6	**1 985**	2 192	**2 480**	2 266
Total income		**32 564**	26 635	**32 314**	26 279
Credit impairment charges	23.7	**4 196**	2 414	**4 114**	2 323
Income after credit impairment charges		**28 368**	24 221	**28 200**	23 956
Operating expenses		**15 998**	13 273	**15 613**	12 954
Staff costs	23.8	**9 049**	7 386	**8 896**	7 268
Other operating expenses	23.9	**6 949**	5 887	**6 717**	5 686
Net income		**12 370**	10 948	**12 587**	11 002
Share of profit from associates and joint ventures	10.2	**267**	221		
Net income before indirect taxation		**12 637**	11 169	**12 587**	11 002
Indirect taxation	25.1	**610**	476	**605**	474
Profit before direct taxation		**12 027**	10 693	**11 982**	10 528
Direct taxation	25.2	**2 696**	2 546	**2 630**	2 450
Profit attributable to ordinary shareholder		**9 331**	8 147	**9 352**	8 078
Basic earnings per share (cents)	27	**15 552**	13 579	**15 587**	13 464
Dividends per share (cents)	26	**17 084**	12 834	**17 084**	12 834

[1] *2006 figures restated, refer Annexure A – restatements.*

Statement of changes in equity

for the year ended 31 December 2007

Group

	Note	Ordinary share capital and premium Rm	Foreign currency translation reserve Rm
Balance at 1 January 2006		10 790	(14)
Items accounted for directly in reserves			29
– currency translation movement			29
– cash flow hedges – net fair value adjustments			
– available-for-sale assets – net fair value adjustments			
– cash flow hedges – transferred to income statement			
– available-for-sale assets – transferred to income statement			
– change in shareholding of subsidiaries			
– equity-settled share-based payment transactions			
Issue of share capital and share premium	14	5 000	
Attributable earnings for the year			
Dividends paid	26		
Balance at 31 December 2006		15 790	15
Balance at 1 January 2007		**15 790**	**15**
Items accounted for directly in reserves			**2**
– currency translation movement			**2**
– cash flow hedges – net fair value adjustments			
– available-for-sale assets – net fair value adjustments			
– cash flow hedges – transferred to income statement			
– available-for-sale assets – transferred to income statement			
– equity-settled share-based payment transactions			
– net acquisition of shares in subsidiaries			
Issue of share capital and share premium	14	**5 500**	
Attributable earnings for the year			
Dividends paid	26		
Balance at 31 December 2007		**21 290**	**17**

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.

All balances are stated net of applicable tax.

Cash flow hedging reserve Rm	Available-for-sale reserve Rm	Share-based payment reserve Rm	Retained earnings Rm	Ordinary shareholder's equity Rm	Minority interest Rm	Total equity Rm
(17)	61	177	10 721	21 718	6	21 724
18	485	104	(643)	(7)	(6)	(13)
				29		29
3				3		3
	639			639		639
15				15		15
	(154)			(154)		(154)
			(643)	(643)	(6)	(649)
		104		104		104
				5 000		5 000
			8 147	8 147		8 147
			(8 203)	(8 203)		(8 203)
1	546	281	10 022	26 655	–	26 655
1	**546**	**281**	**10 022**	**26 655**	**–**	**26 655**
(123)	**(303)**	**87**	**17**	**(320)**		**(320)**
				2		**2**
(144)				**(144)**		**(144)**
	154			**154**		**154**
21				**21**		**21**
	(457)			**(457)**		**(457)**
		87		**87**		**87**
			17	**17**		**17**
				5 500		**5 500**
			9 331	**9 331**		**9 331**
			(8 100)	**(8 100)**		**(8 100)**
(122)	**243**	**368**	**11 270**	**33 066**	**–**	**33 066**

Statement of changes in equity continued

for the year ended 31 December 2007

Company

	Note	Ordinary share capital and premium Rm	Foreign currency translation reserve Rm
Balance at 1 January 2006		10 790	(32)
Items accounted for directly in reserves			27
– currency translation movement			27
– cash flow hedges – net fair value adjustments			
– available-for-sale assets – net fair value adjustments			
– cash flow hedges – transferred to income statement			
– available-for-sale assets – transferred to income statement			
– equity-settled share-based payment transactions			
Issue of share capital and share premium	14	5 000	
Attributable earnings for the year			
Dividends paid	26		
Balance at 31 December 2006		15 790	(5)
Balance at 1 January 2007		**15 790**	**(5)**
Items accounted for directly in reserves			
– currency translation movement			
– cash flow hedges – net fair value adjustments			
– available-for-sale assets – net fair value adjustments			
– cash flow hedges – transferred to income statement			
– available-for-sale assets – transferred to income statement			
– equity-settled share-based payment transactions			
Issue of share capital and share premium	14	**5 500**	
Attributable earnings for the year			
Dividends paid	26		
Balance at 31 December 2007		**21 290**	**(5)**

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.

All balances are stated net of applicable tax.

Cash flow hedging reserve Rm	Available-for-sale reserve Rm	Share-based payment reserve Rm	Retained earnings Rm	Ordinary shareholder's equity Rm
(19)	61	173	9 403	20 376
18	485	104		634
				27
3				3
	639			639
15				15
	(154)			(154)
		104		104
				5 000
			8 078	8 078
			(8 203)	(8 203)
(1)	546	277	9 278	25 885
(1)	**546**	**277**	**9 278**	**25 885**
(121)	**(303)**	**87**		**(337)**
(142)				**(142)**
	154			**154**
21				**21**
	(457)			**(457)**
		87		**87**
				5 500
			9 352	**9 352**
			(8 100)	**(8 100)**
(122)	**243**	**364**	**10 530**	**32 300**

Cash flow statement

for the year ended 31 December 2007

	Note	Group 2007 Rm	Group 2006[1] Rm	Company 2007 Rm	Company 2006[1] Rm
Net cash flows from operations		**6 581**	4 519	**6 516**	4 666
Net cash flows from operating activities	29.1	**18 221**	12 622	**18 041**	12 496
Cash receipts from customers	29.2	**68 546**	55 956	**65 517**	54 233
Cash paid to customers, employees and suppliers	29.3	**(51 917)**	(44 126)	**(48 911)**	(42 697)
Dividends received	29.4	**1 592**	792	**1 435**	960
Net cash flows used in operating funds		**(9 274)**	(5 558)	**(9 244)**	(5 479)
Increase in income-earning assets	29.5	**(135 106)**	(102 974)	**(123 837)**	(98 654)
Increase in deposits and other liabilities	29.6	**125 832**	97 416	**114 593**	93 175
Direct taxation paid	29.7	**(2 366)**	(2 545)	**(2 281)**	(2 351)
Net cash flows used in investing activities		**(2 718)**	(1 498)	**(2 651)**	(1 643)
Capital expenditure on					
– property		**(29)**	(126)	**(29)**	(126)
– equipment, furniture and vehicles		**(1 519)**	(994)	**(1 508)**	(991)
– intangible assets		**(916)**	(445)	**(840)**	(445)
Proceeds from sales of					
– property and equipment		**40**	231	**40**	73
– vehicles		**64**	74	**61**	73
Disposal of subsidiaries	29.10	**–**	(24)	**–**	–
Net increase in investment in associates		**(358)**	(214)	**(375)**	(227)
Net cash flows used in financing activities		**(637)**	(141)	**(637)**	(141)
Proceeds from issue of share capital to shareholder	29.8	**5 500**	5 000	**5 500**	5 000
Net increase in subordinated debt		**1 963**	3 059	**1 963**	3 059
Dividends paid	29.9	**(8 100)**	(8 200)	**(8 100)**	(8 200)
Effects of exchange rate changes		**2**	29	**–**	27
Net increase in cash and cash equivalents		**3 228**	2 909	**3 228**	2 909
Cash and cash equivalents at beginning of the year		**11 058**	8 149	**11 058**	8 149
Cash and cash equivalents at end of the year		**14 286**	11 058	**14 286**	11 058

[1] *The 2006 cash flow statement has been restated for the consequences of the reclassifications set out in Annexure A – restatements.*

Accounting policies

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

1. Basis of preparation

These consolidated financial statements are prepared in accordance with, and comply with IFRS and the South African Companies Act. 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 liabilities for cash-settled share-based payment arrangements.

The group has made the following accounting policy elections in terms of IFRS, with reference to the detailed accounting policies shown in brackets:

- transactions with minority shareholders are treated as transactions with equity owners and accounted for directly in equity (accounting policy 2);
- purchase or sale of financial assets are recognised and derecognised using trade date accounting (accounting policy 5);
- jointly controlled entities are accounted for using the equity method (accounting policy 6);
- property and equipment are accounted for using the cost model (accounting policy 8); and
- unrecognised actuarial gains or losses on post-retirement benefits are recognised over a period not exceeding the expected average remaining working life of active employees (accounting policy 12).

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

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

- IFRS 7 *Financial Instruments: Disclosures* (including amendments to IAS 1 *Presentation of Financial Statements: Capital Disclosures).*
- IFRIC 7 *Applying the Restatement Approach under IAS 29 Financial Reporting in Hyperinflationary Economies*.
- IFRIC 8 *Scope of IFRS 2*.
- AC 503 *Accounting for Black Economic Empowerment (BEE) Transactions*.
- IFRIC 9 *Reassessment of Embedded Derivatives*.
- IFRIC 10 *Interim Financial Reporting and Impairment*.

The group has adopted IFRS 7 and the amendments to IAS 1 with effect from 1 January 2007. This has resulted in increased disclosure relating to financial instruments, but has had no impact on the reported profits or financial position of the group. In accordance with the transitional requirements of the standards, the group has provided full comparative information.

In addition to the notes to the annual financial statements, disclosures under IFRS 7 relating to the nature and extent of risks may be found in the risk management section from page 9 onwards. IFRS 7 information included in the risk management section has been audited as indicated. Additional risk information not indicated as audited has not been audited.

On 1 January 2007, the group adopted IFRIC 7, IFRIC 8, AC 503, IFRIC 9 and IFRIC 10. The application of these interpretations has not had a significant effect on the 2007 results, nor has it required any restatement of prior period results.

Early adoption of standards and interpretations

IFRS 8 *Operating Segments*

The group has chosen to early adopt IFRS 8 in 2007. This standard is effective for annual periods beginning on or after 1 January 2009, with early adoption permitted. IFRS 8 replaces IAS 14 *Segment Reporting*. This standard requires an entity to adopt the "management approach" when reporting on the financial performance of its operating segments. The reporting is based on the information that management uses internally for evaluating segment performance and when deciding how to allocate resources to operating segments. This standard has been early adopted to provide users of the financial statements with financial information on segments that is more relevant for decision making and in accordance with internal reporting of the information to management. The standard has no impact on the results of the group but has impacted the format of disclosure of the results of reportable segments for the current and comparative period. Refer to accounting policy 17 for the detailed policy relating to segment reporting.

IFRIC 11 *IFRS 2 Group and Treasury Share Transactions*

The group has early adopted IFRIC 11, which is effective for annual periods beginning on or after 1 March 2007. The interpretation provides guidance on applying IFRS 2 *Share-based Payment* to share-based payment arrangements in three circumstances:

- Share-based payment transactions in which an entity receives goods or services as consideration for its own equity instruments shall be accounted for as equity-settled regardless of whether the entity purchases its own equity instruments from another party to settle its obligation.

- When a parent grants rights to its equity instruments to the employees of its subsidiary and the transaction is accounted for as equity-settled in the consolidated financial statements, then the transaction shall be accounted for as an equity-settled share-based payment transaction by the subsidiary. The subsidiary shall measure the services received using the requirements of IFRS 2, and shall recognise a corresponding increase in equity as a contribution from the parent.

- When a subsidiary grants rights to equity instruments of its parent to its employees, the subsidiary shall account for the transaction with its employees as a cash-settled share-based payment even though the transaction is equity-settled from a group perspective.

The group's previous accounting treatment complies with this interpretation and it has therefore not impacted the group's results or position. Refer to accounting policy 15 for the detailed policy relating to equity-linked transactions.

Changes in accounting policies

The group changed its accounting policies relating to:

Transactions with minority shareholders

These transactions relate to where the group purchases an additional interest from minority shareholders or sells a portion of its interest to minority shareholders, while the group controls the entities both before and after the transaction. Any excess of the purchase consideration over the group's proportionate share of the additional net asset value of a subsidiary acquired is now accounted for directly in retained earnings. Previously, the group accounted for the excess as goodwill. Any profit or loss on the partial disposal of the group's interest in a subsidiary is also accounted for directly in retained earnings. Previously, the group accounted for the profit or loss on partial disposal in the income statement. This change in accounting policy is considered appropriate as it results in transactions with minority shareholders, which are presented as equity holders, being accounted for in the statement of changes in equity and not in the income statement. No accounting consequences have arisen retrospectively as a result of this change in accounting policy. Refer to accounting policy 2 for the detailed policy relating to transactions with minority shareholders.

2. Basis of consolidation

Subsidiaries

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 entities over which the group, directly or indirectly, has the power to govern the financial and operating policies 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.

The purchase method of accounting is used to account for the acquisition of subsidiaries by the group. 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 group's share of the fair value of identifiable net assets acquired is recorded as goodwill and accounted for in terms of accounting policy 7. If the cost of the acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference, referred to as negative goodwill, is recognised directly in the income statement.

Inter-company transactions, balances and unrealised gains and losses are eliminated on consolidation. Unrealised losses are eliminated in the same manner as unrealised gains, but only to the extent that there is no evidence of impairment. Accounting policies of subsidiaries conform to the policies adopted by the group.

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

Special purpose entities

Special purpose entities are entities created to accomplish a narrow and well-defined objective such as the securitisation of financial assets. These entities may take different legal forms. A special purpose entity, including a securitisation vehicle, is consolidated when the substance of the relationship between the group and the special purpose entity indicates that the group effectively controls the entity.

Transactions with minority shareholders

The group applies a policy of treating transactions with minority shareholders that do not result in the gain or loss of control, as transactions with equity owners of the group. For purchases of additional interests from minority shareholders, the excess of the purchase consideration over the group's proportionate share of the additional net asset value of the subsidiary acquired is accounted for directly in equity. For disposals to minority shareholders, the profit or loss on partial disposal of the group's interest in a subsidiary is also accounted for directly in equity.

3. Foreign currency translations

Functional and presentation currency

Items included in the financial statements of each of the group's entities are measured using the currency of the primary economic environment in which the entity operates (functional currency). The company's functional and group consolidated 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 are accounted for directly in a separate component of equity. On the partial disposal of a foreign operation, a proportionate share of the balance of the foreign currency translation reserve is transferred to the same reserve in which the profit or loss on partial disposal is recognised, i.e. this transfer is made directly to retained earnings. On disposal of a foreign operation, any gains and losses that remain deferred in equity are recognised in the income statement at the time at which the profit or loss on disposal of the foreign operation is recognised.

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. Non-monetary assets and liabilities denominated in foreign currencies that are measured at historical cost are translated using the exchange rate at the transaction date, and those measured at fair value are translated to the functional currency at the exchange rate at the date that the fair value was determined. Exchange differences on non-monetary items are accounted for based on the classification of the underlying items. Foreign exchange gains and losses on equities 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 the central bank. Cash flows arising from operating funds are stated after excluding the impact of foreign currency translation differences on asset and liability classes.

Cash and balances with the central bank comprise coins and bank notes and balances with the central bank.

5. Financial instruments

Initial recognition and measurement

Financial instruments include all financial assets and liabilities held for liquidity, investment, trading or hedging purposes. All financial instruments are initially recognised at fair value plus transaction costs, except those carried at fair value through profit or loss where transaction costs are recognised immediately through the income statement. Financial instruments are recognised on the date the group commits to purchase or sell the instruments (trade date).

Subsequent measurement

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

Held-to-maturity

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that management has both the positive intent and ability to hold to maturity. Were the group to sell more than an insignificant amount of held-to-maturity 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.

Held-to-maturity investments are carried at amortised cost, using the effective interest method, less any provisions for impairment.

Trading assets and liabilities
Trading assets and liabilities are those financial assets and liabilities that the group has acquired or incurred principally for the purpose of selling or repurchasing in the near term, or they form part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking. Derivatives are also categorised as held for trading unless they are designated as hedging instruments.

Subsequent to initial recognition, the fair values are remeasured at each reporting date. All gains and losses arising from changes therein are recognised in the income statement in trading revenue under non-interest revenue.

Interest earned and dividends received while holding trading assets at fair value through profit or loss are included in trading revenue. Trading assets and liabilities are not reclassified subsequent to their initial recognition.

Financial assets and liabilities designated at fair value through profit or loss
The group has designated financial assets and liabilities, other than those held for trading, as at fair value through profit or loss when:

- this designation eliminates or significantly reduces measurement or recognition inconsistencies that would otherwise arise from measuring financial assets or liabilities, or recognising gains and losses on them on different bases. Under this criterion, the main classes of financial instruments designated by the group are loans and advances to customers and debt securities in issue where doing so significantly reduces measurement inconsistencies that would arise if the related derivatives were treated as held for trading and the underlying financial instruments were carried at amortised cost;
- groups of financial assets, financial liabilities or both are managed, and their performance evaluated, on a fair value basis in accordance with a documented risk management or investment strategy, and information about groups of financial instruments is reported to the group's key management personnel on that basis. Under this criterion, certain private equity, short-term insurance and other investment portfolios have been designated at fair value through profit or loss. The group has documented risk management and investment strategies designed to manage such assets at fair value; or
- financial instruments contain one or more embedded derivatives that significantly modify the cash flows resulting from those financial instruments.

The fair value designation, once made, is irrevocable. Subsequent to initial recognition, the fair values are remeasured at each reporting date. Gains and losses arising from changes therein are recognised in interest income for all dated financial assets and in other revenue within non-interest revenue for all undated financial assets.

Private equity and property equity investments designated, on initial recognition, at fair value through profit or loss in terms of the scope exemption in IAS 28 *Interest in Associates*, are accounted for in the designated at fair value through profit or loss category.

Changes in fair value attributable to changes in credit risk, both for the period and cumulatively to date, relating to financial liabilities and loans and receivables designated at fair value through profit or loss are disclosed in the financial statements. These credit risk amounts are determined as the amount of change in the fair value that is not attributable to changes in market conditions that give rise to market risk.

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

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

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

Available-for-sale financial assets are subsequently carried at fair value. Unrealised gains or losses arising from changes in the fair value of available-for-sale financial assets are recognised directly in the available-for-sale

reserve until the financial asset is derecognised or impaired. When available-for-sale financial assets are disposed of, the fair value adjustments accumulated in equity are recognised in the income statement.

Interest income, calculated using the effective interest method, is recognised in the income statement. Dividends received on available-for-sale instruments are recognised in the income statement when the group's right to receive payment has been established. Foreign exchange gains or losses on available-for-sale debt instruments are recognised in the income statement.

Fair value

The best evidence of the fair value of a financial instrument on initial recognition is the transaction price, i.e. the fair value of the consideration paid or received, unless the fair value is evidenced by comparison with other observable current market transactions in the same instrument, without modification or repackaging, 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 the fair value differs from the transaction price, this initial difference, commonly referred to as day one profit or loss, is recognised in the income statement immediately. If non-observable market data is used as part of the input to the valuation models, any resulting difference between the transaction price and the model value is deferred. The timing of recognition of deferred day one profit or loss is determined individually. It is either amortised over the life of the transaction, deferred until the instrument's fair value can be determined using market observable inputs, or realised through settlement, depending on the nature of the instrument and availability of market observable inputs.

Subsequent to initial recognition, the fair values of financial assets and liabilities are based on quoted market prices or dealer price quotations for financial instruments traded in active markets. If the market for a financial asset is not active or the instrument is an unlisted instrument, the fair value is determined by 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.

Impairment of financial assets

Assets carried at amortised cost

The group assesses at each balance sheet date whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment, resulting from one or more events that have occurred after the initial recognition of the asset (a loss event) and that loss event has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

The group first assesses whether there is objective evidence of impairment individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant.

Non-performing loans are impaired for doubtful debts identified during periodic evaluations of advances. 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. The impairment of 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.

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 estimated future cash flows, including the recoverable amount of any collateral, discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised as a credit impairment in the income statement.

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

Impairment of 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 recognised based on historic loss patterns and estimated emergence periods. Loans are also impaired when adverse economic conditions develop 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. Previously impaired advances are written off once all reasonable attempts at collection have been made and there is no realistic prospect of recovering outstanding amounts. Any subsequent reductions in amounts previously impaired are reversed by adjusting the allowance account and the amount of the reversal is recognised as a reduction in impairment for credit losses in the income statement. Subsequent recoveries of previously written off advances are recognised in the income statement.

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

Renegotiated loans

Loans that are either subject to collective impairment assessment or individually significant and whose terms have been renegotiated are no longer considered to be past due but are reset to performing loan status.

Loans whose terms have been renegotiated are subject to ongoing review to determine whether they are considered impaired or past due.

Available-for-sale financial assets

Available-for-sale financial assets are impaired if there is objective evidence of impairment, resulting from one or more loss events that occurred after initial recognition but before the balance sheet date, that have an impact on the future cash flows of the asset. In addition, an available-for-sale equity instrument is generally considered impaired if a significant or prolonged decline in the fair value of the instrument below its cost has occurred. 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 impairment loss was recognised in the income statement, where the instrument is a debt instrument, the impairment loss 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.

Offsetting financial instruments

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.

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

Derivative financial instruments and hedge accounting

A derivative is a financial instrument whose value changes in response to an underlying variable, that requires little or no initial investment and that is settled at a future date. Derivatives are initially recognised at fair value on the date on which the derivatives are entered into and subsequently remeasured at fair value as described under the heading "Fair value" above.

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

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

The method of recognising fair value gains or losses depends on whether derivatives are held for trading or are designated as hedging instruments, and if so, the nature of the hedged item. All gains and losses from changes in the

fair value of derivatives held for trading are recognised in the income statement in trading revenue. When derivatives are designated in a hedging relationship, the group designates them as either:

- hedges of the fair value of recognised financial assets or liabilities or firm commitments (fair value hedge);
- hedges of highly probable future cash flows attributable to a recognised asset or liability, or a forecast transaction (cash flow hedge); or
- hedges of net investments in a foreign operation (net investment hedge).

Hedge accounting is applied to derivatives designated in this way provided certain criteria are met.

The group documents, at the inception of the hedging relationship, the relationship between hedged items and hedging instruments, as well as its risk management objective and strategy for undertaking various hedging relationships. The group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging relationships are highly effective in offsetting changes in fair values or cash flows of hedged items.

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

If the derivative expires, is sold, terminated, exercised, no longer meets the criteria for fair value hedge accounting, or the designation is revoked, hedge accounting is discontinued. Any adjustment up to that point, to a hedged item for which the effective interest method is used, is amortised to the income statement as part of the recalculated effective interest rate over the period to maturity.

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

Amounts accumulated in equity are transferred to the income statement in the periods in which the hedged item affects profit or loss. However, when the forecast transaction that is hedged results in the recognition of a non-financial asset or a non-financial liability, the cumulative gains or losses previously deferred in equity are transferred from equity and included in the initial measurement of the cost of the asset or liability.

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, the cumulative gains or losses recognised in equity remain in equity until the forecast transaction is recognised in the case of a non-financial asset or a non-financial liability, or until the forecast transaction affects the income statement in the case of a financial asset or a financial liability. If the forecast transaction is no longer expected to occur, the cumulative gains or losses recognised in equity are immediately transferred to the income statement and classified as trading revenue.

Net investment hedges
Where considered appropriate, the group hedges net investments in foreign operations using derivative instruments. For such hedges, the foreign exchange difference arising on the hedging instrument that relates to the effective portion of the hedge, is recognised directly in the foreign currency hedge of net investment reserve. Any ineffective portion is immediately recognised in the income statement in non-interest revenue. On the partial disposal of a foreign operation, the proportionate share of those deferred gains and losses are recognised directly in profit or loss. On disposal of a foreign operation, all remaining deferred gains and losses are recognised directly in profit or loss.

Derivatives that do not qualify for hedge accounting
All gains and losses from changes in the fair values of derivatives that do not qualify for hedge accounting are recognised immediately in the income statement as trading revenue. However, the gains and losses arising from changes in the fair values of derivatives that are managed in conjunction with financial instruments designated at fair value are included in net income from financial instruments designated at fair value under other non-interest revenue.

Borrowings

Borrowings are recognised initially at fair value, generally being their issue proceeds, net of directly attributable transaction costs incurred. Borrowings 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 occurrence of a contingent future event, at the option of the shareholder or if dividend payments are not discretionary, are classified as financial liabilities or compound financial instruments. All other preference shares are classified as equity. Dividends on preference shares classified as financial liabilities are recognised in the income statement as interest expense on an amortised cost basis using the effective interest method.

Financial guarantee contracts

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

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

Derecognition of financial instruments

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

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

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

When assets are sold to a third party with a concurrent total rate of return swap on the transferred assets, the transaction is accounted for as a secured financing transaction similar to repurchase transactions. In transactions where the group neither retains nor transfers substantially all the risks and rewards of ownership of a financial asset, it derecognises the asset if control over the asset is lost.

The rights and obligations retained in the transfer are recognised separately as assets and liabilities as appropriate. In transfers where control over the asset is retained, the group continues to recognise the asset to the extent of its continuing involvement, determined by the extent to which it is exposed to changes in the value of the transferred asset.

Sale and repurchase agreements and lending of securities

Securities sold subject to linked repurchase agreements (repos) are reclassified in the financial statements as pledged assets when the transferee has the right by contract or custom to sell or repledge the collateral. The liability to the counterparty is included under deposit and current accounts.

Securities purchased under agreements to resell (reverse repos) are recorded as loans granted under resale agreements and included under loans and advances to other banks or customers as appropriate. The difference between the sale and repurchase price is treated as interest and amortised 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 the measurement policy above. 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.

6. 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 but not control, generally accompanying, but not limited to, a shareholding of between 20% and 50% of the voting rights.

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

Interests in associates and jointly controlled entities are accounted for using the equity method and are 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 or 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.

Private equity and property equity investments, which are associates, are either designated on initial recognition as held at fair value through profit or loss, or equity accounted.

Investments in associates and joint ventures are accounted for at cost less impairment losses in the company'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.

7. Intangible assets

Goodwill

Goodwill represents the excess of the cost of an acquisition over the group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities 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 occurring on or after 1 January 2000, is reported in the balance sheet as an intangible asset and goodwill arising on the acquisition of associates or joint ventures is included in interest in associates and joint ventures on the balance sheet. 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 are not amortised, but allocated to cash generating units and are tested annually for impairment. 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.

Computer software

Generally, costs associated with developing or maintaining computer software programmes 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 future economic benefit beyond one year, are recognised as intangible assets. Capitalisation is further limited to development cost where the group is able to demonstrate its intention and ability to complete and use the software and can reliably measure the costs to complete the development. Direct costs include software development employee costs and an appropriate portion of relevant overheads.

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

Direct computer software development costs recognised as intangible assets are amortised on the straight-line basis at rates appropriate to the expected useful lives of the assets (two to ten 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.

Other intangible assets

The group expenses the costs incurred on internally generated intangible assets such as brands, customer lists, customer contracts and similar rights and assets, to the income statement in the period in which the costs are incurred.

The group capitalises brands, customer lists, customer contracts and similar rights generally acquired as part of business combinations, where it will receive a benefit from these intangible assets during more than one financial period.

Capitalised intangible assets are measured at cost less accumulated amortisation and accumulated impairment

losses. Amortisation is recognised in the income statement on a straight-line basis over the estimated useful lives of intangible assets, not exceeding 20 years, from the date that they are available for use.

8. Property and equipment

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

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. Depreciation, impairment losses and 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. Land is not depreciated. 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 estimated useful lives of tangible assets for the current financial year 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.

9. Impairment of non-financial assets

Intangible assets that have an indefinite useful life and goodwill are not subject to amortisation and are tested annually for impairment. Intangible assets that are subject to amortisation and other non-financial assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised in the income statement for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. Fair value less costs to sell is determined by ascertaining the current market value of an asset and deducting any costs related to the realisation of the asset. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows from continuing use (cash generating units).

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

10. Leases

Group as lessee

Leases, where the group assumes substantially all the risks and rewards of ownership, are classified as finance leases. Finance leases are capitalised at the leases' inception 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 rewards of ownership. Payments made under operating leases, net of

any incentives received from the lessor, are charged to the income statement on a straight-line basis over the period of the lease. When an operating lease is terminated before the lease period has expired, any payment required to be made to the lessor by way of penalty is recognised as an expense in the period in which termination takes place.

Group as lessor

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

Finance charges earned are computed using the effective interest 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 tax.

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

11. 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. Provisions are determined by discounting the expected future cash flows using a pre-tax discount rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

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

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

Contingent liabilities, which include certain guarantees other than financial guarantees, and letters of credit pledged as collateral security, are possible obligations that arise from past events whose existence will be confirmed only by the occurrence, or non-occurrence, of one or more uncertain future events not wholly within the group's control. Contingent liabilities are not recognised in the financial statements but are disclosed in the notes to the financial statements unless they are remote.

12. Employee benefits

Post-retirement benefits

Defined contribution plans

The group operates a defined contribution plan, 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 this plan are charged to the income statement in the period to which they relate.

Defined benefit plans

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.

The liabilities recognised on the balance sheet in respect of defined benefit pension plans are measured at the present value of the estimated future cash outflows, using interest rates of government bonds with maturity dates that approximate the expected maturity of the obligations, less the fair value of plan assets, together with adjustments for unrecognised actuarial gains and losses and past service costs.

The group's current service costs 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 this obligation. Unrecognised actuarial gains or losses are accounted for over a period not exceeding the remaining working life of active employees. Actuarial gains or losses in respect of retired employees are recognised immediately in the income statement.

Termination benefits

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

Short-term benefits

Short-term benefits consist of salaries, accumulated leave payments, profit share, bonuses and any non-monetary benefits such as medical aid contributions.

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided.

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

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

- the initial recognition of goodwill;
- the initial recognition of assets and liabilities in a transaction that is not a business combination, which affects neither accounting nor taxable profits or losses; and
- investments in subsidiaries and 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 assets are reviewed at each balance sheet date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Current and deferred tax relating to items which are charged or credited directly to equity, are also charged or credited directly to equity and are subsequently recognised in the income statement when the related deferred gain or loss is recognised.

Secondary tax on companies

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

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

Indirect tax

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

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

15. Equity-linked transactions

Equity compensation plans

The company operates equity-settled and cash-settled share-based compensation plans. All share options 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 services expense over the vesting period of the share options, with a corresponding increase in the share-based payment reserve. Non-market vesting conditions are not considered in the valuation but are included in the estimate of the number of options expected to vest. At each balance sheet date the estimate of the number of options 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. On exercise of equity-settled share options, proceeds received are credited to share capital and premium.

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

Equity participation plans

Equity participation rights of Standard Bank Group, issued to black managers of the company in terms of the group's Black Economic Empowerment Ownership (Tutuwa) initiative, had not vested by 31 December 2004 and are accounted for as equity-settled share-based payment transactions as described under equity compensation plans above.

16. Revenue and expenditure

Revenues described below represent the most appropriate equivalent of turnover.

Net interest income

Interest income and expense are recognised in the income statement on an accrual basis using the effective interest method for all interest-bearing financial instruments, except for those classified as held for trading. In terms of the effective interest method, interest is recognised at a rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, where appropriate, a shorter period, to the net carrying amount of the financial asset or financial liability. Direct incremental transaction costs incurred and origination fees received, including loan commitment fees, as a result of bringing margin-yielding assets or liabilities 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 or expense over the life of the asset as part of the effective interest rate.

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

Gains and losses on the disposal of dated financial instruments, including amounts removed from equity in respect of available-for-sale financial assets, and excluding those classified as held for trading, are included in net interest income.

Dividends received on preference share investments form part of the group's lending activities and are included in interest income.

Non-interest revenue

Net fee and commission revenue

Fee and commission revenue, including transactional fees, account servicing fees, investment management fees, sales commission, placement fees and syndication fees, are recognised as the related services are performed. Loan commitment fees for loans that are not expected to be drawn down are recognised on a straight-line basis over the commitment period. Loan syndication fees, where the group does not participate in the syndication or 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.

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

Other fee and commission expense included in net fee and commission revenue are mainly transaction and service fees relating to financial instruments, which are expensed as the services are received.

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

Other revenue
Other revenue includes gains and losses on equity instruments designated at fair value through profit or loss, gains and losses on realised undated available-for-sale financial assets, dividends relating to these financial instruments and underwriting profit from the group's short-term insurance operations and related insurance activities.

Net income from financial instruments designated at fair value includes all gains and losses from changes in the fair value of undated financial assets and liabilities designated at fair value through profit or loss, including dividend income arising on these financial instruments.

Gains and losses on undated available-for-sale financial assets are removed from equity and included in the income statement on realisation of the investments. Dividends on these instruments are recognised in the income statement.

Gains and losses on all other undated financial instruments, excluding those classified as held for trading, are recognised in other revenue.

Dividend income
Dividends are recognised in the income statement 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.

Short-term insurance income
Short-term insurance income includes premium income, commission and policy fees earned as well as net incurred claim losses and broker commission paid. Annual business income is accounted for on the accrual basis and comprises the cash value of commission and fees earned when premiums or fees are payable directly to the group. Direct commission income is accounted for as and when cash is received and comprises the cash value of commission earned when premiums are payable directly to the underwriters.

17. Segment reporting

An operating segment is a component of the group engaged in business activities, whose operating results are regularly reviewed by management in order to make decisions about resources to be allocated to segments and assessing segment performance. The group's identification of segments and the measurement of segment results is based on the group's internal reporting to management. 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 product markets. Additional information relating to products and services, geographic areas and major customers is provided.

Segments whose total revenue (internal and external), absolute profit or loss or total assets are 10% or more of the group total, are reported separately. Transactions between segments are priced at market-related rates.

18. 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.

19. Comparative figures

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

Restatements within the 2006 balance sheet and income statement are presented in Annexure A – restatements on pages 116 and 117.

Standards and interpretations not yet effective

Standard	*Standard/interpretation*	*Effective date*[1]
IFRS 2 amendment	*Share-based Payment – Vesting Conditions and Cancellations* The amendment to IFRS 2 clarifies that vesting conditions are service conditions and performance conditions only. Other features of a share-based payment agreement should be treated as non-vesting conditions and should be included in the grant date fair value of the share-based payment. It also specifies that cancellations by parties other than the entity should be accounted for in the same way as cancellations by the entity. This amendment is not expected to impact the group's results significantly.	Annual periods commencing on or after 1 January 2009
IFRS 3	*Business Combinations* The principal amendments to IFRS 3 include: • the requirement to expense all acquisition related costs; • recognition of fair value gains and losses in the income statement on interests in an acquiree at the time at which control is lost; • recognition of all increases and decreases in ownership interests over an acquiree within equity whilst control is held; • the option to recognise any non-controlling interest (NCI) in the acquiree either at fair value or at the NCI's proportionate share of the net identifiable assets of the entity acquired; • restriction of adjustments to the initial measurement of contingent considerations on a business combination, with subsequent measurement of such items being recognised in the income statement; and • the requirement at acquisition to reclassify and redesignate all contractual arrangements, excluding leases and insurance contracts. The amendments are expected to affect the group's accounting for business combinations that arise after the date on which the amendments are adopted. The effect on the financial statements will be a function of the number and value of any business combinations transacted after the effective date.	Annual periods commencing on or after 1 July 2009
IAS 1	*Presentation of Financial Statements* The revised IAS 1 supersedes the 2003 version of IAS 1. The main change in the revised IAS 1 is the requirement to present all non-owner changes in equity in either: • a single statement of comprehensive income which includes income statement line items; or • a statement of comprehensive income which includes only non-owner equity changes. In addition, an income statement is also disclosed. A statement of financial position, preferred term for "balance sheet", also has to be presented at the beginning of the comparative period when the entity restates the comparatives as a result of a change in accounting policy, the correction of an error, or the reclassification of items in the financial statements. The revised IAS 1 will not impact the results of the group but will impact the format of the income statement and statement of changes in equity.	Annual periods commencing on or after 1 January 2009

[1] *It is expected that the group will comply with the new standards and interpretations from the effective date.*

Standard	*Standard/interpretation*	*Effective date*[1]
IAS 23	*Borrowing Costs* The revision of IAS 23 requires the capitalisation of borrowing costs that relate to qualifying assets, i.e. assets that necessarily take a substantial period of time to get ready for their intended use or sale. It does not require the capitalisation of borrowing costs relating to assets measured at fair value, and inventories manufactured or produced in large quantities on a repetitive basis. This standard will change the group's existing policy of expensing all borrowing costs as incurred. The impact is not expected to be material but is dependent on the number and value of projects undertaken after the effective date.	Annual periods commencing on or after 1 January 2009
IAS 27	*Consolidated and Separate Financial Statements* The amendments to IAS 27 require changes in a parent's ownership interest in a subsidiary that does not result in a loss of control to be accounted for within equity as transactions with owners in their capacity as owners. At the time at which control is lost, a parent shall derecognise all assets, liabilities and NCI at their carrying amounts. Any retained interest in the former subsidiary is recognised at its fair value at the date control is lost. A gain or loss on the loss of control is recognised in profit or loss. The revised standard also requires an entity to attribute its share of total comprehensive income to the NCI even if this results in the NCI having a deficit balance. The effect on the financial statements will be a function of the number and value of transactions that result in the loss of control over subsidiaries after the implementation of the new standard.	Annual periods commencing on or after 1 July 2009
IAS 32 and IAS 1 amendments	*Financial Instruments: Presentation and IAS 1 Presentation of Financial Statements - Puttable Financial Instruments and Obligations Arising on Liquidation* The amendment to IAS 32 requires the classification of certain puttable financial instruments and financial instruments that impose on the issuer an obligation to deliver a pro-rata share of the entity only on liquidation as equity. The amendment sets out specific criteria that are to be met to present the instruments as equity together with related disclosure requirements. This amendment is not expected to have a significant impact on the group's results.	Annual periods commencing on or after 1 January 2009
IFRIC 12	*Service Concession Arrangements* Service concessions are contractual service arrangements whereby a government or other public sector entity grants contracts for the supply of public services such as roads, airports, prison, energy and water supply distribution facilities to private sector operators. This interpretation provides guidance on how service concession operators should apply existing IFRS to account for the obligations they undertake and the rights they receive in service concession arrangements. This standard is not applicable to the business of the group.	Annual periods commencing on or after 1 January 2008

[1] *It is expected that the group will comply with the new standards and interpretations from the effective date.*

Standard	*Standard/interpretation*	*Effective date*
IFRIC 13	*Customer Loyalty Programmes* The interpretation addresses the recognition and measurement of obligations to provide customers with free or discounted goods or services if and when they choose to redeem their loyalty award credits. The interpretation requires entities to allocate some of the proceeds of the initial sale to the award credits and recognise these proceeds as revenue only when the obligations have been fulfilled. They may fulfil their obligations by supplying awards themselves, or engaging and paying a third party to do so. This interpretation is in accordance with the group's existing policy and is therefore not expected to impact the group's results.	Annual periods commencing on or after 1 July 2008
IFRIC 14	IAS 19 – *The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction* IFRIC 14 provides a clearer interpretation of the amount of a pension fund surplus that can be recognised as an asset. The availability of a refund of surplus or a reduction in future contributions (economic benefits) is determined based on the terms and conditions of the plan and any relevant statutory requirements. Any changes in the defined benefit asset will be recognised immediately in profit or loss. This interpretation is not expected to impact the results significantly.	Annual periods commencing on or after 1 January 2008

	Personal & Business Banking SA 2007 Rm	Corporate & Investment Banking SA 2007 Rm	Other services 2007 Rm	Total 2007 Rm
1. Segment reporting				
Group				
Net interest income	13 405	3 809	(80)	17 134
Non-interest revenue	9 704	5 069	657	15 430
Net fee and commission revenue	9 060	1 887	49	10 996
Trading revenue	–	2 349	100	2 449
Other revenue	644	833	508	1 985
Total income	23 109	8 878	577	32 564
Credit impairment charges	4 055	35	106	4 196
Income after credit impairment charges	19 054	8 843	471	28 368
Operating expenses	11 462	3 689	847	15 998
Staff costs	5 992	2 151	906	9 049
Other operating expenses	5 470	1 538	(59)	6 949
Net income	7 592	5 154	(376)	12 370
Share of profit from associates and joint ventures	95	172	–	267
Net income before indirect taxation	7 687	5 326	(376)	12 637
Indirect taxation	463	70	77	610
Profit before direct taxation	7 224	5 256	(453)	12 027
Direct taxation	2 133	1 024	(461)	2 696
Profit attributable to ordinary shareholder	5 091	4 232	8	9 331
Headline earnings	5 098	4 221	(440)	8 879
Operating information				
Total assets	313 942	377 301	7 526	698 769
Total liabilities	294 835	368 533	2 335	665 703
Other information				
Interest in associates and joint ventures	270	1 156	5	1 431
Depreciation and amortisation	668	65	54	787
Impairments on non-financial assets	10	–	11	21

	Personal & Business Banking SA 2006 Rm	Corporate & Investment Banking SA 2006 Rm	Other services 2006 Rm	Total 2006 Rm
1. Segment reporting (continued)				
Group (continued)				
Net interest income	10 112	2 845	(140)	12 817
Non-interest revenue	8 616	4 641	561	13 818
Net fee and commission revenue	8 152	1 671	(41)	9 782
Trading revenue	–	1 800	44	1 844
Other revenue	464	1 170	558	2 192
Total income	18 728	7 486	421	26 635
Credit impairment charges	2 196	153	65	2 414
Income after credit impairment charges	16 532	7 333	356	24 221
Operating expenses	9 906	3 006	361	13 273
Staff costs	5 027	1 705	654	7 386
Other operating expenses	4 879	1 301	(293)	5 887
Net income	6 626	4 327	(5)	10 948
Share of profit from associates and joint ventures	145	74	2	221
Net income before indirect taxation	6 771	4 401	(3)	11 169
Indirect taxation	369	70	37	476
Profit before direct taxation	6 402	4 331	(40)	10 693
Direct taxation	1 924	800	(178)	2 546
Profit attributable to ordinary shareholder	4 478	3 531	138	8 147
Headline earnings	4 400	3 533	47	7 980
Operating information				
Total assets	254 831	302 569	3 815	561 215
Total liabilities	239 609	294 781	170	534 560
Other information				
Interest in associates and joint ventures	263	856	4	1 123
Depreciation and amortisation	551	48	85	684
Impairments on non-financial assets	9	–	–	9

1. Segment reporting (continued)

The principal business units for the group are as follows:

Business unit	Scope of operations
Personal & Business Banking SA	Banking and other financial services to individual customers and small- to medium-sized enterprises.
	Mortgage lending – provides residential accommodation loans to individual customers.
	Instalment sale and finance leases – comprises two main areas, instalment finance in the consumer market, mainly vehicles, and secondly, finance of vehicles and equipment in the business market.
	Card products – provides credit card facilities to individuals and businesses.
	Transactional and lending products – transactions in products associated with the various points of contact channels such as ATMs, Internet, telephone banking and branches. This includes deposit taking activities, electronic banking, cheque accounts and other lending products.
	Bancassurance – provides short-term and long-term insurance products, mainly through third parties, and provides financial planning services to clients.
Corporate & Investment Banking SA	Commercial and investment banking services to larger corporates, financial institutions and international counterparties.
	Global markets – includes foreign exchange, fixed income, derivatives, equities and commodities trading businesses, securitisation, debt origination and money market funding units.
	Banking and trade finance – includes corporate lending and transactional banking businesses, custodial services, trade finance business and property-related lending.
	Investment banking – includes equity investment and advisory businesses, project finance, structured lending as well as the asset and wealth management units.
Other services	Support functions to business units and advisory services, including Global Leadership Centre, activities and taxes not allocated to business segments and inter-segment eliminations.

The segment report includes only those business unit activities conducted within the group. 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 report 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. At year end, the group applied the following loss emergence periods:

	Average loss emergence period		Sensitivity[1]	
	2007	2006	**2007**	2006
	Months	Months	**Rm**	Rm
Personal & Business Banking SA	**3 – 6**	3 – 6	**199**	149
Mortgage lending	**6**	6	**30**	39
Instalment sale and finance leases	**6**	6	**36**	26
Card debtors	**3**	3	**97**	56
Other lending	**3**	3	**36**	28
Corporate & Investment Banking SA	**12**	13	**65**	36
			264	185

[1]*Sensitivity is based on the effect of an increase in one month in the emergence period 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. Expected time to recover security and recoveries of individual loans as a percentage of the outstanding balances are estimated as follows:

	Expected time to recover security		Expected recoveries as a percentage of impaired loans		Impairment loss sensitivity[1]	
	2007	2006	**2007**	2006	**2007**	2006
	Months	Months	**%**	%	**Rm**	Rm
Personal & Business Banking SA	**0 – 16**	0 – 19	**66**	61	**52**	26
Mortgage lending	**12**	12	**81**	81	**42**	19
Instalment sale and finance leases	**6**	6	**51**	54	**5**	3
Card debtors	**0**	0	**27**	26	**2**	1
Other lending	**16**	19	**31**	31	**3**	3
Corporate & Investment Banking SA	**12**	12	**29**	32	**1**	1
			66	60	**53**	27

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

2. Key management assumptions (continued)

2.2 Sensitivity of fair values to changes in significant assumptions

The fair value of financial instruments, such as unlisted equity investments and equity derivatives, that are not quoted in active markets are determined by using valuation techniques. Wherever possible, models use only observable market data. Where required, these models incorporate assumptions that are not supported by prices from observable current market transactions in the same instrument and not based on available observable market data. Such assumptions include risk premiums, liquidity discount rates, credit risk, volatilities and correlations. Changes in these assumptions could affect the reported fair values of financial instruments. For example, if the discount rate used in determining the fair values was decreased by 1%, the mark-to-market movement in the profit and loss account would have increased by R35 million (2006: R44 million). If the discount rate was increased by 1% the profit and loss impact would have been a R31 million (2006: R37 million) decrease.

The total amount of the change in fair value estimated using a valuation technique not based on observable market data that was recognised for the year ended 31 December 2007 was a profit of R109 million (2006: R131 million).

2.3 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.

2.4 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.

2.5 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 arriving at judgements, these factors are considered both jointly and separately.

The group consolidated SPEs with assets of R33 577 million (2006: R25 582 million) and R8 million profit (2006: R3 million). The group has not consolidated SPEs with assets of Rnil (2006: R475 million) and no profit (2006: Rnil) as these entities were not considered to be controlled by the group.

2.6 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 investment 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 R42 million (2006: R5 million), for the group and company with a corresponding entry in the available-for-sale reserve in shareholder's equity.

2.7 Income taxes

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

2.8 Financial risk management

The group's risk management policies and procedures are disclosed in the risk management section starting on page 9 of the annual financial statements.

	Group		Company	
	2007 Rm	2006 Rm	**2007 Rm**	2006 Rm
3. Cash and balances with the central bank				
Coins and bank notes	**4 147**	4 392	**4 147**	4 392
Balances with the central bank	**10 139**	6 666	**10 139**	6 666
	14 286	11 058	**14 286**	11 058

Deposits are placed with the central bank for the purpose of reserve requirements and are therefore not available for use.

4. Derivative instruments

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

4.1 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.

4.2 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.

4. Derivative instruments (continued)

4.3 Derivative assets and liabilities

Group

	2007 Maturity analysis of net fair value			
	Within 1 year Rm	After 1 year but within 5 years Rm	After 5 years Rm	Net fair value Rm
Derivatives held for trading				
Foreign exchange derivatives	1 106	(315)	(515)	276
Forwards	1 118	40	(1)	1 157
Futures	(6)	(9)	–	(15)
Options	(6)	(346)	(514)	(866)
Interest rate derivatives	1 151	186	(2 921)	(1 584)
Bond options	(5)	1 780	(148)	1 627
Caps and floors	(12)	(107)	28	(91)
Future options	–	–	–	–
Forwards	68	23	–	91
Swaps	1 115	(1 520)	(2 802)	(3 207)
Swaptions	(15)	10	1	(4)
Commodity derivatives	(220)	(2)	132	(90)
Forwards	(107)	(430)	(67)	(604)
Futures	–	–	–	–
Options	(113)	428	199	514
Credit derivatives	–	72	71	143
Credit default swaps	–	72	71	143
Total return swaps	–	–	–	–
Equity derivatives	(641)	(613)	31	(1 223)
Forwards	106	(115)	–	(9)
Futures	(19)	2	–	(17)
Index options	(559)	(815)	–	(1 374)
Options	(169)	337	31	199
Swaps	(23)	(22)	–	(45)
Other	23	–	–	23
Total derivative assets/(liabilities) held for trading	1 396	(672)	(3 202)	(2 478)
Derivatives held for hedging				
Derivatives designated as fair value hedges – interest rate swaps	(192)	1 059	(612)	255
Derivatives designated as cash flow hedges – currency swaps	–	(114)	–	(114)
– interest rate swaps	3	(67)	2	(62)
Total derivative (liabilities)/assets held for hedging	(189)	878	(610)	79
Total derivative assets/(liabilities)	1 207	206	(3 812)	(2 399)

2007			2006			
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
8 060	**(7 784)**	**571 254**	3 269	18 841	(15 572)	1 028 432
5 812	**(4 655)**	**545 701**	4 772	15 146	(10 374)	977 551
–	**(15)**	**5**	(1)	–	(1)	6 136
2 248	**(3 114)**	**25 548**	(1 502)	3 695	(5 197)	44 745
53 129	**(54 713)**	**3 142 011**	(6 882)	40 736	(47 618)	4 133 052
3 923	**(2 296)**	**58 288**	(557)	1 784	(2 341)	116 920
158	**(249)**	**182 554**	(49)	89	(138)	30 842
9	**(9)**	**–**	–	1	(1)	–
319	**(228)**	**377 468**	13	165	(152)	348 200
48 596	**(51 803)**	**2 493 189**	(6 283)	38 591	(44 874)	3 569 741
124	**(128)**	**30 512**	(6)	106	(112)	67 349
2 843	**(2 933)**	**10 043**	(203)	2 118	(2 321)	25 981
1 337	**(1 941)**	**6 167**	(283)	1 319	(1 602)	16 291
–	**–**	**–**	3	3	–	23
1 506	**(992)**	**3 876**	77	796	(719)	9 667
490	**(347)**	**47 446**	86	502	(416)	18 804
481	**(338)**	**47 204**	86	487	(401)	18 784
9	**(9)**	**242**	–	15	(15)	20
2 945	**(4 168)**	**299 891**	(206)	2 970	(3 176)	86 867
212	**(221)**	**3 743**	(67)	53	(120)	764
7	**(24)**	**14 058**	(8)	(5)	(3)	11 569
1 602	**(2 976)**	**207 987**	(227)	2 111	(2 338)	65 649
1 100	**(901)**	**10 903**	103	786	(683)	6 369
1	**(46)**	**59 913**	(14)	18	(32)	1 416
23	**–**	**3 287**	7	7	–	1 100
67 467	**(69 945)**	**4 070 645**	(3 936)	65 167	(69 103)	5 293 136
1 616	**(1 361)**	**69 599**	1 924	1 890	34	58 824
–	**(114)**	**2 548**	–	–	–	–
7	**(69)**	**3 475**	1	1	–	590
1 623	**(1 544)**	**75 622**	1 925	1 891	34	59 414
69 090	**(71 489)**	**4 146 267**	(2 011)	67 058	(69 069)	5 352 550

4. Derivative instruments (continued)

4.3 Derivative assets and liabilities (continued)

Company

	2007 Maturity analysis of net fair value			
	Within 1 year Rm	After 1 year but within 5 years Rm	After 5 years Rm	Net fair value Rm
Derivatives held for trading				
Foreign exchange derivatives	1 106	(315)	(515)	276
Forwards	1 118	40	(1)	1 157
Futures	(6)	(9)	–	(15)
Options	(6)	(346)	(514)	(866)
Interest rate derivatives	1 170	177	(2 921)	(1 574)
Bond options	(5)	1 780	(148)	1 627
Caps and floors	(12)	(107)	28	(91)
Future options	–	–	–	–
Forwards	68	23	–	91
Swaps	1 134	(1 529)	(2 802)	(3 197)
Swaptions	(15)	10	1	(4)
Commodity derivatives	(220)	(2)	132	(90)
Forwards	(107)	(430)	(67)	(604)
Futures	–	–	–	–
Options	(113)	428	199	514
Credit derivatives	–	72	71	143
Credit default swaps	–	72	71	143
Total return swaps	–	–	–	–
Equity derivatives	(641)	(613)	31	(1 223)
Forwards	106	(115)	–	(9)
Futures	(19)	2	–	(17)
Index options	(559)	(815)	–	(1 374)
Options	(169)	337	31	199
Swaps	(23)	(22)	–	(45)
Other	23	–	–	23
Total derivative assets/(liabilities) held for trading	1 415	(681)	(3 202)	(2 468)
Derivatives held for hedging				
Derivatives designated as fair value hedges – interest rate swaps	(129)	1 121	(612)	380
Derivatives designated as cash flow hedges – currency swaps	–	(114)	–	(114)
– interest rate swaps	–	(68)	2	(66)
Total derivative (liabilities)/assets held for hedging	(129)	939	(610)	200
Total derivative assets/(liabilities)	1 286	258	(3 812)	(2 268)

2007			2006			
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
8 060	**(7 784)**	**571 254**	3 269	18 841	(15 572)	1 028 432
5 812	**(4 655)**	**545 701**	4 772	15 146	(10 374)	977 551
–	**(15)**	**5**	(1)	–	(1)	6 136
2 248	**(3 114)**	**25 548**	(1 502)	3 695	(5 197)	44 745
53 119	**(54 693)**	**3 128 126**	(6 845)	40 734	(47 579)	4 131 502
3 923	**(2 296)**	**58 288**	(557)	1 784	(2 341)	116 920
158	**(249)**	**182 554**	(49)	89	(138)	30 842
9	**(9)**	**–**	–	1	(1)	–
319	**(228)**	**377 468**	13	165	(152)	348 200
48 586	**(51 783)**	**2 479 304**	(6 246)	38 589	(44 835)	3 568 191
124	**(128)**	**30 512**	(6)	106	(112)	67 349
2 843	**(2 933)**	**10 043**	(203)	2 118	(2 321)	25 981
1 337	**(1 941)**	**6 167**	(283)	1 319	(1 602)	16 291
–	**–**	**–**	3	3	–	23
1 506	**(992)**	**3 876**	77	796	(719)	9 667
490	**(347)**	**47 446**	86	502	(416)	18 804
481	**(338)**	**47 204**	86	487	(401)	18 784
9	**(9)**	**242**	–	15	(15)	20
2 945	**(4 168)**	**299 891**	(206)	2 970	(3 176)	86 867
212	**(221)**	**3 743**	(67)	53	(120)	764
7	**(24)**	**14 058**	(8)	(5)	(3)	11 569
1 602	**(2 976)**	**207 987**	(227)	2 111	(2 338)	65 649
1 100	**(901)**	**10 903**	103	786	(683)	6 369
1	**(46)**	**59 913**	(14)	18	(32)	1 416
23	**–**	**3 287**	7	7	–	1 100
67 457	**(69 925)**	**4 056 760**	(3 899)	65 165	(69 064)	5 291 586
1 738	**(1 358)**	**67 402**	1 924	1 890	34	58 824
–	**(114)**	**2 548**	–	–	–	–
3	**(69)**	**3 475**	1	1	–	590
1 741	**(1 541)**	**73 425**	1 925	1 891	34	59 414
69 198	**(71 466)**	**4 130 185**	(1 974)	67 056	(69 030)	5 351 000

4. Derivative instruments (continued)

4.4 Use and measurement of derivative instruments

In the normal course of business, the group and company enters into a variety of derivative transactions for both trading and hedging purposes. Derivative financial instruments are entered into for trading purposes and for hedging foreign exchange 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; and
- total return swaps are contracts in which one party (the total return payer) transfers the economic risks and rewards associated with an underlying asset to another counterparty (the total return receiver). The transfer of risk and reward is effected by way of an exchange of cash flows that mirror changes in the value of the underlying asset and any income derived therefrom.

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

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

4.5 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 accounts. Trading derivative products include the following derivative instruments:

4.5.1 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.

4.5.2 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 bond options, caps and floors, future options, forward rate agreements, swaps and swaptions.

4. Derivative instruments (continued)

4.5 Derivatives held for trading (continued)

4.5.3 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.

4.5.4 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 and total return swaps.

4.5.5 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 forwards, futures, index options, options, swaps and other equity related financial derivative instruments.

4.6 Derivatives held for hedging

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

4.6.1 Derivatives designated as fair value hedges

The group's fair value hedges principally consist of interest rate swaps that are used to mitigate the risk of changes in market interest rates.

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

	Group		Company	
	2007 Rm	2006 Rm	**2007 Rm**	2006 Rm
Gains/(losses) arising from fair value hedges				
– on hedging instruments	**908**	806	**908**	806
– on the hedged items attributable to the hedged risk	**(987)**	(836)	**(987)**	(836)

4. Derivative instruments (continued)

4.6 Derivatives held for hedging (continued)

4.6.2 Derivatives designated as cash flow hedges

The group uses currency swaps and interest rate swaps to mitigate 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 mitigate against changes in future interest cash flows resulting from the impact of changes in market interest rates, and reinvestment or reborrowing of current balances.

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

The schedule of forecast cash flows that will result in the release of the cash flow hedging reserve at 31 December is as follows:

Group and company	3 months or less Rm	More than 3 months but less than 1 year Rm	More than 1 year but less than 5 years Rm	More than 5 years Rm
2007				
Cash flow from assets	**(1)**	**1**	**(187)**	**(1)**
Cash flow from liabilities	**–**	**(1)**	**16**	**–**
Net cash flow	**(1)**	**–**	**(171)**	**(1)**

2006 schedule of forecast cash flows has not been disclosed as the amount is immaterial.

The fair value adjustments removed from the cash flow hedging reserve and transferred to the income statement, have been included in the following line items in the income statement:

	Group		Company	
	2007 Rm	2006 Rm	**2007 Rm**	2006 Rm
Interest income	**(30)**	(21)	**(30)**	(21)

No hedge ineffectiveness was recognised in the income statement for the group or company in 2007 or 2006.

There were no transactions for the group or company for which cash flow hedge accounting had to be discontinued in 2007 or 2006 as a result of highly probable cash flows no longer being expected to occur.

4. Derivative instruments (continued)

4.7 Day one profit or loss – derivative instruments

The table below sets out the aggregate difference yet to be recognised in profit and loss at the beginning and end of the year with a reconciliation of changes in the balance during the year:

	Group		Company	
	2007 Rm	2006 Rm	**2007 Rm**	2006 Rm
unmortised profit at beginning of the year	**6**	–	**6**	–
Additional profit on new transactions	**26**	6	**26**	6
unmortised profit at end of the year	**32**	6	**32**	6

5. Trading assets

Listed	**3 351**	4 536	**3 351**	4 536
Unlisted	**1 072**	1 861	**1 072**	1 861
	4 423	6 397	**4 423**	6 397
Comprising:				
Government municipality and utility bonds	**1 449**	3 009	**1 449**	3 009
Corporate bonds	**1 591**	1 321	**1 591**	1 321
Listed equities	**314**	206	**314**	206
Other instruments	**1 069**	1 861	**1 069**	1 861
	4 423	6 397	**4 423**	6 397
Maturity analysis				
The maturities represent periods to contractual redemption of the trading assets recorded.				
– Maturing within 1 month	**1 022**	1 878	**1 022**	1 878
– Maturing after 1 month but within 6 months	**593**	144	**593**	144
– Maturing after 6 months but within 12 months	**16**	195	**16**	195
– Maturing after 12 months	**2 396**	3 983	**2 396**	3 983
– Undated assets	**396**	197	**396**	197
	4 423	6 397	**4 423**	6 397

Investment registers

Registers of trading assets are available for inspection by the member, or its authorised agent 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 2007.

	Group		Company	
	2007 Rm	2006 Rm	**2007 Rm**	2006 Rm
6. Pledged assets and assets not derecognised				
6.1 Pledged assets				
Financial assets that may be repledged or resold by counterparties				
Government municipality and utility bonds	**1 750**	2 789	**1 750**	2 789
Corporate bonds	**–**	125	**–**	125
	1 750	2 914	**1 750**	2 914
Maturity analysis				
The maturities represent periods to contractual redemption of the pledged assets recorded.				
– Maturing within 1 month	**–**	132	**–**	132
– Maturing after 1 month but within 6 months	**131**	–	**131**	–
– Maturing after 6 months but within 12 months	**–**	–	**–**	–
– Maturing after 12 months	**1 619**	2 782	**1 619**	2 782
	1 750	2 914	**1 750**	2 914

6.2 Total assets pledged

The carrying amount of financial assets that have been pledged as collateral for liabilities (including amounts reflected in 6.1 above) at 31 December 2007 is R5 265 million (2006: R8 169 million) for the group and company.

The assets pledged by the group are strictly for the purpose of providing collateral to the counterparty. To the extent that the counterparty is permitted to sell and/or repledge the assets, they are classified on the balance sheet as pledged as collateral.

6.3 Assets transferred not derecognised

Securitisations and other structured transactions

The group enters into transactions in the normal course of business by which it transfers recognised financial assets directly to third parties or special purpose entities. These transfers may give rise to full derecognition of the financial assets concerned.

Full derecognition occurs when the group transfers its contractual right to receive cash flows from the financial assets and substantially all the risks and rewards of ownership. The risks transferred include interest rate, currency, prepayment and other price risks.

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

	Carrying amount of transferred assets 2007 Rm	Carrying amount of associated liabilities 2007 Rm	Carrying amount of transferred assets 2006 Rm	Carrying amount of associated liabilities 2006 Rm
6. Pledged assets and assets not derecognised (continued)				
6.3 Assets transferred not derecognised (continued)				
Securitisations and other structured transactions (continued)				
The following table analyses the carrying amount of securitised financial assets that did not qualify for derecognition during the year, and their associated liabilities:				
Group				
Securitisation				
Mortgage lending	**17 255**	**17 046**	9 997	9 866
Instalment sale and finance leases	**2 670**	**2 423**	4 436	4 455
	19 925	**19 469**	14 433	14 321
Other assets transferred not derecognised				
The majority of other financial assets that do not qualify for derecognition are debt securities held by counterparties as collateral under repurchase agreements. Risks to which the group remains exposed include credit and interest rate risk.				
Details of other financial assets which have been sold or otherwise transferred, but which have not been derecognised, and their associated liabilities, are:				
Group and company				
Repurchase agreements	**1 750**	**1 329**	2 914	2 927

6.4 Collateral accepted as security for assets

As part of the reverse repurchase and securities borrowing agreements, the group has received securities that it is allowed to sell or repledge. The fair value of the financial assets accepted as collateral that the group is permitted to sell or repledge in the absence of default is R15 212 million (2006: R4 569 million) for the group and company.

The fair value of financial assets accepted as collateral that have been sold or repledged is R2 755 million (2006: R827 million) for the group and company. The group is obliged to return equivalent securities.

These transactions are conducted under terms that are customary to standard securities borrowing and lending activities.

	Group		Company	
	2007 Rm	2006 Rm	**2007 Rm**	2006 Rm
7. Financial investments				
Listed	**47 659**	40 618	**38 356**	32 088
Unlisted	**1 911**	975	**1 458**	975
	49 570	41 593	**39 814**	33 063
Comprising:				
Government municipality and utility bonds	**34 469**	30 614	**34 469**	30 614
Corporate bonds	**12 300**	8 027	**2 999**	25
Listed equities	**1 089**	1 622	**1 087**	1 094
Unlisted equities	**686**	1 303	**686**	1 303
Other instruments	**1 026**	27	**573**	27
	49 570	41 593	**39 814**	33 063
Maturity analysis				
The maturities represent periods to contractual redemption of the financial investments recorded.				
– Redeemable on demand	**947**	442	**945**	442
– Maturing within 1 month	**12 172**	6 995	**11 915**	6 995
– Maturing after 1 month but within 6 months	**26 496**	15 066	**16 999**	14 537
– Maturing after 6 months but within 12 months	**1 723**	5 139	**1 723**	4 134
– Maturing after 12 months	**3 386**	11 589	**3 386**	4 593
– Undated investments	**4 846**	2 362	**4 846**	2 362
	49 570	41 593	**39 814**	33 063

Investment registers

Registers of financial investments are available for inspection by the member, or its authorised agent 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 2007.

	Group		Company	
	2007 Rm	2006 Rm	**2007 Rm**	2006 Rm
8. Loans and advances				
8.1 Loans and advances net of impairment				
Loans and advances to banks	**41 014**	48 209	**40 978**	47 883
– Call loans	**2 399**	3 433	**2 399**	3 304
– Loans granted under resale agreements	**15 657**	5 659	**15 657**	5 659
– Balances with banks	**22 958**	39 117	**22 922**	38 920
Loans and advances to customers	**416 627**	327 071	**393 931**	315 571
Gross loans and advances to customers	**422 401**	331 044	**399 583**	319 462
– Mortgage lending	**214 489**	162 698	**197 197**	158 456
– Instalment sale and finance leases (note 8.2)	**56 278**	47 644	**53 851**	43 349
– Card debtors	**21 373**	16 938	**20 012**	15 832
– Overdrafts and other demand lending	**30 597**	20 908	**30 551**	20 585
– Term lending	**67 853**	56 770	**66 537**	55 705
– Loans granted under resale agreements	**346**	2 122	**346**	2 122
– Commercial property finance	**23 946**	17 493	**23 607**	16 987
– Foreign currency lending	**5 735**	5 166	**5 735**	5 166
– Other loans and advances	**1 784**	1 305	**1 747**	1 260
Credit impairments for loans and advances (note 8.3)	**(5 774)**	(3 973)	**(5 652)**	(3 891)
– Impairments for non-performing loans	**(2 822)**	(1 774)	**(2 759)**	(1 747)
– Impairments for performing loans	**(2 952)**	(2 199)	**(2 893)**	(2 144)
Net loans and advances	**457 641**	375 280	**434 909**	363 454
Comprising:				
Gross loans and advances	**463 415**	379 253	**440 561**	367 345
Less: credit impairments	**(5 774)**	(3 973)	**(5 652)**	(3 891)
Net loans and advances	**457 641**	375 280	**434 909**	363 454

Loans and advances include a decrease in net fair value adjustments of R35 million (2006: increase of R409 million) for the group and company relating to loans and advances which were subject to fair value hedging relationships and therefore only fair valued for the risk subject to hedging.

Maturity analysis

The maturities represent periods to contractual redemption of the loans and advances recorded.

– Redeemable on demand	**32 263**	27 043	**32 125**	26 804
– Maturing within 1 month	**53 351**	52 861	**52 111**	52 795
– Maturing after 1 month but within 6 months	**40 524**	45 421	**38 691**	45 329
– Maturing after 6 months but within 12 months	**27 975**	25 037	**27 436**	23 851
– Maturing after 12 months	**309 302**	228 891	**290 198**	218 566
Gross loans and advances	**463 415**	379 253	**440 561**	367 345

	Group		Company	
	2007 Rm	2006 Rm	**2007 Rm**	2006 Rm
8. Loans and advances (continued)				
8.1 Loans and advances net of impairment (continued)				
Segmental analysis – industry				
Agriculture	**7 384**	5 850	**7 313**	5 796
Construction	**4 099**	2 544	**4 048**	2 526
Electricity	**1 860**	1 565	**1 502**	1 561
Finance, real estate and other business services	**69 030**	80 262	**67 360**	79 687
Individuals	**269 068**	207 505	**249 891**	198 717
Manufacturing	**20 170**	15 652	**19 994**	15 613
Mining	**5 369**	2 649	**5 309**	2 645
Other services	**52 779**	36 101	**51 997**	34 221
Transport	**8 937**	5 532	**8 695**	5 511
Wholesale	**24 719**	21 593	**24 452**	21 068
Gross loans and advances	**463 415**	379 253	**440 561**	367 345
Segmental analysis – geographic area				
The following table sets out the distribution of the group's loans and advances by geographic area where the loans are recorded.				
Eastern Cape	**16 473**	12 747	**15 421**	12 052
Free State	**8 846**	6 640	**8 222**	6 298
Gauteng	**259 065**	189 239	**247 239**	184 650
KwaZulu-Natal	**48 885**	38 012	**45 948**	35 776
Limpopo	**10 828**	5 504	**9 865**	5 225
Mpumalanga	**14 334**	10 229	**13 506**	9 676
North West	**9 507**	7 686	**8 995**	7 365
Northern Cape	**3 440**	2 241	**3 028**	2 138
Western Cape	**68 972**	52 279	**65 309**	49 772
International	**23 065**	54 676	**23 028**	54 393
Gross loans and advances	**463 415**	379 253	**440 561**	367 345
8.2 Instalment sale and finance leases				
Gross investment in instalment sale and finance leases	**70 692**	57 970	**67 808**	52 862
Unearned finance charges deducted	**14 414**	10 326	**13 957**	9 513
Net investment in instalment sale and finance leases	**56 278**	47 644	**53 851**	43 349
Receivable within 1 year	**16 902**	14 070	**15 983**	13 833
Receivable after 1 year but within 5 years	**39 194**	30 019	**37 686**	28 611
Receivable after 5 years	**182**	3 555	**182**	905

8. Loans and advances
(continued)

8.3 Credit impairments for loans and advances to customers

A reconciliation of the allowance for impairment losses for loans and advances to customers, by class:

	Mortgage lending Rm	Instalment sale and finance leases Rm	Card debtors Rm	Other loans and advances Rm	Corporate lending Rm	Commercial property finance Rm	Total Rm
Group							
2007							
Non-performing loans							
Balance at beginning of the year	477	232	284	542	112	127	1 774
Impaired accounts written off	(116)	(390)	(1 185)	(463)	–	–	(2 154)
Discount element recognised in interest income	(360)	(50)	–	(34)	(4)	–	(448)
Net provisions raised/(released)[1]	1 097	746	1 313	661	(14)	(107)	3 696
Exchange and other movements	(1)	(24)	(7)	1	(7)	(8)	(46)
Balance at end of the year	1 097	514	405	707	87	12	2 822
Performing loans							
Balance at beginning of the year	332	428	449	209	686	95	2 199
Net provisions (released)/raised[1]	(7)	153	294	159	70	74	743
Exchange and other movements	6	–	–	3	1	–	10
Balance at end of the year	331	581	743	371	757	169	2 952
Total	1 428	1 095	1 148	1 078	844	181	5 774
2006							
Non-performing loans							
Balance at beginning of the year	348	244	114	465	95	191	1 457
Impaired accounts written off	(117)	(336)	(615)	(301)	–	–	(1 369)
Discount element recognised in interest income	(174)	(31)	–	(30)	(7)	(14)	(256)
Net provisions raised/(released)[1]	420	355	785	408	24	(50)	1 942
Exchange and other movements	–	–	–	–	–	–	–
Balance at end of the year	477	232	284	542	112	127	1 774
Performing loans							
Balance at beginning of the year	331	297	171	206	502	28	1 535
Net provisions raised[1]	1	131	278	3	181	67	661
Exchange and other movements	–	–	–	–	3	–	3
Balance at end of the year	332	428	449	209	686	95	2 199
Total	809	660	733	751	798	222	3 973

[1] *Net provisions raised less recoveries of amounts written off in previous years equals income statement impairment charge (note 23.7).*

8. Loans and advances (continued)

8.3 Credit impairments for loans and advances to customers (continued)

	Mortgage lending Rm	Instalment sale and finance leases Rm	Card debtors Rm	Other loans and advances Rm	Corporate lending Rm	Commercial property finance Rm	Total Rm
Company							
2007							
Non-performing loans							
Balance at beginning of the year	**468**	**224**	**274**	**542**	**112**	**127**	**1 747**
Impaired accounts written off	**(112)**	**(390)**	**(1 150)**	**(463)**	**–**	**–**	**(2 115)**
Discount element recognised in interest income	**(358)**	**(50)**	**–**	**(34)**	**(4)**	**–**	**(446)**
Net provisions raised/(released)[1]	**1 077**	**704**	**1 273**	**661**	**(14)**	**(107)**	**3 594**
Exchange and other movements	**–**	**–**	**(7)**	**1**	**(7)**	**(8)**	**(21)**
Balance at end of the year	**1 075**	**488**	**390**	**707**	**87**	**12**	**2 759**
Performing loans							
Balance at beginning of the year	**314**	**401**	**439**	**209**	**686**	**95**	**2 144**
Net provisions (released)/raised[1]	**(1)**	**160**	**285**	**160**	**70**	**74**	**748**
Exchange and other movements	**–**	**–**	**–**	**–**	**1**	**–**	**1**
Balance at end of the year	**313**	**561**	**724**	**369**	**757**	**169**	**2 893**
Total	**1 388**	**1 049**	**1 114**	**1 076**	**844**	**181**	**5 652**
2006							
Non-performing loans							
Balance at beginning of the year	345	242	105	465	95	191	1 443
Impaired accounts written off	(117)	(320)	(589)	(317)	–	–	(1 343)
Discount element recognised in interest income	(174)	(31)	–	(30)	(7)	(14)	(256)
Net provisions raised/(released)[1]	414	333	758	424	24	(50)	1 903
Exchange and other movements	–	–	–	–	–	–	–
Balance at end of the year	468	224	274	542	112	127	1 747
Performing loans							
Balance at beginning of the year	329	297	170	206	502	28	1 532
Net provisions (released)/raised[1]	(15)	104	269	3	181	67	609
Exchange and other movements	–	–	–	–	3	–	3
Balance at end of the year	314	401	439	209	686	95	2 144
Total	782	625	713	751	798	222	3 891

[1] *Net provisions raised less recoveries of amounts written off in previous years equals income statement impairment charge (note 23.7).*

	Group		Company	
	2007 Rm	2006 Rm	**2007 Rm**	2006 Rm
8. Loans and advances (continued)				
8.3 Credit impairments for loans and advances to customers (continued)				
Segmental analysis of impairments for non-performing loans – industry				
Agriculture	**55**	59	**54**	59
Construction	**52**	33	**52**	33
Electricity	**3**	2	**3**	2
Finance, real estate and other business services	**239**	129	**238**	129
Individuals	**2 103**	1 149	**2 056**	1 123
Manufacturing	**63**	61	**61**	61
Mining	**3**	4	**3**	4
Other services	**151**	220	**141**	219
Transport	**51**	29	**49**	29
Wholesale	**102**	88	**102**	88
	2 822	1 774	**2 759**	1 747
9. Other assets				
Trading settlement assets	**4 131**	2 799	**4 120**	2 728
Items in the course of collection	**614**	239	**614**	305
Other debtors	**2 940**	2 680	**2 949**	2 493
	7 685	5 718	**7 683**	5 526
10. Interest in group companies, associates and joint ventures				
Interest in group companies (note 10.1)	**87 348**	46 173	**90 374**	48 538
Interest in associates and joint ventures (note 10.2)	**1 431**	1 123	**1 089**	714
	88 779	47 296	**91 463**	49 252
10.1 Interest in group companies				
Holding company				
– Indebtedness to the group/company	**–**	104	**–**	104
Interest in subsidiary companies			**5 386**	4 052
– Shares at cost			**97**	24
– Indebtedness to the company			**5 289**	4 028
Interest in fellow banking subsidiary companies				
– Indebtedness to the group/company	**87 348**	46 069	**84 988**	44 382
	87 348	46 173	**90 374**	48 538

Subsidiaries are listed in Annexure B on page 118.

	Group		Company	
	2007 Rm	2006 Rm	**2007 Rm**	2006 Rm
10. Interest in group companies, associates and joint ventures (continued)				
10.2 Interest in associates and joint ventures				
Carrying value at beginning of the year	**1 123**	767	**714**	487
Share of profit	**267**	221		
Net acquisitions	**358**	214	**375**	227
Distribution of profit	**(317)**	(79)		
Carrying value at end of the year	**1 431**	1 123	**1 089**	714
Comprising:				
Cost of investment	**1 089**	714	**1 089**	714
Share of reserves	**342**	409		
	1 431	1 123	**1 089**	714

Directors' valuation

The directors' valuation of the investments in associates and joint ventures is R1 497 million (2006: R1 143 million) for the group and company.

Associates and joint ventures are listed in Annexure C on pages 119 to 120.

10.3 Liabilities to group companies				
Indebtedness by the group/company to:				
Holding company	**–**	5	**–**	5
Subsidiaries			**1 996**	1 801
Fellow banking subsidiaries	**13 497**	21 805	**13 510**	21 761
	13 497	21 810	**15 506**	23 567

	2007 Cost Rm	2007 Accumulated amortisation and impairment Rm	2007 Net book value Rm	2006 Cost Rm	2006 Accumulated amortisation and impairment Rm	2006 Net book value Rm
11. Intangible assets						
11.1 Group						
Summary						
Computer software	**1 368**	**290**	**1 078**	843	251	592
Other intangible assets[1]	**372**	**–**	**372**	–	–	–
Total	**1 740**	**290**	**1 450**	843	251	592

	2006 Net book value Rm	Additions Rm	Disposals Rm	Amortisation Rm	Impairments Rm	Transfers Rm	2007 Net book value Rm
Movement							
Computer software	592	**568**	**–**	**(64)**	**(11)**	**(7)**	**1 078**
Other intangible assets	–	**372**	**–**	**–**	**–**	**–**	**372**
Total	592	**940**	**–**	**(64)**	**(11)**	**(7)**	**1 450**

	2005 Net book value Rm	Additions Rm	Disposals Rm	Amortisation Rm	Impairments Rm	Transfers Rm	2006 Net book value Rm
Movement							
Computer software	196	445	–	(49)	–	–	592
Other intangible assets	–	–	–	–	–	–	–
Total	196	445	–	(49)	–	–	592

[1] *On 31 May 2007 the group acquired the remaining 76% of Fountainhead Property Trust, a property trust entity, to bring the ownership to 100%. Its only significant asset is a right to an indefinite stream of management revenues created by the trust deed of the property trust. The stream of revenues is dependent on the life and activity of the trust and therefore no useful life can be determined. The intangible asset is tested annually for impairment and at present there is no indication of impairment. The contribution to net profit since acquisition is R20 million which would have been R23 million if the acquisition had occurred on 1 January 2007. Contribution to revenue if acquisition occurred on 1 January 2007 is R44 million.*

	2007 Cost Rm	2007 Accumulated amortisation and impairment Rm	2007 Net book value Rm	2006 Cost Rm	2006 Accumulated amortisation and impairment Rm	2006 Net book value Rm
11. Intangible assets (continued)						
11.2 Company						
Summary						
Computer software	**1 368**	**290**	**1 078**	843	251	592
Other intangible assets	**279**	**–**	**279**	–	–	–
Total	**1 647**	**290**	**1 357**	843	251	592

	2006 Net book value Rm	Additions Rm	Disposals Rm	Amortisation Rm	Impairments Rm	Transfers Rm	2007 Net book value Rm
Movement							
Computer software	592	**568**	**–**	**(64)**	**(11)**	**(7)**	**1 078**
Other intangible assets	–	**279**	**–**	**–**	**–**	**–**	**279**
Total	592	**847**	**–**	**(64)**	**(11)**	**(7)**	**1 357**

	2005 Net book value Rm	Additions Rm	Disposals Rm	Amortisation Rm	Impairments Rm	Transfers Rm	2006 Net book value Rm
Movement							
Computer software	196	445	–	(49)	–	–	592
Other intangible assets	–	–	–	–	–	–	–
Total	196	445	–	(49)	–	–	592

	2007 Cost Rm	2007 Accumulated depreciation Rm	2007 Net book value Rm	2006 Cost Rm	2006 Accumulated depreciation Rm	2006 Net book value Rm
12. Property and equipment						
12.1 Group						
Summary						
Property						
Freehold	**836**	**248**	**588**	812	235	577
Leasehold	**59**	**26**	**33**	61	19	42
	895	**274**	**621**	873	254	619
Equipment						
Computer equipment	**4 572**	**2 887**	**1 685**	3 907	2 549	1 358
Motor vehicles	**477**	**238**	**239**	484	229	255
Office equipment	**274**	**113**	**161**	224	124	100
Furniture and fittings	**1 533**	**662**	**871**	1 071	574	497
	6 856	**3 900**	**2 956**	5 686	3 476	2 210
Total	**7 751**	**4 174**	**3 577**	6 559	3 730	2 829

12. Property and equipment (continued)

12.1 Group (continued)

	2006 Net book value Rm	Additions Rm	Disposals Rm	Depreciation Rm	Impairments Rm	2007 Net book value Rm
Movement						
Property						
Freehold	577	**29**	**(2)**	**(16)**	**–**	**588**
Leasehold	42	**–**	**–**	**(9)**	**–**	**33**
	619	**29**	**(2)**	**(25)**	**–**	**621**
Equipment						
Computer equipment	1 358	**855**	**(22)**	**(496)**	**(10)**	**1 685**
Motor vehicles	255	**107**	**(40)**	**(83)**	**–**	**239**
Office equipment	100	**86**	**–**	**(25)**	**–**	**161**
Furniture and fittings	497	**471**	**(3)**	**(94)**	**–**	**871**
	2 210	**1 519**	**(65)**	**(698)**	**(10)**	**2 956**
Total	2 829	**1 548**	**(67)**	**(723)**	**(10)**	**3 577**

	2005 Net book value Rm	Additions Rm	Disposals Rm	Depreciation Rm	Impairments Rm	2006 Net book value Rm
Movement						
Property						
Freehold	632	126	(170)	(11)	–	577
Leasehold	51	–	–	(9)	–	42
	683	126	(170)	(20)	–	619
Equipment						
Computer equipment	1 104	706	(20)	(432)	–	1 358
Motor vehicles	279	107	(48)	(83)	–	255
Office equipment	103	19	(2)	(20)	–	100
Furniture and fittings	436	162	(12)	(80)	(9)	497
	1 922	994	(82)	(615)	(9)	2 210
Total	2 605	1 120	(252)	(635)	(9)	2 829

12. Property and equipment (continued)

12.2 Company

	2007 Cost Rm	2007 Accumulated depreciation Rm	2007 Net book value Rm	2006 Cost Rm	2006 Accumulated depreciation Rm	2006 Net book value Rm
Summary						
Property						
Freehold	**834**	**248**	**586**	810	234	576
Leasehold	**59**	**26**	**33**	61	19	42
	893	**274**	**619**	871	253	618
Equipment						
Computer equipment	**4 543**	**2 862**	**1 681**	3 882	2 528	1 354
Motor vehicles	**455**	**225**	**230**	467	223	244
Office equipment	**270**	**110**	**160**	221	122	99
Furniture and fittings	**1 527**	**659**	**868**	1 065	567	498
	6 795	**3 856**	**2 939**	5 635	3 440	2 195
Total	**7 688**	**4 130**	**3 558**	6 506	3 693	2 813

	2006 Net book value Rm	Additions Rm	Disposals Rm	Depre-ciation Rm	Impair-ments Rm	2007 Net book value Rm
Movement						
Property						
Freehold	576	**29**	**(2)**	**(17)**	**–**	**586**
Leasehold	42	**–**	**–**	**(9)**	**–**	**33**
	618	**29**	**(2)**	**(26)**	**–**	**619**
Equipment						
Computer equipment	1 354	**851**	**(22)**	**(492)**	**(10)**	**1 681**
Motor vehicles	244	**101**	**(37)**	**(78)**	**–**	**230**
Office equipment	99	**86**	**–**	**(25)**	**–**	**160**
Furniture and fittings	498	**470**	**(3)**	**(97)**	**–**	**868**
	2 195	**1 508**	**(62)**	**(692)**	**(10)**	**2 939**
Total	2 813	**1 537**	**(64)**	**(718)**	**(10)**	**3 558**

	2005 Net book value Rm	Additions Rm	Disposals Rm	Depre-ciation Rm	Impair-ments Rm	2006 Net book value Rm
12. Property and equipment (continued)						
12.2 Company (continued)						
Movement						
Property						
Freehold	469	126	(12)	(7)	–	576
Leasehold	51	–	–	(9)	–	42
	520	126	(12)	(16)	–	618
Equipment						
Computer equipment	1 098	705	(20)	(429)	–	1 354
Motor vehicles	267	105	(47)	(81)	–	244
Office equipment	103	19	(2)	(21)	–	99
Furniture and fittings	433	162	(12)	(76)	(9)	498
	1 901	991	(81)	(607)	(9)	2 195
Total	2 421	1 117	(93)	(623)	(9)	2 813

A register of freehold land and buildings is available for inspection at the registered office of the company.

12.3 Valuation

The fair value of freehold property, based on valuations undertaken during 2007 and 2006 by valuers registered under the Valuers Act 1982, was estimated at R952 million (2006: R617 million) for the group and R950 million (2006: R615 million) for the company.

	Group		Company	
	2007 Rm	2006 Rm	**2007 Rm**	2006 Rm
13. Ordinary share capital				
13.1 Authorised				
80 000 000 (2006: 80 000 000) ordinary shares of R1 each	**80**	80	**80**	80
1 000 000 000 (2006: 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				
59 997 118 (2006: 59 997 112) ordinary shares of R1 each	**60**	60	**60**	60
During the year, 6 (2006: 3) ordinary shares of R1 each were issued at a premium of R917 million (2006: R1 667 million) per ordinary share.				
	60	60	**60**	60

	Group		Company	
	2007 Rm	2006 Rm	**2007 Rm**	2006 Rm
13. Ordinary share capital (continued)				
13.3 Unissued shares				
20 002 882 (2006: 20 002 888) 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 27 May 2008.	**20**	20	**20**	20
1 000 000 000 (2006: 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 27 May 2008.	**10**	10	**10**	10
	30	30	**30**	30
14. Ordinary share premium				
Share premium on issue of shares	**21 230**	15 730	**21 230**	15 730
Shares issued at a premium of R5 500 million (2006: R5 000 million).				
	21 230	15 730	**21 230**	15 730
15. Trading liabilities				
Listed	**2 881**	6 147	**2 881**	6 147
Unlisted	**2**	–	**2**	–
	2 883	6 147	**2 883**	6 147
Comprising:				
Government municipality and utility bonds	**2 810**	6 147	**2 810**	6 147
Corporate bonds	**6**	–	**6**	–
Listed equities	**65**	–	**65**	–
Other instruments	**2**	–	**2**	–
	2 883	6 147	**2 883**	6 147
Maturity analysis				
The maturities represent periods to contractual redemption of the trading liabilities recorded.				
– Repayable on demand	**65**	1	**65**	1
– Maturing within 1 month	**6**	–	**6**	–
– Maturing after 1 month but within 6 months	**33**	–	**33**	–
– Maturing after 6 months but within 12 months	**2**	–	**2**	–
– Maturing after 12 months	**2 710**	6 146	**2 710**	6 146
– Undated liabilities	**67**	–	**67**	–
	2 883	6 147	**2 883**	6 147

	Group		Company	
	2007 Rm	2006 Rm	**2007 Rm**	2006 Rm
16. Deposit and current accounts				
Deposits from banks	**37 644**	9 226	**37 644**	8 508
– Deposits from banks and central banks	**36 193**	7 760	**36 192**	7 042
– Deposits from banks under repurchase agreements	**1 451**	1 466	**1 452**	1 466
Deposits from customers	**515 220**	405 970	**484 423**	387 254
– Current accounts	**48 456**	42 651	**48 493**	42 718
– Cash management deposits	**67 658**	61 900	**67 658**	61 900
– Card creditors	**1 274**	1 286	**1 274**	1 286
– Call deposits	**144 257**	93 375	**144 259**	93 375
– Savings accounts	**17 106**	15 748	**17 106**	15 748
– Term deposits	**101 952**	90 029	**90 649**	80 076
– Negotiable certificates of deposit	**76 365**	52 834	**76 365**	52 834
– Repurchase agreements	**17 951**	5 433	**17 951**	5 433
– Securitisation issuances	**19 469**	14 321	**–**	–
– Other funding	**20 732**	28 393	**20 668**	33 884
Deposit and current accounts	**552 864**	415 196	**522 067**	395 762
Deposit and current accounts were reduced by fair value adjustments of R1 275 million (2006: increased by R250 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	**245 401**	173 605	**245 422**	173 157
– Maturing within 1 month	**101 922**	90 143	**96 043**	86 451
– Maturing after 1 month but within 6 months	**70 314**	66 907	**64 833**	60 227
– Maturing after 6 months but within 12 months	**47 037**	33 506	**45 416**	32 969
– Maturing after 12 months	**88 190**	51 035	**70 353**	42 958
	552 864	415 196	**522 067**	395 762

	Group		Company	
	2007 Rm	2006 Rm	**2007 Rm**	2006 Rm
17. Deferred taxation				
17.1 Deferred tax analysis				
Accrued interest	**–**	17	**–**	17
Assets on lease	**133**	134	**133**	134
Capital gains tax	**–**	(8)	**–**	(8)
Depreciation	**5**	32	**5**	32
Derivatives	**3 716**	2 841	**3 716**	2 841
Fair value adjustments of financial instruments	**128**	303	**126**	307
Impairment charges on loans and advances	**(823)**	(609)	**(823)**	(604)
Post-retirement benefits	**(428)**	(396)	**(428)**	(396)
Secondary tax on companies	**(88)**	(63)	**(88)**	(63)
Share-based payments	**(82)**	(22)	**(82)**	(22)
Other differences	**209**	505	**241**	514
Deferred tax closing balance	**2 770**	2 734	**2 800**	2 752
Deferred taxation liability	**2 883**	2 817	**2 888**	2 815
Deferred taxation asset	**(113)**	(83)	**(88)**	(63)
17.2 Deferred tax reconciliation				
Deferred tax balance at beginning of the year	**2 734**	2 068	**2 752**	1 982
Acquisition	**–**	–	**–**	82
Various categories of originating/(reversing) temporary differences for the year:	**36**	666	**48**	688
Accrued interest	**(17)**	–	**(17)**	–
Assessed losses	**–**	46	**–**	–
Assets on lease	**(1)**	(52)	**(1)**	(52)
Capital gains tax	**8**	5	**8**	5
Depreciation	**(27)**	(3)	**(27)**	(2)
Derivatives	**875**	672	**875**	672
Fair value adjustments of financial instruments	**(175)**	231	**(181)**	190
Impairment charges on loans and advances	**(214)**	(93)	**(219)**	(90)
Post-retirement benefits	**(32)**	(28)	**(32)**	(28)
Secondary tax on companies	**(25)**	(17)	**(25)**	(40)
Share-based payments	**(60)**	(16)	**(60)**	(16)
Other differences	**(296)**	(79)	**(273)**	49
Deferred tax balance at end of the year	**2 770**	2 734	**2 800**	2 752
18. Other liabilities				
18.1 Summary				
Trading settlement liabilities	**1 178**	1 327	**1 178**	1 327
Items in the course of transmission	**233**	55	**310**	145
Provision for post-retirement benefits (note 18.2)	**1 045**	645	**1 045**	645
Cash-settled share-based payment liability	**283**	75	**283**	75
Other liabilities and accruals	**5 386**	5 882	**5 054**	5 665
	8 125	7 984	**7 870**	7 857

	Group		Company	
	2007 Rm	2006 Rm	**2007 Rm**	2006 Rm
18. Other liabilities (continued)				
18.2 Provision for post-retirement benefits				
Balance at beginning of the year	**645**	745	**645**	745
Net provision raised/(released)	**400**	(100)	**400**	(100)
Balance at end of the year	**1 045**	645	**1 045**	645
Details on post-retirement benefits are provided in note 31 on page 110.				

	Notional value Rm	2007 Rm	2006 Rm	2007 Rm	2006 Rm
19. Subordinated debt					
Unsecured, subordinated, redeemable bonds					
Qualifying as secondary capital in terms of applicable banking legislation		**12 681**	10 246	**12 681**	10 246
Redeemable in 2013 (SBK 3)[1]	2 000	**2 054**	2 072	**2 054**	2 072
Redeemable in 2016 (SBK 5)[2]	2 000	**2 069**	2 080	**2 069**	2 080
Redeemable in 2017[3]	2 418	**2 464**	–	**2 464**	–
Redeemable in 2018 (SBK 8)[4]	1 500	**1 528**	1 528	**1 528**	1 528
Redeemable in 2020 (SBK 7)[5]	3 000	**3 037**	3 037	**3 037**	3 037
Redeemable in 2023 (SBK 9)[6]	1 500	**1 529**	1 529	**1 529**	1 529
Qualifying as tertiary capital in terms of applicable banking legislation:		**304**	616	**304**	616
Redeemable in 2007 (SBK 6)[7]	600	**–**	616	**–**	616
Redeemable in 2012 (SBK 10)[8]	300	**304**	–	**304**	–
Total subordinated debt		**12 985**	10 862	**12 985**	10 862

The difference between the carrying and notional value represents accrued interest together with the unmortised fair value adjustments relating to bonds hedged for interest rate risk.

[1] *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 bonds bear interest equal to a floating average mid-market rate per annum for three-month ZAR deposits plus 209 basis points, until maturity on 31 October 2013.*

[2] *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 bonds bear interest equal to a three-month floating Johannesburg interbank agreed rate plus 162 basis points, until maturity on 17 November 2016.*

[3] *Bonds issued in US Dollars (USD355 million) redeemable on 31 July 2017, divided into two categories:*

"A" – USD230 million bearing interest at 6,44% semi-annually, switching to floating three-month London interbank offer rate plus 188 basis points on 31 July 2012.

"B" – USD125 million at the three-month London interbank offer rate plus 88 basis points until 31 July 2012. Thereafter bearing interest at three-month London interbank offer rate plus 188 basis points.

[4] *8,2% bonds issued in Rands and paying a fixed semi-annual coupon. The bonds carry an option to be called at their nominal value on 10 April 2013 or on any interest payment date thereafter. After this option date, the bonds bear interest equal to a three-month floating Johannesburg interbank agreed rate plus 150 basis points, until maturity on 10 April 2018.*

[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, until maturity on 24 May 2020.*

[6] *8,4% bonds issued in Rands and paying a fixed semi-annual coupon. The bonds carry an option to be called at their nominal value on 10 April 2018 or on any interest payment date thereafter. After this option date, the bonds bear interest equal to a three-month floating Johannesburg interbank agreed rate plus 168 basis points, until maturity on 10 April 2023.*

[7] *7,7% bonds issued in Rands and paying a fixed semi-annual coupon. The group 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 were redeemed on 1 March 2007.*

[8] *Bonds issued in Rands at a floating rate equal to the three-month Johannesburg interbank agreed rate plus 67,5 basis points. The bonds are redeemable on 19 November 2012.*

20. Classification of assets and liabilities

Accounting classifications and fair values

The table below sets out the group's classification of each class of financial assets and liabilities, and their fair values.

Group

	Note	Held for trading Rm	Designated at fair value Rm
2007			
Financial assets			
Cash and balances with the central bank	3		
Derivative assets	4	**69 090**	
Trading assets	5	**4 423**	
Pledged assets	6.1	**347**	**1 403**
Financial investments	7		**48 814**
Loans and advances to banks	8	**28**	
Loans and advances to customers	8	**15 522**	**33 973**
Interest in group companies, associates and joint ventures	10	**8 206**	
Other non-financial assets			
		97 616	**84 190**
Financial liabilities			
Derivative liabilities	4	**71 489**	
Trading liabilities	15	**2 883**	
Deposits from banks	16		
Deposits from customers	16	**25 810**	**85 117**
Subordinated debt	19		
Liabilities to group companies	10.3	**2 861**	
Other non-financial liabilities			
		103 043	**85 117**
2006			
Financial assets			
Cash and balances with the central bank	3		
Derivative assets	4	67 058	
Trading assets	5	6 397	
Pledged assets	6.1	1 460	1 454
Financial investments	7		40 490
Loans and advances to banks	8		
Loans and advances to customers	8	4 960	32 274
Interest in group companies, associates and joint ventures	10	5 142	
Other non-financial assets			
		85 017	74 218
Financial liabilities			
Derivative liabilities	4	69 069	
Trading liabilities	15	6 147	
Deposits from banks	16	1 845	
Deposits from customers	16	6 258	58 771
Subordinated debt	19		
Liabilities to group companies	10.3	2 670	
Other non-financial liabilities			
		85 989	58 771

[1] *Carrying value has been used where it closely approximates fair value.*

Held-to-maturity Rm	Loans and receivables Rm	Available-for-sale Rm	Other amortised cost Rm	Other non-financial assets/ liabilities Rm	Total carrying amount Rm	Fair value[1] Rm
	14 286				**14 286**	**14 286**
					69 090	**69 090**
					4 423	**4 423**
					1 750	**1 750**
374	**29**	**353**			**49 570**	**49 620**
	40 986				**41 014**	**41 014**
	367 132				**416 627**	**416 634**
	79 142			**1 431**	**88 779**	**88 845**
				13 230	**13 230**	
374	**501 575**	**353**		**14 661**	**698 769**	
					71 489	**71 489**
					2 883	**2 883**
			37 644		**37 644**	**37 644**
			404 293		**515 220**	**515 220**
			12 985		**12 985**	**12 631**
			10 636		**13 497**	**13 497**
				11 985	**11 985**	
			465 558	**11 985**	**665 703**	
	11 058				11 058	11 058
					67 058	67 058
					6 397	6 397
					2 914	2 975
501		602			41 593	41 537
	48 209				48 209	48 209
	289 837				327 071	327 071
	41 031			1 123	47 296	47 316
				9 619	9 619	
501	390 135	602		10 742	561 215	
					69 069	69 069
					6 147	6 147
			7 381		9 226	9 226
			340 941		405 970	405 970
			10 862		10 862	10 965
			19 140		21 810	21 810
				11 476	11 476	
			378 324	11 476	534 560	

20. Classification of assets and liabilities (continued)

Accounting classifications and fair values (continued)

The table below sets out the company's classification of each class of financial assets and liabilities, and their fair values.

Company

	Note	Held for trading Rm	Designated at fair value Rm
2007			
Financial assets			
Cash and balances with the central bank	3		
Derivative assets	4	**69 198**	
Trading assets	5	**4 423**	
Pledged assets	6.1	**347**	**1 403**
Financial investments	7		**39 058**
Loans and advances to banks	8	**28**	
Loans and advances to customers	8	**15 522**	**32 635**
Interest in group companies, associates and joint ventures	10	**8 206**	
Other non-financial assets			
		97 724	**73 096**
Financial liabilities			
Derivative liabilities	4	**71 466**	
Trading liabilities	15	**2 883**	
Deposits from banks	16		
Deposits from customers	16	**25 810**	**73 797**
Subordinated debt	19		
Liabilities to group companies	10.3	**2 861**	
Other non-financial liabilities			
		103 020	**73 797**
2006			
Financial assets			
Cash and balances with the central bank	3		
Derivative assets	4	67 056	
Trading assets	5	6 397	
Pledged assets	6.1	1 460	1 454
Financial investments	7		31 960
Loans and advances to banks	8		
Loans and advances to customers	8	4 960	31 197
Interest in group companies, associates and joint ventures	10	5 142	
Other non-financial assets			
		85 015	64 611
Financial liabilities			
Derivative liabilities	4	69 030	
Trading liabilities	15	6 147	
Deposits from banks	16	1 845	
Deposits from customers	16	6 258	48 808
Subordinated debt	19		
Liabilities to group companies	10.3	2 669	
Other non-financial liabilities			
		85 949	48 808

[1] *Carrying value has been used where it closely approximates fair value.*

Held-to-maturity Rm	Loans and receivables Rm	Available-for-sale Rm	Other amortised cost Rm	Other non-financial assets/ liabilities Rm	Total carrying amount Rm	Fair value[1] Rm
	14 286				**14 286**	**14 286**
					69 198	**69 198**
					4 423	**4 423**
					1 750	**1 750**
374	**29**	**353**			**39 814**	**39 820**
	40 950				**40 978**	**40 978**
	345 774				**393 931**	**393 954**
	82 071			**1 186**	**91 463**	**91 529**
				13 091	**13 091**	
374	**483 110**	**353**		**14 277**	**668 934**	
					71 466	**71 466**
					2 883	**2 883**
			37 644		**37 644**	**37 644**
			384 816		**484 423**	**484 423**
			12 985		**12 985**	**12 631**
			12 645		**15 506**	**15 506**
				11 727	**11 727**	
			448 090	**11 727**	**636 634**	
	11 058				11 058	11 058
					67 056	67 056
					6 397	6 397
					2 914	2 975
501		602			33 063	33 007
	47 883				47 883	47 626
	279 414				315 571	315 571
	43 372			738	49 252	49 272
				9 391	9 391	
501	381 727	602		10 129	542 585	
					69 030	69 030
					6 147	6 147
			6 663		8 508	8 508
			332 188		387 254	387 254
			10 862		10 862	10 965
			20 898		23 567	23 567
				11 332	11 332	
			370 611	11 332	516 700	

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

21.1 Loans and advances

The maximum exposure to credit risk for loans and advances designated at fair value through profit and loss for the group is R33 973 million (2006: R32 274 million) and for the company is R32 635 million (2006: R31 197 million). No credit derivatives were used to mitigate credit risk on these instruments.

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

21.2 Financial liabilities

The fair value movement of financial liabilities attributable to changes in credit risk is Rnil (2006: Rnil) for the group and company.

The change in fair value of the designated financial liabilities attributable to changes in credit risk has been calculated by reference to the change in credit risk implicit in the market value of the bank's senior notes.

The amount that would contractually be paid at maturity for financial liabilities designated at fair value through profit and loss for the group is R91 122 million (2006: R64 492 million) and for the company is R79 649 million (2006: R54 432 million), R6 005 million (2006: R5 721 million) for the group and R5 852 million (2006: R5 624 million) for the company higher than the carrying amount.

	Group		Company	
	2007 Rm	2006 Rm	**2007 Rm**	2006 Rm
22. Contingent liabilities and capital commitments				
22.1 Contingent liabilities				
Letters of credit	**4 796**	3 028	**4 796**	3 028
Guarantees	**26 483**	20 962	**26 483**	20 962
Irrevocable unutilised facilities	**41 943**	40 443	**41 943**	40 443
	73 222	64 433	**73 222**	64 433

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

22.2 Capital commitments				
Contracted capital expenditure	**215**	170	**215**	170
Capital expenditure authorised but not yet contracted	**2 294**	1 409	**2 294**	1 409
	2 509	1 579	**2 509**	1 579

The expenditure will be funded from internal resources.

	Group		Company	
	2007 Rm	2006 Rm	**2007 Rm**	2006 Rm
22. Contingent liabilities and capital commitments (continued)				
22.3 Operating lease commitments				
The future minimum lease payments under non-cancellable operating leases are:				
Properties				
Within 1 year	**478**	408	**475**	405
After 1 year but within 5 years	**887**	510	**881**	500
After 5 years	**16**	–	**16**	–
	1 381	918	**1 372**	905
Equipment				
Within 1 year	**23**	22	**23**	22
After 1 year but within 5 years	**27**	35	**27**	35
After 5 years	**2**	2	**2**	2
	52	59	**52**	59
These commitments comprise a number of separate operating leases in relation to property and equipment, none of which is individually significant to the group and company.				
23. Income statement information				
23.1 Interest income				
Interest on loans and advances and short-term funds	**51 467**	37 477	**49 657**	36 989
Interest on investments	**1 710**	639	**765**	84
Unwinding of discount element of credit impairments for loans and advances (note 8.3)	**448**	256	**446**	256
Fair value adjustments on dated financial instruments	**(978)**	702	**(978)**	702
Dividends on unlisted financial investments	**1 054**	476	**1 054**	476
	53 701	39 550	**50 944**	38 507

All interest income reported above relates to financial assets or liabilities not carried at fair value through profit and loss, except for R10 112 million (2006: R6 961 million) for the group and R9 991 million (2006: R6 891 million) for the company on financial assets that are at fair value through profit and loss.

	Group		Company	
	2007 Rm	2006 Rm	**2007 Rm**	2006 Rm
23. Income statement information (continued)				
23.2 Interest expense				
Current accounts	**319**	192	**319**	192
Savings and deposit accounts	**5 754**	4 055	**5 754**	4 055
Foreign finance creditors	**1 547**	763	**1 547**	763
Subordinated debt	**1 071**	938	**1 071**	938
Other interest-bearing liabilities	**27 876**	20 785	**25 255**	19 665
	36 567	26 733	**33 946**	25 613

Interest expense reported above relates to financial liabilities not carried at fair value through profit and loss, except for R10 419 million (2006: R6 961 million) for the group and R9 351 million (2006: R6 363 million) for the company on financial liabilities that are at fair value through profit and loss.

23.3 Fee and commission revenue				
Account transaction fees	**4 888**	4 445	**4 888**	4 445
Card based commission	**2 942**	2 673	**2 530**	2 320
Knowledge based fees and commission	**420**	308	**417**	308
Electronic banking fees	**1 197**	1 121	**1 197**	1 121
Insurance – fees and commission	**1 032**	566	**533**	133
Foreign currency service fees	**520**	452	**520**	452
Documentation and administration fees	**468**	310	**453**	310
Other	**1 193**	1 384	**1 499**	1 663
	12 660	11 259	**12 037**	10 752

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

23.4 Fee and commission expense				
Account transaction fees	**263**	221	**263**	221
Card based commission	**635**	538	**621**	538
Knowledge based fees and commission	**1**	15	**1**	15
Electronic banking fees	**323**	324	**323**	324
Insurance – fees and commission	**355**	295	**355**	295
Documentation and administration fees	**42**	45	**42**	45
Other	**45**	39	**45**	39
	1 664	1 477	**1 650**	1 477

All fee and commission expenses reported above relates to financial assets or liabilities not carried at fair value through profit and loss for the group and company.

	Group		Company	
	2007 Rm	2006 Rm	**2007 Rm**	2006 Rm
23. Income statement information (continued)				
23.5 Trading revenue				
Foreign exchange	**1 477**	1 242	**1 477**	1 242
Debt securities	**649**	355	**649**	355
Commodities	**75**	47	**75**	47
Equities	**248**	200	**248**	200
	2 449	1 844	**2 449**	1 844
Interest and dividend income included in trading revenue:				
Net interest income	**104**	613	**104**	613
Dividend income – listed	**221**	237	**221**	237
	325	850	**325**	850
23.6 Other revenue				
Banking and other[1]	**689**	1 489	**1 206**	1 563
Property-related revenue	**105**	82	**83**	82
Insurance – underwriting and bancassurance profit	**27**	63	**27**	63
Profit on realisation of available-for-sale financial assets[2]	**471**	157	**471**	157
Net gains on financial instruments designated at fair value through profit and loss	**694**	401	**694**	401
Net losses on disposal of loans and receivables	**(1)**	–	**(1)**	–
	1 985	2 192	**2 480**	2 266
[1]Included in banking and other for the company is dividend income from subsidiaries of R160 million (2006: R247 million).				
[2]Profit of R459 million (2006: R157 million) included in available-for-sale financial assets relates to capital profit on realisation of MasterCard shares.				
23.7 Credit impairment charges				
Net credit impairments raised for loans and advances	**4 439**	2 603	**4 342**	2 512
Recoveries on loans and advances previously written off	**(243)**	(189)	**(228)**	(189)
	4 196	2 414	**4 114**	2 323
Comprising:				
Net credit impairments for non-performing loans	**3 453**	1 753	**3 366**	1 714
Credit impairment charges for non-performing loans (note 8.3)	**3 696**	1 942	**3 594**	1 903
Recoveries on loans and advances previously written off	**(243)**	(189)	**(228)**	(189)
Credit impairment charges on performing loans (note 8.3)	**743**	661	**748**	609
	4 196	2 414	**4 114**	2 323

	Group		Company	
	2007 Rm	2006 Rm	**2007 Rm**	2006 Rm
23. Income statement information (continued)				
23.8 Staff costs				
Salaries and allowances	**8 754**	7 227	**8 601**	7 109
Equity-linked transactions	**295**	159	**295**	159
Equity-settled share-based payments	**26**	43	**26**	43
Cash-settled share-based payments	**208**	55	**208**	55
Black Ownership Initiative transaction – equity-settled share-based payments	**61**	61	**61**	61
	9 049	7 386	**8 896**	7 268
23.9 Other operating expenses				
Amortisation – intangible assets (note 11)	**64**	49	**64**	49
Auditors' remuneration	**44**	41	**41**	40
Audit fees – current year	**39**	36	**36**	35
Fees for other services	**5**	5	**5**	5
Communication expense	**701**	600	**671**	576
Depreciation (note 12)	**723**	635	**718**	623
Property				
– Freehold	**16**	11	**17**	7
– Leasehold	**9**	9	**9**	9
Equipment				
– Computer equipment	**496**	432	**492**	429
– Motor vehicles	**83**	83	**78**	81
– Office equipment	**25**	20	**25**	21
– Furniture and fittings	**94**	80	**97**	76
Impairments	**21**	9	**21**	9
– Property and equipment (note 12)	**10**	9	**10**	9
– Intangible assets (note 11)	**11**	–	**11**	–
Information technology	**1 586**	1 065	**1 582**	1 065
Operating lease charges – premises	**702**	588	**698**	586
Premises	**653**	614	**651**	606
Professional fees	**572**	604	**564**	597
Profit on sale of property and equipment	**(13)**	(27)	**(13)**	(27)
Recoveries on motor vehicle disposals	**(24)**	(26)	**(24)**	(26)
Other expenses	**1 920**	1 735	**1 744**	1 588
	6 949	5 887	**6 717**	5 686

	Group		Company	
	2007 Rm	2006 Rm	**2007 Rm**	2006 Rm
24. Directors' emoluments				
Executive directors				
Emoluments of directors in respect of services rendered[1]:				
As directors of the company[2]	**18**	17	**18**	17
While directors of the company				
– as directors of subsidiary companies	**–**	–	**–**	–
– otherwise in connection with the affairs of the company or its subsidiaries[2]	**16**	4	**16**	4
Non-executive directors				
Emoluments of directors in respect of services rendered:				
As directors of the company	**3**	2	**3**	2
While directors of the company				
– as directors of subsidiary companies	**–**	–	**–**	–
– otherwise in connection with the affairs of the company or its subsidiaries	**4**	–	**4**	–
	41	23	**41**	23

[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.
[2]Including gains on exercise of options and other related payments.

25. Taxation				
Indirect taxation (note 25.1)	**610**	476	**605**	474
Direct taxation (note 25.2)	**2 696**	2 546	**2 630**	2 450
	3 306	3 022	**3 235**	2 924
25.1 Indirect taxation				
Regional services council levies	**–**	58	**–**	56
Value added tax	**531**	359	**527**	359
Duties	**9**	1	**9**	1
Skills development levy	**70**	58	**69**	58
	610	476	**605**	474

	Group		Company	
	2007 Rm	2006 Rm	**2007 Rm**	2006 Rm
25. Taxation (continued)				
25.2 Direct taxation				
Current year	**2 700**	2 552	**2 630**	2 450
– South African normal tax	**2 373**	1 752	**2 296**	1 645
– South African deferred tax	**150**	600	**157**	614
– Secondary tax on companies	**126**	179	**126**	170
– Foreign normal and withholding tax	**27**	16	**27**	16
– Capital gains tax	**24**	5	**24**	5
Prior years	**(4)**	(6)	**–**	–
South African normal tax	**–**	(6)	**–**	–
South African deferred tax	**(4)**	–	**–**	–
	2 696	2 546	**2 630**	2 450
The aggregate current and deferred tax relating to items charged or credited to equity amounted to R9 million (2006: R109 million).				
South African tax rate reconciliation (%)				
The total taxation charge for the year as a percentage of net income before indirect taxation	**26**	27	**26**	27
Regional services council levies and stamp duties	**–**	(1)	**–**	(1)
Value added tax	**(4)**	(3)	**(4)**	(3)
Duties, STC and skills development	**(1)**	(2)	**(1)**	(2)
The direct taxation charge for the year as a percentage of profit before direct taxation	**21**	21	**21**	21
The charge for the year has been reduced as a consequence of:				
– Dividends received	**4**	5	**5**	5
– Other non-taxable income	**2**	2	**2**	2
– Other permanent differences	**2**	1	**1**	1
Standard rate of South African tax	**29**	29	**29**	29

	Group		Company	
	2007 Rm	2006 Rm	**2007 Rm**	2006 Rm
26. Dividends				
Ordinary dividends				
Dividend 107 of 2 500 cents per share paid on 15 March 2006 to the shareholder registered on 15 March 2006		1 500		1 500
Dividend 108 of 2 667 cents per share paid on 10 April 2006 to the shareholder registered on 10 April 2006		1 600		1 600
Dividend *in specie* declared on 15 August 2006 to the shareholder registered on 15 August 2006		3		3
Dividend 109 of 2 500 cents per share paid on 25 August 2006 to the shareholder registered on 25 August 2006		1 500		1 500
Dividend 110 of 2 667 cents per share paid on 8 September 2006 to the shareholder registered on 8 September 2006		1 600		1 600
Dividend 111 of 3 333 cents per share paid on 8 December 2006 to the shareholder registered on 8 December 2006		2 000		2 000
Dividend 112 of 1 667 cents per share paid on 16 March 2007 to the shareholder registered on 16 March 2007	**1 000**		**1 000**	
Dividend 113 of 2 667 cents per share paid on 13 April 2007 to the shareholder registered on 12 April 2007	**1 600**		**1 600**	
Dividend 114 of 1 667 cents per share paid on 30 May 2007 to the shareholder registered on 30 May 2007	**1 000**		**1 000**	
Dividend 115 of 1 667 cents per share paid on 20 August 2007 to the shareholder registered on 20 August 2007	**1 000**		**1 000**	
Dividend 116 of 1 050 cents per share paid on 4 September 2007 to the shareholder registered on 3 September 2007	**630**		**630**	
Dividend 117 of 2 283 cents per share paid on 5 September 2007 to the shareholder registered on 4 September 2007	**1 370**		**1 370**	
Dividend 118 of 833 cents per share paid on 14 September 2007 to the shareholder registered on 14 September 2007	**500**		**500**	
Dividend 119 of 1 667 cents per share paid on 11 December 2007 to the shareholder registered on 11 December 2007	**1 000**		**1 000**	
	8 100	8 203	**8 100**	8 203

On 4 March 2008 the following dividend was declared:

Dividend 120 of 5 250 cents per share payable on 4 March 2008, to the shareholder registered on 4 March 2008, bringing the total dividends declared in respect of 2007 to 17 084 cents per share (2006: 12 834).

	Group		Company	
	2007	2006	**2007**	2006
27. Earnings per share				
The calculations of basic earnings and headline earnings per share are as follows:[1]				
Earnings				
Basic earnings (Rm)	**9 331**	8 147	**9 352**	8 078
Headline earnings (Rm)	**8 879**	7 980	**8 885**	7 911
Weighted average number of ordinary shares in issue (thousands)	**59 997**	59 997	**59 997**	59 997
Basic earnings per share (cents)	**15 552**	13 579	**15 587**	13 464
Headline earnings per share (cents)	**14 799**	13 301	**14 809**	13 186
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
Effect of shares issued during the year	**–**	–	**–**	–
Weighted average number of ordinary shares in issue (thousands)	**59 997**	59 997	**59 997**	59 997

[1] *Basic earnings per share equals diluted earnings per share as there are no potential dilutive ordinary shares in issue.*

	Gross 2007 Rm	**Tax 2007 Rm**	**Net 2007 Rm**	Gross 2006 Rm	Tax 2006 Rm	Net 2006 Rm
28. Headline earnings						
Group						
Profit attributable to the ordinary shareholder for the year	**12 027**	**(2 696)**	**9 331**	10 693	(2 546)	8 147
Headline earnings adjustable items (reversed)/added	**(463)**	**11**	**(452)**	(175)	8	(167)
Profit on sale of property and equipment – IAS 16	**(13)**	**–**	**(13)**	(27)	8	(19)
Impairment of property and equipment – IAS 16	**10**	**(3)**	**7**	9	(3)	6
Gain on disposal of businesses and divisions – IAS 27	**–**	**3**	**3**	–	–	–
Impairment of intangible assets – IAS 38	**11**	**(3)**	**8**	–	–	–
Fair value gains on available-for-sale assets – IAS 39	**(471)**	**14**	**(457)**	(157)	3	(154)
Headline earnings	**11 564**	**(2 685)**	**8 879**	10 518	(2 538)	7 980

	Gross 2007 Rm	Tax 2007 Rm	Net 2007 Rm	Gross 2006 Rm	Tax 2006 Rm	Net 2006 Rm
28. Headline earnings (continued)						
Company						
Profit attributable to the ordinary shareholder for the year	**11 982**	**(2 630)**	**9 352**	10 528	(2 450)	8 078
Headline earnings adjustable items (reversed)/added	**(478)**	**11**	**(467)**	(175)	8	(167)
Profit on sale of property and equipment – IAS 16	**(13)**	**–**	**(13)**	(27)	8	(19)
Impairment of property and equipment – IAS 16	**10**	**(3)**	**7**	9	(3)	6
Gain on disposal of businesses and divisions – IAS 27	**(15)**	**3**	**(12)**	–	–	–
Impairment of intangible assets – IAS 38	**11**	**(3)**	**8**	–	–	–
Fair value gains on available-for-sale assets – IAS 39	**(471)**	**14**	**(457)**	(157)	3	(154)
Headline earnings	**11 504**	**(2 619)**	**8 885**	10 353	(2 442)	7 911

Headline earnings is calculated in accordance with Circular 8/2007. The circular allows for the inclusion in headline earnings of any gains or losses on any sale of private equity joint ventures or associates held by a banking institution. These associates are to be ring-fenced, refer to Annexure C on page 120 for the required disclosure in terms of the circular.

	Group		Company	
	2007 Rm	2006 Rm	**2007 Rm**	2006 Rm
29. Cash flow statement				
29.1 Reconciliation of net income before share of profit from associates and joint ventures to cash flows from operating activities				
Income before share of profit from associates and joint ventures	**12 370**	10 948	**12 587**	11 002
Adjusted for:	**5 851**	1 674	**5 454**	1 494
Amortisation and impairment – intangible assets (note 23.9)	**75**	49	**75**	49
Bond hedging relationships	**160**	(29)	**160**	(29)
Credit impairment charges on loans and advances (note 23.7)	**4 196**	2 414	**4 114**	2 323
Depreciation and impairment – property and equipment (note 23.9)	**733**	644	**728**	632
Discount element recognised from credit impairment for loans and advances (note 23.1)	**(448)**	(256)	**(446)**	(256)
Dividends from associates (note 10.2)	**317**	79		
Equity-settled share-based payments (note 23.8)	**87**	104	**87**	104
Fair value adjustments on dated financial instruments (note 23.1)	**978**	(702)	**978**	(702)
Indirect taxation (note 25.1)	**(610)**	(476)	**(605)**	(474)
Profit on sale of property and equipment (note 23.9)	**(13)**	(27)	**(13)**	(27)
Provision for post-retirement benefits (note 18.2)	**400**	(100)	**400**	(100)
Recoveries on motor vehicle disposals (note 23.9)	**(24)**	(26)	**(24)**	(26)
Net cash flows from operating activities	**18 221**	12 622	**18 041**	12 496

	Group		Company	
	2007 Rm	2006 Rm	**2007 Rm**	2006 Rm
29. Cash flow statement notes (continued)				
29.2 Cash receipts from customers				
Interest income	**53 337**	42 375	**50 582**	41 085
Fees and commission revenue	**10 996**	9 782	**10 387**	9 275
Trading and other revenue	**4 213**	3 799	**4 548**	3 873
	68 546	55 956	**65 517**	54 233
29.3 Cash paid to customers, employees and suppliers				
Interest expense	**(36 567)**	(31 021)	**(33 946)**	(29 901)
Total operating expenses	**(15 350)**	(13 105)	**(14 965)**	(12 796)
	(51 917)	(44 126)	**(48 911)**	(42 697)
29.4 Dividends received				
Dividends from subsidiaries			**160**	247
Dividends from associates	**317**	79		
Dividends from dated financial investments	**1 054**	476	**1 054**	476
Dividends from trading activities	**221**	237	**221**	237
	1 592	792	**1 435**	960
29.5 Increase in income-earning assets				
Financial investments	**(8 259)**	(2 815)	**(7 033)**	(1 132)
Trading assets	**1 974**	2 512	**1 974**	2 316
Pledged assets	**1 164**	1 290	**1 164**	1 290
Loans and advances	**(87 087)**	(78 416)	**(76 101)**	(76 368)
Net derivative assets	**244**	2 519	**152**	2 545
Interest in group companies	**(41 175)**	(27 165)	**(41 836)**	(26 155)
Other assets	**(1 967)**	(899)	**(2 157)**	(1 150)
	(135 106)	(102 974)	**(123 837)**	(98 654)
29.6 Increase in deposits and other liabilities				
Customers' current, savings and other deposits, and deposits from banks	**137 668**	84 849	**126 305**	79 745
Trading liabilities	**(3 264)**	(6 791)	**(3 264)**	2 823
Liabilities to group companies	**(8 313)**	17 563	**(8 061)**	8 687
Other liabilities	**(259)**	1 795	**(387)**	1 920
	125 832	97 416	**114 593**	93 175
29.7 Direct taxation paid				
Current and deferred tax at beginning of the year	**(3 012)**	(3 011)	**(3 015)**	(2 916)
Income statement charge	**(2 696)**	(2 546)	**(2 630)**	(2 450)
Current and deferred tax at end of the year	**3 342**	3 012	**3 364**	3 015
	(2 366)	(2 545)	**(2 281)**	(2 351)
29.8 Proceeds from issue of share capital to shareholder				
Ordinary share capital and share premium	**5 500**	5 000	**5 500**	5 000
	5 500	5 000	**5 500**	5 000

	Group		Company	
	2007 Rm	2006 Rm	**2007 Rm**	2006 Rm
29. Cash flow statement notes (continued)				
29.9 Dividends paid[1]				
Dividends to ordinary shareholder	**(8 100)**	(8 200)	**(8 100)**	(8 200)
	(8 100)	(8 200)	**(8 100)**	(8 200)
[1]*Dividends paid excludes R3 million in 2006 relating to a dividend in specie.*				
29.10 Disposal of subsidiaries				
Cash and cash equivalents		24		
Financial investments		45		
Loans and advances		384		
Trading assets		1		
Account receivables		5		
Property, equipment and other assets		624		
Total assets disposed		1 083		
Non-current liabilities		380		
Current liabilities		60		
Net assets disposed		643		
Cash consideration[1]		–		
Cash and cash equivalents disposed		(24)		
[1]*Subsidiaries were transferred to the holding company following a restructure of the group.*				

30. Related party transactions

30.1 Parent

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

30.2 Subsidiaries

Details of effective interest, investments and loans to subsidiaries are disclosed in Annexure B on page 118.

30.3 Associates and joint ventures

Details of effective interest, investments and loans to associates and joint ventures are disclosed in Annexure C on pages 119 to 120.

30.4 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 group executive committee. 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 dependants of the individual or the individual's domestic partner.

	2007 Rand	2006 Rand
30. Related party transactions (continued)		
30.4 Key management personnel (continued)		
Key management compensation		
Salaries and other short-term benefits	**107 736 024**	93 696 421
Post-retirement benefits	**2 573 483**	2 493 255
Other long-term benefits	**4 597 674**	3 781 655
IFRS 2 value of share options and rights expensed	**14 665 134**	12 029 857
	129 572 315	112 001 188
Mortgage loans		
Loans outstanding at beginning of the year	**9 615 360**	8 084 155
Loans granted during the year	**23 338 138**	9 594 296
Loan repayments during the year	**(16 869 564)**	(8 899 321)
Interest earned	**2 132 121**	836 230
Loans outstanding at end of the year	**18 216 055**	9 615 360
Interest rate range for the year	**11% – 14%**	9% – 11,5%
No impairment has been recognised in respect of loans granted to key management (2006: Rnil).		
Mortgage loans are repayable monthly over 20 years. These loans are secured by properties with a total fair value of R58 914 968 (2006: R21 741 000).		
Vehicle and asset finance		
Loans outstanding at beginning of the year	**7 422 201**	5 358 324
Net new loans granted	**2 641 047**	4 821 781
Net repayments	**(3 681 805)**	(3 298 328)
Net interest earned	**663 964**	540 424
Loans outstanding at end of the year	**7 045 407**	7 422 201
Interest rate range for the year	**9% – 16,5%**	8% – 12,5%
Credit cards		
Balance outstanding at beginning of the year	**2 162 981**	820 029
Net credit card (repayments)/spend	**(1 657 382)**	1 311 399
Total annual fees	**10 277**	6 121
Total net interest	**12 158**	25 432
Balance outstanding at end of the year	**528 034**	2 162 981
Interest rate range for the year	**0% – 22%**	0% – 17%

No credit impairments have been recognised in respect of credit cards and vehicle and asset finance lending to key management (2006: Rnil). These loans are unsecured. The interest rate range disclosed for credit card accounts starts at 0% as interest is only charged on amounts not settled in the month following the card transactions. This is in line with the normal rates charged to customers.

	2007 Rand	2006 Rand
30. Related party transactions (continued)		
30.4 Key management personnel (continued)		
Cheque and current accounts		
Credit balance at beginning of the year	**59 924 359**	36 047 852
Key management changes	**(641 227)**	(218 947)
Interest paid	**1 704 070**	3 064 589
Interest earned and service fee charges	**(177 480)**	(1 103 380)
Net (withdrawals)/deposits	**(14 608 102)**	11 438 604
Exchange differences	**2 323 516**	10 695 641
Credit balance at end of the year	**48 525 136**	59 924 359
Interest rate range for the year	**0% – 4%**	0% – 3%
Savings accounts		
Credit balance at beginning of the year	**8 339 698**	20 034 210
Key management changes	**97 036**	622 812
Interest paid net of service fees and bank charges	**1 487 235**	466 631
Net deposits/(withdrawals)	**2 600 096**	(12 783 955)
Credit balance at end of the year	**12 524 065**	8 339 698
Interest rate range for the year	**0% – 9,2%**	4,5% – 5,9%
Insurance and investment		
Details of key management personnel's insurance and investment transactions and balances with fellow subsidiaries.		
Life and disability insurance		
Aggregated insured cover	**30 865 734**	30 025 155
Premiums received	**400 866**	459 144
Surrender value	**3 058 124**	2 180 802
Other insurance		
Aggregated insured cover	**206 529 246**	71 936 018
Premiums received	**93 723**	425 743
Investment products		
Fund value balance at beginning of the year	**470 691 978**	229 717 943
Key management changes	**235 000**	77 975 765
Deposits	**239 991 675**	80 592 372
Net investment return credited	**15 270 627**	84 848 193
Commission and other transaction fees	**(2 993 887)**	(2 442 295)
Fund value at end of the year	**723 195 393**	470 691 978

	2007 Rand	2006 Rand
30. Related party transactions (continued)		
30.4 Key management personnel (continued)		
Third party funds under management		
Fund value at beginning of the year	**762 923 757**	495 771 167
Net deposits including commission and other transaction fees	**106 291 794**	267 152 590
Fund value at end of the year	**869 215 551**	762 923 757
Other fees		
Financial consulting fees and commission	**23 201**	8 265
Shares and share options held		
Aggregate details of Standard Bank Group Limited shares and share options held by key management personnel.		
Shares beneficially owned (number)	**13 757 045**	12 778 081
Share options held (number)	**8 392 482**	8 664 882

	Subsidiaries		Fellow subsidiaries	
	2007 Rm	2006 Rm	**2007 Rm**	2006 Rm
30.5 Subsidiaries and fellow subsidiaries				
Other loans				
Group				
Loans outstanding at beginning of the year			**46 069**	18 155
Net movement for the year			**41 279**	27 914
Loans outstanding at end of the year			**87 348**	46 069
Company				
Loans outstanding at beginning of the year	**4 028**	6 163	**44 382**	15 442
Net movement for the year	**1 261**	(2 135)	**40 606**	28 940
Loans outstanding at end of the year	**5 289**	4 028	**84 988**	44 382
Interest income earned for company	**504**	361	**3 072**	1 922
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.				
Deposit, cheque and current accounts				
Group				
Deposits outstanding at beginning of the year			**29 996**	9 070
Net movement for the year			**(5 780)**	20 926
Deposits outstanding at end of the year			**24 216**	29 996
Company				
Deposits outstanding at beginning of the year	**1 801**	10 635	**29 952**	9 070
Net movement for the year	**195**	(8 834)	**(5 723)**	20 882
Deposits outstanding at end of the year	**1 996**	1 801	**24 229**	29 952
Interest expense on deposits for the company	**121**	54	**374**	545

	Cash balances		Interest earned		Fees charged	
	2007 Rm	2006 Rm	**2007 Rm**	2006 Rm	**2007 Rm**	2006 Rm
30. Related party transactions (continued)						
30.5 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 and cash equivalents						
– Liberty Life	**349**	1 235	**15**	11	**23**	22
– Liberty Life subsidiaries	**319**	440	**66**	25	**6**	2
	668	1 675	**81**	36	**29**	24

Corporate action

The Standard Bank of South Africa provided consultancy services to Liberty Life with respect to various corporate actions. Fees charged were R2 million (2006: R2 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 2007 amounted to R24 million (2006: R24 million).

Software development

The Standard Bank of South Africa has contracted Liberty Life to develop a commission and specific customer information system. Fees associated with this development will be charged over five years. Fees charged for 2007 are R8 million (2006: R2 million).

Operating leases

Lease income

Liberty Life leases a Pretoria property from The Standard Bank of South Africa in terms of a lease entered into on 22 December 1999 for a period of 13,5 years terminating on 31 May 2013. Lease escalations are fixed at 12% per annum. Total lease receipts for 2007: R64 million (2006: R57 million).

Lease expense

The Standard Bank of South Africa leases several properties from Liberty Life, including 50% of its head office at 5 Simmonds Street, Johannesburg and various retail branches in shopping centres. These leases are governed by numerous separate lease agreements. Total lease payments for 2007: R53 million (2006: R44 million).

Bancassurance

Liberty Life and Liberty Active have entered into a 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 2007 amounted to R4 966 million (2006: R5 043 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 2007 is R274 million (2006: R184 million).

Liberty conference centre utilisation

Various subsidiaries of the Standard Bank Group used facilities of Liberty Life's conference centre in 2007. Fees charged amounted to R2 million (2006: R2 million).

30. Related party transactions (continued)

30.5 Subsidiaries and fellow subsidiaries (continued)

Insurance

Certain insured risks of the Liberty Group are negotiated and/or included in the Standard Bank Group insurance policy. These include R3 billion (2006: R2 billion) cover for crime, fraud and professional indemnity, R2 billion (2006: R1 billion) directors' and officers' cover and R620 million (2006: R620 million) assets all risks cover. The asset all risks premiums include South African Special Risks Insurance Association (SASRIA) cover of R500 million (2006: R500 million). The proportionate share of premiums charged to Liberty Life by Standard Bank Group for 2007 is R9 million (2006: R7 million).

30.6 Other contracts

Saki Macozoma, a director of the group and deputy chairman of the SBG group, has a shareholding of 20% in Safika, which is a member of different consortia that were party to the Andisa Capital and Tutuwa transactions. Safika holds effective interests of 55% in Andisa Capital, 2,14% in Liberty Group and 1,77% (post ICBC transaction: 1,41%) in SBG. SBG holds an effective interest of 16,5% in Safika.

Cyril Ramaphosa, a director of the group, has a 44,15% shareholding in Shanduka, which is a member of the Tutuwa consortium. Shanduka holds an effective interest of 1,48% in Liberty Group and 1,17% (post ICBC transaction: 0,94%) in SBG. SBG holds an effective interest of 15,3% in Shanduka.

Doug Band, a director of the group, has a shareholding in Gymnogene Investments (Proprietary) Limited. This company has a contractual relationship with the bank. Payments arise from a share of the profit on disposal of private equity investments in the portfolio.

In February 2007 Standard Bank Group acquired 25,1% of the issued share capital of Sankofa Trust (Proprietary) Limited. The balance of the shares in this company are held by trusts controlled by SE Jonah KBE, a director of the group, the Jonah family and the company's management.

30.7 Post-retirement benefit plans

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

	2007 R'000	2006 R'000
Fee income	**44 291**	30 211
Deposits held with the bank	**130 963**	191 447
Interest paid	**115 940**	44 595
Value of assets under management	**17 511 488**	15 491 147
Deposits held in bonds and money market	**46 940**	217 634
Number of Standard Bank Group shares held (number)	**2 533 201**	6 247 047

31. Post-retirement benefits

	Group		Company	
	2007 Rm	2006 Rm	**2007 Rm**	2006 Rm
Amounts recognised as a liability in the balance sheet (note 18.2)				
Retirement fund (note 31.1)	**473**	277	**473**	277
Post-retirement healthcare benefits (note 31.2)	**572**	368	**572**	368
– Provider fund	**(22)**	(2)	**(22)**	(2)
– Other	**594**	370	**594**	370
	1 045	645	**1 045**	645

The total amount recognised as an expense for the defined contribution plan operated by the group amounted to R445 million (2006: R378 million).

31. Post-retirement benefits (continued)

31.1 Retirement fund

Membership of the principal fund, the Standard Bank Group Retirement Fund (SBGRF), exceeds 95% of The Standard Bank of South Africa's permanent staff. 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. The latest full actuarial valuation was performed on 31 December 2007 and, in the opinion of the actuary, the fund is considered to be financially sound. The next actuarial valuation is to be performed on 31 December 2008.

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. There have been no alterations to the contribution rate recommended by the actuary during the year.

At 31 December 2007, the valuation of the fund, the determination of its financial position and the determination of any shortfall or surplus position are still to be finalised and approved by the Registrar of Pension Funds in terms of the Pension Fund Second Amendment Act, 39 of 2001. Consequently no account has been taken of a potential shortfall or surplus.

	Group		Company	
	2007 Rm	2006 Rm	**2007 Rm**	2006 Rm
The amounts recognised in the balance sheet in respect of the retirement fund are determined as follows:				
Present value of funded defined benefit obligation	**22 486**	20 049	**22 486**	20 049
Fair value of plan assets	**(22 486)**	(20 049)	**(22 486)**	(20 049)
Surplus	**–**	–	**–**	–
Unrecognised actuarial gains	**473**	277	**473**	277
Included in other liabilities and provisions in the balance sheet	**473**	277	**473**	277
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.				
Movement in the present value of defined benefit obligation				
Balance at beginning of the year	**20 049**	16 877	**20 049**	16 877
Current service cost and interest cost	**2 404**	1 741	**2 404**	1 741
Contributions paid by employees	**335**	285	**335**	285
Actuarial losses	**829**	2 278	**829**	2 278
Benefits paid	**(1 131)**	(1 132)	**(1 131)**	(1 132)
Balance at end of the year	**22 486**	20 049	**22 486**	20 049
Movement in the fair value of plan assets				
Balance at beginning of the year	**20 049**	16 877	**20 049**	16 877
Expected return on plan assets	**1 851**	1 531	**1 851**	1 531
Contributions received	**668**	568	**668**	568
Actuarial gains	**1 049**	2 205	**1 049**	2 205
Benefits paid	**(1 131)**	(1 132)	**(1 131)**	(1 132)
Balance at end of the year	**22 486**	20 049	**22 486**	20 049

	Group		Company	
	2007 Rm	2006 Rm	**2007 Rm**	2006 Rm
31. Post-retirement benefits (continued)				
31.1 Retirement fund (continued)				
Plan assets consist of the following:				
Cash	**94**	1 185	**94**	1 185
Equities	**12 518**	10 564	**12 518**	10 564
Government bonds	**4 686**	4 308	**4 686**	4 308
Property and other	**5 188**	3 992	**5 188**	3 992
	22 486	20 049	**22 486**	20 049
The group expects to pay R354 million in contributions to defined benefit plans in 2008 (2007: R300 million).				
The amounts recognised in the income statement are determined as follows:				
Current service cost	**714**	294	**714**	294
Interest cost	**1 690**	1 447	**1 690**	1 447
Expected return on plan assets	**(1 851)**	(1 531)	**(1 851)**	(1 531)
Net actuarial gain recognised in the year	**(23)**	(25)	**(23)**	(25)
Included in staff costs	**530**	185	**530**	185
Actual return on plan assets	**2 900**	3 736	**2 900**	3 736

The expected long-term rate of return is based on the expected long-term returns on equities, cash and bonds. The split between the individual asset categories is considered in setting these assumptions. Adjustments are made to reflect the effect of retirement funds tax (RFT) and expenses.

Group and company

	2007 Rm	2006 Rm	2005 Rm	2004 Rm	2003 Rm
Historical information					
Present value of defined benefit obligation	**22 486**	20 049	16 877	12 923	10 174
Fair value of plan assets	**(22 486)**	(20 049)	(16 877)	(13 045)	(10 512)
Surplus	**–**	–	–	(122)	(338)
Experience adjustments arising on plan liabilities	**(1 592)**	(2 278)	(2 509)	(1 842)	518
Experience adjustments arising on plan assets	**1 049**	2 205	2 477	1 788	–

31. Post-retirement benefits (continued)

31.2 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 2007 and reflected an excess in the fund. In the prior year, the company received approval from the FSB to transfer the excess to an employer reserve.

Post-retirement medical aid

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 2007. The next actuarial valuation is to be performed on 31 December 2008.

	Group		Company	
	2007 Rm	2006 Rm	**2007 Rm**	2006 Rm
The amounts recognised in the balance sheet in respect of post-retirement healthcare benefits are determined as follows:				
Present value of unfunded obligation	**594**	589	**594**	589
Present value of funded obligation	**583**	845	**583**	845
Total present value of obligations	**1 177**	1 434	**1 177**	1 434
Fair value of plan assets	**(1 332)**	(1 167)	**(1 332)**	(1 167)
(Surplus)/unfunded obligation	**(155)**	267	**(155)**	267
Unrecognised actuarial gains	**727**	101	**727**	101
Included in other liabilities and provisions in the balance sheet	**572**	368	**572**	368
Movement in the present value of defined benefit obligations				
Balance at beginning of the year	**1 434**	1 232	**1 434**	1 232
Current service cost and interest cost	**148**	133	**148**	133
Actuarial (gains)/losses	**(291)**	192	**(291)**	192
Benefits paid	**(114)**	(123)	**(114)**	(123)
Balance at end of the year	**1 177**	1 434	**1 177**	1 434
Movement in the fair value of plan assets				
Balance at beginning of the year	**1 167**	991	**1 167**	991
Expected return on plan assets	**102**	89	**102**	89
Actuarial gains	**136**	168	**136**	168
Benefits paid	**(73)**	(81)	**(73)**	(81)
Balance at end of the year	**1 332**	1 167	**1 332**	1 167

	Group		Company	
	2007 Rm	2006 Rm	**2007 Rm**	2006 Rm
31. Post-retirement benefits (continued)				
31.2 Post-retirement healthcare benefits (continued)				
Plan assets consist of the following:				
Cash	**142**	76	**142**	76
Equities	**938**	847	**938**	847
Government bonds	**110**	110	**110**	110
Property and other	**142**	134	**142**	134
	1 332	1 167	**1 332**	1 167
The group expects to pay R43 million in contributions to post-retirement healthcare benefit plans in 2008 (2007: R41 million).				
The amounts recognised in the income statement are determined as follows:				
Current service cost	**31**	30	**31**	30
Interest cost	**117**	103	**117**	103
Expected return on plan assets	**(102)**	(89)	**(102)**	(89)
Net actuarial gains recognised in the year	**(20)**	(5)	**(20)**	(5)
Included in staff costs	**26**	39	**26**	39
Actual return on plan assets	**238**	257	**238**	257

Assumed medical inflation rates have a significant effect on the amounts recognised in profit and loss. A one percentage point change in the medical inflation rate would have the following effects on amounts recognised in 2007 and 2006:

Group and Company

	2007		2006	
	1% increase Rm	**1% decrease Rm**	1% increase Rm	1% decrease Rm
Effect on the aggregate of the current service cost and interest cost	**5**	(4)	**5**	(4)
Effect on the defined benefit obligation	**61**	(53)	**63**	(54)

Historical information
Group and company

	2007 Rm	2006 Rm	2005 Rm	2004 Rm	2003 Rm
Present value of defined benefit obligations	**1 177**	1 434	1 232	1 014	872
Fair value of plan assets	**(1 332)**	(1 167)	(991)	(798)	(652)
(Surplus)/unfunded obligations	**(155)**	267	241	216	220
Experience adjustments arising on plan liabilities	**285**	(191)	(152)	(92)	143
Experience adjustments arising on plan assets	**136**	168	152	112	37

31. Post-retirement benefits (continued)

31.3 Principal actuarial assumptions

The principal actuarial assumptions used for accounting purposes were:

	Retirement fund %	Provider fund %	Post-retirement medical aid %
2007			
Discount rate	**8,50**	**8,50**	**8,50**
Return on investments	**9,75**	**9,00**	
Salary/benefit inflation	**6,25**	**7,25**	
CPI inflation	**5,25**	**5,25**	**5,25**
Medical inflation			**7,25**
Remaining service life of employees (years)	**14,47**	**17,00**	
2006			
Discount rate	8,25	8,25	8,25
Return on investments	9,25	8,75	
Salary/benefit inflation	6,25	7,25	
CPI inflation	5,25	5,25	5,25
Medical inflation			7,25
Remaining service life of employees (years)	14,95	18,00	

Annexure A – restatements

Balance sheet restatements at 31 December 2006

	Group			Company		
	As previously reported Rm	IFRS 7[1] Rm	Restated Rm	As previously reported Rm	IFRS 7[1] Rm	Restated Rm
Assets						
Cash and balances with the central bank	50 175	(39 117)	11 058	49 978	(38 920)	11 058
Derivative assets	67 058		67 058	67 056		67 056
Trading assets	7 857	(1 460)	6 397	7 857	(1 460)	6 397
Pledged assets		2 914	2 914		2 914	2 914
Financial investments	43 047	(1 454)	41 593	34 517	(1 454)	33 063
Loans and advances	336 163	39 117	375 280	324 534	38 920	363 454
Loans and advances to banks	9 092	39 117	48 209	8 963	38 920	47 883
Loans and advances to customers	327 071		327 071	315 571		315 571
Current taxation	397		397	397		397
Deferred taxation	83		83	63		63
Other assets	5 718		5 718	5 526		5 526
Interest in group companies, associates and joint ventures	47 296		47 296	49 252		49 252
Intangible assets	592		592	592		592
Property and equipment	2 829		2 829	2 813		2 813
Total assets	561 215	–	561 215	542 585	–	542 585
Equity and liabilities						
Equity	26 655		26 655	25 885		25 885
Ordinary share capital	60		60	60		60
Ordinary share premium	15 730		15 730	15 730		15 730
Reserves	10 865		10 865	10 095		10 095
Liabilities	534 560		534 560	516 700		516 700
Derivative liabilities	69 069		69 069	69 030		69 030
Trading liabilities	6 147		6 147	6 147		6 147
Deposit and current accounts	415 196		415 196	395 762		395 762
Deposits from banks	9 226		9 226	8 508		8 508
Deposits from customers	405 970		405 970	387 254		387 254
Current taxation	675		675	660		660
Deferred taxation	2 817		2 817	2 815		2 815
Other liabilities	7 984		7 984	7 857		7 857
Subordinated debt	10 862		10 862	10 862		10 862
Liabilities to group companies	21 810		21 810	23 567		23 567
Total equity and liabilities	561 215	–	561 215	542 585	–	542 585

[1]*Following the adoption of IFRS 7, the following reclassifications have been performed on results previously disclosed:*

– Balances with banks previously included in cash and balances with banks have been reclassified to loans and advances to banks.

– Short-term negotiable securities have been reclassified to financial investments.

– Non-cash financial assets pledged, where the counterparty has the right to sell or repledge the assets to a third party, have been reclassified to pledged assets.

Income statement restatements for the year ended 31 December 2006

	Group			Company		
	As previously reported Rm	Re-classification Rm	Restated Rm	As previously reported Rm	Re-classification Rm	Restated Rm
Net interest income	12 817		12 817	12 894		12 894
Interest income[1]	43 838	(4 288)	39 550	42 795	(4 288)	38 507
Interest expense[1]	31 021	(4 288)	26 733	29 901	(4 288)	25 613
Non-interest revenue	14 348	(530)	13 818	13 915	(530)	13 385
Net fee and commission revenue[2]	10 312	(530)	9 782	9 805	(530)	9 275
Fee and commission revenue	10 312	947	11 259	9 805	947	10 752
Fee and commission expense		1 477	1 477		1 477	1 477
Trading revenue	1 844		1 844	1 844		1 844
Other revenue	2 192		2 192	2 266		2 266
Total income	27 165	(530)	26 635	26 809	(530)	26 279
Credit impairment charges	2 414		2 414	2 323		2 323
Income after credit impairment charges	24 751	(530)	24 221	24 486	(530)	23 956
Operating expenses	13 803	(530)	13 273	13 484	(530)	12 954
Staff costs	7 386		7 386	7 268		7 268
Other operating expenses[2]	6 417	(530)	5 887	6 216	(530)	5 686
Net income	10 948		10 948	11 002		11 002
Share of profit from associates and joint ventures	221		221			
Net income before indirect taxation	11 169		11 169	11 002		11 002
Indirect taxation	476		476	474		474
Profit before direct taxation	10 693		10 693	10 528		10 528
Direct taxation	2 546		2 546	2 450		2 450
Profit attributable to ordinary shareholder	8 147		8 147	8 078		8 078
Basic earnings per share (cents)	13 579		13 579	13 464		13 464
Dividends per share (cents)	12 834		12 834	12 834		12 834

[1]Following a review of interest rate swap transactions, interest income has now been set-off against corresponding interest expense amounts.
[2]Following the adoption of IFRS 7, fee and commission expenses relating to financial assets or liabilities that are not at fair value through profit and loss have been included in a separate line item in the income statement.

Annexure B – subsidiaries

Subsidiaries	Nature of operation	Nominal share capital issued Rm	Effective holding 2007 %	Effective holding 2006 %	Book value of shares 2007 Rm	Book value of shares 2006 Rm	Net indebtedness 2007 Rm	Net indebtedness 2006 Rm
Non-banking subsidiaries								
Accelerator Fund 1 (Pty) Limited[1]	Securitisation vehicle						**(76)**	(84)
Accelerator Fund 2 (Pty) Limited[1]	Securitisation vehicle						**(40)**	–
Blue Bond Investments Limited[1]	Participation mortgage bond finance	*	**100**	100	**	**	**292**	495
Blue Granite Investments No. 1 (Pty) Limited[1]	Securitisation vehicle						**(41)**	26
Blue Granite Investments No. 2 (Pty) Limited[1]	Securitisation vehicle						**47**	–
Blue Granite Investments No. 3 (Pty) Limited[1]	Securitisation vehicle						**(122)**	–
Blue Granite Investments No. 4 (Pty) Limited[1]	Securitisation vehicle						**154**	–
Blue Titanium Conduit Limited[1]	Asset backed commercial paper conduit	*					**(147)**	–
Diners Club (S.A.) (Pty) Limited	Travel and entertainment card	*	**100**	100	**	**	**839**	759
Out of the Blue Originator (Pty) Limited	Bond originators	*	**100**	100	**	**	**2 317**	1 439
Siyakha Fund[1]	Securitisation vehicle						**(96)**	
Standard Bank Insurance Brokers (Pty) Limited	Insurance broking	*	**100**	100	***	***	**(176)**	(63)
Miscellaneous	Finance companies		**100**	100	**97**	24	**342**	(345)
Total investment in subsidiaries					**97**	24	**3 293**	2 227

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

All subsidiaries are incorporated within South Africa.

[1]Special purpose entity, no shareholding.

**Issued share capital less than R1 million.*

***Book value less than R1 million.*

****Held indirectly.*

Annexure C – associates and joint ventures

	Edu-Loan (Proprietary) Limited		Safika (Proprietary) Limited		RCS Investment Holdings (Proprietary) Limited	
Ownership structure	Associate		Associate		Associate	
Nature of business	Student loans		Investment holding company		Finance	
Year end	December		February		March	
Date to which equity accounted	31 December 2007		31 December 2007		31 December 2007	
	2007	2006	**2007**	2006	**2007**	2006
Effective holding	**25%**	45%	**15%**	15%	**45%**	35%
	Rm	Rm	**Rm**	Rm	**Rm**	Rm
Carrying value	**23**	23	**164**	84	**860**	593
Balance sheet						
Non-current assets	**35**	25	**3 594**	2 821	**87**	45
Current assets	**202**	173	**557**	46	**1 838**	1 622
Non-current liabilities	**(34)**	(77)	**(1 929)**	(1 356)	**(1 161)**	(1 045)
Current liabilities	**(149)**	(45)	**(408)**	(190)	**(184)**	(176)
Loans to entity	**70**	41	**–**	–	**503**	367
Income statement						
Attributable income	**8**	7	**89**	13	**85**	73

	Dairy Belle (Proprietary) Limited		Defy (Proprietary) Limited		Other associates	
Ownership structure	Associate		Associate		Associate	
Nature of business	Dairy products		Manufacturing		Various	
Year end	September		March		Various	
Date to which equity accounted	31 December 2007		31 December 2007		Various	
	2007	2006	**2007**	2006	**2007**	2006
Effective holding	**50%**	0%	**43%**	50%	**Various**	Various
	Rm	Rm	**Rm**	Rm	**Rm**	Rm
Carrying value	**91**	–	**–**	100	**63**	73
Balance sheet						
Non-current assets	**409**	–	**–**	429	**518**	386
Current assets	**285**	–	**246**	813	**486**	372
Non-current liabilities	**(339)**	–	**–**	(646)	**(176)**	(125)
Current liabilities	**(177)**	–	**(246)**	(413)	**(399)**	(284)
Loans to entities	**279**	–	**–**	172	**163**	33
Income statement						
Attributable income	**8**	–	**53**	53	**(6)**	4

Annexure C – associates and joint ventures continued

	Credit Suisse Standard Securities (Proprietary) Limited		The Standard Bank African Bank partnership		Other joint ventures	
Ownership structure	Joint venture		Joint venture		Joint venture	
Nature of business	Stockbroking		Banking		Various	
Year end	Various		September		Various	
Date to which equity accounted	31 December 2007		31 December 2007		31 December 2007	
	2007	2006	**2007**	2006	**2007**	2006
Effective holding	**50%**	50%	**60%**	60%	**Various**	Various
	Rm	Rm	**Rm**	Rm	**Rm**	Rm
Carrying value	**130**	103	**95**	142	**5**	5
Balance sheet						
Non-current assets	**24**	13	**287**	671	**–**	–
Current assets	**423**	550	**118**	96	**21**	26
Non-current liabilities	**–**	–	**(227)**	(533)	**–**	(16)
Current liabilities	**(334)**	(506)	**(22)**	(23)	**(9)**	1
Loans to entities	**–**	–	**101**	250	**–**	–
Income statement						
Attributable income	**27**	4	**3**	67	**–**	–

	Total associates and joint ventures		Private equity/venture capital associates and joint ventures[1, 2]	
Ownership structure	Various		Various	
Nature of business	Various		Various	
Year end	Various		Various	
Date to which equity accounted	Various		31 December 2007	
	2007	2006	**2007**	2006
Effective holding	**Various**	Various	**Various**	Various
	Rm	Rm	**Rm**	Rm
Carrying value	**1 431**	1 123	**314**	251
Balance sheet				
Non-current assets	**4 954**	4 390	**4 470**	3 626
Current assets	**4 176**	3 698	**1 568**	1 222
Non-current liabilities	**(3 866)**	(3 798)	**(2 444)**	(2 127)
Current liabilities	**(1 928)**	(1 636)	**(1 225)**	(886)
Loans to entities	**1 116**	863	**442**	204
Income statement				
Attributable income	**267**	221	**145**	71

[1] *Fair value for 2007: R380 million (2006: R271 million).*
[2] *Included in total associates and joint ventures.*

All investments in associates and joint ventures, other than those recognised at fair value through profit and loss in accordance with IAS 39, made by a private equity organisation are ring-fenced for headline earnings purposes. On the disposal of these associates and joint ventures held by the private equity division of the group, profit or loss on the disposal will be included in headline earnings in terms of Circular 8/2007 *Headline Earnings*, issued by the South African Institute of Chartered Accountants.

Annexure D – equity-linked transactions

Equity compensation plans

Equity-settled share-based payments

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

Standard Bank Group has two equity-settled schemes, namely the Group Share Incentive Scheme and the Equity Growth Scheme. The Group Share Incentive Scheme confers rights to employees to acquire ordinary shares at the value of the Standard Bank Group share at the date the option is granted. This scheme is being phased out. The Equity Growth Scheme was implemented in 2005 and represents appreciation rights allocated to employees. The eventual value of the right is effectively settled by the issue of shares equivalent in value to the value of the rights.

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

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

Refer to the remuneration report in 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:

Group Share Incentive Scheme	Option price range (Rands) 2007	Number of options 2007	2006
Reconciliation			
Options outstanding at beginning of the year		**33 545 500**	44 541 239
Granted	**92,05 – 107,91**	**1 099 900**	1 307 000
Exercised	**13,50 – 50,91**	**(9 323 350)**	(10 930 639)
Lapsed	**25,00 – 98,00**	**(925 500)**	(1 372 100)
Options outstanding at end of the year		**24 396 550**	33 545 500

Share options were exercised regularly throughout the period. The weighted average share price for the year was R104,61 (2006: R80,35).

Annexure D – equity-linked transactions continued

The following options granted to employees, including executive directors, had not been exercised at 31 December 2007:

Number of ordinary shares	Option price range (Rands)	Weighted average price (Rands)	Option expiry period
1 279 600	**13,50 – 28,90**	**19,43**	**Year to 31 December 2008**
1 166 200	**17,15 – 26,40**	**18,63**	**Year to 31 December 2009**
1 306 100	**25,00 – 28,15**	**25,30**	**Year to 31 December 2010**
3 540 800	**27,70 – 35,90**	**31,89**	**Year to 31 December 2011**
2 530 500	**27,25 – 35,70**	**28,09**	**Year to 31 December 2012**
5 126 500	**27,70 – 34,85**	**27,97**	**Year to 31 December 2013**
6 529 950	**39,90 – 62,00**	**41,03**	**Year to 31 December 2014**
605 700	**59,90 – 65,60**	**64,80**	**Year to 31 December 2015**
1 237 300	**76,40 – 85,80**	**79,53**	**Year to 31 December 2016**
1 073 900	**92,05 – 107,91**	**98,32**	**Year to 31 December 2017**
24 396 550			

The following options granted to employees, including executive directors, had not been exercised at 31 December 2006:

Number of ordinary shares	Option price range (Rands)	Weighted average price (Rands)	Option expiry period
601 100	18,30 – 27,80	20,76	Year to 31 December 2007
1 745 800	13,50 – 32,69	19,17	Year to 31 December 2008
1 671 900	17,15 – 26,40	18,50	Year to 31 December 2009
2 187 500	25,00 – 28,15	25,21	Year to 31 December 2010
4 556 100	27,70 – 35,90	31,88	Year to 31 December 2011
4 289 300	27,25 – 35,70	28,09	Year to 31 December 2012
7 288 200	27,70 – 34,85	27,98	Year to 31 December 2013
9 305 600	39,70 – 62,00	41,04	Year to 31 December 2014
630 200	59,90 – 65,60	64,82	Year to 31 December 2015
1 269 800	76,40 – 85,80	79,53	Year to 31 December 2016
33 545 500			

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 are illustrated below:

	Type A		Type B		Type C	
	2007	2006	**2007**	2006	**2007**	2006
Number of options granted	**504 900**	527 400	**590 000**	779 600	**5 000**	–
Weighted average fair value at grant date (Rands)	**32,38**	24,59	**33,78**	25,75	**27,5**	–
The principal inputs are as follows:						
Weighted average share price (Rands)	**98,22**	79,52	**98,29**	79,52	**98,00**	–
Weighted average exercise price (Rands)	**98,22**	79,52	**98,29**	79,52	**98,00**	–
Expected life (years)	**6,1**	6,1	**7,0**	7,0	**4,0**	–
Expected volatility (%)	**31,0 – 33,3**	30,0	**31,0 – 33,3**	30,0	**31,0**	–
Risk-free interest rate (%)	**8,5 – 9,6**	7,8	**8,5 – 9,5**	7,9	**8,7**	–
Dividend yield (%)	**3,5**	3,5	**3,5**	3,5	**3,5**	–

The options granted during the year which are expected to vest, have an estimated fair value of R27 million (2006: R30 million).

Cash-settled share-based payments

Equity Growth Scheme	Average price range (Rands) 2007	Number 2007	2006
Reconciliation			
Rights outstanding at beginning of the year		**15 008 426**	7 185 100
Granted	**94,50 – 117,30**	**7 078 945**	8 751 450
Exercised[1]	**99,20 – 116,60**	**(40 842)**	(12 867)
Lapsed	**60,35 – 98,00**	**(1 832 887)**	(915 257)
Rights outstanding at end of the year[2]		**20 213 642**	15 008 426

[1]During the year 8 802 (2006:1 684) SBG shares were issued to settle the appreciated rights value.

[2]At the end of the year the group would need to issue 3 730 702 (2006: 3 352 692) SBG shares to settle the outstanding appreciated rights value.

The following rights granted to employees, including executive directors, had not been exercised at 31 December 2007:

Number of rights	Option price range (Rands)	Weighted average price (Rands)	Option expiry period
5 932 894	**60,35 – 75,01**	**65,68**	**Year to 31 December 2015**
7 600 047	**74,00 – 87,00**	**79,56**	**Year to 31 December 2016**
6 680 701	**94,50 – 117,30**	**98,40**	**Year to 31 December 2017**
20 213 642			

The following rights granted to employees, including executive directors, had not been exercised at 31 December 2006:

Number of rights	Option price range (Rands)	Weighted average price (Rands)	Option expiry period
6 640 693	61,30 – 75,01	65,65	Year to 31 December 2015
8 367 733	73,79 – 87,00	79,53	Year to 31 December 2016
15 008 426			

Annexure D – equity-linked transactions continued

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

	Type A		Type B		Type C	
	2007	2006	**2007**	2006	**2007**	2006
Number of appreciation rights granted	**3 422 072**	3 968 225	**3 646 873**	4 783 225	**10 000**	–
Weighted average fair value at grant date (Rands)	**32,41**	24,60	**33,71**	25,77	**27,5**	–
The principal inputs are as follows:						
Weighted average share price (Rands)	**98,39**	79,55	**98,36**	79,59	**98,00**	–
Weighted average exercise price (Rands)	**98,39**	79,55	**98,36**	79,59	**98,00**	–
Expected life (years)	**6,1**	6,1	**7,0**	7,0	**4,0**	–
Expected volatility (%)	**31,0 – 33,71**	30,0	**31,0 – 33,71**	30,0	**31,0**	–
Risk-free interest rate (%)	**8,5 – 9,6**	7,8	**8,4 – 9,5**	7,9	**8,7**	–
Dividend yield (%)	**3,5**	3,5	**3,5**	3,5	**3,5**	–

The appreciation rights granted during the year which are estimated to vest have a fair value of R173 million (2006: R166 million).

Equity participation plans

Tutuwa initiative

The group entered into a black economic empowerment (Tutuwa) transaction during 2004 which included black managers. This resulted in the recognition of a share-based payment expense. The resultant equity 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.

Total expense recognised

The Standard Bank of South Africa has recognised a total expense of R87 million (2006: R104 million) relating to equity-settled share-based payments, comprising R26 million (2006: R43 million) for share options and R61 million (2006: R61 million) relating to the Tutuwa transaction.

In addition, R208 million (2006: R55 million) was recognised in staff costs for cash-settled share-based payments.

Credit ratings

The latest credit ratings for the company are detailed below:

	Short-term	Long-term	Outlook
The Standard Bank of South Africa			
Fitch Ratings (July 2007)			
Foreign currency	F2	A-	Stable
Local currency		A-	Stable
National	F1+(zaf)	AA+(zaf)	Stable
Standard & Poor's (November 2007) public information rating			
Local currency		BBBpi	
Moody's Investors Services (November 2007)			
Bank deposit rating	P-2	Baaa1	Stable
Sovereign ratings			
RSA Sovereign ratings: Foreign currency			
Fitch Ratings		BBB+	
Standard & Poor's		BBB+	
Moody's Investors Services		Baa1	
RSA Sovereign ratings: Local currency			
Fitch Ratings		A	
Standard & Poor's		A+	
Moody's Investors Services		A2	

Directorate

DE Cooper
Chairman

JH Maree[1]
Chief executive

DDB Band
E Bradley
TS Gcabashe
DA Hawton
SE Jonah KBE[3]
Sir Paul Judge[2]
KP Kalyan
SJ Macozoma
RP Menell
Adv KD Moroka
AC Nissen
MC Ramaphosa
SP Ridley[1]
MJD Ruck
MJ Shaw
Sir Robert Smith[2]
EM Woods

[1]*Executive director*
[2]*British*
[3]*Ghanaian*

Financial and other definitions

Basic earnings per share (EPS) (cents)	Earnings attributable to ordinary shareholder divided by the weighted average number of ordinary shares in issue.
CAGR (%)	Compound annual growth rate.
Capital adequacy ratio (%)	Capital divided by risk-weighted assets.
Cost-to-income ratio (%)	Operating expenses as a percentage of total income including share of profit from associates and joint ventures.
Credit loss ratio (%)	Total impairment charges on loans and advances per the income statement as a percentage of average daily and monthly gross loans and advances.
Effective taxation rate (%)	Direct and indirect taxation as a percentage of income before taxation.
Exposure at default (EAD)	Counterparty's expected exposure to the group at the time a default occurs.
Headline earnings (Rm)	Earnings attributable to ordinary shareholder excluding goodwill gain or impairment, capital profits and losses, and transferred 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.
Impairment of non-performing loans (Rm)	Impairment for specific identified credit losses, net of the present value of estimated recoveries.
Impairment of performing loans (Rm)	Impairment for incurred credit losses inherent in the performing loan book.
International Financial Reporting Standards (IFRS)	International accounting standards issued by the International Accounting Standards Board.
Loss given default (LGD)	Amount of counterparty's obligation to the group that is not expected to be recovered after default and is expressed as a percentage of the EAD.
Net asset value (Rm)	Equity attributable to ordinary shareholder.
Non-interest revenue to total income (%)	Non-interest revenue as a percentage of total income.
Probability of default (PD)	Probability of a counterparty not making full and timely repayment of credit obligations over a specific time horizon.
Profit attributable to ordinary shareholder (Rm)	Profit for the year attributable to ordinary shareholder, calculated as profit for the year less dividends on non-redeemable, non-cumulative, non-participating preference shares declared before year end, less minority interests.
Profit for the year (Rm)	Income statement profit attributable to ordinary shareholder, minorities and preference shareholders for the year.
Return on equity (ROE) (%)	Headline earnings as a percentage of average ordinary shareholder's funds.
Risk-weighted assets (Rm)	Determined by applying prescribed risk weightings to on- and off-balance sheet exposures according to the relative credit risk of the counterparty.
Special Purpose Entity (SPE)	An entity created to accomplish a narrow and well-defined objective.
Tutuwa	Tutuwa is the group's Black Economic Empowerment Ownership initiative entered into in terms of the Financial Sector Charter.
Weighted average number of shares (number)	The weighted average number of ordinary shares in issue during the year.

Acronyms and abbreviations

ALCO	Asset and liability committee
BCM	Business continuity management
FSB	Financial Services Board
GAC	Group audit committee
GCC	Group credit committee
GORC	Group operational risk committee
GRCMC	Group risk and capital management committee
GROC	Group risk oversight committee
IAS	International Accounting Standards
ICAAP	Internal capital adequacy assessment process
IFRIC	International Financial Reporting Interpretations Committee
IFRS	International Financial Reporting Standards
King Code	Code of Corporate Practices and Conduct
ORM	Operational risk management
OTC	Over-the-counter
Rm	Millions of rands
SARB	South African Reserve Bank
SBG	Standard Bank Group
SPE	Special purpose entity
STC	Secondary tax on companies
Tier I	Primary capital
Tier II	Secondary capital
Tier III	Tertiary capital
the charter	The Financial Sector Charter
the company	The Standard Bank of South Africa Limited
the group	The Standard Bank of South Africa Limited and its subsidiaries
VaR	Value-at-risk
VAT	Value added tax
ZAR	South African Rand

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