The Standard Bank of South Africa

Annual financial statements 2006

Standard Bank

Table of contents

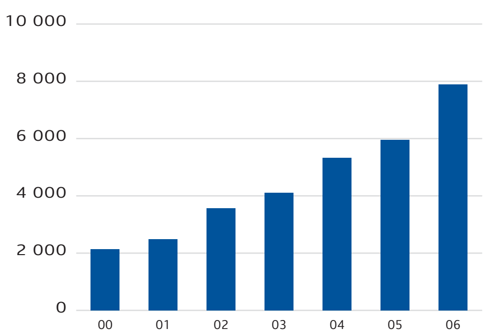
Financial highlights

	2006	2005	% change	2006 US$ equivalent US$m
Group				
Headline earnings (Rm)[1]	7 980	6 453	24	1 179
Total assets (Rm)	561 215	457 483	23	79 605
Return on equity (%)	33,0	31,7		
Headline earnings (cents per ordinary share)[1]	13 301	10 756	24	1 965
Company				
Income statement (Rm)				
Net income before taxation	11 002	8 005	37	1 625
Headline earnings[1]	7 911	5 948	33	1 169
Profit attributable to ordinary shareholder	8 078	6 056	33	1 193
Balance sheet (Rm)				
Ordinary shareholder's funds	25 885	20 376	27	3 672
Total assets	542 585	441 477	23	76 962
Loans and advances	324 534	255 595	27	46 033
Financial performance				
Return on equity (%)	34,2	30,9		
Cost-to-income ratio (excluding capital profit on MasterCard) (%)	50,6	56,6		
Credit loss ratio (%)	0,79	0,54		
Capital adequacy				
Total risk-weighted assets (Rm)	306 620	235 540	30	43 492
Tier I capital (Rm)	25 620	20 218	27	3 634
Total capital (Rm)	37 752	29 400	28	5 355
Tier I capital to risk-weighted assets (%)	8,4	8,6		
Total capital to risk-weighted assets (%)	12,4	12,5		

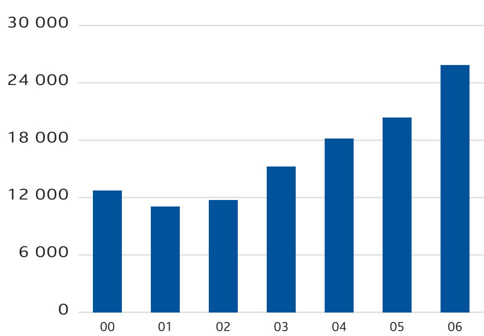
[1]*Earnings attributable to ordinary shareholders excluding goodwill impairment, capital profits and losses, and recycled profits and losses on available-for-sale financial instruments.*

The 2006 rand/US dollar exchange rates:
Year end rate – R7,05 (2005: R6,36)
Average rate – R6,77 (2005: R6,36)

Headline earnings – company (Rm)



Ordinary shareholder's funds – company (Rm)



Risk management and control overview

Introduction

The effective management of risk is critical to earnings growth within The Standard Bank of South Africa (SBSA) and its subsidiaries (the group), where the culture encourages sound commercial decision making which adequately balances risk and reward. The identification and management of risk remains a high priority and underpins all our business activities.

The pages that follow describe the group's approach to risk management covering the overall methodology, followed by detailed descriptions of how individually significant types of risk are managed.

Risk management approach

The group's approach to risk management is based on a well established governance process and relies on both individual responsibility and collective oversight, supported by comprehensive reporting. This approach balances strong corporate oversight at group level with independent risk management structures within the business units.

The group has completed the implementation of governance standards for all major risk types. All standards are applied consistently across the group and are approved by the board, through either the group risk management committee (GRMC) or group credit committee (GCC) as appropriate.

The standards form an integral part of the group's governance infrastructure, reflecting the expectations and requirements of the board in respect of key areas of control across the group. The standards ensure alignment and consistency in the manner major risk types across the group are:

- identified;
- measured;
- managed and controlled; and
- reported.

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

- Shareholder value based
  The group's primary objective is to protect and enhance shareholder value. As such, the risks to this objective drive the group's system of internal control.

- Embedded
  The culture of the group reflects its appetite for risk. Risk management is achieved at all levels of the business through a suitable organisational structure, policies and procedures, and appropriate staff training. Responsibility for risk resides at all levels of management, from the board down through the organisation to individuals in offices around the globe. Each business manager is accountable for managing risk in his or her business area, assisted and supported, where appropriate, by risk specialists.

- Supported and assured
  The systems of governance and internal control provide management with assurance that risks are being managed appropriately. The designated executive and board committees regularly receive and review reports on governance and control processes.

- Reviewed
  The board of directors considers the effectiveness of the internal control system and risk management processes, at least annually.

Basel II

The Basel II Capital Adequacy Framework was defined by the Bank of International Settlements (BIS) and sets an international standard in bank capital management. Emphasis is placed on a comprehensive internal capital management approach which captures all key risks relevant to the group. The aim of the framework is to promote more sophisticated measurement and management of banking risk, by providing capital incentives to adopting the more advanced approaches. In order to ensure accurate interpretation of the actions of management with regard to the management of a bank's capital levels, more detailed disclosure requirements should also be met.

The group is well advanced in meeting the requirements for its target approaches for all risk categories by the South African adoption date. These are the Internal Ratings Board (IRB) approaches for credit risk and standardised approaches for operational risk.

Risk management

Credit risk

Comprehensive resources, expertise and controls are in place to ensure efficient and effective management of credit risk.

In lending transactions, credit risk arises through non-performance by a counterparty for facilities used. These facilities are typically loans and advances, including the advancement of securities and contracts to support customer obligations (such as letters of credit and guarantees). In trading activities, credit losses arise due to non-performance by a counterparty for payments linked to trading related financial obligations.

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

Credit risk on trading activities comprises three components, namely:

- Pre-settlement credit risk which is the exposure at default arising from unsettled forward and derivative transactions arising from the default of the counterparty to the transaction and is measured on a current basis (being the current, netted mark-to-market value of the counterparty) and a Potential Future Exposure (PFE) basis (which takes into account the liquidity and volatility of the reference asset or price of the instrument and the tenor of the exposure).

- Issuer risk which is the exposure at default arising from traded credit and equity products, such as bonds, promissory notes, credit default swaps, equity and total return swaps, and including their underwriting.
- Settlement risk which is the risk that a transaction settlement, where value is exchanged, fails such that the counter value is not received in whole or part.

Credit risk measurement

Internal risk ratings, probabilities of default (PD) and loss given default (LGD)

All counterparties are rated according to a group-wide PD master scale, that is used in assisting the group in making credit decisions on new commitments and in managing the portfolio of existing exposures. The group assesses the credit quality and assigns one of up to twenty five performing and three non-performing internal risk ratings to all borrowers.

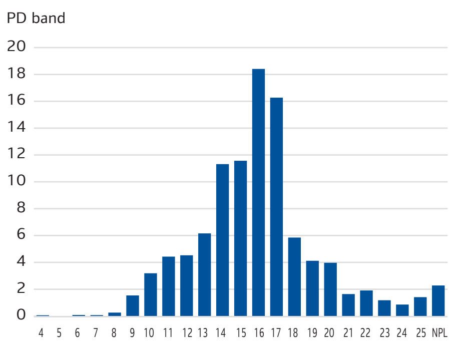
These internal risk grades are in turn mapped to a statistically calibrated probability of default scale as validated by internal default history and benchmarks. LGD is assigned separately on a 100 point scale and calibrated to a combination of internal default history, benchmark data and expert judgement.

Loans and advances

Risk profile of customer loans and advances

- *Personal & Business Banking SA portfolio*
  The graph below shows the exposure distribution of the scored Personal & Business Banking portfolios (other than for corporate lending) across PD bands.

Personal & Business Banking exposure distribution across PD bands (%)

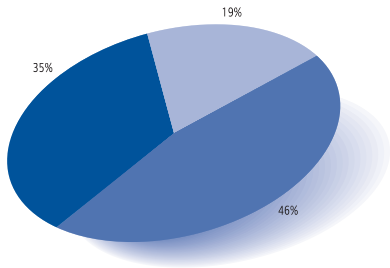


Rating = where 1 is good and 25 is bad.

- *Corporate & Investment Banking portfolio*
  The Corporate & Investment Banking portfolio can be divided into three distinct areas being sovereign, corporates and financial institutions (including non-banking financial Institutions), as detailed in the graph below.

  Sovereign exposures in the graph represent the South African government.

Corporate & Investment Banking exposure (%)



- Financial institutions 35%
- Corporates 46%
- Sovereigns 19%

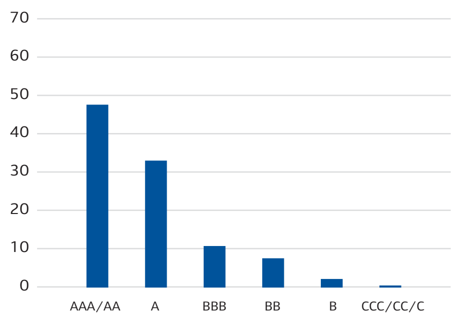
The group uses an internationally comparable rating scale to aggregate exposures across its Corporate & Investment Banking portfolio as shown below.

The rating scale applied to the current Corporate & Investment Banking portfolio is listed below.

International rating	PD bands Banks %	Corporates %
AAA/AA/A	0,000 – 0,048	0,000 – 0,088
BBB	0,049 – 0,272	0,089 – 0,581
BB	0,273 – 1,206	0,582 – 2,756
B	1,207 – 4,970	2,757 – 11,148
CCC	4,971 – 15,131	11,149 – 30,679
CC/C	15,132 – 99,999	30,680 – 99,999

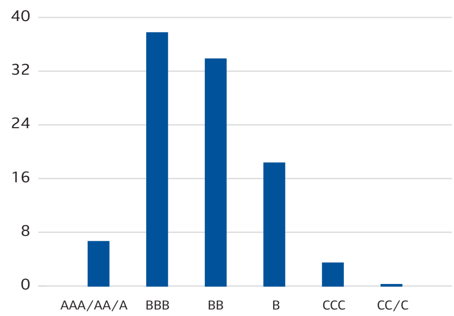
Risk management and control overview continued

Financial institution exposures by international rating (%)



Financial institution exposures mainly comprise placements and pre-settlement risk, which the group uses to deploy its surplus liquidity and as counterparties in foreign exchange, derivatives and commodity transactions. Sub-investment grade exposures are typically to the larger banks in emerging market countries or comprise trade finance with smaller banks.

Corporate exposures by international rating (%)



The group makes extensive use of physical and financial collateral to mitigate credit risk.

Liquidity risk

Liquidity risk arises if any of the banks in the group have insufficient funds or marketable assets available to fulfill their current or future cash flow obligations.

The nature of banking and trading activities results in a continuous exposure to liquidity risk. The group's liquidity risk management framework is designed to measure and manage the liquidity position at various levels of consolidation such that payment obligations can be met under both normal and stressed conditions.

The following elements are incorporated as part of a cohesive liquidity management process:

- short- 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 company's asset and liability committee (ALCO) and the process is underpinned by a system of extensive internal and external controls. The latter includes the application of purpose built technology, documented processes and procedures, independent oversight by risk management and regular independent reviews and evaluations of the effectiveness of the system.

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. These plans were effectively tested as part of a liquidity crisis simulation during 2006.

Securitisation

The group uses securitisation primarily as an alternative source of funding for its South African operation, providing added flexibility in terms of mitigating structural liquidity risk and diversifying the funding base. Although credit risk transfer and capital relief are secondary considerations at present, these are factored in when deciding the specifics of each new securitisation issue.

SBSA fulfils a number of roles in the process of securitising any of its assets. Roles include that of originator, seller, dealer, settlement agent, subordinated lender, shareholder, calculating agent, settlement agent, account bank and derivative counterparty.

Market risk

Market risk arises from a decrease in the market value of a portfolio of financial instruments caused by an adverse move in market variables such as equity, bond and commodity prices, currency exchange rates, interest rates and credit spreads, and implied volatilities on all of the above.

Market risk exposures as a result of trading activities are contained within the group's Corporate & Investment Banking trading operations. The board grants general authority to take on market risk exposure to the Africa ALCO.

The group manages market risk through a range of market risk and capital risk limits. It uses a suite of risk measurement methodologies and tools to establish limits, including Value at Risk (VaR), stress testing, loss triggers and basic risk management measures.

Market risk on equity investments

Equity management committees approve investments in listed and unlisted entities, in accordance with delegated authority limits approved by the group risk oversight committee (GROC). Market risk on investments is managed in accordance with the purpose and strategic benefits of such investments, rather than purely on mark-to-market considerations. Periodic reviews and reassessments are undertaken.

Market risk exposure on banking positions

Banking-related market risk exposure principally involves the management of the potential adverse effect of interest rate movements on net interest income and the economic value of equity. This structural interest rate risk is caused by the differing repricing characteristics of banking assets and liabilities. The governance framework adopted for the management of structural interest rate risk mirrors that of liquidity risk management in terms of committee structures and the setting of standards, policies and limits. This is also true for the monitoring process and internal controls.

Operational risk

Operational risk is the risk of loss suffered as a result of inadequacy of, or a failure in internal processes, people, systems or external events.

The group recognises the significance of operational risk, which is inherent in all areas of our business. The group operational risk governance standard codifies the core governing principles for operational risk management and defines a common framework with the basic components for the identification, assessment, management, monitoring and reporting of operational risk. This common framework defines the minimum requirements whilst ensuring an element of flexibility for each business unit's particular operating environments. This framework is further supported by a set of comprehensive operational risk management policies.

The group's approach to managing operational risk is to adopt practices that are fit for the purpose to increase the efficiency and effectiveness of the group's resources, minimise losses and utilise opportunities. This approach is aligned to the group's enterprise risk management framework and adopts the sound practices recommended by various sources, including the Basel II Accord's *Sound Practices for the Management and Supervision of Operational Risk* and the King II corporate governance code.

The independent operational risk functions perform control and oversight roles, including the setting of appropriate policies, governance standards and tools. The tools include:

- a centralised operational loss database providing management reports used to identify improvements to processes and controls arising from loss trends;
- risk and control self assessment through which existing and potential future risks and their related controls are identified and assessed; and
- key risk indicators which measure specific factors to provide an early warning to proactively address potential exposures.

The group also maintains a comprehensive insurance programme to cover losses from fraud, theft, professional liability claims and damage to physical assets.

Business continuity management (BCM) is defined as a holistic management process that identifies potential impacts that threaten an organisation, provides a framework for building resilience and the effective response, that safeguards the interests of its key stakeholders, reputation, brand and value creating activities.

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.

Information risk is treated as a specific topic within the operational risk framework and has a set of focused policies, standards and resources. The group's information risk management practices play a key role in protecting information from a wide range of threats to ensure business continuity, minimise business damage and maximise return on investments and business opportunities.

Group forensic services, which is mandated by the group audit committee, is responsible to apply a prudent fraud risk management practice throughout the group. The strategic approach focuses on fraud prevention, detection, investigation and whistle blowing activities. The group maintains a zero tolerance approach towards fraud and dishonesty.

The group ensures that risks associated with outsourcing arrangements are adequately managed. This includes a structured approach to ensure that:

- there is alignment of the outsourcing arrangement with the group's business objectives and operating imperatives;
- potential risks which could arise from an outsourcing arrangement are identified and addressed;
- responsibilities for all outsourcing arrangements are clearly understood;
- all outsourcing arrangements comply with regulatory requirements; and
- all the outsourcing objectives are achieved.

Compliance risk

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

The group is supervised by the Bank Supervision Department of the South African Reserve Bank for banking related business, while the Financial Services Board has jurisdiction over consumer related matters and bancassurance products. The National Credit Regulator established in mid 2006 oversees the recently enacted credit granting legislation, the National Credit Act, which has a significant impact on the lending activities of all financial service providers in South Africa.

The group operates a decentralised compliance risk management structure with each primary business activity, namely Personal & Business Banking and Corporate & Investment Banking, having central compliance functions. Group compliance provides leadership through specialist support units on compliance with money laundering and terrorist financing, occupational health and safety and emerging legislative developments. The regulatory services unit provides training and awareness on regulatory developments, particularly in the area of consumer protection.

Risk management and control overview continued

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 anti-money laundering and terrorist financing measures as the regulatory environment becomes more dynamic. To this end, an automated monitoring and detection system has been implemented. A continued challenge in 2006 has been the re-identification of existing customers as required by legislation. The money laundering control office continually liaises with the Financial Intelligence Centre in this regard.

Occupational health and safety

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

Taxation risk

Taxation risk is the possibility of suffering 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.

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

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 company conducts.

Reputational risk

The safeguarding of Standard Bank's reputation is of paramount importance to its continued operations and is the responsibility of every member of staff. Reputational risks can arise from social, ethical or environmental issues, or as a consequence of operational risk events. Standard Bank's good reputation depends upon the way in which it conducts its business, but it can also be affected by the way in which clients, to whom it provides financial services, conduct themselves.

Reputational risks are considered and assessed by the board, the group risk management committee, the group audit committee, the group risk oversight committee, subsidiary company boards and executive management.

Business risk

Business risk is the risk of adverse outcomes resulting from a weak competitive position or from a choice of strategy, markets, products, activities or structures. Major potential sources of business risk include revenue volatility due to factors such as macroeconomic conditions, inflexible cost structures, uncompetitive products or pricing, and structural inefficiencies.

It is not cost effective to attempt to eliminate all business risks and in any event, it would not be possible to do so. Events of small significance are expected to occur and are accepted as inevitable; events of material significance are rare and the group seeks to reduce the risk from these in a framework consistent with its expected risk profile and appetite.

Group internal audit assurance

The group internal audit function operates under a mandate from the group audit committee and has the authority to determine the scope and extent of work to be performed. Group internal audit's primary objective is the provision of assurance to the group audit committee. It assists the executive management teams in meeting their business objectives by examining the group's activities, assessing the risks involved and evaluating the adequacy and effectiveness of processes, systems and controls to manage these risks. A risk based audit approach has been adopted. Material or significant control weaknesses and planned management remedial actions are reported to the group audit committee and to subsidiary audit committees. These issues are tracked to ensure that agreed remedial actions have been implemented. Overdue issues are reported to the group audit committee on a quarterly basis.

Capital adequacy

Minimum requirements

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

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

Qualifying capital

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

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

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

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

Risk weighted assets

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

Corporate governance

Introduction

The Standard Bank Group (SBG) views the implementation of corporate governance practices as integral to its operations. SBG is committed to the principles of the Code of Corporate Practices and Conduct (King Code) and complied with the King Code during the year under review. As a major subsidiary of SBG, SBSA implements the corporate governance objectives and philosophies adopted by SBG.

In addition, SBSA subscribes to the Code of Banking Practice (the code) and the values underlying the code, as the code promotes good banking practice by formalising standards of disclosure and conduct. Accordingly, there are effective systems in place to ensure compliance with the principles and recommendations contained in the code.

SBSA has attempted to educate all employees on the code and has customised material obtained from the BANKSETA to Standard Bank's purpose. This material is delivered to all employees via an in-house e-learning channel. Compliance with the code is audited as part of the group internal audit function.

Furthermore, SBSA has adopted the Banking Association of South Africa's new Code of Conduct for Selling of Unsecured Credit that governs the relationship between banks and their clients in respect of credit extension and the manner in which clients can be approached when being offered loans by banks.

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

Board and directors

The board has ultimate responsibility for the management and strategic direction of SBSA and is committed to the ongoing implementation of initiatives to improve corporate governance for the benefit of all shareholders and stakeholders. There are 19 directors on the board of whom two are executive and 17 are non-executive. In addition, 13 of the non-executive directors are independent. During the year, Conrad Strauss retired as a director as he had reached the mandatory retirement age. Myles Ruck was appointed to the board on 15 August 2006 and Ted Woods was appointed to the board on 1 February 2007.

This strong contingent of independent non-executive directors, which includes the chairman, ensure that independent thought is brought to bear on board decisions.

The skills, knowledge and experience as well as the demographic profile of the board are regularly reviewed to ensure that the board composition remains appropriate given the dynamics of the banking industry.

Directors have full and unrestricted access to management and all group information. This includes unlimited access to the advice and services of the company secretary, who assists in providing any information or documentation they may require to facilitate the discharge of their duties and responsibilities. In addition they also have full access to external legal advice at the expense of SBSA.

The ultimate responsibility for SBSA'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 board and board committees operate in accordance with agreed mandates that set out their terms of reference. During the year an evaluation of the board was conducted with each board member completing a detailed questionnaire. The consolidated feedback was considered and relevant action points noted for implementation.

Authority has been delegated to the chief executive to manage the business and affairs of SBSA together with his executive committee. Further delegations are managed through a delegation process that is monitored by the group secretary's office.

Appointments

The board regularly reviews SBSA's nominations and appointments policy. The policy ensures alignment with all the necessary legislation and regulations which include, but are not limited to, the requirements of the Companies Act, Banks Act, JSE Limited Listings Requirements and the Employment Equity Act.

The nominations and appointments policy defines the process to be followed for the nomination and appointment of every director.

In effecting appointments in accordance with the policy, the board takes cognisance of the skills, knowledge and experience of the candidate director, as well as other attributes that may be considered necessary. The board is also cognisant of the need to ensure demographic representation when making a new appointment. Furthermore, the prospective appointees are subject to a "fit and proper" test, as required by the Banks Act as well as the JSE Limited Listings Requirements.

Induction and training

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

Corporate governance continued

Board meetings

The board meets regularly and during 2006, five board meetings were held:

Board of directors for the year ended 31 December 2006	Mar	May	Aug	Oct	Dec
DE Cooper (chairman)[1]	✓	✓	✓	✓	✓
DDB Band[2]	✓	✓	✓	✓	✓
E Bradley[1]	✓	✓	✓	✓	✓
T Evans[1, 4]	A	–	–	–	–
TS Gcabashe[1]	✓	✓	A	✓	✓
DA Hawton[1]	✓	✓	✓	A	✓
SE Jonah KBE[1]	✓	✓	✓	✓	✓
Sir Paul Judge[1]	✓	✓	✓	✓	✓
SJ Macozoma[2]	✓	✓	✓	✓	✓
JH Maree[3]	✓	✓	✓	✓	✓
RP Menell[1]	✓	✓	✓	✓	✓
Adv KD Moroka[1]	✓	✓	A	✓	✓
AC Nissen[1]	A	✓	✓	✓	✓
MC Ramaphosa[2]	✓	✓	A	✓	✓
Dr MA Ramphele[1]	A	✓	✓	A	A
SP Ridley[3]	✓	✓	✓	✓	✓
MJD Ruck[2]	✓[6]	✓[6]	✓[6]	✓	A
MJ Shaw[1]	✓	✓	✓	✓	✓
Sir Robert Smith[1]	✓	✓	✓	✓	✓
Dr CB Strauss[1, 5]	✓	✓	–	–	–

✓ = Attendance
A = Apology
[1]Independent non-executive director.
[2]Non-executive director.
[3]Executive director.
[4]Resigned on 8 March 2006.
[5]Retired on 24 May 2006.
[6]By invitation until appointed as a non-executive director from 15 August 2006.

Going concern

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

Seven year review

Balance sheet[1]

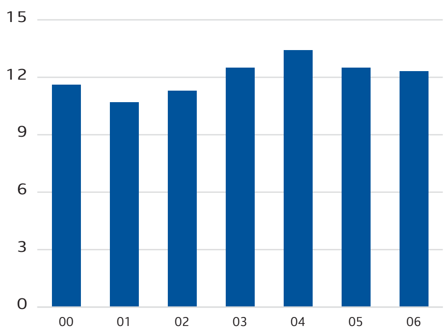
Company

	CAGR[2] %	2006 Rm	2005 Rm	2004 Rm	2003 Rm	2002 Rm	2001 Rm	2000 Rm
Assets								
Cash and balances with banks	30	**49 978**	41 005	8 750	8 201	25 312	19 397	10 192
Short-term negotiable securities	18	**25 146**	19 642	16 306	15 440	5 936	4 627	9 426
Trading assets	14	**7 857**	11 295	6 545	9 068	6 145	3 639	3 550
Investments	15	**9 371**	13 429	16 451	14 932	9 870	11 978	4 086
Loans and advances	21	**324 534**	255 595	202 229	154 424	125 710	111 362	103 425
Derivative and other assets	37	**73 042**	75 024	102 841	85 843	19 892	20 394	10 935
Interest in group companies, associates and joint ventures	28	**49 252**	22 870	29 450	30 587	18 968	13 387	11 304
Goodwill and other intangible assets	33	**592**	196	205	209	226	225	107
Property and equipment	4	**2 813**	2 421	2 099	2 149	2 136	1 924	2 204
Total assets	23	**542 585**	441 477	384 876	320 853	214 195	186 933	155 229
Equity and liabilities								
Equity	13	**25 885**	20 376	18 163	15 237	11 744	11 062	12 726
Liabilities	24	**516 700**	421 101	366 713	305 616	202 451	175 871	142 503
Deposit and current accounts	21	**395 762**	316 017	249 237	204 325	177 579	154 394	128 147
Derivative, trading and other liabilities	51	**86 509**	82 372	102 384	86 057	12 411	10 229	7 258
Subordinated debt	26	**10 862**	7 832	8 014	5 950	5 820	4 772	2 700
Liabilities to group companies	32	**23 567**	14 880	7 078	9 284	6 641	6 476	4 398
Total equity and liabilities	23	**542 585**	441 477	384 876	320 853	214 195	186 933	155 229

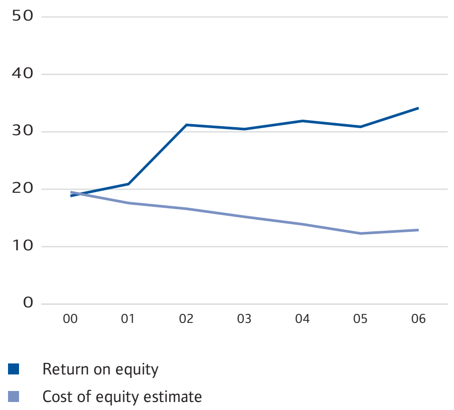
[1] *Figures included in the seven-year review have been restated where necessary to provide a meaningful comparison of performance over the period.*

[2] *CAGR refers to compound annual growth rate for the period 2000 to 2006.*

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



Financial performance – company (%)



Seven year review continued

Income statement[1]

Company

	CAGR[2] %	2006 Rm	2005 Rm	2004 Rm	2003 Rm	2002 Rm	2001 Rm	2000 Rm
Net interest income	15	12 894	10 605	9 605	8 865	7 917	6 207	5 717
Interest income	17	42 795	33 289	30 735	31 517	26 249	19 403	17 050
Interest expense	18	29 901	22 684	21 130	22 652	18 332	13 196	11 333
Non-interest revenue	17	13 915	10 709	9 370	7 923	7 262	5 745	5 531
Total income	16	26 809	21 314	18 975	16 788	15 179	11 952	11 248
Credit impairment charges	10	2 323	1 248	851	1 341	1 359	1 330	1 303
Income after credit impairment charges	16	24 486	20 066	18 124	15 447	13 820	10 622	9 945
Operating expenses	14	13 484	12 061	10 718	9 351	8 233	6 979	6 305
Net income	20	11 002	8 005	7 406	6 096	5 587	3 643	3 640
Share of profit from associates and joint ventures[3]	(100)	–	–	–	32	36	61	117
Net income before indirect taxation	20	11 002	8 005	7 406	6 128	5 623	3 704	3 757
Indirect taxation	7	474	458	316	325	331	261	308
Profit before direct taxation	20	10 528	7 547	7 090	5 803	5 292	3 443	3 449
Direct taxation	29	2 450	1 491	1 708	1 570	1 475	953	539
Profit attributable to ordinary shareholder	19	8 078	6 056	5 382	4 233	3 817	2 490	2 910

[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 2000 to 2006.

[3]Associates and joint ventures were previously equity accounted in the SBSA company financial statements as SBSA consolidated financial statements were not required. Since 2004, associates and joint ventures have been equity accounted in the SBSA group financial statements and accounted for at cost in the SBSA company financial statements.

Financial definitions

CAGR (%) Compound annual growth rate.

Cost to income ratio (%) Operating expenses as a percentage of total income.

Credit loss ratio (%) Total credit impairment charges per the income statement as a percentage of average gross loans and advances.

Dividends per share (cents) Total ordinary dividends declared per share in respect of the year.

Effective taxation rate (%) Direct and indirect taxation as a percentage of net income before taxation.

Earnings per share (EPS) (cents) Earnings attributable to ordinary shareholders divided by the weighted average number of ordinary shares in issue.

Headline earnings (Rm) Earnings attributable to ordinary shareholders excluding goodwill impairment, capital profits and losses, and recycled profits and losses on available-for-sale financial instruments.

Headline earnings per share (HEPS) (cents) Headline earnings divided by the weighted average number of ordinary shares in issue.

Net asset value per share (cents) Net asset value divided by the number of ordinary shares in issue at year end.

Return on equity (ROE) (%) Headline earnings as a percentage of average ordinary shareholder's funds.

Return on risk weighted assets (%) Headline earnings as a percentage of average risk-weighted assets.

Statistics, returns and capital adequacy[1]

Company

	CAGR[2] %	2006	2005	2004	2003	2002	2001	2000
Share statistics								
Number of ordinary shares in issue (millions)								
– weighted average		60	60	60	60	59	57	56
– end of period		60	60	60	60	60	59	56
Headline earnings (Rm)	24	7 911	5 948	5 325	4 110	3 561	2 490	2 142
Share statistics per ordinary share (cents)								
Basic earnings	17	13 464	10 094	8 970	7 057	6 490	4 384	5 153
Headline earnings	23	13 186	9 914	8 875	6 852	6 054	4 384	3 793
Dividends	36	12 834	9 583	9 998	2 416	7 684	6 963	2 047
Net asset value	11	43 144	33 962	30 273	25 396	19 600	18 820	22 537
Selected returns and ratios								
Return on equity (%)		34,2	30,9	31,9	30,5	31,2	20,9	18,8
Return on average risk-weighted assets (%)		2,9	2,7	2,8	2,5	2,3	1,8	1,8
Average ordinary shareholder's funds to average total assets (%)		4,7	4,7	4,7	5,0	5,7	7,0	7,6
Cost-to-income ratio (excluding capital profit on MasterCard) (%)		50,6	56,6	56,5	55,7	54,2	58,4	56,1
Effective tax rate (%)		26,6	24,3	27,3	30,9	32,1	32,8	22,5
Headline earnings per employee (rand)	21	269 467	221 370	200 974	158 620	135 989	98 186	85 179
Number of employees at year end		29 358	26 869	26 496	25 911	26 186	25 360	25 147
Capital adequacy								
Risk-weighted assets (Rm)	17	306 620	235 540	201 232	174 423	159 320	151 469	121 094
Tier I capital (Rm)	17	25 620	20 218	18 224	14 853	11 414	10 756	10 182
Total capital (Rm)	18	37 752	29 400	26 935	21 705	17 991	16 243	14 045
Tier I capital to risk-weighted assets (%)		8,4	8,6	9,1	8,5	7,2	7,1	8,4
Total capital to risk-weighted assets (%)		12,4	12,5	13,4	12,5	11,3	10,7	11,6
Exchange rates at 31 December								
US$	(1)	7,05	6,36	5,63	6,68	8,58	12,00	7,57
UK£	3	13,80	10,95	10,82	11,95	13,82	17,45	11,30
Euro	5	9,29	7,52	7,66	8,42	9,01	10,68	7,10
Market indicators								
Prime overdraft rate (%)		12,50	10,50	11,00	11,50	17,00	13,00	14,50
JSE All Share Index (closing)	20	24 915	18 097	12 657	10 387	9 277	10 457	8 164
JSE Banks Index (closing)	18	36 121	29 234	22 975	14 153	12 035	12 812	13 697

[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 2000 to 2006.

Report of the independent auditors

To the member of The Standard Bank of South Africa Limited

We have audited the annual financial statements and the group annual financial statements of The Standard Bank of South Africa Limited, which comprise the balance sheet and the consolidated balance sheet as at 31 December 2006, the income statement and the consolidated income statement, the statement of changes in shareholder's funds and the consolidated statement of changes in shareholder's funds, the cash flow statement and the consolidated cash flow statement for the year then ended, and the notes to the annual financial statements, which include a summary of significant accounting policies and other explanatory notes, as set out on pages 14 to 90.

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 (IFRS) 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 IFRS compliant 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.

Auditor's 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 auditor's 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 auditor considers 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 financial position of the company and of the group as at 31 December 2006, and their financial performance and cash flows for the year then ended in accordance with IFRS, and in the manner required by the Companies Act of South Africa.

KPMG Inc

KPMG Inc.
Registered Auditor
Per Heather Berrange
Chartered Accountant (SA)
Registered Auditor

6 March 2007

85 Empire Road
Parktown
2193

PricewaterhouseCoopers Inc.

PricewaterhouseCoopers Inc.
Registered Auditor
Per John Bennett
Chartered Accountant (SA)
Registered Auditor

6 March 2007

2 Elgin 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 statements, 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 is provided in the risk management and control overview and corporate governance sections of the report starting on pages 2 and 7 respectively.

Based on the information and explanations given by management and the internal and external auditors, the directors are of the opinion that the accounting controls are adequate and that the financial records may be relied upon for preparing the financial statements in accordance with IFRS and maintaining accountability for the group's assets and liabilities.

Nothing has come to the attention of the directors to indicate that any breakdown in the functioning of these controls, resulting in material loss to the group, has occurred during the year and up to the date of this report. The directors have a reasonable expectation that the company and the group have adequate resources to continue in operational existence for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the financial statements.

The financial statements prepared in accordance with IFRS which appear on pages 14 to 90, were approved by the board of directors on 6 March 2007 and are signed on its behalf by:

Derek Cooper
Chairman

Jacko Maree
Chief executive

Group secretary's certification

Compliance with Companies Act 61 of 1973

In terms of the Companies Act 61 of 1973 (the Act), and for the year ended 31 December 2006, 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

6 March 2007

Balance sheet

at 31 December 2006

		Group		Company	
	Note	2006 Rm	2005[1] Rm	2006 Rm	2005[1] Rm
Assets					
Cash and balances with banks	3	50 175	42 169	49 978	41 005
Short-term negotiable securities	4	25 675	21 669	25 146	19 642
Derivative assets	5	67 058	70 742	67 056	70 293
Trading assets	6	7 857	11 492	7 857	11 295
Investments	7	17 372	18 294	9 371	13 429
Loans and advances	8	336 163	264 837	324 534	255 595
Loans and advances to banks	8	9 092	10 000	8 963	10 000
Loans and advances to customers	8	327 071	254 837	315 571	245 595
Current taxation		397	319	397	319
Deferred taxation	17	83	84	63	36
Other assets	9	5 718	5 301	5 526	4 376
Interest in group companies, associates and joint ventures	10	47 296	19 775	49 252	22 870
Goodwill and other intangible assets	11	592	196	592	196
Property and equipment	12	2 829	2 605	2 813	2 421
Total assets		561 215	457 483	542 585	441 477
Equity and liabilities					
Equity		26 655	21 724	25 885	20 376
Equity attributable to ordinary shareholder		26 655	21 718	25 885	20 376
Ordinary share capital	13	60	60	60	60
Ordinary share premium	14	15 730	10 730	15 730	10 730
Reserves		10 865	10 928	10 095	9 586
Minority interest		–	6	–	–
Liabilities		534 560	435 759	516 700	421 101
Derivative liabilities	5	69 069	70 252	69 030	69 740
Trading liabilities	15	6 147	12 938	6 147	3 324
Deposit and current accounts	16	415 196	330 347	395 762	316 017
Deposits from banks	16	9 226	14 245	8 508	14 253
Deposits from customers	16	405 970	316 102	387 254	301 764
Current taxation		675	1 262	660	1 253
Deferred taxation	17	2 817	2 152	2 815	2 018
Other liabilities	18	7 984	6 729	7 857	6 037
Subordinated debt	19	10 862	7 832	10 862	7 832
Liabilities to group companies	10	21 810	4 247	23 567	14 880
Total equity and liabilities		561 215	457 483	542 585	441 477

[1] *2005 figures restated for reclassifications, refer Annexure A – reclassifications.*

Income statement

for the year ended 31 December 2006

		Group		Company	
	Note	2006 Rm	2005 Rm	2006 Rm	2005 Rm
Net interest income		12 817	10 414	12 894	10 605
Interest income	22.1	43 838	33 459	42 795	33 289
Interest expense	22.2	31 021	23 045	29 901	22 684
Non-interest revenue	22.3	14 348	11 815	13 915	10 709
Total income		27 165	22 229	26 809	21 314
Credit impairment charges	22.4	2 414	1 256	2 323	1 248
Income after credit impairment charges		24 751	20 973	24 486	20 066
Operating expenses		13 803	12 420	13 484	12 061
Staff costs	22.5	7 386	7 060	7 268	6 933
Other operating expenses	22.6	6 417	5 360	6 216	5 128
Net income before goodwill		10 948	8 553	11 002	8 005
Goodwill impairment	11.1	–	13	–	–
Net income		10 948	8 540	11 002	8 005
Share of profit from associates and joint ventures	10.2	221	206	–	–
Net income before indirect taxation		11 169	8 746	11 002	8 005
Indirect taxation	24.1	476	461	474	458
Profit before direct taxation		10 693	8 285	10 528	7 547
Direct taxation	24.2	2 546	1 737	2 450	1 491
Profit attributable to ordinary shareholder		8 147	6 548	8 078	6 056
Basic earnings per share (cents)	26	13 579	10 914	13 464	10 094
Dividends per share (cents)	25	12 834	9 583	12 834	9 583

Statements of changes in shareholder's funds

for the year ended 31 December 2006

Group

	Note	Ordinary share capital and premium Rm	Foreign currency translation reserve Rm
Balance at 1 January 2005		8 197	(48)
Items directly accounted for in reserves			34
– currency translation movement			34
– cash flow hedges – recycled to the income statement			
– gains on available-for-sale assets recycled to the income statement			
– available-for-sale assets – mark-to-market			
Issue of share capital and share premium	14	2 593	
Equity-settled share-based payment transactions			
Change in shareholding of subsidiaries			
Attributable earnings for the year			
Dividends paid	25		
Balance at 31 December 2005		10 790	(14)
Balance at 1 January 2006		10 790	(14)
Items directly accounted for in reserves			29
– currency translation movement			29
– cash flow hedges – recycled to the income statement			
– gains on available-for-sale assets recycled to the income statement			
– available-for-sale assets – mark-to-market			
Issue of share capital and share premium	14	5 000	
Equity-settled share-based payment transactions			
Change in shareholding of subsidiaries			
Attributable earnings for the year			
Dividends paid	25		
Balance at 31 December 2006		15 790	15

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 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 funds Rm	Minority interest Rm	Total equity Rm
(20)	(1)	59	10 873	19 060	9	19 069
3	62			99		99
				34		34
3				3		3
	(64)			(64)		(64)
	126			126		126
				2 593		2 593
		118		118		118
					(3)	(3)
			6 548	6 548		6 548
			(6 700)	(6 700)		(6 700)
(17)	61	177	10 721	21 718	6	21 724
(17)	61	177	10 721	21 718	6	21 724
18	485			532		532
				29		29
18				18		18
	(154)			(154)		(154)
	639			639		639
				5 000		5 000
		104		104		104
			(643)	(643)	(6)	(649)
			8 147	8 147		8 147
			(8 203)	(8 203)		(8 203)
1	546	281	10 022	26 655	–	26 655

Statements of changes in shareholder's funds continued

for the year ended 31 December 2006

Company

	Note	Ordinary share capital and premium Rm	Foreign currency translation reserve Rm
Balance at 1 January 2005		8 197	(61)
Items directly accounted for in reserves			29
– currency translation movement			29
– cash flow hedges – recycled to the income statement			
– gains on available-for-sale assets recycled to the income statement			
– available-for-sale assets – mark-to-market			
Issue of share capital and share premium	14	2 593	
Equity-settled share-based payment transactions			
Attributable earnings for the year			
Dividends paid	25		
Balance at 31 December 2005		10 790	(32)
Balance at 1 January 2006		**10 790**	**(32)**
Items directly accounted for in reserves			27
– currency translation movement			27
– cash flow hedges – recycled to the income statement			
– gains on available-for-sale assets recycled to the income statement			
– available-for-sale assets – mark-to-market			
Issue of share capital and share premium	14	5 000	
Equity-settled share-based payment transactions			
Attributable earnings for the year			
Dividends paid	25		
Balance at 31 December 2006		**15 790**	**(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 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 funds Rm	Minority interest Rm	Total equity Rm
(20)	(1)	56	10 047	18 218		18 218
1	62			92		92
				29		29
1				1		1
	(64)			(64)		(64)
	126			126		126
				2 593		2 593
		117		117		117
			6 056	6 056		6 056
			(6 700)	(6 700)		(6 700)
(19)	61	173	9 403	20 376		20 376
(19)	61	173	9 403	20 376		20 376
18	485			530		530
				27		27
18				18		18
	(154)			(154)		(154)
	639			639		639
				5 000		5 000
		104		104		104
			8 078	8 078		8 078
			(8 203)	(8 203)		(8 203)
(1)	546	277	9 278	25 885		25 885

Cash flow statement

for the year ended 31 December 2006

		Group		Company	
	Note	2006 Rm	2005 Rm	2006 Rm	2005 Rm
Operating activities					
Cash receipts from customers	28.2	56 486	43 854	54 763	42 438
Cash paid to customers, employees and suppliers	28.3	(44 656)	(35 206)	(43 227)	(34 496)
Dividends received	28.4	792	1 072	960	1 122
Net cash flows from operating activities	28.1	12 622	9 720	12 496	9 064
Changes in operating funds					
Increase in income-earning assets	28.5	(93 871)	(49 913)	(87 086)	(43 636)
Increase in deposits and other liabilities	28.6	97 416	85 357	93 175	76 630
Net cash flows from operating funds		3 545	35 444	6 089	32 994
Direct taxation paid	28.7	(2 545)	(1 083)	(2 351)	(1 030)
Investing activities					
Capital expenditure on – property		(126)	(231)	(126)	(231)
– equipment, furniture and vehicles		(994)	(785)	(991)	(777)
– intangible assets		(445)	(59)	(445)	(59)
Proceeds from sales of – property, equipment and furniture		231	115	73	115
– vehicles		74	114	73	114
Disposal of subsidiaries	28.10	(24)	–	–	–
Net increase in investment in associates		(214)	(384)	(227)	(384)
Net cash flows used in investing activities		(1 498)	(1 230)	(1 643)	(1 222)
Financing activities					
Proceeds from issue of share capital to shareholder	28.8	5 000	2 593	5 000	2 593
Net increase/(decrease) in subordinated bonds		3 059	(137)	3 059	(137)
Dividends paid	28.9	(8 200)	(6 700)	(8 200)	(6 700)
Net cash flows used in financing activities		(141)	(4 244)	(141)	(4 244)
Effects of exchange rate changes on cash and cash equivalents		29	34	27	29
Net increase in cash and cash equivalents		12 012	38 641	14 477	35 591
Cash and cash equivalents at beginning of the year		63 838	25 197	60 647	25 056
Cash and cash equivalents at end of the year[1]		75 850	63 838	75 124	60 647

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

Accounting policies

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

1 Basis of preparation

These consolidated financial statements are prepared in accordance with, and comply with International Financial Reporting Standards (IFRS) and the South African Companies Act of 1973. The consolidated financial statements are prepared in accordance with the going concern principle under the historical cost basis as modified by the revaluation of financial instruments classified as available-for-sale, financial assets and liabilities held at fair value through profit or loss and derivative instruments.

The accounting policies are consistent with those adopted in the previous year. The group adopted the following amendments to IFRS, with an effective date of 1 January 2006, and the following interpretations:

- IAS 19 amendment – *Employee Benefits*;
- IAS 39 amendment – *Financial Instruments: Recognition and Measurement (April 2005) – Cash flow hedge accounting of forecast intragroup transactions;*
- IAS 39 amendment – *Financial Instruments: Recognition and Measurement (June 2005) – Fair value option;*
- IAS 39 and IFRS 4 amendment – *Financial Instruments: Recognition and Measurement (August 2005) and Insurance Contracts – Financial Guarantee Contracts;*
- IAS 21 amendment – *The Effects of Changes in a Foreign Operation (December 2005);* and
- IFRIC 4 – *Determining Whether an Arrangement Contains a Lease.*

The adoption of these standards and interpretations has not had a material effect on the 2006 results, nor has it required any restatement of prior period results.

2 Basis of consolidation

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

Special purpose entities 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.

The purchase method of accounting is used to account for the acquisition of subsidiaries. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of an acquisition over the fair value of identifiable net assets acquired is recorded as goodwill and accounted for in terms of accounting policy 14. Negative goodwill arising on acquisition is recognised directly in the income statement.

Inter-company transactions, balances and unrealised gains and losses are eliminated on consolidation. 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.

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 Standard Bank of South Africa's (SBSA) company 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, and of borrowings and other currency instruments designated as hedges of such investments, are accounted for directly in a separate component of equity. On disposal of foreign operations, such exchange differences are recognised in the income statement as part of the profit or loss on disposal. Goodwill and fair value adjustments arising on the acquisition of foreign operations are treated as assets and liabilities of the foreign operation and translated at closing rates at balance sheet date.

Accounting policies continued

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. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated 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 banks and short-term negotiable securities. Cash flows arising from operating funds are stated after excluding the impact of foreign currency translation differences on asset and liability classes.

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

5 Short term negotiable securities, trading assets and investment securities

Recognition and measurement

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

Classification

Management determines the appropriate classification of financial assets on acquisition.

Held to maturity

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

Financial assets at fair value through profit or loss

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

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

The group designates financial assets and financial liabilities at fair value through profit or loss where:

- the assets or liabilities are managed, evaluated and reported internally on a fair value basis;
- the designation eliminates or significantly reduces an accounting mismatch which would otherwise arise; or
- the asset or liability contains an embedded derivative that significantly modifies the cash flows that would otherwise be required under the contract.

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

Fair value

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

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

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

6 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 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.

7 Repurchase and resale agreements and lending of securities

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

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

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

Securities lent to counterparties are retained in the financial statements and are classified and measured in accordance with accounting policy 5. Securities borrowed are not recognised in the financial statements unless these are sold to third parties. In these cases, the obligation to return the securities borrowed is recorded at fair value as a trading liability.

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

8 Derivative financial instruments

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

All derivative instruments of the group are carried as assets when the fair value is positive and as liabilities when the fair value is negative, subject to offsetting principles as described in accounting policy 22.

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

9 Hedge accounting

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

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

Accounting policies continued

A hedging relationship exists where:

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

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

Fair value hedges

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

Cash flow hedges

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

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

10 Loans and advances

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

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

Where the group has elected to classify and account for any loan as a financial asset at fair value through profit or loss, the movement in the fair value is accounted for in the income statement as interest income. Financial assets are designated on initial recognition at fair value through profit or loss in terms of the criteria indicated in accounting policy 5.

11 Impairment of financial assets

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

Available for sale financial assets

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 write-down, where the instrument is a debt instrument, the write-down is reversed through the income statement. An impairment loss in respect of an equity instrument classified as available-for-sale is not reversed through the income statement but accounted for directly in equity.

Loans and receivables

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

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

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

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

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

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

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

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

13 Interest in associates and joint ventures

Associates and jointly controlled entities

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

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

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

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

Jointly controlled operations

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

Accounting policies continued

14 Goodwill

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

Goodwill arising on the acquisition of subsidiaries 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 is tested annually for impairment. Cash generating units are the smallest identifiable groups of assets that generate cash inflows that are largely independent of cash inflows from other assets or groups of assets. An impairment loss is recognised if the carrying amount of a cash generating unit exceeds its recoverable amount. An impairment loss in respect of goodwill is not reversed. 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.

15 Other intangible assets

Computer software

Generally, costs associated with developing or maintaining computer software programs and the acquisition of software licences are recognised as an expense as incurred. However, direct computer software development costs that are clearly associated with an identifiable and unique system, which will be controlled by the group and have a probable future economic benefit exceeding one year, are recognised as intangible assets when 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.

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

16 Property and equipment

Equipment and owner occupied properties

Equipment, furniture, vehicles and other tangible assets are stated at historical cost less accumulated depreciation and 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. Gains or losses on disposal of assets are included in the income statement.

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

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

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

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

The estimated useful lives of tangible assets 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.

17 Financial liabilities

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

Preference shares, which carry a mandatory coupon, or are redeemable on a specific date, at the option of the shareholder or if dividend payments are not discretionary, are classified as financial liabilities 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 methodology.

The group classifies certain liabilities at fair value through profit or loss, mainly to match the accounting classification of assets with similar risks in terms of the criteria indicated in accounting policy 5 for designating financial instruments at fair value through profit or loss upon initial recognition. Such liabilities are accounted for at fair value with changes in fair value recognised in the income statement.

18 Lessee accounting

Leases, where the group assumes substantially all the benefits and risks of ownership, are classified as finance leases. Finance leases are capitalised at the lower of the fair value of the leased asset and the present value of the minimum lease payments. Lease payments are separated using the interest rate implicit in the lease to identify the finance cost, which is charged against income over the lease period, and the capital repayment, which reduces the liability to the lessor.

Leases of assets are classified as operating leases if the lessor effectively retains all the risks and benefits. Payments made under operating leases are charged to the income statement on a straight-line basis over the period of the lease.

19 Provision for leave pay

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

20 Other provisions

Provisions are recognised when the group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate of the amount of the obligation can be made.

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

21 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 liability 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 affect neither accounting nor taxable profits or losses; and
- investments in subsidiaries and joint ventures where the group controls the timing of the reversal of temporary differences and it is probable that these differences will not reverse in the foreseeable future.

Deferred tax assets are recognised to the extent that it is probable that future taxable income will be available against which the unused tax losses can be utilised. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of the asset or liability and is not discounted. Deferred tax 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, is also charged or credited directly to equity and is subsequently recognised in the income statement when the related deferred gain or loss is recognised.

Secondary tax on companies (STC)

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

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

Accounting policies continued

Indirect tax

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

22 Offsetting

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

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.

23 Equity

Share issue costs

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

Dividends

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

24 Equity linked transactions

Equity compensation plans

SBSA 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 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 share 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 SBG, issued in terms of the group's Black Economic Empowerment Ownership (Tutuwa) initiative, to black managers of SBSA 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.

25 Revenue and expenditure

Revenues described below represent the most appropriate equivalent of turnover.

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

Net interest income

Interest income and expenses are recognised in the income statement for all interest-bearing instruments on an accrual basis using the effective interest method. In terms of the effective interest method, interest is recognised at a rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument to the carrying amount on the financial statements. Direct incremental transaction costs incurred and origination fees received as a result of bringing margin-yielding assets 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.

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

Non interest revenue

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

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

Loan syndication fees, where the group does not participate in the syndication or participate at the same effective interest rate for comparable risk as other participants, are recognised as revenue when the syndication has been completed. Syndication fees that do not meet these criteria are capitalised as origination fees and amortised as interest income.

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

26 Post retirement benefits

The group operates a number of defined contribution plans, based on a percentage of pensionable earnings funded by both employer companies and employees, the assets of which are generally held in separate trustee-administered funds. Contributions to these plans are charged to the income statement in the period to which they relate.

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

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

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

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

27 Segment reporting

A segment is a distinguishable component of the group engaged in providing products or services within a particular economic environment, which is subject to risks and rewards that are different from those of other segments. The group's primary business segmentation is based on the group's internal reporting format to management. It represents the classification of the group's activities in segments that reflect the risk and return of the group's product offerings in different product markets. No geographical segmentation is provided as the group operates predominantly in South Africa.

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

28 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.

29 Comparative figures

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

Reclassifications within the 2005 balance sheet are presented in Annexure A – reclassifications on page 85.

Accounting policies continued

Standards and interpretations applicable to the group not yet effective

Standard	*Standard/interpretation*	*Effective date*[1]
IFRS 7	*Financial Instruments: Disclosures (including amendments to IAS 1, Presentation of Financial Statements: Capital Disclosures)* IFRS 7 and the amendments to IAS 1 deal mainly with the disclosure of financial instruments, the related qualitative and quantitative risks associated with financial instruments and objectives, processes and policies for managing capital. To a large extent these disclosure requirements are currently provided in terms of IAS 30 and IAS 32. The standard and amendments will therefore not impact the results of the group but will result in increased disclosure relating to financial instruments in particular.	Annual periods commencing on or after 1 January 2007
IFRS 8	*Operating segments* IFRS 8 replaces IAS 14 *Segment Reporting* and aligns segment reporting with the requirements of SFAS 131 (US standard). This standard requires an entity to adopt the 'management approach' when reporting on the financial performance of its operating segments. The reporting would be based on the information that management uses internally for evaluating segment performance and when deciding how to allocate resources to operating segments. The statement will therefore not impact the results of the group but will impact the format of disclosure and measurement of the results of reportable segments.	Annual periods commencing on or after 1 January 2009
IFRIC 8	*Scope of IFRS 2* The interpretation clarifies that IFRS 2 applies to transactions in which the entity cannot specifically identify the goods or services received in return for a share-based payment, but where other circumstances indicate that goods or services have been received. This interpretation is consistent with the group's application of IFRS 2 for shares issued in terms of its Tutuwa initiative.	Annual periods commencing on or after 1 May 2006
AC 503	*Accounting for Black Economic Empowerment (BEE) Transactions* AC 503 clarifies the accounting treatment of BEE transactions in the context of IFRIC 8 – *Scope of IFRS 2* where the entity grants equity instruments to black people or entities controlled by black people and the fair value of the cash and other assets received is less than the fair value of the equity instruments granted. The group's accounting treatment is consistent with AC 503.	Annual period commencing on or after 1 May 2006
IFRIC 9	*Reassessment of Embedded Derivatives* This interpretation states that an embedded derivative should be assessed for separation from the host contract when the entity first becomes a party to the contract. The entity may only make a subsequent reassessment if there is a significant change in the terms of the contract (i.e. in the terms of the host contract, the embedded derivative or both). A significant change in the terms of the contract is defined as a significant change in the expected future cash flows arising from the hybrid instrument before and after the modification. The group's accounting treatment of embedded derivatives complies with this interpretation.	Annual periods commencing on or after 1 June 2006

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

Standard	*Standard/interpretation*	*Effective date*
IFRIC 10	*Interim Financial Reporting and Impairment* This interpretation addresses the interaction between IAS 34 I*nterim Financial Reporting* and the requirements relating to the recognition of impairment losses in IAS 36 I*mpairment of Assets* and IAS 39 *Financial Instruments: Recognition and Measurement*. The interpretation states that an entity should not reverse an impairment loss recognised in a previous interim period in respect of goodwill or an investment in either an equity instrument classified as available-for-sale or a financial asset (which IAS 39 would usually require to be measured at fair value) measured at cost in terms of IAS 39 even if a loss would not have been recognised, or a smaller loss would have been recognised, had an impairment assessment only been made at a subsequent balance sheet date. This interpretation is not expected to impact the results of the group significantly.	Annual periods commencing on or after 1 November 2006
IFRIC 11	*IFRS 2 Group and Treasury Share Transactions* The interpretation addresses how to apply IFRS 2 *Share-based Payments* to share-based payment arrangements in three circumstances: • Share-based payment transactions in which an entity receives 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 accounting treatment complies with this interpretation and it will therefore not impact the group's results.	Annual periods commencing on or after 1 March 2007

Notes to the annual financial statements

for the year ended 31 December 2006

Group
2006

	Personal & Business Banking SA Rm	Corporate & Investment Banking SA Rm	Other services Rm	Total Rm
1 Segment reporting				
Net interest income	10 112	2 845	(140)	12 817
Non-interest revenue	9 071	4 716	561	14 348
Total income	19 183	7 561	421	27 165
Credit impairment charges	2 196	153	65	2 414
Net income after credit impairment charges	16 987	7 408	356	24 751
Operating expenses	10 369	3 079	355	13 803
Staff costs	5 018	1 718	650	7 386
Other operating expenses	5 351	1 361	(295)	6 417
Net income before goodwill	6 618	4 329	1	10 948
Goodwill impairment	–	–	–	–
Net income	6 618	4 329	1	10 948
Share of profit from associates and joint ventures	145	74	2	221
Net income before indirect taxation	6 763	4 403	3	11 169
Indirect taxation	369	70	37	476
Profit before direct taxation	6 394	4 333	(34)	10 693
Direct taxation	1 922	800	(176)	2 546
Profit attributable to ordinary shareholder	4 472	3 533	142	8 147
Headline earnings	4 395	3 533	52	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
Capital expenditure	1 146	256	163	1 565
Depreciation and amortisation	551	48	85	684
Impairments of property, equipment and intangible assets	9	–	–	9

Group
2005

	Personal & Business Banking SA Rm	Corporate & Investment Banking SA Rm	Other services Rm	Total Rm
1 Segment reporting continued				
Net interest income	8 078	2 368	(32)	10 414
Non-interest revenue	7 628	3 867	320	11 815
Total income	15 706	6 235	288	22 229
Credit impairment charges	1 262	2	(8)	1 256
Net income after credit impairment charges	14 444	6 233	296	20 973
Operating expenses	9 220	2 662	538	12 420
Staff costs	4 631	1 465	964	7 060
Other operating expenses	4 589	1 197	(426)	5 360
Net income before goodwill	5 224	3 571	(242)	8 553
Goodwill impairment	13	–	–	13
Net income	5 211	3 571	(242)	8 540
Share of profit from associates and joint ventures	154	52	–	206
Net income before indirect taxation	5 365	3 623	(242)	8 746
Indirect taxation	347	76	38	461
Profit before direct taxation	5 018	3 547	(280)	8 285
Direct taxation	1 593	349	(205)	1 737
Profit attributable to ordinary shareholder	3 425	3 198	(75)	6 548
Headline earnings	3 435	3 152	(134)	6 453
Operating information				
Total assets	197 042	253 334	7 107	457 483
Total liabilities	189 228	245 604	927	435 759
Other information				
Interest in associates and joint ventures	207	560	–	767
Capital expenditure	427	154	494	1 075
Depreciation and amortisation	589	130	(57)	662
Impairments of property, equipment and intangible assets	13	–	–	13

Notes to the annual financial statements continued

for the year ended 31 December 2006

Company
2006

	Personal & Business Banking SA Rm	Corporate & Investment Banking SA Rm	Other services Rm	Total Rm
1 Segment reporting continued				
Net interest income	10 006	2 782	106	12 894
Non-interest revenue	8 586	4 766	563	13 915
Total income	18 592	7 548	669	26 809
Credit impairment charges	2 128	130	65	2 323
Net income after credit impairment charges	16 464	7 418	604	24 486
Operating expenses	10 060	3 072	352	13 484
Staff costs	4 900	1 718	650	7 268
Other operating expenses	5 160	1 354	(298)	6 216
Net income before indirect taxation	6 404	4 346	252	11 002
Indirect taxation	368	69	37	474
Profit before direct taxation	6 036	4 277	215	10 528
Direct taxation	1 851	776	(177)	2 450
Profit attributable to ordinary shareholder	4 185	3 501	392	8 078
Headline earnings	4 108	3 501	302	7 911
Operating information				
Total assets	249 962	288 882	3 741	542 585
Total liabilities	235 910	280 665	125	516 700
Other information				
Interest in associates and joint ventures	10	697	7	714
Capital expenditure	1 146	256	160	1 562
Depreciation and amortisation	551	48	73	672
Impairments of property, equipment and intangible assets	9	–	–	9

Company
2005

	Personal & Business Banking SA Rm	Corporate & Investment Banking SA Rm	Other services Rm	Total Rm
1 Segment reporting continued				
Net interest income	8 034	2 173	398	10 605
Non-interest revenue	7 113	3 422	174	10 709
Total income	15 147	5 595	572	21 314
Credit impairment charges	1 256	(1)	(7)	1 248
Net income after credit impairment charges	13 891	5 596	579	20 066
Operating expenses	8 925	2 624	512	12 061
Staff costs	4 522	1 446	965	6 933
Other operating expenses	4 403	1 178	(453)	5 128
Net income before indirect taxation	4 966	2 972	67	8 005
Indirect taxation	345	74	39	458
Profit before direct taxation	4 621	2 898	28	7 547
Direct taxation	1 527	368	(404)	1 491
Profit attributable to ordinary shareholder	3 094	2 530	432	6 056
Headline earnings	3 092	2 484	372	5 948
Operating information				
Total assets	192 803	243 603	5 071	441 477
Total liabilities	185 336	236 185	(420)	421 101
Other information				
Interest in associates and joint ventures	28	459	–	487
Capital expenditure	419	154	494	1 067
Depreciation and amortisation	582	130	(61)	651
Impairments of property, equipment and intangible assets	–	–	–	–

Notes to the annual financial statements continued

for the year ended 31 December 2006

1 Segment reporting continued

The principal business units in 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.

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

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

2 Key management assumptions

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

2.1 Credit impairment losses on loans and advances

Performing loans

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

	Average loss emergence period		Sensitivity[1]	
	2006 Months	2005 Months	2006 Rm	2005 Rm
Personal & Business Banking SA	3 – 6	3 – 6	149	110
Corporate & Investment Banking SA	13	15	36	27
			185	137

[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. Recoveries of individual loans as a percentage of the outstanding balances are estimated as follows:

	Expected recoveries as a percentage of impaired loans		Impairment loss sensitivity[1]	
	2006 %	2005 %	2006 Rm	2005 Rm
Personal & Business Banking SA	61	61	26	19
Corporate & Investment Banking SA	32	41	1	2
			27	21

[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.*

Notes to the annual financial statements continued

for the year ended 31 December 2006

2 Key management assumptions continued

2.2 Fair value of derivatives

The fair value of financial instruments that are not quoted in active markets is determined by using valuation techniques. Where valuation techniques (for example, models) are used to determine fair values, they are validated and periodically reviewed by independent qualified senior personnel. All models are certified before they are used, and models are calibrated and back tested to ensure that outputs reflect actual data and comparative market prices. To the extent practical, models use only observable data, however areas such as credit risk (both own and counterparty), volatilities and correlations require management to make estimates.

2.3 Impairment of available for sale equity investments

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

2.4 Securitisations and special purpose entities

The group sponsors the formation of special purpose entities (SPEs) primarily for the purpose of allowing clients to hold investments, for asset securitisation transactions and for buying or selling credit protection. The group does not consolidate SPEs that it does not control. As it can sometimes be difficult to determine whether the group controls an SPE, it makes judgements about its exposure to the risks and rewards, as well as its ability to make operational decisions for the SPE in question. In arriving at judgements, these factors are considered both jointly and separately.

The group consolidated SPEs with assets of R14 148 million (2005: R6 891 million) and no profit (2005: Rnil). The group has not consolidated SPEs with assets of R475 million (2005: R250 million) and no profit (2005: Rnil) as these entities were not considered to be controlled by the group.

2.5 Held to maturity investments

The group follows the guidance of IAS 39 on classifying non-derivative financial assets with fixed or determinable payments and fixed maturity as held-to-maturity. This classification requires judgement of the group's ability to hold such investments to maturity. If the group fails to keep these investments to maturity other than for specific defined circumstances, it will be required to classify the entire class as available-for-sale. The 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 R5 million (2005: R68 million), for the group and company with a corresponding entry in the available-for-sale reserve in shareholders' equity.

2.6 Income taxes

The group is subject to direct and indirect taxation in a number of jurisdictions. There 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.

2.7 Financial risk management

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

	Group		Company	
	2006 Rm	2005 Rm	2006 Rm	2005 Rm
3 Cash and balances with banks				
Coins and bank notes	4 392	2 850	4 392	2 850
Balances with central banks	6 923	5 299	6 923	5 299
Balances with other banks	38 860	34 020	38 663	32 856
	50 175	42 169	49 978	41 005
Cash and balances with banks include R6 923 million (2005: R5 299 million) for the group and company that was not available for use. These balances comprise primarily reserving requirements held with the central bank.				
4 Short term negotiable securities				
Designated at fair value	25 675	21 669	25 146	19 642

5 Derivative instruments

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

5.1 Fair values

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

5.2 Notional amount

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

Notes to the annual financial statements continued

for the year ended 31 December 2006

5 Derivative instruments continued

5.3 Derivative assets and liabilities

Group

	2006 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	4 394	(610)	(515)	3 269
Forwards	4 752	55	(35)	4 772
Futures	(1)	–	–	(1)
Options	(357)	(665)	(480)	(1 502)
Interest rate derivatives	(2 330)	(3 268)	(1 284)	(6 882)
Bond and options	37	(448)	(146)	(557)
Caps and floors	(15)	(56)	22	(49)
Future options	–	–	–	–
Forwards	14	(1)	–	13
Swaps	(2 357)	(2 766)	(1 160)	(6 283)
Swaptions	(9)	3	–	(6)
Commodity derivatives	(297)	–	94	(203)
Forwards	(244)	–	(39)	(283)
Futures	3	–	–	3
Options	(56)	–	133	77
Credit derivatives	(5)	29	62	86
Credit default swaps	(5)	29	62	86
Total return swaps	–	–	–	–
Equity derivatives	104	(316)	6	(206)
Forwards	(67)	–	–	(67)
Futures	(8)	–	–	(8)
Index options	112	(339)	–	(227)
Options	86	11	6	103
Swaps	(19)	5	–	(14)
Other	–	7	–	7
Total derivative assets/(liabilities) held for trading	1 866	(4 165)	(1 637)	(3 936)
Derivatives held for hedging				
Derivatives designated as fair value hedges				
– interest rate swaps	706	1 310	(92)	1 924
Derivatives designated as cash flow hedges				
– interest rate swaps	–	–	1	1
Total derivative assets/(liabilities) held for hedging	706	1 310	(91)	1 925
Total derivative assets/(liabilities)	2 572	(2 855)	(1 728)	(2 011)

2006			2005			
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
18 841	(15 572)	1 028 432	3 097	13 678	(10 581)	719 149
15 146	(10 374)	977 551	1 276	7 222	(5 946)	674 540
–	(1)	6 136	–	1	(1)	1 576
3 695	(5 197)	44 745	1 821	6 455	(4 634)	43 033
40 736	(47 618)	4 133 052	(3 360)	48 902	(52 262)	1 920 057
1 784	(2 341)	116 920	(518)	1 453	(1 971)	116 561
89	(138)	30 842	44	111	(67)	40 089
1	(1)	–	–	–	–	–
165	(152)	348 200	(17)	225	(242)	279 025
38 591	(44 874)	3 569 741	(2 896)	46 934	(49 830)	1 472 810
106	(112)	67 349	27	179	(152)	11 572
2 118	(2 321)	25 981	206	1 732	(1 526)	24 736
1 319	(1 602)	16 291	(39)	1 380	(1 419)	14 654
3	–	23	–	1	(1)	217
796	(719)	9 667	245	351	(106)	9 865
502	(416)	18 804	278	420	(142)	18 252
487	(401)	18 784	278	369	(91)	17 274
15	(15)	20	–	51	(51)	978
2 970	(3 176)	86 867	(56)	3 386	(3 442)	118 101
53	(120)	764	55	367	(312)	3 172
(5)	(3)	11 569	16	129	(113)	83 973
2 111	(2 338)	65 649	(57)	2 850	(2 907)	28 321
786	(683)	6 369	–	–	–	7
18	(32)	1 416	11	40	(29)	2 628
7	–	1 100	(81)	–	(81)	–
65 167	(69 103)	5 293 136	165	68 118	(67 953)	2 800 295
1 890	34	58 824	338	2 620	(2 282)	54 914
1	–	590	(13)	4	(17)	3 581
1 891	34	59 414	325	2 624	(2 299)	58 495
67 058	(69 069)	5 352 550	490	70 742	(70 252)	2 858 790

Notes to the annual financial statements continued

for the year ended 31 December 2006

5 Derivative instruments continued

5.3 Derivative assets and liabilities continued

Company

	2006 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	4 394	(610)	(515)	3 269
Forwards	4 752	55	(35)	4 772
Futures	(1)	–	–	(1)
Options	(357)	(665)	(480)	(1 502)
Interest rate derivatives	(2 300)	(3 261)	(1 284)	(6 845)
Bond and options	37	(448)	(146)	(557)
Caps and floors	(15)	(56)	22	(49)
Future options	–	–	–	
Forwards	14	(1)	–	13
Swaps	(2 327)	(2 759)	(1 160)	(6 246)
Swaptions	(9)	3	–	(6)
Commodity derivatives	(297)	–	94	(203)
Forwards	(244)	–	(39)	(283)
Futures	3	–	–	3
Options	(56)	–	133	77
Credit derivatives	(5)	29	62	86
Credit default swaps	(5)	29	62	86
Total return swaps	–	–	–	–
Equity derivatives	104	(316)	6	(206)
Forwards	(67)	–	–	(67)
Futures	(8)	–	–	(8)
Index options	112	(339)	–	(227)
Options	86	11	6	103
Swaps	(19)	5	–	(14)
Other	–	7	–	7
Total derivative assets/(liabilities) held for trading	1 896	(4 158)	(1 637)	(3 899)
Derivatives held for hedging				
Derivatives designated as fair value hedges				
– interest rate swaps	706	1 310	(92)	1 924
Derivatives designated as cash flow hedges				
– interest rate swaps	–	–	1	1
Total derivative assets/(liabilities) held for hedging	706	1 310	(91)	1 925
Total derivative assets/(liabilities)	2 602	(2 848)	(1 728)	(1 974)

2006 Fair value of assets Rm	2006 Fair value of liabilities Rm	2006 Contract/ notional amount Rm	2005 Net fair value Rm	2005 Fair value of assets Rm	2005 Fair value of liabilities Rm	2005 Contract/ notional amount Rm
18 841	(15 572)	1 028 432	3 097	13 678	(10 581)	719 149
15 146	(10 374)	977 551	1 276	7 222	(5 946)	674 540
–	(1)	6 136	–	1	(1)	1 576
3 695	(5 197)	44 745	1 821	6 455	(4 634)	43 033
40 734	(47 579)	4 131 502	(3 376)	48 885	(52 261)	1 920 057
1 784	(2 341)	116 920	(518)	1 453	(1 971)	116 561
89	(138)	30 842	44	111	(67)	40 089
1	(1)	–	–	–	–	–
165	(152)	348 200	(17)	225	(242)	279 025
38 589	(44 835)	3 568 191	(2 912)	46 917	(49 829)	1 472 810
106	(112)	67 349	27	179	(152)	11 572
2 118	(2 321)	25 981	206	1 732	(1 526)	24 736
1 319	(1 602)	16 291	(39)	1 380	(1 419)	14 654
3	–	23	–	1	(1)	217
796	(719)	9 667	245	351	(106)	9 865
502	(416)	18 804	278	420	(142)	18 252
487	(401)	18 784	278	369	(91)	17 274
15	(15)	20	–	51	(51)	978
2 970	(3 176)	86 867	23	2 954	(2 931)	118 101
53	(120)	764	55	367	(312)	3 172
(5)	(3)	11 569	16	129	(113)	83 973
2 111	(2 338)	65 649	(57)	2 420	(2 477)	28 321
786	(683)	6 369	–	–	–	7
18	(32)	1 416	9	38	(29)	2 628
7	–	1 100	–	–	–	–
65 165	(69 064)	5 291 586	228	67 669	(67 441)	2 800 295
1 890	34	58 824	338	2 620	(2 282)	54 914
1	–	590	(13)	4	(17)	3 581
1 891	34	59 414	325	2 624	(2 299)	58 495
67 056	(69 030)	5 351 000	553	70 293	(69 740)	2 858 790

Notes to the annual financial statements continued

for the year ended 31 December 2006

5 Derivative instruments continued

5.4 Use and measurement of derivative instruments

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

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

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

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

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

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

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

5.5 Derivatives held for trading

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

5.5.1 Foreign exchange derivatives

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

5.5.2 Interest rate derivatives

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

5.5.3 Commodity derivatives

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

5 Derivative instruments continued

5.4 Use and measurement of derivative instruments continued

5.5.4 Credit derivatives

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

5.5.5 Equity derivatives

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

5.6 Derivatives held for hedging

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

5.6.1 Derivatives designated as fair value hedges

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

5.6.2 Derivatives designated as cash flow hedges

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

5.6.3 Derivatives designated as fair value portfolio hedges

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

5.6.4 Derivatives designated as hedges of net investments in subsidiaries

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

Notes to the annual financial statements continued

for the year ended 31 December 2006

	Group		Company	
	2006 Rm	2005 Rm	2006 Rm	2005 Rm
6 Trading assets				
Listed	5 996	9 568	5 996	9 371
– Securities of, or guaranteed by, the South African government	3 413	5 266	3 413	5 266
– Other	2 583	4 302	2 583	4 105
Unlisted	1 861	1 924	1 861	1 924
	7 857	11 492	7 857	11 295
Dated assets	7 660	8 991	7 660	8 991
Undated assets	197	2 501	197	2 304
	7 857	11 492	7 857	11 295
Maturity analysis				
The maturities represent periods to contractual redemption of the trading assets recorded.				
– Redeemable on demand	–	90	–	90
– Maturing within 1 month	1 878	1 926	1 878	1 926
– Maturing after 1 month but within 6 months	144	1 748	144	1 748
– Maturing after 6 months but within 12 months	195	168	195	168
– Maturing after 12 months	5 443	5 059	5 443	5 059
– Undated assets	197	2 501	197	2 304
	7 857	11 492	7 857	11 295

Redemption value

Dated trading assets had a redemption value at 31 December 2006 of R7 838 million (2005: R11 285 million) for the group and company.

Directors' valuation

The directors' valuation of unlisted investments is equal to the carrying value. All unlisted investments were valued at 31 December 2006.

7 Investments

	Group 2006 Rm	Group 2005 Rm	Company 2006 Rm	Company 2005 Rm
Listed	16 397	16 301	8 396	11 448
– Securities of, or guaranteed by, the South African government	6 947	10 829	6 947	10 829
– Other	9 450	5 472	1 449	619
Unlisted	975	1 993	975	1 981
	17 372	18 294	9 371	13 429
Comprising:				
Dated securities	15 010	14 988	7 009	10 860
Undated securities	2 362	3 306	2 362	2 569
	17 372	18 294	9 371	13 429
Maturity analysis				
The maturities represent periods to contractual redemption of the investment securities recorded.				
– Redeemable on demand and within 1 month	442	2 603	442	2 603
– Maturing after 1 month but within 6 months	818	3 515	818	3 515
– Maturing after 6 months but within 12 months	1 005	714	–	196
– Maturing after 12 months	12 745	8 156	5 749	4 546
– Undated securities	2 362	3 306	2 362	2 569
	17 372	18 294	9 371	13 429

Redemption value

Dated investment securities had a redemption value at 31 December 2006 of R15 010 million (2005: R14 295 million) for the group and R7 009 million (2005: R10 167 million) for the company.

Investment registers

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

Directors' valuation

The directors' valuation of unlisted investments is equal to the carrying value. All unlisted investments were valued at 31 December 2006.

Notes to the annual financial statements continued

for the year ended 31 December 2006

8 Loans and advances

The company extends advances to the personal, commercial and corporate sectors as well as to the public sector. Advances made to individuals are mostly in the form of mortgages, instalment credit, overdrafts and credit card borrowings. A significant portion of the company's advances to commercial and corporate borrowers consists of advances made to companies engaged in manufacturing, finance and service industries.

8.1 Loans and advances net of impairment

	Group 2006 Rm	Group 2005 Rm	Company 2006 Rm	Company 2005 Rm
Loans and advances to banks	9 092	10 000	8 963	10 000
– Call loans	3 433	4 927	3 304	4 927
– Loans granted under resale agreements	5 659	5 073	5 659	5 073
Loans and advances to customers	327 071	254 837	315 571	245 595
Gross loans and advances to customers	331 044	257 925	319 462	248 667
– Mortgage lending[1]	162 698	122 661	158 456	117 769
– Instalment sale and finance leases[1] (note 8.2)	47 644	39 626	43 349	36 639
– Card debtors	16 938	11 968	15 832	10 956
– Overdrafts and other demand lending	20 908	21 851	20 585	22 310
– Term lending	56 770	40 193	55 705	39 406
– Loans granted under resale agreements	2 122	2 850	2 122	2 843
– Commercial property finance	17 493	16 234	16 987	16 228
– Foreign currency lending	5 166	2 099	5 166	2 084
– Other loans and advances	1 305	443	1 260	432
Credit impairments for loans and advances (note 8.3)	(3 973)	(3 088)	(3 891)	(3 072)
– Impairments for non-performing loans	(1 774)	(1 553)	(1 747)	(1 539)
– Impairments for performing loans	(2 199)	(1 535)	(2 144)	(1 533)
Net loans and advances	336 163	264 837	324 534	255 595
Comprising:				
Gross loans and advances	340 136	267 925	328 425	258 667
Less: credit impairments	(3 973)	(3 088)	(3 891)	(3 072)
Net loans and advances	336 163	264 837	324 534	255 595

Loans and advances included net positive fair value adjustments of R409 million (2005: R1 077 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.

[1] *Loans and advances securitised included above*

	Group 2006 Rm	Group 2005 Rm	Company 2006 Rm	Company 2005 Rm
Mortgage lending	10 020	4 258	–	–
Instalment sale and finance leases	4 128	2 633	–	–
Securitised assets	14 148	6 891	–	–

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

8 Loans and advances continued

8.1 Loans and advances net of impairment continued

	Group 2006 Rm	Group 2005 Rm	Company 2006 Rm	Company 2005 Rm
Maturity analysis				
The maturity analysis is based on the remaining periods to contractual maturity from year end.				
– Redeemable on demand	26 700	28 285	26 658	27 438
– Maturing within 1 month	23 909	29 693	23 843	29 630
– Maturing after 1 month but within 6 months	36 078	18 382	35 986	18 123
– Maturing after 6 months but within 12 months	24 836	15 934	23 650	14 846
– Maturing after 12 months	228 613	175 631	218 288	168 630
	340 136	267 925	328 425	258 667
Segmental analysis – industry				
Agriculture	5 850	6 027	5 796	6 027
Construction	2 544	1 693	2 526	1 693
Electricity	1 565	1 348	1 561	1 348
Finance, real estate and other business services	41 145	40 829	40 767	39 740
Individuals	207 505	162 306	198 717	154 837
Manufacturing	15 652	13 416	15 613	13 416
Mining	2 649	3 881	2 645	3 881
Other services	36 101	29 558	34 221	29 502
Transport	5 532	5 190	5 511	5 190
Wholesale	21 593	3 677	21 068	3 033
	340 136	267 925	328 425	258 667
Segmental analysis – geographic area				
The following table sets out the distribution of the company's loans and advances by geographic area where the loans are recorded.				
Eastern Cape	12 747	10 417	12 052	10 042
Free State	6 640	5 330	6 298	5 120
Gauteng	187 900	155 242	183 508	150 247
KwaZulu-Natal	38 012	29 255	35 776	27 947
Limpopo	5 504	4 114	5 225	3 934
Mpumalanga	10 229	9 139	9 676	8 763
North West	7 686	5 433	7 365	4 955
Northern Cape	2 241	1 593	2 138	1 570
Western Cape	52 279	38 414	49 772	37 101
International	16 898	8 988	16 615	8 988
	340 136	267 925	328 425	258 667

8.2 Instalment finance

	Group 2006 Rm	Group 2005 Rm	Company 2006 Rm	Company 2005 Rm
Gross investment in instalment finance	57 970	46 837	52 862	43 320
Unearned finance charges deducted	10 326	7 211	9 513	6 681
Net investment in instalment finance	47 644	39 626	43 349	36 639
Receivable within 1 year	14 070	11 737	13 833	10 964
Receivable after 1 year but within 5 years	30 019	26 868	28 611	24 701
Receivable after 5 years	3 555	1 021	905	974

Notes to the annual financial statements continued

for the year ended 31 December 2006

	Group		Company	
	2006 Rm	2005 Rm	2006 Rm	2005 Rm
8 Loans and advances continued				
8.3 Credit impairments for loans and advances				
Balance at beginning of the year	3 088	2 797	3 072	2 781
– Credit losses written off	(1 465)	(1 010)	(1 439)	(984)
– Discount element recognised in interest income (note 22.1)	(256)	(230)	(256)	(230)
– Exchange and other movements	3	3	2	3
– Net impairments raised and released (note 22.4)	2 603	1 528	2 512	1 502
Balance at end of the year	3 973	3 088	3 891	3 072
Comprising:				
Impairments for non-performing loans	1 774	1 553	1 747	1 539
Impairments for performing loans	2 199	1 535	2 144	1 533
	3 973	3 088	3 891	3 072
Segmental analysis of impairments for non performing loans – industry				
Agriculture	59	47	59	47
Construction	33	35	33	35
Electricity	2	1	2	1
Finance, real estate and other business services	129	315	129	315
Individuals	1 149	670	1 123	656
Manufacturing	61	50	61	50
Mining	4	57	4	57
Other services	220	280	219	280
Transport	29	19	29	19
Wholesale	88	79	88	79
	1 774	1 553	1 747	1 539
9 Other assets				
Trading settlement assets	2 799	2 459	2 728	2 237
Items in the course of collection	239	329	305	396
Other debtors	2 680	2 513	2 493	1 743
	5 718	5 301	5 526	4 376

	Group 2006 Rm	Group 2005 Rm	Company 2006 Rm	Company 2005 Rm
10 Interest in group companies, associates and joint ventures				
10.1 Interest in group companies				
Holding company				
– Indebtedness to the group/company	104	853	104	751
Interest in subsidiary companies	–	–	4 052	6 190
– Shares at cost	–	–	24	27
– Indebtedness to the company	–	–	4 028	6 163
Interest in fellow subsidiary companies				
– Indebtedness to the group/company	46 069	18 155	44 382	15 442
	46 173	19 008	48 538	22 383
Subsidiaries are listed in Annexure B on page 86.				
10.2 Interest in associates and joint ventures				
Carrying value at beginning of the year	767	267	487	103
Share of profit	221	206	–	–
Net acquisitions	214	384	227	384
Distribution of profit	(79)	(90)	–	–
Carrying value at end of the year	1 123	767	714	487
Comprising:				
Cost of investments	714	536	714	487
Share of reserves	409	231	–	–
	1 123	767	714	487
Total interest in group companies, associates and joint ventures	47 296	19 775	49 252	22 870

Directors' valuation

The directors' valuation of the investments in associates and joint ventures is R1 123 million (2005: R767 million) for the group and the company.

Associates and joint ventures are listed in Annexure C on page 87.

	Group 2006 Rm	Group 2005 Rm	Company 2006 Rm	Company 2005 Rm
10.3 Liabilities to group companies				
Indebtedness by the company to:				
Holding company	5	286	5	284
Subsidiaries	–	–	1 801	10 635
Fellow subsidiaries	21 805	3 961	21 761	3 961
	21 810	4 247	23 567	14 880

Notes to the annual financial statements continued

for the year ended 31 December 2006

	Group 2006 Rm	Group 2005 Rm	Company 2006 Rm	Company 2005 Rm
11 Goodwill and other intangible assets				
Goodwill (note 11.1)	–	–	–	–
Other intangible assets (note 11.2)	592	196	592	196
	592	196	592	196
11.1 Goodwill				
Goodwill on acquisition of subsidiaries				
Acquisitions	–	13	–	–
Impairments	–	(13)	–	–
Net goodwill	–	–	–	–
11.2 Other intangible assets				
Computer software				
Cost at beginning of the year	398	339	398	339
Additions	445	59	445	59
Cost at end of the year	843	398	843	398
Accumulated amortisation at beginning of the year	202	134	202	134
Amortisation	49	68	49	68
Accumulated amortisation at end of the year	251	202	251	202
Balance at end of the year	592	196	592	196

	2006 Cost Rm	2006 Accumulated depreciation Rm	2006 Net book value Rm	2005 Cost Rm	2005 Accumulated depreciation Rm	2005 Net book value Rm
12 Property and equipment						
12.1 Group						
Summary						
Property						
Freehold	812	235	577	878	246	632
Leasehold	61	19	42	61	10	51
	873	254	619	939	256	683
Equipment						
Computer equipment	3 907	2 550	1 357	2 037	933	1 104
Motor vehicles	484	231	253	494	215	279
Office equipment	224	124	100	168	65	103
Furniture and fittings	1 071	571	500	746	310	436
	5 686	3 476	2 210	3 445	1 523	1 922
Total	6 559	3 730	2 829	4 384	1 779	2 605

12 Property and equipment continued

12.1 Group continued

	2005 Carrying value Rm	Additions Rm	Disposals Rm	Depreciation Rm	Impairments Rm	2006 Carrying 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

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

12.2 Company

	2006 Cost Rm	2006 Accumulated depreciation Rm	2006 Net book value Rm	2005 Cost Rm	2005 Accumulated depreciation Rm	2005 Net book value Rm
Summary						
Property						
Freehold	810	234	576	703	234	469
Leasehold	61	19	42	61	10	51
	871	253	618	764	244	520
Equipment						
Computer equipment	3 882	2 528	1 354	2 009	911	1 098
Motor vehicles	467	223	244	474	207	267
Office equipment	221	122	99	165	62	103
Furniture and fittings	1 065	567	498	740	307	433
	5 635	3 440	2 195	3 388	1 487	1 901
Total	6 506	3 693	2 813	4 152	1 731	2 421

Notes to the annual financial statements continued

for the year ended 31 December 2006

12 Property and equipment continued

12.2 Company continued

	2005 Carrying value Rm	Additions Rm	Disposals Rm	Depreciation Rm	Impairments Rm	2006 Carrying value Rm
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

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

12.3 Valuation

The fair market value of freehold property, based on valuations undertaken during 2006 and 2005 by valuers registered under the Valuers Act 1982, was estimated at R781 million (2005: R791 million) for the group and R615 million (2005: R580 million) for the company.

	Group 2006 Rm	Group 2005 Rm	Company 2006 Rm	Company 2005 Rm
13 Ordinary share capital				
13.1 Authorised				
80 000 000 (2005: 80 000 000) ordinary shares of R1 each	80	80	80	80
1 000 000 000 (2005: 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				
59 997 112 (2005: 59 997 109) ordinary shares of R1 each	60	60	60	60
During the year, 3 (2005: 3) ordinary shares of R1 each were issued at a premium of R1 667 million (2005: R867 million) per ordinary share.				
	60	60	60	60
13.3 Unissued shares				
20 002 888 (2005: 20 002 891) 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 28 May 2007	20	20	20	20
1 000 000 000 (2005: 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 28 May 2007	10	10	10	10
	30	30	30	30
14 Ordinary share premium				
Share premium on issue of shares	15 730	10 730	15 730	10 730
Shares issued at a premium of R5 000 million (2005: R2 593 million) net of stamp duty of R13 million (2005: R7 million).				
	15 730	10 730	15 730	10 730

Notes to the annual financial statements continued

for the year ended 31 December 2006

	Group		Company	
	2006 Rm	2005 Rm	2006 Rm	2005 Rm
15 Trading liabilities				
Listed	6 147	12 938	6 147	3 324
Dated liabilities	6 147	3 324	6 147	3 324
Undated liabilities	–	9 614	–	–
	6 147	12 938	6 147	3 324
Maturity analysis				
The maturities represent periods to contractual redemption of the trading liabilities recorded.				
– Redeemable on demand	1	–	1	–
– Maturing within 1 month	–	–	–	–
– Maturing after 1 month but within 6 months	–	26	–	26
– Maturing after 6 months but within 12 months	–	–	–	–
– Maturing after 12 months	6 146	3 298	6 146	3 298
– Undated liabilities	–	9 614	–	–
	6 147	12 938	6 147	3 324
16 Deposit and current accounts				
Deposit products include cheque accounts, savings accounts, call and notice deposits, fixed deposits and negotiable certificates of deposit.				
Deposits from banks	9 226	14 245	8 508	14 253
– Deposits from banks and central banks	7 760	13 440	7 042	13 448
– Deposits from banks under repurchase agreements	1 466	805	1 466	805
Deposits from customers	405 970	316 102	387 254	301 764
– Current accounts	42 651	38 582	42 718	38 586
– Cash management deposits	61 900	55 209	61 900	55 200
– Card creditors	1 286	1 188	1 286	1 188
– Call deposits	93 375	55 489	93 375	55 485
– Savings accounts	15 748	13 436	15 748	13 434
– Term deposits	90 029	72 663	80 076	65 738
– Negotiable certificates of deposit	52 834	42 412	52 834	42 372
– Repurchase agreements	5 433	9 608	5 433	9 596
– Other funding	28 393	20 189	33 884	20 165
– Securitisation funding	14 321	7 326	–	–
Total deposit and current accounts	415 196	330 347	395 762	316 017

	Group		Company	
	2006 Rm	2005 Rm	2006 Rm	2005 Rm
16 Deposit and current accounts continued				
Deposits and current accounts were increased by fair value adjustments of R250 million (2005: R436 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	173 605	172 186	173 157	170 590
– Maturing within 1 month	90 143	41 465	86 451	37 515
– Maturing after 1 month but within 6 months	66 907	61 873	60 227	59 513
– Maturing after 6 months but within 12 months	33 506	20 911	32 969	20 911
– Maturing after 12 months	51 035	33 912	42 958	27 488
	415 196	330 347	395 762	316 017
17 Deferred taxation				
17.1 Deferred tax analysis				
Accrued interest receivable	17	17	17	17
Assessed losses	–	(46)	–	–
Assets on lease	134	186	134	186
Capital gains tax	(8)	(13)	(8)	(13)
Depreciation	32	35	32	34
Derivatives	2 841	2 169	2 841	2 169
Fair value adjustments of financial instruments	303	72	307	35
Impairment charges on loans and advances	(609)	(516)	(604)	(514)
Post-retirement benefits	(396)	(368)	(396)	(368)
Secondary tax on companies	(63)	(46)	(63)	(23)
Share-based payments	(22)	(6)	(22)	(6)
Other differences	505	584	514	465
Deferred tax closing balance	2 734	2 068	2 752	1 982
Deferred tax liability	2 817	2 152	2 815	2 018
Deferred tax asset	(83)	(84)	(63)	(36)

Notes to the annual financial statements continued

for the year ended 31 December 2006

	Group		Company	
	2006 Rm	2005 Rm	2006 Rm	2005 Rm
17 Deferred taxation continued				
17.2 Deferred tax reconciliation				
Deferred tax balance at beginning of the year	2 068	2 289	1 982	2 285
Acquisition	–	–	82	–
Various categories of originating/(reversing) temporary differences for the year:	666	(221)	688	(303)
Accrued interest	–	(18)	–	(17)
Assessed losses	46	(4)	–	–
Assets on lease	(52)	19	(52)	19
Capital gains tax	5	(13)	5	(13)
Depreciation	(3)	(42)	(2)	(43)
Derivatives	672	468	672	467
Fair value adjustments of financial instruments	231	18	190	10
Impairment charges on loans and advances	(93)	(162)	(90)	(160)
Post-retirement benefits	(28)	(263)	(28)	(263)
Secondary tax on companies	(17)	4	(40)	28
Share-based payments	(16)	(6)	(16)	(6)
Other differences	(79)	(222)	49	(325)
Deferred tax balance at end of the year	2 734	2 068	2 752	1 982
18 Other liabilities				
18.1 Summary				
Trading settlement liabilities	1 327	1 508	1 327	464
Items in the course of transmission	55	109	145	194
Provision for post-retirement benefits (note 18.2)	645	745	645	745
Cash-settled share-based payment liability	75	20	75	20
Other liabilities and accruals	5 882	4 347	5 665	4 614
	7 984	6 729	7 857	6 037
18.2 Provision for post retirement benefits				
Balance at beginning of the year	745	680	745	680
Net provision raised	(100)	65	(100)	65
Balance at end of the year	645	745	645	745

Details on post-retirement medical benefits are provided in note 30 on page 80.

	Notional value Rm	Group Carrying value 2006 Rm	Group Carrying value 2005 Rm	Company Carrying value 2006 Rm	Company Carrying value 2005 Rm
19 Subordinated debt					
Unsecured, subordinated, redeemable bonds					
Qualifying as secondary capital in terms of applicable banking legislation		10 246	7 216	10 246	7 216
Redeemable in 2013 (SBK 3)[1]	2 000	2 072	2 089	2 072	2 089
Redeemable in 2016 (SBK 5)[2]	2 000	2 080	2 091	2 080	2 091
Redeemable in 2018 (SBK 8)[3]	1 500	1 528	–	1 528	–
Redeemable in 2020 (SBK 7)[4]	3 000	3 037	3 036	3 037	3 036
Redeemable in 2023 (SBK 9)[5]	1 500	1 529	–	1 529	–
Qualifying as tertiary capital in terms of applicable banking legislation:		616	616	616	616
Redeemable in 2007 (SBK 6)[6]	600	616	616	616	616
Total subordinated debt		10 862	7 832	10 862	7 832

The group did not default on principal or interest and no other breaches with respect to its liabilities occurred during the year (2005: Rnil).

The difference between the carrying and notional value represents accrued interest together with the unamortised 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 coupon switches to floating at the average mid-market yield 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 coupon rate switches to a three-month floating Johannesburg interbank agreed rate plus 162 basis points, until maturity on 17 November 2016.

[3] 8,2% bonds issued in rands and paying a fixed 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.

[4] 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.

[5] 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.

[6] 7,7% bonds issued in rands and paying a fixed semi-annual coupon. SBSA is entitled to defer the due date for payment of any principal or interest in respect of the bonds if so required by the Registrar of Banks. Such deferment would be subject to conditions prescribed by the Registrar of Banks. The bonds are redeemable on 1 March 2007.

Notes to the annual financial statements continued

for the year ended 31 December 2006

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
31 December 2006			
Assets			
Cash and balances with banks	3		
Short-term negotiable securities	4		25 675
Derivative assets	5	67 058	
Trading assets	6	7 857	
Investments	7		16 269
Loans and advances to banks	8		
Loans and advances to customers	8		
Other non-financial assets			
		74 915	41 944
Liabilities			
Derivative liabilities	5	69 069	
Trading liabilities	15	6 147	
Deposits from banks	16		
Deposits from customers	16		
Subordinated debt	19		
Other non-financial liabilities			
		75 216	
31 December 2005			
Assets			
Cash and balances with banks	3		
Short-term negotiable securities	4		21 669
Derivative assets	5	70 742	
Trading assets	6	11 492	
Investments	7		15 520
Loans and advances to banks	8		
Loans and advances to customers	8		
Other non-financial assets			
		82 234	37 189
Liabilities			
Derivative liabilities	5	70 252	
Trading liabilities	15	12 938	
Deposits from banks	16		
Deposits from customers	16		
Subordinated debt	19		
Other non-financial liabilities			
		83 190	

[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
		50 175				50 175	50 175
						25 675	25 675
						67 058	67 058
						7 857	7 857
	501		602			17 372	17 377
		9 092				9 092	9 092
		327 071				327 071	327 071
					56 915	56 915	
	501	386 338	602		56 915	561 215	
						69 069	69 069
						6 147	6 147
				9 226		9 226	9 226
				405 970		405 970	405 970
				10 862		10 862	10 965
					33 286	33 286	
				426 058	33 286	534 560	
		42 169				42 169	42 169
						21 669	21 669
						70 742	70 742
						11 492	11 492
	2 698		76			18 294	18 362
		10 000				10 000	10 000
		254 837				254 837	254 837
					28 280	28 280	
	2 698	307 006	76		28 280	457 483	
						70 252	70 252
						12 938	12 938
				14 245		14 245	14 245
				316 102		316 102	316 102
				7 832		7 832	8 491
					14 390	14 390	
				338 179	14 390	435 759	

Notes to the annual financial statements continued

for the year ended 31 December 2006

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
31 December 2006			
Assets			
Cash and balances with banks	3		
Short-term negotiable securities	4		25 146
Derivative assets	5	67 056	
Trading assets	6	7 857	
Investments	7		8 268
Loans and advances to banks	8		
Loans and advances to customers	8		
Other non-financial assets			
		74 913	33 414
Liabilities			
Derivative liabilities	5	69 030	
Trading liabilities	15	6 147	
Deposits from banks	16		
Deposits from customers	16		
Subordinated debt	19		
Other non-financial liabilities			
		75 177	
31 December 2005			
Assets			
Cash and balances with banks	3		
Short-term negotiable securities	4		19 642
Derivative assets	5	70 293	
Trading assets	6	11 295	
Investments	7		10 655
Loans and advances to banks	8		
Loans and advances to customers	8		
Other non-financial assets			
		81 588	30 297
Liabilities			
Derivative liabilities	5	69 740	
Trading liabilities	15	3 324	
Deposits from banks	16		
Deposits from customers	16		
Subordinated debt	19		
Other non-financial liabilities			
		73 064	

[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
	49 978				49 978	49 978
					25 146	25 146
					67 056	67 056
					7 857	7 857
501		602			9 371	9 376
	8 963				8 963	8 963
	315 571				315 571	315 571
				58 643	58 643	
501	374 512	602		58 643	542 585	
					69 030	69 030
					6 147	6 147
			8 508		8 508	8 508
			387 254		387 254	387 254
			10 862		10 862	10 965
				34 899	34 899	
			406 624	34 899	516 700	
	41 005				41 005	41 005
					19 642	19 642
					70 293	70 293
					11 295	11 295
2 698		76			13 429	13 497
	10 000				10 000	10 000
	245 595				245 595	245 595
				30 218	30 218	
2 698	296 600	76		30 218	441 477	
					69 740	69 740
					3 324	3 324
			14 253		14 253	14 253
			301 764		301 764	301 764
			7 832		7 832	8 491
				24 188	24 188	
			323 849	24 188	421 101	

Notes to the annual financial statements continued

for the year ended 31 December 2006

	Group		Company	
	2006 Rm	2005 Rm	2006 Rm	2005 Rm
21 Contingent liabilities and capital commitments				
21.1 Contingent liabilities				
Letters of credit	3 028	1 997	3 028	1 997
Guarantees	20 962	15 076	20 962	15 076
Irrevocable unutilised facilities	40 443	25 056	40 443	25 056
	64 433	42 129	64 433	42 129
No material losses are anticipated as a result of these transactions.				
21.2 Capital commitments				
Contracted capital expenditure	170	304	170	304
Capital expenditure authorised but not yet contracted	1 409	849	1 409	836
	1 579	1 153	1 579	1 140

The expenditure will be funded from the group's internal resources.

21.3 Financial assets pledged

Assets are pledged as collateral under repurchase agreements with other banks and for security deposits relating to local futures, options and stock exchange memberships. Mandatory reserve deposits are also held with central banks in accordance with statutory requirements (note 3).

	Assets		Related liability	
	2006 Rm	2005 Rm	2006 Rm	2005 Rm
Trading assets subject to repurchase commitments	5 304	5 237	5 304	8 324
Investment securities subject to repurchase commitments	1 454	1 602	1 084	1 302
	6 758	6 839	6 388	9 626

Financial assets of securitisation special purpose vehicles that have been consolidated are included in note 2.4.

	Group		Company	
	2006 Rm	2005 Rm	2006 Rm	2005 Rm
21.4 Operating lease commitments				
The future minimum lease payments under non-cancellable operating leases are as follows:				
Properties				
Within 1 year	408	387	405	387
After 1 year but within 5 years	510	721	500	721
After 5 years	–	–	–	–
	918	1 108	905	1 108
Equipment				
Within 1 year	55	11	55	11
After 1 year but within 5 years	72	23	72	23
After 5 years	–	–	–	–
	127	34	127	34

22 Supplementary income statement information

	Group 2006 Rm	Group 2005 Rm	Company 2006 Rm	Company 2005 Rm
22.1 Interest income				
Interest on loans and advances and short-term funds	41 765	30 774	41 030	30 787
Interest on investments	639	1 634	84	1 252
Unwinding of discount element of credit impairments for loans and advances (note 8.3)	256	230	256	230
Fair value adjustments on dated financial instruments	702	163	702	163
Dividends on unlisted investment securities	476	658	723	857
	43 838	33 459	42 795	33 289
Dividends on dated investment securities as shown above arose as follows:				
Subsidiaries and fellow subsidiaries			247	394
Unlisted equities	476	658	476	463
	476	658	723	857
22.2 Interest expense				
Current accounts	192	244	192	122
Savings and deposit accounts	4 055	2 669	4 055	2 669
Market bid accounts	12 261	9 733	11 722	9 648
Foreign finance creditors	763	320	763	320
Subordinated bonds	938	874	938	874
Other interest-bearing liabilities	12 812	9 205	12 231	9 051
	31 021	23 045	29 901	22 684
22.3 Non interest revenue				
Fee and commission revenue	10 312	8 775	9 805	8 243
Point of representation fees	4 428	4 015	4 428	4 010
Card-based commission	2 310	1 831	1 957	1 507
Knowledge-based fees and commission	303	214	303	156
Electronic banking fees	892	803	892	800
Foreign currency service fees	452	373	452	373
Documentation and administration fees	310	224	310	224
Other	1 617	1 315	1 463	1 173
Trading revenue	1 844	1 647	1 844	1 635
Foreign exchange	1 242	1 145	1 242	1 133
Debt securities	355	263	355	263
Commodities	47	28	47	28
Equities	200	211	200	211
Other revenue	2 192	1 393	2 266	831
Banking and other	1 953	640	2 027	525
Property related revenue	82	689	82	242
Profit on realisation of available-for-sale financial assets[1]	157	64	157	64
	14 348	11 815	13 915	10 709
Interest and dividend income included in trading revenue:				
Interest income	553	713	553	652
Dividend income – listed	237	324	237	265
	790	1 037	790	917

[1]*The profit of R157 million on realisation of available-for-sale financial assets relates to capital profit on realisation of MasterCard shares.*

Notes to the annual financial statements continued

for the year ended 31 December 2006

	Group		Company	
	2006 Rm	2005 Rm	2006 Rm	2005 Rm
22 Supplementary income statement information continued				
22.4 Credit impairment charges				
Net credit impairments raised and reversed for loans and advances (note 8.3)	2 603	1 528	2 512	1 502
Credit impairments for non-performing loans	1 942	1 298	1 903	1 272
Credit impairments for performing loans	661	230	609	230
Recoveries on loans and advances previously written off	(189)	(272)	(189)	(254)
	2 414	1 256	2 323	1 248
22.5 Staff costs				
Salaries and allowances	6 835	6 244	6 725	6 124
Equity-linked transactions	159	138	159	137
Equity-settled share-based payments	43	57	43	56
Cash-settled share-based payments	55	20	55	20
Black Ownership Initiative transaction – equity-settled share-based payments	61	61	61	61
Retirement benefit costs	392	678	384	672
	7 386	7 060	7 268	6 933
22.6 Other operating expenses				
Amortisation – intangible assets	49	68	49	68
Auditors' remuneration	41	38	40	37
Audit fees				
– Current year	36	27	35	26
Fees for other services	5	11	5	11
Depreciation (note 12)	635	594	623	583
Property				
– Freehold	11	14	7	10
– Leasehold	9	3	9	3
Equipment				
– Computer equipment	432	383	429	380
– Motor vehicles	83	112	81	109
– Office equipment	20	16	21	16
– Furniture and fittings	80	66	76	65
Impairment – property and equipment (note 12)	9	–	9	–
Operating lease charges – premises	588	512	586	508
Premises	614	467	606	443
Professional fees	604	506	597	501
– Managerial	40	54	38	51
– Technical and other	564	452	559	450
Profit on sale of property and equipment	(27)	(64)	(27)	(64)
Recoveries on motor vehicles	(26)	(61)	(26)	(62)
Other expenses	3 930	3 300	3 759	3 114
	6 417	5 360	6 216	5 128

	Group		Company	
	2006 Rm	2005 Rm	2006 Rm	2005 Rm
23 Directors' emoluments				
Executive directors				
Emoluments of directors in respect of services rendered[1]:				
As directors of SBSA[2]	17	16	17	16
While directors of SBSA				
– as directors of subsidiary companies	–	–	–	–
– otherwise in connection with the affairs of SBSA or its subsidiaries[2]	4	12	4	12
Non executive directors				
Emoluments of directors in respect of services rendered:				
As directors of SBSA	2	2	2	2
While directors of SBSA				
– as directors of subsidiary companies	–	–	–	–
– otherwise in connection with the affairs of SBSA or its subsidiaries	–	7	–	7
	23	37	23	37

[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.*

	Group		Company	
	2006 Rm	2005 Rm	2006 Rm	2005 Rm
24 Taxation				
24.1 Indirect taxation				
Regional services council levies	58	89	56	86
Value added tax	359	320	359	320
Duties	1	1	1	1
Skills development levy (net of recoveries)	58	51	58	51
	476	461	474	458
24.2 Direct taxation				
Current year	2 552	1 742	2 450	1 494
– South African normal tax	1 752	1 974	1 645	1 851
– South African deferred tax	600	(192)	614	(297)
– Secondary tax on companies	179	48	170	28
– Foreign normal and withholding tax	16	5	16	5
– Capital gains tax	5	(13)	5	(13)
– South African deferred tax – rate change	–	(80)	–	(80)
Prior years	(6)	(5)	–	(3)
– South African normal tax	(6)	(8)	–	(3)
– South African deferred tax	–	3	–	–
	2 546	1 737	2 450	1 491

The aggregate current and deferred tax relating to items charged or credited to equity amounted to R109 million (2005: R20 million (credit)).

Notes to the annual financial statements continued

for the year ended 31 December 2006

	Group		Company	
	2006 Rm	2005 Rm	2006 Rm	2005 Rm
24 Taxation continued				
24.2 Direct taxation continued				
South African tax rate reconciliation (%)				
The total taxation charge for the year as a percentage of net income before taxation:	27	25	27	24
Regional services council levies and stamp duties	(1)	(1)	(1)	(1)
Value added tax	(3)	(4)	(3)	(4)
Duties, STC and skills development	(2)	(1)	(2)	(1)
The direct taxation charge for the year as a percentage of profit before taxation:	21	19	21	18
The charge for the year has been reduced/(increased) as a consequence of:				
– Dividends received	5	5	5	5
– Other non-taxable income	2	3	2	3
– Other permanent differences	1	1	1	2
– Change in the company tax rate	–	1	–	1
Standard rate of South African tax	29	29	29	29
25 Dividends				
Ordinary dividends				
Dividend 99 of 833 cents per share paid on 15 March 2005 to the shareholder registered on 15 March 2005		500		500
Dividend 100 of 833 cents per share paid on 7 April 2005 to the shareholder registered on 7 April 2005		500		500
Dividend 101 of 2 417 cents per share paid on 8 April 2005 to the shareholder registered on 8 April 2005		1 450		1 450
Dividend 102 of 833 cents per share paid on 22 April 2005 to the shareholder registered on 22 April 2005		500		500
Dividend 103 of 2 317 cents per share paid on 8 September 2005 to the shareholder registered on 8 September 2005		1 390		1 390
Dividend 104 of 433 cents per share paid on 8 September 2005 to the shareholder registered on 8 September 2005		260		260
Dividend 105 of 1 250 cents per share paid on 9 December 2005 to the shareholder registered on 9 December 2005		750		750
Dividend 106 of 2 250 cents per share paid on 12 December 2005 to the shareholder registered on 12 December 2005		1 350		1 350
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	
	8 203	6 700	8 203	6 700

On 6 March 2007 the following dividend was declared:

Dividend 112 of 1 667 cents per share payable on 16 March 2007, to the shareholder registered on 16 March 2007, bringing the total dividends declared in respect of 2006 to 12 834 cents per share (2005: 9 583 cents).

	Group 2006 Rm	Group 2005 Rm	Company 2006 Rm	Company 2005 Rm
26 Earnings per share				
The calculations of basic earnings and headline earnings per share are as follows:[1]				
Earnings				
Basic earnings (Rm)	8 147	6 548	8 078	6 056
Headline earnings (Rm)	7 980	6 453	7 911	5 948
Weighted average number of ordinary shares in issue (thousands)	59 997	59 997	59 997	59 997
Basic earnings per share (cents)	13 579	10 914	13 464	10 094
Headline earnings per share (cents)	13 301	10 756	13 186	9 914
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.*

	2006 Group Gross Rm	2006 Group Tax Rm	2006 Group Net Rm	2005 Group Net Rm	2006 Company Gross Rm	2006 Company Tax Rm	2006 Company Net Rm	2005 Company Net Rm
27 Headline earnings								
Profit attributable to the ordinary shareholder for the year	11 169	(3 022)	8 147	6 548	11 002	(2 924)	8 078	6 056
Headline earnings adjustable items added back or reversed	(175)	8	(167)	(95)	(175)	8	(167)	(108)
Recycled investment gains on available-for-sale assets	(157)	3	(154)	(45)	(157)	3	(154)	(45)
Profit on sale of property and equipment	(27)	8	(19)	(63)	(27)	8	(19)	(63)
Impairment of property and equipment	9	(3)	6	–	9	(3)	6	–
Goodwill impairment	–	–	–	13	–	–	–	–
Headline earnings	10 994	(3 014)	7 980	6 453	10 827	(2 916)	7 911	5 948

Notes to the annual financial statements continued

for the year ended 31 December 2006

	Group		Company	
	2006 Rm	2005 Rm	2006 Rm	2005 Rm
28 Cash flow statement notes				
28.1 Reconciliation of net income before taxation to cash flows from operating activities				
Income before goodwill	10 948	8 553	11 002	8 005
Adjusted for:	1 674	1 167	1 494	1 059
Bond hedging relationships	(29)	(45)	(29)	(45)
Amortisation of intangible assets	49	68	49	68
Credit impairment charges on loans and advances	2 414	1 256	2 323	1 248
Depreciation and impairment – property and equipment	644	594	632	583
Discount element recognised from credit impairments for loans and advances	(256)	(230)	(256)	(230)
Dividends from associates	79	90	–	–
Equity-settled share-based payments	104	118	104	117
Fair value adjustments on dated financial instruments	(702)	(163)	(702)	(163)
Indirect taxation	(476)	(461)	(474)	(458)
Profit on sale of property and equipment	(27)	(64)	(27)	(64)
Provision for post-retirement benefits	(100)	65	(100)	65
Recoveries on motor vehicle disposals	(26)	(61)	(26)	(62)
Net cash flows from operating activities	12 622	9 720	12 496	9 064
28.2 Cash receipts from customers				
Interest income	42 375	32 363	41 085	31 994
Fee and commission revenue	10 312	8 775	9 805	8 243
Trading and other revenue	3 799	2 716	3 873	2 201
	56 486	43 854	54 763	42 438
28.3 Cash paid to customers, employees and suppliers				
Interest expense	(31 021)	(23 045)	(29 901)	(22 684)
Total operating expenses	(13 635)	(12 161)	(13 326)	(11 812)
	(44 656)	(35 206)	(43 227)	(34 496)
28.4 Dividends received				
Dividends from subsidiaries	–	–	247	394
Dividends from associates	79	90	–	–
Dividends from dated investment securities	476	658	476	463
Dividends from trading activities	237	324	237	265
	792	1 072	960	1 122

28 Cash flow statement notes continued

	Group 2006 Rm	Group 2005 Rm	Company 2006 Rm	Company 2005 Rm
28.5 Increase in income earning assets				
Investments	1 359	(1 507)	4 540	3 084
Trading assets	3 634	(4 867)	3 438	(4 750)
Loans and advances	(73 319)	(60 721)	(70 304)	(54 221)
Net derivative assets	2 519	4 827	2 545	4 773
Investments in group companies	(27 165)	8 352	(26 155)	6 964
Other assets	(899)	4 003	(1 150)	514
	(93 871)	(49 913)	(87 086)	(43 636)
28.6 Increase in deposits and other liabilities				
Customers' current, savings and other deposits, and deposits and loans from banks	84 849	74 976	79 745	66 780
Trading liabilities	(6 791)	7 949	2 823	1 464
Liabilities to group companies	17 563	1 714	8 687	7 802
Other liabilities	1 795	718	1 920	584
	97 416	85 357	93 175	76 630
28.7 Direct taxation paid				
Current and deferred tax at beginning of the year	(3 011)	(2 357)	(2 916)	(2 455)
Income statement charge	(2 546)	(1 737)	(2 450)	(1 491)
Current and deferred tax at end of the year	3 012	3 011	3 015	2 916
	(2 545)	(1 083)	(2 351)	(1 030)
28.8 Proceeds from issue of share capital to shareholder				
Ordinary share capital and share premium	5 000	2 593	5 000	2 593
	5 000	2 593	5 000	2 593
28.9 Dividends paid				
Dividends to ordinary shareholder[1]	(8 200)	(6 700)	(8 200)	(6 700)
	(8 200)	(6 700)	(8 200)	(6 700)

[1] *Dividends paid excludes R3 million relating to a dividend in specie.*

Notes to the annual financial statements continued

for the year ended 31 December 2006

28 Cash flow statement notes continued

28.10 Disposal of subsidiaries

	Group 2006 Rm	Group 2005 Rm	Company 2006 Rm	Company 2005 Rm
Cash and cash equivalents	24	–	–	–
Investments	45	–	–	–
Loans and advances	384	–	–	–
Trading assets	1	–	–	–
Account receivables	5	–	–	–
Property, equipment and other assets	624	–	–	–
Total assets disposed of	1 083	–	–	–
Non-current liabilities	380	–	–	–
Current liabilities	60	–	–	–
Net assets disposed of	643	–	–	–
Cash consideration[1]	–	–	–	–
Cash and cash equivalents disposed of	(24)	–	–	–

[1]*Subsidiaries were transferred to the holding company following a restructure of the SBSA group.*

29 Related party transactions

29.1 Parent

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

29.2 Subsidiaries

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

29.3 Associates and joint ventures

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

29.4 Key management personnel

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

29 Related party transactions continued

29.4 Key management personnel continued

	2006 Rand	2005 Rand
Key management compensation		
Salaries and other short-term benefits	131 986 807	98 911 917
Post-employment benefits	3 023 757	3 337 297
Other long-term benefits	2 989 223	22 255 325
IFRS 2 value of share options and rights expensed	12 029 857	6 186 455
	150 029 644	130 690 994
Mortgage loans		
Loans outstanding at beginning of the year	8 084 155	5 764 440
Loans granted during the year	9 594 296	8 081 394
Loan repayments during the year	(8 899 321)	(6 363 624)
Interest earned	836 230	601 945
Loans outstanding at end of the year	9 615 360	8 084 155
Interest rate range for the year	9% – 11,5%	9% – 11,5%

No impairment has been recognised in respect of loans granted to key management (2005: Rnil).

Mortgage loans are repayable monthly over 20 years. These loans are secured by properties with a total fair value of R21 741 000 (2005: R31 238 293).

	2006 Rand	2005 Rand
Vehicle and asset finance		
Loans outstanding at beginning of the year	5 358 324	3 982 250
Net new loans granted	4 821 781	2 597 203
Net repayments	(3 298 328)	(1 630 595)
Net interest earned	540 424	409 466
Loans outstanding at end of the year	7 422 201	5 358 324
Interest rate range for the year	8% – 12,5%	8% – 14%
Credit cards		
Balance at beginning of the year	820 029	737 856
Credit card spend net of repayments	1 311 399	53 969
Total annual fees	6 121	12 024
Total net interest	25 432	16 180
Balance at end of the year	2 162 981	820 029
Interest rate range for the year	0% – 17%	0% – 17%

No impairments have been recognised in respect of credit cards and vehicle and asset finance lending to key management (2005: 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.

Notes to the annual financial statements continued

for the year ended 31 December 2006

	2006 Rand	2005 Rand
29 Related party transactions continued		
29.4 Key management personnel continued		
Cheque and current accounts		
Credit balance at beginning of the year	36 047 852	35 432 835
Key management changes	(218 947)	–
Interest paid	3 064 589	726 873
Interest earned	(651 131)	(474 593)
Net deposits	11 438 604	565 977
Net service fees and bank charges	(452 249)	(76 616)
Exchange difference	10 695 641	(126 624)
Credit balance at end of the year	59 924 359	36 047 852
Interest rate range for the year	0% – 3%	0% – 3%
Savings accounts		
Credit balance at beginning of the year	20 034 210	18 199 541
Key management changes	622 812	–
Interest paid	466 631	1 018 103
Net (withdrawals)/deposits	(12 783 955)	816 566
Credit balance at end of the year	8 339 698	20 034 210
Interest rate range for the year	4,5% – 5,9%	4,5% – 5,9%
Insurance and investment		
Details of key management personnel's investment transactions and balances with fellow subsidiaries.		
Insurance:		
Life and disability insurance		
Aggregated insured cover	30 025 155	9 887 000
Premiums received	459 144	99 997
Claims paid	–	10 218
Surrender value	2 180 802	187 000
Other insurance		
Premiums received	425 743	351 134
Claims paid	516	26 266
Investment products		
Fund value at beginning of the year	229 717 943	168 822 525
Key management changes	77 975 765	–
Deposits	80 592 372	13 196 587
Net investment return credited	84 848 193	48 690 787
Commission and other transaction fees	(2 442 295)	(991 956)
Fund value at end of the year	470 691 978	229 717 943
Other fees		
Financial consulting fees and commissions	8 265	11 474
Shares and share options held		
Aggregate details of Standard Bank Group Limited shares and share options held by key management personnel.		
Shares beneficially owned	12 778 081	12 648 632
Share options held	8 664 882	7 301 082

29 Related party transactions continued

29.5 Subsidiaries and fellow subsidiaries

	Subsidiaries 2006 Rm	Subsidiaries 2005 Rm	Fellow subsidiaries 2006 Rm	Fellow subsidiaries 2005 Rm
Other loans				
Group				
Loans outstanding at beginning of the year			18 155	26 673
Net movement for the year			27 914	(8 518)
Loans outstanding at end of the year			46 069	18 155
Company				
Loans outstanding at beginning of the year	6 163	4 703	15 442	24 032
Net movement for the year	(2 135)	1 460	28 940	(8 590)
Loans outstanding at end of the year	4 028	6 163	44 382	15 442
Interest income earned for company	361	250	1 922	885
The loans issued to subsidiaries, joint ventures and associates are repayable on demand. Interest is charged based on the group's internal calculated funding rate and loans are unsecured.				
Deposits, cheques and current accounts				
Group				
Deposits outstanding at beginning of the year			3 961	2 146
Net movement for the year			17 844	1 815
Deposits outstanding at end of the year			21 805	3 961
Company				
Deposits outstanding at beginning of the year	10 635	4 563	3 961	2 132
Net movement for the year	(8 834)	6 072	17 800	1 829
Deposits outstanding at end of the year	1 801	10 635	21 761	3 961
Interest expense on deposits for company	54	238	545	340

Notes to the annual financial statements continued

for the year ended 31 December 2006

29 Related party transactions continued

29.5 Subsidiaries and fellow subsidiaries continued

Fixed interest bonds

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

	Nominal holding 2006 Millions	Nominal holding 2005 Millions	Market value 2006 Rm	Market value 2005 Rm
Holdings at beginning of the year	480	207	488	248
– Liberty Life	475	93	483	112
– Liberty Active Limited	5	114	5	136
Purchases	–	480	–	494
– Liberty Life	–	475	–	489
– Liberty Active Limited	–	5	–	5
Sales	–	(207)	–	(244)
– Liberty Life	–	(93)	–	(110)
– Liberty Active Limited	–	(114)	–	(134)
Fair value adjustments	–	–	33	(10)
– Liberty Life	–	–	33	(8)
– Liberty Active Limited	–	–	–	(2)
Holdings at end of the year	480	480	521	488
– Liberty Life	475	475	516	483
– Liberty Active Limited	5	5	5	5

Unsecured quoted debentures

Liberty Life, Liberty Active and Capital Alliance Life hold the following unsecured quoted debentures in The Standard Bank of South Africa.

	Nominal holding 2006 Millions	Nominal holding 2005 Millions	Market value 2006 Rm	Market value 2005 Rm
Holdings at beginning of the year	1 567	1 427	1 634	1 476
– Liberty Life	1 194	1 104	1 240	1 140
– Capital Alliance Life	80	–	87	–
– Liberty Active	293	323	307	336
Additions through business acquisitions				
– Capital Alliance Life	–	80	–	80
Purchases	1 775	637	1 770	661
– Liberty Life	1 693	509	1 688	528
– Capital Alliance Life	57	–	57	–
– Liberty Active	25	128	25	133
Sales	(375)	(577)	(372)	(602)
– Liberty Life	(259)	(419)	(257)	(440)
– Capital Alliance Life	(22)	–	(23)	–
– Liberty Active	(94)	(158)	(92)	(162)
Fair value adjustments	–	–	(32)	19
– Liberty Life	–	–	(15)	12
– Capital Alliance Life	–	–	(3)	7
– Liberty Active	–	–	(14)	–
Holdings at end of the year	2 967	1 567	3 000	1 634
– Liberty Life	2 628	1 194	2 656	1 240
– Capital Alliance Life	115	80	118	87
– Liberty Active	224	293	226	307

29 Related party transactions continued

29.5 Subsidiaries and fellow subsidiaries continued

	Nominal holding 2006 Millions	Nominal holding 2005 Millions	Market value 2006 Rm	Market value 2005 Rm
Unsecured unquoted debentures				
Liberty Life holds the following unsecured unquoted debentures in The Standard Bank of South Africa.				
Holdings at beginning of the year	1 895	–	918	–
– Liberty Life	1 415	–	574	–
– Capital Alliance Life	17	–	17	–
– Liberty Active	463	–	327	–
Additions through business acquisitions				
– Capital Alliance Life	–	17	–	17
Purchases	1 489	1 878	939	864
– Liberty Life	–	1 415	–	542
– Liberty Active	1 489	463	939	322
Sales	(102)	–	(75)	–
– Capital Alliance Life	(17)	–	(17)	–
– Liberty Active	(85)	–	(58)	–
Fair value adjustments	–	–	130	37
– Liberty Life	–	–	33	32
– Liberty Active	–	–	97	5
Holdings at end of the year	3 282	1 895	1 912	918
– Liberty Life	1 415	1 415	607	574
– Capital Alliance Life	–	17	–	17
– Liberty Active	1 867	463	1 305	327
Local money market				
Liberty Life had the following local money market investments in The Standard Bank of South Africa:				
Holdings at beginning of the year	2 005	1 776	1 828	1 622
– Liberty Life	138	407	181	434
– Capital Alliance Life	45	–	46	–
– Liberty Active	1 822	1 369	1 601	1 188
Purchases	269	562	269	425
– Liberty Life	–	48	–	48
– Capital Alliance Life	269	45	269	45
– Liberty Active	–	469	–	332
Sales	(281)	(333)	(327)	(326)
– Liberty Life	(131)	(317)	(177)	(311)
– Capital Alliance Life	(53)	–	(53)	–
– Liberty Active	(97)	(16)	(97)	(15)
Fair value adjustments	–	–	116	107
– Liberty Life	–	–	2	10
– Capital Alliance Life	–	–	2	1
– Liberty Active	–	–	112	96
Holdings at end of the year	1 993	2 005	1 886	1 828
– Liberty Life	7	138	6	181
– Capital Alliance Life	261	45	264	46
– Liberty Active	1 725	1 822	1 616	1 601

Notes to the annual financial statements continued

for the year ended 31 December 2006

29 Related party transactions continued

29.5 Subsidiaries and fellow subsidiaries continued

Banking arrangements

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

	Cash balances 2006 Rm	Cash balances 2005 Rm	Interest earned 2006 Rm	Interest earned 2005 Rm	Fees charged 2006 Rm	Fees charged 2005 Rm
Cash and cash equivalents						
– Liberty Life	1 235	267	11	32	22	18
– Liberty subsidiaries	440	339	25	36	2	1
	1 675	606	36	68	24	19

Forward exchange contracts

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

	2006 Sell US Dollars US$m	2006 Settlement British Pounds UK£	2005 Sell US Dollars US$m	2005 Settlement British Pounds UK£
Liberty Ermitage Jersey	–	–	13	7

Corporate action

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

	2006 Rm	2005 Rm
Purchase of preference shares in Shanduka Newsprint	2	–
Issue of callable capital bonds	–	4
Acquisition of Capital Alliance Holdings Limited	–	2
BEE ownership transaction	–	10
	2	16

29 Related party transactions continued

29.5 Subsidiaries and fellow subsidiaries continued

Acquisition of proportionate share of Sandton Property Consortium

Liberty Life on 1 July 2005 increased its investment in property consortia (which includes properties such as Sandton City, Sandton Sun and Towers and Nelson Mandela Square), on average by 15%, by purchasing Main Street 9 (Pty) Limited interests (a 100% held subsidiary of Standard Bank Group Retirement Fund) for R709 million. This brings Liberty Life's share of the consortia to an average of 75%. Administration fees charged to Main Street 9 (Pty) Limited by Liberty Life were R0,2 million (2005: R2,8 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 2006 amounted to R24 million (2005: R26 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 2006 are R2,3 million (2005: R2,7 million).

Operating leases

Lease income

Liberty Life leases a Pretoria property from Standard Bank of South Africa Limited in terms of a lease entered 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 2006: R57 million (2005: R51 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 2006: R44 million (2005: R47 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 2006 amounted to R5 043 million (2005: R4 513 million). In terms of the agreement Liberty Active pay 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 2006 is R184 million (2005: R138 million).

Liberty conference centre utilisation

Various subsidiaries of the Standard Bank Group used the facilities of Liberty Life's conference centre in 2006 – fees charged amounted to R2 million (2005: R1,6 million).

Insurance

Certain insured risks of the Liberty Group are negotiated and/or included in the Standard Bank Group insurance policy. These include R1,5 billion (2005: R230 million) cover for professional indemnity and R500 million for computer crime and bankers' bond (2005: R230 million), R1 billion (2005: R800 million) directors' and officers' cover and R620 million (2005: R600 million) assets all risks cover. The proportionate share of premiums charged to Liberty Life by Standard Bank Group for 2006 is R7,3 million (2005: R6,3 million).

Other contracts

Saki Macozoma, a director of the group, has a shareholding of 20% in Safika, which is a member of three different consortia that were party to the Andisa Capital, Stanlib and the Tutuwa transactions. Safika holds effective interests of 55% of Andisa Capital, 2,21% of Liberty Group and 1,77% of Standard Bank Group. The group holds an effective interest of 16,5% in Safika.

Cyril Ramaphosa, a director of the group, has a 35,9% shareholding in Shanduka, which is a member of the Tutuwa consortium. Shanduka holds an effective interest of 1,48% of Liberty Group and 1,18% of Standard Bank Group. The group holds an effective interest of 16,5% in Shanduka.

Doug Band, a director of the group, has a shareholding of 33% 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 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.

Notes to the annual financial statements continued

for the year ended 31 December 2006

	2006 Rand	2005 Rand
29 Related party transactions continued		
29.6 Post employment benefit plans		
Details of transactions between The Standard Bank of South Africa and the group's post-employment benefit plans are listed below:		
Fee income	30 211 000	26 568 000
Deposits held with the bank	191 447 000	245 560 000
Interest paid	44 595 000	49 430 000
Value of assets under management	15 491 147 000	12 234 608 000
Deposits held in bonds and money market	217 634 000	278 309 000
Number of Standard Bank Group shares held	6 247 047	7 680 547

	Group		Company	
	2006 Rm	2005 Rm	2006 Rm	2005 Rm
30 Post retirement benefits				
Amounts recognised as a liability in the balance sheet (note 18.2)				
Retirement fund (note 30.1)	277	374	277	374
Post-retirement healthcare benefits (note 30.2)	368	371	368	371
– Provider fund	(2)	13	(2)	13
– Other	370	358	370	358
	645	745	645	745

The total amount recognised as an expense for the defined contribution plan operated by the group amounted to R378 million (2005: R373 million).

30.1 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 2006 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 2007.

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.

As previously reported, an employer surplus account was created on approval from the Financial Services Board (FSB). This surplus has now been utilised. At 31 December 2006, 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.

30 Post retirement benefits continued

30.1 Retirement fund continued

	Group 2006 Rm	Group 2005 Rm	Company 2006 Rm	Company 2005 Rm
The amounts recognised in the balance sheet in respect of the retirement funds are determined as follows:				
Present value of funded defined benefit obligation	20 049	16 877	20 049	16 877
Fair value of plan assets	(20 049)	(16 877)	(20 049)	(16 877)
Surplus	–	–	–	–
Unrecognised actuarial gains	277	374	277	374
Included in other liabilities and provisions in the balance sheet	277	374	277	374
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	16 877	12 923	16 877	12 923
Current service cost and interest cost	1 741	1 435	1 741	1 435
Contributions paid by employees	285	239	285	239
Actuarial losses	2 278	2 509	2 278	2 509
Benefits paid	(1 132)	(229)	(1 132)	(229)
Balance at end of the year	20 049	16 877	20 049	16 877
Movement in the fair value of plan assets				
Balance at beginning of the year	16 877	13 045	16 877	13 045
Expected return on plan assets	1 531	1 251	1 531	1 251
Contributions received	568	333	568	333
Actuarial gains	2 205	2 477	2 205	2 477
Benefits paid	(1 132)	(229)	(1 132)	(229)
Balance at end of the year	20 049	16 877	20 049	16 877
Plan assets consist of the following:				
Cash	1 185	51	1 185	51
Equities	10 564	11 409	10 564	11 409
Government bonds	4 308	5 164	4 308	5 164
Property and other	3 992	253	3 992	253
	20 049	16 877	20 049	16 877

The group expects to pay R300 million in contributions to defined benefit plans in 2007.

Notes to the annual financial statements continued

for the year ended 31 December 2006

	Group 2006 Rm	Group 2005 Rm	Company 2006 Rm	Company 2005 Rm
30 Post retirement benefits continued				
30.1 Retirement fund continued				
The amounts recognised in the income statement are determined as follows:				
Current service cost	294	238	294	238
Interest cost	1 447	1 197	1 447	1 197
Expected return on plan assets	(1 531)	(1 251)	(1 531)	(1 251)
Net actuarial gain recognised in the year	(25)	(27)	(25)	(27)
Included in staff costs	185	157	185	157
Actual return on plan assets	3 736	3 728	3 736	3 728

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 and expenses.

	Group and company 2006 Rm	2005 Rm	2004 Rm	2003 Rm	2002 Rm
Historical information					
Present value of defined benefit obligation	20 049	16 877	12 923	10 174	9 691
Fair value of plan assets	(20 049)	(16 877)	(13 045)	(10 512)	(9 691)
Surplus	–	–	(122)	(338)	–
Experience adjustments arising on plan liabilities	(2 278)	(2 509)	(1 842)	518	–
Experience adjustments arising on plan assets	2 205	2 477	1 788	–	–

30.2 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 not the responsibility of the bank. The last actuarial valuation was performed on 1 March 2001 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.

30 Post retirement benefits continued

30.2 Post retirement healthcare benefits continued

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 2004.

	Group 2006 Rm	Group 2005 Rm	Company 2006 Rm	Company 2005 Rm
The amounts recognised in the balance sheet in respect of post retirement healthcare benefits are determined as follows:				
Present value of unfunded obligations	589	525	589	525
Present value of funded obligations	845	707	845	707
Total present value of obligations	1 434	1 232	1 434	1 232
Fair value of plan assets	(1 167)	(991)	(1 167)	(991)
Unfunded obligation	267	241	267	241
Unrecognised actuarial gains	101	130	101	130
Included in other liabilities and provisions in the balance sheet	368	371	368	371
Movement in the present value of defined benefit obligations				
Balance at beginning of the year	1 232	1 014	1 232	1 014
Current service cost and interest cost	133	120	133	120
Actuarial losses	192	169	192	169
Benefits paid	(123)	(71)	(123)	(71)
Balance at end of the year	1 434	1 232	1 434	1 232
Movement in the fair value of plan assets				
Balance at beginning of the year	991	798	991	798
Expected return on plan assets	89	72	89	72
Actuarial gains	168	152	168	152
Benefits paid	(81)	(31)	(81)	(31)
Balance at end of the year	1 167	991	1 167	991
Plan assets consist of the following:				
Cash	76	84	76	84
Equities	847	750	847	750
Government bonds	110	70	110	70
Property and other	134	87	134	87
	1 167	991	1 167	991

The group expects to pay R41 million in contributions to post-employment healthcare benefit plans in 2007.

Notes to the annual financial statements continued

for the year ended 31 December 2006

30 Post retirement benefits continued

30.2 Post retirement healthcare benefits continued

	Group 2006 Rm	Group 2005 Rm	Company 2006 Rm	Company 2005 Rm
The amounts recognised in the income statement are determined as follows:				
Current service cost	30	31	31	31
Interest cost	103	89	103	89
Expected return on plan assets	(89)	(72)	(89)	(72)
Net actuarial gains recognised in the year	(5)	(6)	(5)	(6)
Included in staff costs	39	42	40	42
Actual return on plan assets	257	224	257	224

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

	Group 1% increase Rm	Group 1% decrease Rm	Company 1% increase Rm	Company 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	63	(54)	63	(54)

Group and company

	2006 Rm	2005 Rm	2004 Rm	2003 Rm	2002 Rm
Historical information					
Present value of defined benefit obligation	1 434	1 232	1 014	872	942
Fair value of plan assets	(1 167)	(991)	(798)	(652)	(575)
Unfunded obligation	267	241	216	220	367
Experience adjustments arising on plan liabilities	(191)	(152)	(92)	143	(48)
Experience adjustments arising on plan assets	168	152	112	37	–

The principal actuarial assumptions used for accounting purposes were:

	Retirement fund %	Provider fund %	Post retirement medical aid %
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	18,0	

Annexure A – reclassifications

Group balance sheet reclassifications 2005

	2005 as previously reported Rm	Variation collateral[1] Rm	Special purpose entity's assets[2] Rm	2005 restated Rm
Assets				
Cash and balances with banks	42 169			42 169
Short-term negotiable securities	25 797		(4 128)	21 669
Derivative assets	69 428	1 314		70 742
Trading assets	11 492			11 492
Investments	14 166		4 128	18 294
Loans and advances	260 181	4 656		264 837
Loans and advances to banks	5 344	4 656		10 000
Loans and advances to customers	254 837			254 837
Current taxation	319			319
Deferred taxation	84			84
Other assets	5 301			5 301
Interest in group companies, associates and joint ventures	19 775			19 775
Goodwill and other intangible assets	196			196
Property and equipment	2 605			2 605
Total assets	451 513	5 970	–	457 483
Equity and liabilities				
Equity	21 724	–	–	21 724
Equity attributable to ordinary shareholders	21 718			21 718
Minority interest	6			6
Liabilities	429 789	5 970	–	435 759
Derivative liabilities	65 596	4 656		70 252
Trading liabilities	12 938			12 938
Deposit and current accounts	329 033	1 314		330 347
Deposits from banks	12 931	1 314		14 245
Deposits from customers	316 102			316 102
Current taxation	1 262			1 262
Deferred taxation	2 152			2 152
Other liabilities	6 729			6 729
Subordinated debt	7 832			7 832
Liabilities to group companies	4 247			4 247
Total equity and liabilities	451 513	5 970	–	457 483

[1]A review of variation collateral agreements has concluded that not all collateral and derivative positions meet netting requirements. Therefore the collateral paid and received is respectively reported within loans and advances or deposit and current accounts. This reclassification is also applicable to the SBSA company results.

[2]An investment in a consolidated special purpose entity was previously disclosed under short-term negotiable securities and has now been reclassified to investments to reflect the underlying nature of the assets consolidated.

Annexure B – subsidiaries

Subsidiaries	Nature of operation	Nominal share capital issued Rm	Effective holding 2006 %	Effective holding 2005 %	Book value of shares 2006 Rm	Book value of shares 2005 Rm	Net indebtedness 2006 Rm	Net indebtedness 2005 Rm
Non banking subsidiaries								
Accelerator Fund 1 (Pty) Limited[1]	Securitisation vehicle						(84)	(331)
Accelerator Fund 2 (Pty) Limited[1]	Securitisation vehicle						–	–
Blue Banner Securitisation Vehicle RCI (Pty) Limited[1]	Mortgage financing						–	–
Blue Bond Investments Limited[1]	Participation mortgage bond finance	*	100	100	**	**	495	636
Blue Granite Investments No 1 (Pty) Limited[1]	Securitisation vehicle						26	47
Blue Granite Investments No 2 (Pty) Limited[1]	Securitisation vehicle						–	–
Blue Granite Investments No 3 (Pty) Limited[1]	Securitisation vehicle						–	–
Blue Titanium Conduit Limited[1]	Asset backed commercial paper conduit	*					–	–
Diners Club (S.A.) (Pty) Limited	Travel and entertainment card	*	100	100	**	**	759	598
FHP Managers (Pty) Limited	Property owning and investing company		–	100	–	**	–	59
Out of the Blue Originator (Pty) Limited	Bond originators	*	100	100	**	**	1 439	(164)
Standard Bank Insurance Brokers (Pty) Limited	Insurance broking	*	100	100	***	***	(63)	(72)
Standard Bank Properties (Pty) Limited	Finance company	*	–	100	–	**	–	258
Standard Financial Markets (Pty) Limited	Stockbrokers	*	–	100	–	3	–	(9 488)
Stanvest (Pty) Limited	Investment holding company	1	–	100	–	**	–	1 268
Miscellaneous	Finance companies		100	100	24	24	(345)	2 717
Total investment in subsidiaries					24	27	2 227	(4 472)

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

* *Issued share capital less than R1 million.*

** *Book value less than R1 million.*

*** *Held indirectly.*

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

Annexure C – associates and joint ventures

	Edu Loan (Proprietary) Limited		Mathomo Group Limited		RCS Investment Holdings (Proprietary) Limited	
Ownership structure	Associate		Associate		Associate	
Nature of business	Student loans		Retailer		Finance	
Year end	December		February		March	
Date to which equity accounted	31 December 2006		31 December 2006		31 December 2006	
	2006	2005	**2006**	2005	**2006**	2005
Effective holding	**45%**	45%	**26%**	26%	**35%**	25%
	Rm	Rm	**Rm**	Rm	**Rm**	Rm
Carrying value	**23**	35	**–**	–	**593**	388
Goodwill	**–**	2	**–**	–	**–**	–
Balance sheet						
Non-current assets	**25**	18	**17**	16	**45**	31
Current assets	**173**	187	**71**	106	**1 622**	1 213
Non-current liabilities	**(77)**	(43)	**(3)**	(27)	**(1 045)**	(784)
Current liabilities	**(45)**	(93)	**(50)**	(82)	**(176)**	(119)
Loans to entity	**41**	–	**–**	–	**367**	131
Income statement						
Attributable income	**7**	6	**–**	(9)	**73**	30

	JR163 Investments (Proprietary) Limited		Defy (Proprietary) Limited		Other associates	
Ownership structure	Associate		Associate		Associate	
Nature of business	Investment holding company		Manufacturing		Various	
Year end	April		March		Various	
Date to which equity accounted	31 December 2006		31 December 2006		31 December 2006	
	2006	2005	**2006**	2005	**2006**	2005
Effective holding	**–**	38%	**50%**	50%	**Various**	Various
	Rm	Rm	**Rm**	Rm	**Rm**	Rm
Carrying value	**–**	19	**100**	47	**207**	137
Goodwill	**–**	–	**–**	–	**–**	–
Balance sheet						
Non-current assets	**–**	56	**429**	413	**667**	112
Current assets	**–**	67	**813**	720	**418**	3 170
Non-current liabilities	**–**	(11)	**(646)**	(675)	**(1 481)**	(1 718)
Current liabilities	**–**	–	**(413)**	(361)	**(474)**	(632)
Loans to entity	**–**	–	**172**	172	**33**	–
Income statement						
Attributable income	**–**	(15)	**53**	46	**17**	29

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 2006		31 December 2006		31 December 2006	
	2006	2005	**2006**	2005	**2006**	2005
Effective holding	**50%**		**60%**	60%	**Various**	Various
	Rm	Rm	**Rm**	Rm	**Rm**	Rm
Carrying value	**53**		**142**	136	**5**	5
Goodwill	**–**		**–**	–	**–**	–
Balance sheet						
Non-current assets	**13**		**671**	738	**1**	–
Current assets	**550**		**96**	37	**26**	36
Non-current liabilities	**–**		**(533)**	(519)	**(15)**	–
Current liabilities	**(506)**		**(23)**	(24)	**1**	(26)
Loans to entity	**–**		**250**	237	**172**	–
Income statement						
Attributable income	**4**		**67**	119	**–**	–

	Total associates and joint ventures	
	2006	2005
	Rm	Rm
Carrying value	**1 123**	767
Goodwill	**–**	2
Balance sheet		
Non-current assets	**1 868**	1 384
Current assets	**3 769**	5 536
Non-current liabilities	**(3 800)**	(3 777)
Current liabilities	**(1 686)**	(1 337)
Loans to entities	**1 035**	540
Income statement		
Attributable income	**221**	206

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 (SBG) 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 Corporate governance report in the Standard Bank Group's annual report for a detailed schedule of movements in share options issued to executive directors during the year.

A reconciliation of the movement of all share options and appreciation rights is detailed below.

Group Share Incentive Scheme	Option price range (rands) 2006	Number of options 2006	2005
Reconciliation			
Options outstanding at beginning of the year		44 541 239	55 687 100
Granted	76,40 – 85,80	1 307 000	670 400
Exercised	13,50 – 40,65	(10 968 139)	(10 126 761)
Lapsed	17,15 – 79,50	(1 372 100)	(1 689 500)
Options outstanding at end of the year		33 508 000	44 541 239

Share options were exercised regularly throughout the period. The weighted average share price for the year was R80,35 (2005: R66,98).

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
570 600	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
1 669 900	17,15 – 26,40	18,50	Year to 31 December 2009
2 184 500	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
7 286 200	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
33 508 000			

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

Annexure D – equity linked transactions continued

	Type A 2006	Type A 2005	Type B 2006	Type B 2005
Number of options granted	527 400	329 700	779 600	340 700
Weighted average fair value at grant date (R)	24,59	20,43	25,75	21,93
The principal inputs are as follows:				
Weighted average share price (R)	79,52	64,43	79,52	65,60
Weighted average exercise price (R)	79,52	64,43	79,52	65,60
Expected life (years)	6,1	6,1	7,0	7,0
Expected volatility (%)	30,0	30,0	30,0	30,0
Risk-free interest rate (%)	7,8	8,3	7,9	8,4
Dividend yield (%)	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 R30 million (2005: R12 million).

Cash settled share based payments

Equity Growth Scheme	Average price range (rands) 2006	Number 2006	Number 2005
Reconciliation			
Rights outstanding at beginning of the year		7 185 100	–
Granted	60,73 – 87,00	8 751 450	7 449 100
Exercised[1]	78,49 – 86,95	(12 367)	(4 200)
Lapsed	60,73 – 79,50	(915 257)	(259 800)
Rights outstanding at end of the year[2]		15 008 926	7 185 100

[1]During the year 1 641 (2005: 106) SBG shares were issued to settle the appreciated rights value.

[2]At the end of the year the group would need to issue 3 352 692 (2005: 1 020 399) 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 2006:

Number of rights	Option price range (rands)	Weighted average price (rands)	Option expiry period
6 641 193	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
15 008 926			

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 are illustrated below:

	Type A 2006	Type A 2005	Type B 2006	Type B 2005
Number of appreciation rights granted	3 968 225	2 925 200	4 783 225	4 523 900
Weighted average fair value at grant date (R)	24,60	20,88	25,77	21,88
The principal inputs are as follows:				
Weighted average share price (R)	79,55	65,5	79,59	65,43
Weighted average exercise price (R)	79,55	65,5	79,59	65,43
Expected life (years)	6,1	6,1	7,0	7,0
Expected volatility (%)	30,0	30,0	30,0	30,0
Risk-free interest rate (%)	7,8	8,4	7,9	8,4
Dividend yield (%)	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 R166 million (2005: R121 million).

Equity participation plans

Tutuwa initiative

The group entered into a black economic empowerment transaction during 2004, which included an element to 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 R104 million (2005: R118 million) relating to equity-settled share-based payments, comprising R43 million (2005: R57 million) for share options and appreciation rights, and R61 million (2005: R61 million) relating to the Tutuwa transaction.

Credit ratings

The latest credit ratings for SBSA are detailed below:

	Short term	Long term	Outlook
The Standard Bank of South Africa			
Fitch Ratings (July 2006)			
Foreign currency	F2	BBB+	Stable
Local currency		A-	Stable
National	F1+(zaf)	AA+(zaf)	Stable
Standard & Poor's (November 2005) public information rating			
Local currency		BBBpi	
Moody's Investors Services (December 2006) public information rating			
Bank deposit rating	P-2	Baa1	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]

SJ Macozoma

RP Menell

Adv KD Moroka

AC Nissen

MC Ramaphosa

Dr MA Ramphele

SP Ridley[1]

MJD Ruck

MJ Shaw

Sir Robert Smith[2]

EM Woods

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

Contact details

Chief financial officer

Simon Ridley

Tel: +27 11 636 3756

e-mail: Simon.Ridley@standardbank.co.za

Director, investor relations

Kim Howard

Tel: +27 11 636 7811

e-mail: Kim.Howard@standardbank.co.za

Group secretary

Loren Wulfsohn

Tel: +27 11 636 5119

e-mail: Loren.Wulfsohn@standardbank.co.za

Registered address

9th Floor

Standard Bank Centre

5 Simmonds Street

Johannesburg 2001

PO Box 7725

Johannesburg 2000

Contact details

Tel: +27 11 636 9111

Fax: +27 11 636 4207

e-mail: shareholder queries:

InvestorRelations@standardbank.co.za

e-mail: customer queries:

information@standardbank.co.za

Standard Bank

Designed by motiv

Printed by Ince

Standard Bank