Standard Bank Plc

Report and Consolidated Accounts 2006

Standard Bank

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Report of the directors

The directors present their report and accounts for the year ended 31 December 2006.

Business review

Standard Bank group profile

The Standard Bank Group Limited, based in Johannesburg, is the ultimate holding company for the global activities of the Standard Bank Group. With total assets in excess of US$100 billion and employing more than 37,000 people worldwide, the Standard Bank Group is one of Africa's leading banking and financial services organisations. The Standard Bank Group operates within three key business segments: Personal and Business Banking, Corporate and Investment Banking and Investment Management and Life Insurance. These global business segments operate across South Africa, Africa and other international locations outside of Africa.

Standard International Holdings S.A. (SIH) is a Luxembourg based holding company which together with its subsidiaries, comprises the international portion of the Corporate and Investment Banking business segment. SIH's principal operating subsidiary is Standard Bank Plc (SB Plc). SIH's other main subsidiaries include Standard Bank Asia Limited (Hong Kong), Standard Bank Argentina S.A., Standard New York, Inc., Banco Standard de Investimentos S.A. (Brazil) and ZAO Standard Bank (Russia).

Established in 1992, SB Plc is a bank authorised and regulated by the United Kingdom Financial Services Authority, providing a range of banking and related financial services. It is a member of the London Stock Exchange, the London Bullion Market Association, the London Metal Exchange and the London Platinum and Palladium Market and is Chairman of the London Platinum and Palladium Fixing. Standard Bank Plc is a shareholder in LCH.Clearnet Group Limited and has two seats on the New York mercantile Exchange (Comex division).

In 2005 Standard Bank Plc applied to the regulators to set up a branch in Dubai. Final approval was received and the branch became operational in the first quarter of 2006.

Principal product areas

The franchise of Standard Bank Plc and its subsidiaries (together the Group) is focused on emerging markets - primarily debt, interest rate, equity and currency products - and natural resources.

Principal product areas are the following:

The Global Markets division comprises primarily customer-driven debt capital markets and treasury activities, encompassing both cash products and derivatives markets. The division is an originator of debt securities financings for bank, corporate and quasi-government issuers within the world's emerging markets. It makes markets across the yield curve to investors in emerging markets bonds as well as other sovereign and corporate credits. A comprehensive range of foreign exchange, money market and interest rate products is provided, ranging from simple risk management tools to sophisticated investment structures. The division's expertise extends across all of the major and emerging market currencies.

The Principal Trading division houses the Group's proprietary activities, which comprise investing and trading primarily in debt securities issued by a wide variety of sovereign, quasi-government and corporate borrowers in Africa, Asia, Europe and Latin America. 2006 has seen an increase of the Asia business with the distressed debt and non-performing loan business expanded.

The Resource Banking division encompasses banking activities in the commodities markets in which the Group is involved, namely the precious metals, base metals and energy markets. The division offers a comprehensive range of services to clients across these market sectors, including trading, risk management, project finance, structured trade finance and corporate advisory. The client base extends across all sections of the industry, including producers, consumers, merchants, fund managers and governments worldwide. With many of the producers located in emerging markets, the Group's emerging markets capabilities supplement the division's metals and energy expertise in enabling the Group to better understand and service the needs of its customers.

The Investment Banking and Trade division focuses on the provision of trade and corporate financing, telecommunications finance and specialised finance across the emerging markets. Trade finance and syndicated loans are primary components of the business.

Within the Asset Management division, the Group seeks to leverage its expertise in emerging markets and high yield assets into investment products that can be distributed to investors on a wholesale basis. The division specialises in managing emerging market debt, currency and money market funds as well as global high yielding debt funds, with a focus on achieving low volatility absolute returns.

The Private Client Services division serves high net worth clients through the Group's emerging markets network. By distributing a combination of the Group's specialist emerging markets and resources product range, together with selected third party products, the division complements the traditional private banking, asset management and fiduciary activities.

Performance

The Group's attributable profit of $27.9m for the year was up 36.8% on the prior year of $20.4m. Along with strong revenue growth, up 29.4%, the Group also made good progress in further strengthening its operating platform with substantial advances made in upgrading IT, support and risk structures.

The Global Markets business capitalised on favourable investor interest, driven by the sound macro-economic environment that emerging economies are experiencing, to produce strong growth. Significant advances were made in its core strategy to scale up the geographic and product platform. The benefits of product diversity came through strongly with all products showing solid growth in earnings.

The Principal Trading business generated decreased revenues relative to 2005, despite good performances in exotic and local currency trading. This was due to the team's underinvested positions based on the extremely high valuation, by historical standards, of emerging market

Report of the directors continued

assets. Debt and local currency positions in Latin America, Eastern Europe, Africa and South East Asia were significant contributors to revenue.

The Resource Banking business achieved record revenues with robust performances from metals trading, energy and structured commodity finance and the proprietary equity investment portfolio. Metals trading experienced extremely volatile markets throughout the year, with many commodities trading at new records or levels not seen for decades.

The Investment Banking and Trade business delivered strong performances from all business lines. Key successes include the focus on acquisition and leveraged finance opportunities, the origination of a diverse range of structured trade transactions in sub-saharan Africa and the conclusion of a number of large financing mandates across different products in the Telecoms and Media sector.

The Asset Management business was affected by increases in base rates for primary currencies. This adversely impacted sales of high yield investments resulting in a net withdrawal of funds over the year. The Private Equity Group included within its operations four funds covering Asia, Africa and the Gulf.

The Private Client teams, which provide a full range of onshore and offshore private client banking, asset management and fiduciary services, successfully increased focus on the Russian, Middle East and African markets.

Market conditions and developments

In all, the level of liquidity in our markets generally remained high, with increased competition from banks and institutions that have continued to expand their emerging market presence. This has resulted in not only pressure on pricing but also in a greater demand for emerging market products, a trend that is expected to continue.

The Basel II Capital Adequacy Framework (Basel II) applies to the Group with effect from 1 January 2008. The implementation of these requirements is a priority for the Group, both from a systems perspective and in addressing any impact on business practice. The metals and energy trading teams achieved CADII model recognition from the FSA during the year and further model approvals are expected to be achieved in 2007.

Standard Bank Plc maintained its long-term credit rating of Baa1 from Moody's Investors Service and BBB+ from Fitch Ratings.

Financial results

The Group's results for the period are shown in the consolidated income statement on page 10. The retained profit for the year of US$27.9 million, up $7.5 million on the prior year, has been transferred to reserves. Return on equity of 4.6% (2005: 3.9%) reflects the higher earnings and substantially increased capital base. The cost to income ratio of 88.1% (2005: 89.0%) shows a reduction, a trend that is expected to continue. The effective tax rate was reduced in the year to 31.1% (2005: 56.7%) due to provisions raised in the prior year following adverse legislation interpretation impacting previous years.

Capital resources

At the year-end the Group's equity capital resources amounted to $672.0 million (2005: $532.9 million) and total capital resources qualifying for prudential purposes amounted to $1 197.9 million (2005: $802.1 million). The Group remains well capitalised with a Capital adequacy ratio of 13.3% (2005: 13.4%).

In April 2006 Standard Bank Plc issued Euro 43 million of Subordinated Floating Rate Notes due 2008 to SBIC Investments S.A., a wholly-owned subsidiary of Standard International Holdings S.A.

In June 2006 Standard Bank Plc issued US$100 million of new share capital to Standard Bank London Holdings Plc ("SBLH").

In July 2006 Standard Bank Plc issued US$200 million of Step-Up Perpetual Subordinated Notes to third party investors.

Risk management

The key risks and risk management processes and policies are set out in note 25 of this report.

Dividends

The directors do not recommend the payment of a dividend.

Directors and directors' interests

The directors who currently hold office are as follows:

J H Maree	(Chairman)
M E Austen	
D P H Burgess	
D E Cooper	
D J Duffy	(Chief Executive)
B J Kruger	
R A G Leith	
C J Sheridan	
T R Smeeton	
H E Staunton	
B A Ursell	
T G Wheeler	

Mr Myles Ruck resigned as a director on 11 May 2006.

None of the directors held any beneficial interest in the ordinary share capital of the Bank during the year or at 31 December 2006.

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

Report of the directors continued

Committees

The Board of Standard Bank Plc delegates certain functions and responsibilities to the following board committees.

Executive Committee

This Committee is responsible for the day-to-day management of the bank. Subject to the overall authority of the board, it meets regularly, to develop business strategy, initiate and review strategic initiatives, review and approve annual business plans, monitor financial performance against budget, approve the introduction of new products, authorise/approve appointment of staff to senior managerial positions and review the activities of executive sub-committees.

Membership: The Committee comprises the executive directors and certain senior executives, namely David Duffy (Chairman), Paul Hartwell, Robert Leith, Patrick Tam, Marc van der Spuy and Timothy Wheeler.

The major executive sub-committees, supporting the Executive Committee in fulfilling its responsibilities, are the Credit Committee, the Assets and Liabilities Committee and the Operations Committees.

Audit Committee

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

Membership: Henry Staunton (Chairman), Mark Austen, Patrick Burgess, Derek Cooper, Christopher Sheridan and Terry Smeeton.

Risk Management Committee

The objective of this non-executive Board Committee is to provide an independent review and challenge to the bank's risk policies and the composition of the risk portfolio, its concentrations and the risk-taking decisions of the bank, covering all aspects of risk - market, credit, country and operational. It complements the Audit Committee which also studies, inter alia, risk controls and their operation, but from a different perspective. The Committee meets quarterly.

Membership: Bruce Ursell (Chairman), Mark Austen, Patrick Burgess, Derek Cooper, Jacko Maree, Christopher Sheridan and Henry Staunton.

Remuneration Committee

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

Membership: Christopher Sheridan (Chairman), Derek Cooper, Jacko Maree, and Henry Staunton.

Transactions with directors and related parties

There are no loans, arrangements or agreements that require disclosure under the Companies Act 1985 or International Accounting Standard IAS24 regarding transactions with related parties, other than those shown in notes to the financial statements.

Directors' liability insurance

The Bank maintained directors' and officers' liability insurance during the twelve months.

Employees

It is the Bank's policy to ensure that all employees and job applicants are given equal opportunities and that they do not face discrimination on the grounds of ethnic origin, colour, religion, sex or disability. Should an employee become disabled during his or her career with the Bank every effort will be made to ensure continued employment, with appropriate training if necessary.

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

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

Charitable Donations

The Bank made charitable donations of US$47 628 during the year.

Payment of Suppliers Policy

The Bank does not follow a formal policy with respect to payments to suppliers but will negotiate specific terms when applicable.

Auditors

KPMG Audit Plc have indicated their willingness to continue as auditors of the Bank. Accordingly, a resolution is to be proposed at the next annual general meeting for the re-appointment of KPMG Audit Plc as auditors of the Bank.

By order of the board

Sue Smollett

S C Smollett
Secretary

15 February 2007

Cannon Bridge House
25 Dowgate Hill
London EC4R 2SB
Registered in England No. 2130447

Statement of directors' responsibilities in respect of the Directors' Report and the financial statements

The directors are responsible for preparing the Directors' Report and the Group and Parent Company financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare Group and Parent Company financial statements for each financial year. Under that law they are required to prepare the Group financial statements in accordance with IFRS as adopted by the EU and applicable law and have elected to prepare the Parent Company financial statements on the same basis.

The Group and Parent Company financial statements are required by law and IFRS as adopted by the EU to present fairly the financial position of the Group and Parent Company and the performance for that period; the Companies Act 1985 provides in relation to such financial statements that references in the relevant part of that Act to financial statements giving a true and fair view are references to their achieving a fair presentation.

In preparing each of the Group and Parent Company financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and estimates that are reasonable and prudent;
- state whether they have been prepared in accordance with IFRS as adopted by the EU; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group and Parent Company will continue in business.

The directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the Parent Company and enable them to ensure that its financial statements comply with the Companies Act 1985. They have a general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

Independent auditors' report to the members of Standard Bank Plc

We have audited the group and parent company financial statements (the ''financial statements'') of Standard Bank Plc for the year ended 31 December 2006 which comprise the Group Income Statement, the Group and Parent Company Balance Sheets, the Group and Parent Company Cash Flow Statements, the Group and Parent Company Statements of Change in Shareholders' Equity and the related notes. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the Company's members, as a body, in accordance with section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the consolidated annual report in accordance with applicable law and International Financial Reporting Standards (IFRS) as adopted by the EU are set out in the Statement of Directors' Responsibilities on page 7.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985 and Article 4 of the IAS Regulation. We also report to you whether, in our opinion, the information in the Directors' Report is consistent with the financial statements.

In addition we report to you if, in our opinion, the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

We read the other information contained in the consolidated annual report and consider whether it is consistent with the audited financial statements. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Group's and Company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion:

- the Group financial statements give a true and fair view, in accordance with IFRS as adopted by the EU, of the state of the Group's affairs as at 31 December 2006 and of its profit for the year then ended;
- the Parent Company financial statements give a true and fair view, in accordance with IFRS as adopted by the EU as applied in accordance with the provisions of the Companies Act 1985, of the state of the Parent Company's affairs as at 31 December 2006;
- the financial statements have been properly prepared in accordance with the Companies Act 1985 and, as regards the group financial statements, Article 4 of the IAS Regulation; and
- the information given in the Directors' Report is consistent with the financial statements.

KPMG Audit Plc

KPMG Audit Plc
Chartered Accountants
Registered Auditor
London
15 February 2007

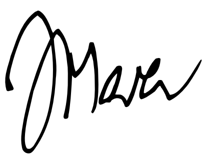
Consolidated balance sheet

at 31 December 2006

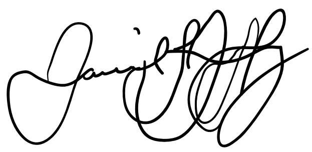
	Note	2006 $m	2005 $m
Assets			
Cash and balances with banks	2	992.8	811.2
Derivative assets	3	4 783.0	4 792.9
Trading assets	4	8 244.0	3 615.5
Loans and advances	5	9 789.0	7 101.2
Other assets	7	314.8	135.5
Current tax asset	8	2.5	11.5
Deferred tax asset	8	12.0	16.8
Intangible assets	10	23.7	7.6
Property, plant and equipment	11	7.7	2.3
Total assets		24 169.5	16 494.5
Liabilities and equity			
Liabilities		23 497.5	15 961.6
Derivative liabilities	3	5 221.0	5 217.4
Trading liabilities	12	3 261.2	1 205.5
Deposit and current accounts	13	13 947.3	8 948.8
Other liabilities	14	506.2	275.0
Current tax liabilities	15	21.1	42.3
Deferred tax liabilities	15	3.7	-
Subordinated loan capital	16	537.0	272.6
Equity			
Equity attributable to ordinary shareholders		672.0	532.9
Ordinary share capital	17	503.6	424.3
Ordinary share premium		20.7	-
Reserves		147.7	108.6
Total liabilities and equity		24 169.5	16 494.5

The accounting policies and notes on pages 16 to 59 should be read as part of the financial statements.

Approved by the Board of Directors and signed on its behalf on 15 February 2007.



J.H. Maree, Chairman



D.J. Duffy, Chief Executive

Consolidated income statement

for the year ended 31 December 2006

	Note	2006 $m	2005 $m
Net interest income		99.9	56.3
Interest income	19.1	444.8	297.0
Interest expense	19.2	(344.9)	(240.7)
Non-interest income	19.3	266.5	226.8
Net fees and commission		(35.6)	(3.0)
Fees and commission income		68.5	61.4
Fees and commission expenses		(104.1)	(64.4)
Trading income		302.1	229.8
Net income		366.4	283.1
Credit impairment (charge)/release	19.4	(3.2)	15.9
Net income after impairment (charge)/release		363.2	299.0
Operating expenses		(322.7)	(251.9)
Staff costs	19.5	(224.4)	(174.3)
Other operating expenses	19.6	(98.3)	(77.6)
Profit before income tax		40.5	47.1
Income tax expense	20	(12.6)	(26.7)
Profit attributable to equity shareholders		27.9	20.4

The accounting policies and notes on pages 16 to 59 should be read as part of the financial statements.

Consolidated statement of changes in shareholder's equity

for the year ended 31 December 2006

	Ordinary share capital and premium $m	Cash flow hedging reserve $m	Long-term incentive reserve [1] $m	Translation reserve $m	Retained earnings $m	Total equity $m
Balance at 1 January 2005	424.2	7.3	17.2	(0.1)	76.5	525.1
Items recognised directly in equity	-	(11.9)	(0.7)	(0.1)	-	(12.7)
- Cash flow hedge fair value change	-	(19.3)	-	-	-	(19.3)
- Cash flow hedge transfer to income statement	-	2.3	-	-	-	2.3
- Deferred tax on hedges	-	5.1	-	-	-	5.1
- Long-term incentive transactions	-	-	(0.7)	-	-	(0.7)
- Translation of subsidiary companies	-	-	-	(0.1)	-	(0.1)
Profit attributable to equity shareholders	-	-	-	-	20.4	20.4
Total recognised income	-	(11.9)	(0.7)	(0.1)	20.4	7.7
Issues of share capital and premium	0.1	-	-	-	-	0.1
Balance at 31 December 2005	424.3	(4.6)	16.5	(0.2)	96.9	532.9
Balance as at 1 January 2006	424.3	(4.6)	16.5	(0.2)	96.9	532.9
Items recognised directly in equity	-	13.2	(2.1)	0.1	-	11.2
- Cash flow hedge fair value change	-	22.5	-	-	-	22.5
- Cash flow hedge transfer to income statement	-	(3.6)	-	-	-	(3.6)
- Deferred tax on hedges	-	(5.7)	-	-	-	(5.7)
- Long-term incentive transactions	-	-	(2.1)	-	-	(2.1)
- Translation of subsidiary companies	-	-	-	0.1	-	0.1
Profit attributable to equity shareholders	-	-	-	-	27.9	27.9
Total recognised income	-	13.2	(2.1)	0.1	27.9	39.1
Issues of share capital and premium	100.0	-	-	-	-	100.0
Balance at 31 December 2006	524.3	8.6	14.4	(0.1)	124.8	672.0

Note 1 : This reserve forms part of the capital contribution from the ultimate parent and is included as a component of equity attributable to ordinary shareholders.

Consolidated cash flow statement

for the year ended 31 December 2006

	Note	2006 $m	2005 $m
Operating activities			
Cash flows from operations	21.2	84.0	61.7
Changes in operating funds		(214.0)	(1 566.1)
Increase in income-earning assets	21.3	(7 535.7)	(1 445.5)
Increase/(decrease) in deposits, other liabilities and provisions	21.4	7 321.7	(120.6)
Tax paid	21.5	(21.9)	(21.0)
Net cash used in operating activities		(151.9)	(1 525.4)
Investing activities			
Capital expenditure on - intangible assets	10	(17.1)	(5.2)
- equipment, furniture and vehicles	11	(6.2)	(0.8)
Net cash flows used in investing activities		(23.3)	(6.0)
Financing activities			
Proceeds from issue of ordinary share capital and premium to shareholder		100.0	0.1
Increase in subordinated loan capital	16	256.7	72.0
Subordinated Floating Rate Loan Stock 2050 repaid		-	(78.0)
Step-Up Subordinated Floating Rate Notes 2010 repaid		-	(100.0)
Step-Up Subordinated Floating Rate Notes 2015 issued		-	250.0
Step-Up Perpetual Subordinated Notes issued		200.0	-
Subordinated Floating Rate EUR Loan Stock 2008 issued		56.7	-
Net cash flows generated from financing activities		356.7	72.1
Effects of exchange rate changes on cash and cash equivalents		0.1	(1.0)
Net increase/(decrease) in cash and cash equivalents		181.6	(1 460.3)
Cash and cash equivalents at beginning of the year		811.2	2 271.5
Cash and cash equivalents at end of the year		992.8	811.2

Company balance sheet

at 31 December 2006

	Note	2006 $m	2005 $m
Assets			
Cash and balances with banks	2	988.9	798.7
Derivative assets	3	4 783.0	4 792.9
Trading assets	4	8 244.0	3 615.5
Loans and advances	5	9 789.0	7 101.2
Other assets	7	312.1	135.6
Current tax asset	8	2.0	11.3
Deferred tax asset	8	12.0	16.8
Equity investments in group companies	9	0.7	0.7
Intangible assets	10	23.7	7.6
Property, plant and equipment	11	7.6	2.2
Total assets		24 163.0	16 482.5
Liabilities and equity			
Liabilities		23 496.7	15 952.2
Derivative liabilities	3	5 221.0	5 217.4
Trading liabilities	12	3 261.2	1 205.5
Deposit and current accounts	13	13 947.3	8 938.7
Other liabilities	14	506.4	276.0
Current tax liabilities	15	20.1	42.0
Deferred tax liabilities	15	3.7	-
Subordinated loan capital	16	537.0	272.6
Equity			
Equity attributable to ordinary shareholders		666.3	530.3
Ordinary share capital	17	503.6	424.3
Ordinary share premium		20.7	-
Reserves		142.0	106.0
Total liabilities and equity		24 163.0	16 482.5

The accounting policies and notes on pages 16 to 59 should be read as part of the financial statements.

Approved by the Board of Directors and signed on its behalf on 15 February 2007.

J.H. Maree, Chairman

D.J. Duffy, Chief Executive

Company statement of changes in shareholder's equity

for the year ended 31 December 2006

	Ordinary share capital and premium $m	Cash flow hedging reserve $m	Long-term Incentive reserve [1] $m	Retained earnings $m	Total equity $m
Balance at 1 January 2005	424.2	7.3	17.2	73.1	521.8
Items recognised directly in equity	-	(11.9)	(0.7)	-	(12.6)
- Cash flow hedge fair value change	-	(19.3)	-	-	(19.3)
- Cash flow hedge transfer to income statement	-	2.3	-	-	2.3
- Deferred tax on hedges	-	5.1	-	-	5.1
- Long-term incentive transactions	-	-	(0.7)	-	(0.7)
Profit attributable to equity shareholders	-	-	-	21.0	21.0
Total recognised income	-	(11.9)	(0.7)	21.0	8.4
Issues of share capital and premium	0.1	-	-	-	0.1
Balance at 31 December 2005	424.3	(4.6)	16.5	94.1	530.3
Balance at 1 January 2006	424.3	(4.6)	16.5	94.1	530.3
Items recognised directly in equity	-	13.2	(2.1)	-	11.1
- Cash flow hedge fair value change	-	22.5	-	-	22.5
- Cash flow hedge transfer to income statement	-	(3.6)	-	-	(3.6)
- Deferred tax on hedges	-	(5.7)	-	-	(5.7)
- Long-term incentive transactions	-	-	(2.1)	-	(2.1)
Profit attributable to equity shareholders	-	-	-	24.9	24.9
Total recognised income	-	13.2	(2.1)	24.9	36.0
Issues of share capital and premium	100.0	-	-	-	100.0
Balance at 31 December 2006	524.3	8.6	14.4	119.0	666.3

Note 1 : This reserve forms part of the capital contribution from the ultimate parent and is included as a component of equity attributable to ordinary shareholders.

Company cash flow statement

for the year ended 31 December 2006

		Note	2006 $m	2005 $m
Operating activities				
Cash flows from operations		21.2	78.6	61.6
Changes in operating funds			(200.7)	(1 578.8)
Increase in income-earning assets		21.3	(7 531.6)	(1 441.3)
Increase/(decrease) in deposits, other liabilities and provisions		21.4	7 330.9	(137.5)
Tax paid		21.5	(21.1)	(20.6)
Net cash used in operating activities			(143.2)	(1 537.8)
Investing activities				
Capital expenditure on	- intangible assets	10	(17.1)	(5.2)
	- equipment, furniture and vehicles	11	(6.2)	(0.8)
Net cash flows used in investing activities			(23.3)	(6.0)
Financing activities				
Proceeds from issue of ordinary share capital and premium to shareholder			100.0	0.1
Increase in subordinated loan capital		16	256.7	72.0
Subordinated Floating Rate Loan Stock 2050 repaid			-	(78.0)
Step-Up Subordinated Floating Rate Notes 2010 repaid			-	(100.0)
Step-Up Subordinated Floating Rate Notes 2015 issued			-	250.0
Step-Up Perpetual Subordinated Notes issued			200.0	-
Subordinated Floating Rate EUR Loan Stock 2008 issued			56.7	-
Net cash flows generated from financing activities			356.7	72.1
Effects of exchange rate changes on cash and cash equivalents			-	(0.8)
Net increase/(decrease) in cash and cash equivalents			190.2	(1 472.5)
Cash and cash equivalents at beginning of the year			798.7	2 271.2
Cash and cash equivalents at end of the year			988.9	798.7

Accounting policies

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

1 Basis of presentation

Both the Parent Company financial statements and the Group financial statements have been prepared and approved by the directors in accordance with International Financial Reporting Standards as adopted by the EU ("adopted IFRSs") and the interpretations of the International Financial Reporting Interpretations Committee. In publishing the Parent company financial statements here together with the Group financial statements, the Company has taken advantage of the exemption in s230 of the Companies Act 1985 not to present its individual income statement and related notes that form a part of these approved financial statements.

The consolidated financial statements are prepared in accordance with the going concern principle under the historical cost basis except as modified by the revaluation of:

- derivative financial instruments which are measured at fair value
- financial instruments designated as held at fair value through the profit and loss account.

The consolidated financial statements include the Parent Company and all subsidiary companies.

The Standard Bank Plc Group applies IFRS in the preparation of its financial statements as SB Plc has in issue subordinated debt capital which is listed on the London Stock Exchange's Gilt Edged and Fixed Interest Market and is required to prepare financial statements applying adopted IFRS. The accounting policies are consistent with those adopted in the previous year. The Group adopted the following new IFRS accounting standards, with an effective date of 1 January 2006, and 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)
- IFRIC 4 - Determining Whether an Arrangement Contains a Lease
- IFRIC 7 - Applying the Restatement Approach under IAS 29 Financial Reporting in Hyperinflationary Economies
- IFRIC 8 - Scope of IFRS 2

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

Standards and interpretations not yet effective

Standards and interpretations which are not yet effective have not been early adopted, including IFRS 7 Financial Instruments: Disclosures (effective for annual periods beginning on or after 1 January 2007). The IFRS 7 amendments deal mainly with the disclosure of financial instruments, the related qualitative and quantitative risks associated with financial instruments and objective 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 statement will therefore not impact the results of the Group but will result in increased disclosure relating to financial instruments in particular. Other standards which will be applicable are IAS 2 amendment – Capital disclosure and IFRIC 9 – Reassessment of embedded Derivatives, neither of which are expected to have a material impact on the results of the Group.

2 Basis of consolidation

The financial statements of subsidiaries are consolidated from the date on which the Group acquires the power to control, up to the date that such 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 of an entity so as to obtain the benefits from its activities. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity.

Special purpose entities are consolidated when the substance of the relationship between the Group and the special purpose entity indicates that the Group effectively controls the entity. The Group manages and administers assets held in trusts and other investment vehicles on behalf of investors. The financial statements of these entities are not included in these consolidated financial statements except where the Group 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. Negative goodwill arising on acquisition is recognised directly in the income statement. If the purchase agreement provides for an adjustment to the cost of the combination contingent on future events, the adjustment is included in the cost of the combination at the acquisition date if probable and can be measured reliably.

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

Intragroup transactions and balances are eliminated on consolidation and consistent accounting policies are used throughout the Group for the purpose of consolidation.

Accounting policies continued

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 Group's presentational currency is US dollars and Standard Bank Plc's Company functional and presentation currency is US dollars and all amounts, unless otherwise indicated, are stated in millions of dollars ($m).

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 taken directly to separate components of equity. On disposal of foreign operations, such exchange differences are recognised in the income statement as part of the profit or loss on disposal. Goodwill and fair value adjustments arising on the acquisition of foreign operations are treated as assets and liabilities of the foreign operation and translated at closing rates at balance sheet date.

Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the date of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement except when deferred in equity as qualifying cash flow hedges and qualifying net investment hedges. Exchange differences on non-monetary items are accounted for based on the classification of the underlying items.

4 Cash and cash equivalents

Cash and cash equivalents disclosed in the cash flow statement consist of cash and balances with banks.

Cash and balances with banks comprise balances with banks and other financial institutions.

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

Recognition and measurement

Financial assets are held for investment, trading or hedging purposes. All financial assets are initially recognised at fair value plus transaction costs that are directly attributable to the acquisition for all financial assets. These financial assets are recognised on the date the Group commits to purchase the assets (trade date).

Classification

Management determines the appropriate classification of financial assets on acquisition.

Held-to-maturity

Short-term negotiable securities and investment securities with fixed maturity, where management has both the intent and the ability to hold the securities to maturity, are classified as held-to-maturity. Where the Group sells 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. No assets have been classified as held-to-maturity at the balance sheet date.

Financial assets at fair value through profit or loss

- Financial assets that the Group holds for profit taking (trading assets) are classified as financial assets at fair value through profit or loss. Trading assets are those assets which the Group acquires principally for the purpose of selling or repurchasing in the near term, or holds as part of a portfolio that is managed together for short-term profit or position taking. 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 income in the income statement. Interest earned and dividends received while holding trading assets at fair value through profit and loss are included in trading income.
- Financial assets that the group designates at inception as financial assets at fair value through profit or loss are carried at fair value subsequent to initial recognition. All income and realised and unrealised gains and losses arising from the change in fair value of these financial assets are included in the income statement. Such classification is not changed subsequent to initial recognition.
- The Group designates financial assets and financial liabilities at fair value through the profit and 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 that are not classified as loans and advances, held-to-maturity or financial assets at fair value through profit or loss, are classified as available-for-sale assets and carried at fair value. Available-for-sale financial assets are held for an indefinite period of time and may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices. Unrealised gains or losses arising from the changes in the fair value of available-for-sale assets are recognised as a separate classification 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

Accounting policies continued

recognised directly in the income statement. No assets have been classified as available-for-sale at the balance sheet date.

Fair value

The determination of fair values of financial assets and liabilities are based on quoted market prices or dealer price quotations for financial instruments traded in active markets. For all other financial instruments fair value is determined by using valuation techniques. Valuation techniques include net present value techniques, the discounted cash flow method comparisons to similar instruments for which market observable prices exist, and valuation models. The Group uses widely recognized valuation models for determining the fair value of common and more simple financial instruments. For these financial instruments, inputs into models are market observable.

For more complex instruments, the Group uses proprietary models, which usually are developed from recognized valuation models. Some or all of the inputs into these models may not be market observable, and are derived from market prices or rates or estimated based on assumptions. When entering into a transaction, the financial instrument is recognized initially at the transaction price, which is the best indicator of value, although the value obtained from the model may differ from the transaction price. This initial difference, usually an increase, in fair value indicated by valuation techniques is recognized in income depending upon the individual facts and circumstances of each transaction and not later than when the market data becomes observable. The value produced by a model or other valuation technique is adjusted to allow for a number of factors as appropriate, because valuation techniques cannot appropriately reflect all factors market participants take into account when entering into a transaction. Valuation adjustments are recorded to allow for model risks, bid-ask spreads, liquidity risks, as well as other factors. Management believes that these valuation adjustments are necessary and appropriate to fairly state financial instruments carried at fair value on the balance sheet.

Derecognition

The Group derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial assets in a transaction in which substantially all the risks and rewards of ownership of the financial assets are transferred.

The Group derecognises a financial liability when its contractual obligations are discharged or cancelled or expire.

6 Repurchase and resale agreements and lending of securities

Securities sold with agreement to repurchase are retained in the financial statements as trading securities, when substantially all of the risks and rewards of ownership remain with the Group, and valued in terms of accounting policy number 5. The liability to the counterparty is included under deposit and current accounts.

Securities purchased under agreements to resell, when substantially all of the risks and rewards of ownership do not transfer to the Group, 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 bases.

Securities lent to counterparties are retained in the financial statements and are classified and measured in accordance with accounting policy number 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 effective interest rate basis over the period of the transactions.

7 Derivative financial instruments

A derivative is a financial instrument whose value changes in response to an underlying variable, that requires little or no initial investment and that is settled at a future date. All derivatives are accounted for as trading instruments unless they meet the criteria for hedge accounting. Derivatives are initially recognised at fair value on the date on which the derivatives are entered into and subsequent to initial recognition remeasured at fair value as described in accounting policy number 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 number 8.

Embedded derivatives included in hybrid instruments are treated as separate 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 applicable to the host contract.

8 Collateral and netting

The Group enters into master netting agreements with counterparties whenever possible and, when appropriate, obtains collateral. Master agreements provide that, if an event of default occurs, all outstanding transactions with the counterparty will fall due and all amounts outstanding will be settled on a net basis.

Where the amounts owed by both the Group and the counterparty are determinable and in freely convertible currencies, and where the Group has the ability to insist on net settlement which is assured beyond doubt, based on a legal right under the netting agreement that would survive the insolvency of the counterparty, and there is an intention to settle on a net basis, transactions with positive fair values are netted against transactions with negative fair values.

Accounting policies continued

The Group obtains collateral in respect of customer liabilities where this is considered appropriate. The collateral normally takes the form of a lien over the customer's assets and gives the Group a claim on these assets for both existing and future liabilities.

The Group also receives collateral in the form of cash or securities in respect of other credit instruments, such as stock lending contracts, and derivative contracts in order to reduce credit risk. Collateral received in the form of securities is not recorded on the balance sheet. Collateral received in the form of cash is recorded on the balance sheet with a corresponding liability. These items are assigned to deposits received from banks or counterparties in the case of cash collateral received and to loans and advances to banks or customers in the case of cash collateral paid away. Any interest payable or receivable arising is recorded as interest expense or interest income respectively.

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); or
- a hedge of a net investment in a foreign entity or a forecast transaction.

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.

Hedge accounting would be discontinued if the hedging relationship was no longer effective or no longer meets the hedging and business objectives.

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 as they occur. Fair value adjustments relating to the hedged instrument are allocated to the same income statement category as the related hedged item. If the hedge relationship is discontinued on a hedged debt instrument carried at amortised cost, the fair value adjustment to the carrying value of the hedged item is amortised over the debt instrument's remaining life using the effective interest rate method.

Cash flow hedges

The effective portion of changes in the fair value of derivatives that are cash flow hedges are recognised as a separate component in equity. The ineffective part of any gain or loss is recognised in the income statement. Where a forecast transaction results in the recognition of a non-financial asset, or 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 asset, liability, income or expense. If the hedged transaction subsequently results in the recognition of a financial asset or financial liability, the associated gains and losses that were recognised directly in equity are classified into the income statement in the same period or periods during which the asset or liability affects the income statement (i.e. when income and expense is recognised).

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 the income statement when the hedged transaction is taken to the income statement. 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.

Hedge of a net investment in a foreign entity

Where considered appropriate, the Group hedges net investments in foreign entities using derivative instruments. For such hedges, the foreign exchange difference arising on the hedging instrument and relating to the effective portion of the hedge, is recognised directly in equity as a separate component. Any ineffective portion is immediately recognised in the income statement. On the disposal of a foreign entity, the cumulative gains or losses relating to the effective portion of the hedge are recognised in the income statement as part of the profit or loss on disposal.

10 Loans and advances

Loans and advances classified as loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market, that the Group does not intend to sell immediately or in the near term, and include purchased loans. Loans and receivables are initially measured at fair value plus incremental direct transaction costs, and subsequently measured at their amortised cost using the effective interest method, except when the Group chooses to carry the loans and advances at fair value through profit and loss account within interest income.

Where the Group has elected to classify and account for any loan as a financial asset at fair value, changes in the fair value are included in the income statement in the period in which they arise.

11 Impairment of financial assets

Financial assets are reviewed at least 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

Accounting policies continued

balance sheet date, and that the loss event has an impact on the future cash flows on the asset that can be estimated reliably.

Loans and advances

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.

Corporate loans are analysed on a case-by-case basis taking into account breaches of key loan conditions in assessing whether loans are non-performing. 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 at the original effective interest rate. In the case of floating rate assets, the future cash flows are discounted at the current effective interest rate effective under the contract. The resulting loss is accounted for as an impairment of a financial asset in the income statement.

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. The Group uses statistical modeling of historical trends of the probability of default and the emergence period of losses, adjusted for management's judgement as to whether current economic or credit conditions are such that the actual losses are likely to be greater or less than suggested by historical modeling.

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 credit impairment in the income statement.

12 Interest in associates and joint ventures

Associates and jointly controlled entities

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

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

Interest 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 reorganising 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 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.

Jointly controlled operations

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

13 Intangible assets

Computer software

Generally, costs associated with developing or maintaining computer software programs and the acquisition of software licenses are recognised as an expense as incurred. However, direct computer software development costs that are clearly associated with an identifiable 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 direct overheads which is attributable to bring the asset to its existing condition.

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. Cost incurred subsequent to bringing the asset into use are only capitalized if it is probable that the future economic benefits embodied within the enhancement will flow to the Group and its cost can be measured reliably. The costs to maintain the software are expensed.

14 Fixed assets

Equipment

Computer equipment, office equipment, furniture and fittings and vehicles are stated at historic cost less accumulated depreciation and impairment. Historical cost includes expenditure that is directly attributable to the acquisition of property and equipment. Subsequent costs are included in the asset's carrying amount or are recognised as a separate asset, as appropriate, only when it is probable that future economic benefits will flow to the Group and the cost of the item can be measured reliably. Maintenance and repairs, which do not meet

Accounting policies continued

these criteria, are charged against income as incurred. Gains and losses on disposal of assets are included in the income statement.

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

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 range from 2 to 7 years and capitalised leased assets over the shorter of the lease term or its useful life.

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

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

15 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.

The Group classifies certain liabilities at fair value through profit and loss that form part of the central treasury that is managed and performance evaluated on a fair value basis. The funding activities would include the management of funding sources and entering into derivative contracts. The effectiveness of the funding activity, and the compliance with risk management objectives, are best represented when all assets and liabilities are measured on a fair value basis.

16 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.

17 Other provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events and 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.

18 Tax

Income 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 is 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 substantially enacted at the balance sheet date. Deferred tax is not recognized for the following temporary differences:

- the initial recognition of goodwill;
- the initial recognition of assets and liabilities (outside of a business combination) which affect neither accounting nor taxable profits or losses; and
- investments in subsidiaries 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 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 realized.

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 at the same time as the deferred gain or loss.

Tax asset and liabilities are only offset when they arise in the same tax jurisdiction and there is both a legal right and intention to settle on a net basis.

19 Dividends on ordinary shares

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

20 Long-term incentive scheme

The banks intermediate holding company, Standard International Holdings S.A. (SIH), has a long-term incentive scheme (“the Scheme”) whereby certain employees are granted notional ‘shadow’ share

Accounting policies continued

options. The Scheme, which was set up in 1998, provides for eligible employees to be rewarded in cash, the value of which is derived from current and future performance of SIH. Throughout the life of the Scheme, the liability is valued at the end of each period based on a defined formula. The notional share options which have a 10 year life are generally first exercisable in a one month period, the month after the month in which the Standard Bank Group Limited ("SBG") accounts are approved, 50% after three years, up to 75% after 4 years and 100% after 5 years. Exercise thereafter may take place in the month after the month in which the final or interim accounts of SBG are approved up until the expiry of the shadow share options.

The Scheme up until and including options issued in March 2004 were underpinned by share options issued by the ultimate parent Standard Bank Group Limited. These share underpins are accounted for as a capital contribution. From March 2005 shadow share options have been issued without funding from Standard Bank Group options.

The changes in liability are accounted for through the income statement over the vesting period of the shadow share options and includes assumptions about future performance and leavers.

21 Revenue

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

Interest income and expense

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 discounts estimated future cash payments or receipts through the expected life of the financial instrument to the carrying amount on the financial statements. The effective interest rate is established on initial recognition of the financial asset and liability and is not revised subsequently. Direct incremental transaction costs incurred and origination fees received as a result of bringing interest bearing assets on balance sheet, are capitalised to the carrying amount of financial instruments and amortised through interest income on an effective interest basis over the life of the asset.

Interest income and expense presented in the income statement include:

- interest on financial assets and liabilities at amortised cost on an effective interest rate basis.
- interest and fair value changes on interest bearing financial instruments designated as held at fair value.

Interest income and expense on all trading assets and liabilities are considered to be part of the Group's trading operations and are presented together with all other changes in the fair value of trading assets and liabilities in net trading income.

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 interest on interest-bearing financial instruments held at fair value, excluding financial instruments held for trading. Dividends received on lending activities are included in interest income.

Non-interest revenue

Non-interest revenue includes dividends from investments, fees and commission from non-trading banking 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. 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, are recognised as revenue when the syndication has been completed.

22 Post-retirement benefits

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

23 Financial Guarantees

Financial guarantees are given to banks, financial institutions and other bodies on behalf of customers to secure loans, overdrafts and other banking facilities ('facility guarantees'), and to other parties in connection with the performance of customers under obligations related to contracts.

Financial guarantees are initially recognised in the financial statements at fair value on the date that the guarantee was given. Subsequent to initial recognition, the bank's liabilities under such guarantees are measured at the higher of the initial measurement, less amortisation calculated to recognise in the income statement the fee income earned over the period, and the best estimate of the expenditure required to settle any financial obligation arising as a result of the guarantees at the balance sheet date.

24 Segment reporting

The main activity of the Group is investment banking. In the opinion of the directors, this is the only reportable class of business. The directors also consider that the business is not delimited by geographical boundaries.

25 Comparative figures

Where necessary, comparative figures have been reclassified to conform to changes in presentation in the current year. These relate to classifying accrued interest as part of the underlying asset or liability (notes 4, 5, 13, 16, 21), re-classification of funding costs relating to the trading book within net interest income (note 19) and separate identification of trading assets within the repricing analysis (note 25).

Notes to the annual financial statements

1 Key measurement assumptions

In preparing the financial statements estimates and assumptions are made that could affect the reported amounts of assets and liabilities within the next financial year. Estimates and judgments are continually evaluated and are based on factors such as historical experience and current best estimates of uncertain future events.

1.1 Sources of estimation uncertainty

1.1.1 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 calculated loss ratios, adjusted for specific economic conditions and other indicators of potential default. These annual loss ratios are applied to loan balances in the portfolio and scaled to the estimated loss emergence period.

Non-performing loans

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 individually impaired loans are based on historical loss experience for assets with similar credit risk characteristics. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

1.1.2 Fair value of derivatives

The fair value of financial instruments that are not quoted in active markets are determined by using valuation techniques and market quotes. 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. Changes in assumptions about these factors could affect the reported fair value of the financial instruments.

1.1.3 Income taxes

The Group is subject to direct and indirect taxation in a number of jurisdictions. There may be transactions and calculations for which the ultimate tax determination has an element of uncertainty during the ordinary course of business. The Group recognises liabilities based on 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.

1.1.4 Determining fair value

The determination of fair value for financial assets and liabilities for which there is no observable market price requires the use of valuation techniques. For financial instruments that trade infrequently and have little price transparency, fair value is less objective, and requires varying degrees of judgement depending on liquidity, concentration, uncertainty of market factors, pricing assumptions and other risks affecting the specific instrument.

1.2 Key judgements in applying the Group's accounting policies

1.2.1 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 in bankruptcy remote entities and for buying or selling credit protection. The Group consolidates SPEs that it controls. 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. All aspects of control are considered in making these judgements.

Notes to the annual financial statements continued

	Group 2006 $m	Group 2005 $m	Company 2006 $m	Company 2005 $m
2 Cash and balances with banks				
Balances with banks and financial institutions	992.8	811.2	988.9	798.7
	992.8	811.2	988.9	798.7
Included above are the following amounts due from related parties:				
Group undertakings - fellow subsidiaries	313.0	25.5	313.0	25.5
Minimum amount during the year	24.6	2.0	24.6	2.0
Maximum amount during the year	309.8	91.9	309.8	91.9

3 Derivative instruments

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

3.1 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

3.2 Derivative assets and liabilities

Group and company

Derivatives held for trading

	2006							2005			
	Maturity analysis of net fair value										
	< 1 year $m	1 - 5 years $m	> 5 years $m	Net fair value $m	Fair value of assets $m	Fair value of liabilities $m	Contract/ notional amount $m	Net fair value $m	Fair value of assets $m	Fair value of liabilities $m	Contract/ notional amount $m
Foreign exchange derivatives	(172.4)	(249.2)	-	(421.6)	290.8	(712.4)	32 360.9	(399.1)	275.6	(674.7)	24 076.4
Forwards	0.7	44.4	-	45.1	265.0	(219.9)	23 970.4	48.8	261.1	(212.3)	17 187.2
Futures	-	-	-	-	-	-	78.8	-	-	-	530.6
Options	(173.1)	(293.6)	-	(466.7)	25.8	(492.5)	8 311.7	(447.9)	14.5	(462.4)	6 358.6
Interest rate derivatives	27.7	(5.6)	(14.5)	7.6	473.9	(466.3)	186 533.2	108.5	327.2	(218.7)	46 465.9
Bonds and options	0.3	-	0.4	0.7	0.8	(0.1)	3 385.9	0.5	1.0	(0.5)	658.0
Caps and floors	-	-	-	-	-	-	-	(1.5)	2.0	(3.5)	215.4
Future options	0.6	1.5	-	2.1	16.4	(14.3)	127 596.7	4.5	9.4	(4.9)	22 639.9
Forwards	-	0.3	-	0.3	0.4	(0.1)	424.1	(0.1)	0.8	(0.9)	2 965.0
Swaps	26.8	(7.4)	(14.9)	4.5	456.3	(451.8)	55 126.5	107.0	313.3	(206.3)	19 812.6
Swaptions	-	-	-	-	-	-	-	(1.9)	0.7	(2.6)	175.0
Commodity derivatives	164.7	152.9	9.8	327.4	3 891.5	(3 564.1)	66 687.7	21.5	4 146.2	(4 124.7)	66 683.3
Forwards	(273.9)	110.0	(3.2)	(167.1)	2 496.8	(2 663.9)	53 624.5	288.5	2 708.1	(2 419.6)	43 525.5
Options	438.6	42.9	13.0	494.5	1 394.7	(900.2)	13 063.2	(267.0)	1 438.1	(1 705.1)	23 157.8
Credit derivatives	(236.0)	(85.7)	(39.9)	(361.6)	96.7	(458.3)	7 481.8	(142.5)	36.7	(179.2)	3 893.3
Credit default swaps	(11.4)	(5.7)	(19.0)	(36.1)	96.7	(132.8)	6 921.6	(6.3)	36.4	(42.7)	3 633.3
Total return swaps	(224.6)	(80.0)	(20.9)	(325.5)	-	(325.5)	560.2	(136.2)	0.3	(136.5)	260.0
Equity derivatives	(1.7)	(0.4)	-	(2.1)	17.8	(19.9)	88.2	(6.3)	7.2	(13.5)	7.2
Options	(1.7)	(1.8)	-	(3.5)	16.4	(19.9)	76.4	(6.3)	7.2	(13.5)	7.2
Other	-	1.4	-	1.4	1.4	-	11.8	-	-	-	-
Total derivative assets/ (liabilities) held for trading	(217.7)	(188.0)	(44.6)	(450.3)	4 770.7	(5 221.0)	293 151.8	(417.9)	4 792.9	(5 210.8)	141 126.1

Notes to the annual financial statements continued

Derivatives held for hedging

	2006							2005			
	Maturity analysis of net fair value										
	< 1 year $m	1 - 5 years $m	> 5 years $m	Net fair value $m	Fair value of assets $m	Fair value of liabilities $m	Contract/ notional amount $m	Net fair value $m	Fair value of assets $m	Fair value of liabilities $m	Contract/ notional amount $m
Derivatives designated as cash flow hedges	12.3	-	-	12.3	12.3	-	119.6	(6.6)	-	(6.6)	245.5
Currency swaps	12.3	-	-	12.3	12.3	-	119.6	(6.6)	-	(6.6)	245.5
Total derivative assets/ (liabilities) held for trading	12.3	-	-	12.3	12.3	-	119.6	(6.6)	-	(6.6)	245.5
Total derivative assets/ (liabilities)	(205.4)	(188.0)	(44.6)	(438.0)	4 783.0	(5 221.0)	293 271.4	(424.5)	4 792.9	(5 217.4)	141 371.6
Included above are the following amounts with related parties:											
Group undertakings - fellow subsidiaries				(413.7)	227.2	(640.9)		(411.9)	14.9	(426.8)	

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

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

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

Notes to the annual financial statements continued

3.4 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:

3.4.1 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.

3.4.2 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.

3.4.3 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.

3.4.4 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.

3.4.5 Equity derivatives

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

3.5 Derivatives held for hedging

The Group enters into derivative contracts which are designated as cash flow hedges. The income statement volatility associated with future highly probable expenses incurred in currencies other than the functional currency, are hedged utilising forward exchange contracts.

Notes to the annual financial statements continued

	Group 2006 $m	Group 2005 $m	Company 2006 $m	Company 2005 $m
4 Trading assets				
Listed	5 391.5	1 916.7	5 391.5	1 916.7
- Government - non UK	61.6	57.5	61.6	57.5
- Other	5 329.9	1 859.2	5 329.9	1 859.2
Unlisted	2 087.9	891.9	2 087.9	891.9
Listed and unlisted securities	7 479.4	2 808.6	7 479.4	2 808.6
Commodities	764.6	806.9	764.6	806.9
	8 244.0	3 615.5	8 244.0	3 615.5
Listed and unlisted securities comprising:				
Debt	6 914.0	2 734.5	6 914.0	2 734.5
Equity	565.4	74.1	565.4	74.1
	7 479.4	2 808.6	7 479.4	2 808.6
Maturity analysis				
The maturities represent periods to contractual redemption of the trading assets recorded.				
- Redeemable on demand	877.6	776.7	877.6	776.7
- Maturing within 1 month	297.1	106.1	297.1	106.1
- Maturing after 1 month but within 6 months	1 000.3	452.5	1 000.3	452.5
- Maturing after 6 months but within 12 months	740.7	565.5	740.7	565.5
- Maturing after 12 months	5 328.3	1 714.7	5 328.3	1 714.7
	8 244.0	3 615.5	8 244.0	3 615.5

Repurchase commitments

Trading assets include securities sold subject to repurchase commitments amounting to $1 955.5m at 31 December 2006 (2005: $1 718.3m).

Notes to the annual financial statements continued

	Group 2006 $m	Group 2005 $m	Company 2006 $m	Company 2005 $m
5 Loans and advances				
Loans and advances net of credit impairment				
Loans and advances to banks	3 937.0	3 096.0	3 937.0	3 096.0
- Call loans	1 702.4	1 171.1	1 702.4	1 171.1
- Loans granted under resale agreements	2 234.6	1 924.9	2 234.6	1 924.9
Loans and advances to customers	5 903.5	4 070.4	5 903.5	4 070.4
- Loans and overdrafts	4 113.8	3 075.5	4 113.8	3 075.5
- Loans granted under resale agreements	1 789.7	994.9	1 789.7	994.9
At fair value through profit and loss	16.0	4.9	16.0	4.9
Loans and advances to banks - Call loans	-	1.6	-	1.6
Loans and advances to customers - Loans and overdrafts	16.0	3.3	16.0	3.3
	9 856.5	7 171.3	9 856.5	7 171.3
Credit impairments against loans and advances (note 6)	(67.5)	(70.1)	(67.5)	(70.1)
	9 789.0	7 101.2	9 789.0	7 101.2
Included above are the following amounts due from related parties:				
Group undertakings - fellow subsidiaries				
Loans and advances to banks - Call loans	297.0	151.1	297.0	151.1
Loans and advances to banks - Loans granted under resale agreements	95.0	-	95.0	-
Loans and advances to customers - Loans and overdrafts	153.6	1.6	153.6	1.6
	545.6	152.7	545.6	152.7
Minimum amount during the year	161.5	152.7	161.5	152.7
Maximum amount during the year	816.0	597.0	816.0	597.0
Maturity analysis				
The maturity analysis is based on the remaining periods to contractual maturity from year end.				
- Redeemable on demand	1 599.1	1 335.8	1 599.1	1 335.8
- Maturing within 1 month	3 266.7	2 434.4	3 266.7	2 434.4
- Maturing after 1 month but within 6 months	1 851.9	2 155.8	1 851.9	2 155.8
- Maturing after 6 months but within 12 months	953.2	453.0	953.2	453.0
- Maturing after 12 months	2 185.6	792.3	2 185.6	792.3
	9 856.5	7 171.3	9 856.5	7 171.3
Segmental analysis - industry				
Agriculture	269.9	18.7	269.9	18.7
Construction	45.5	22.1	45.5	22.1
Electricity	77.6	41.5	77.6	41.5
Finance, real estate and other business services	7 093.4	5 105.2	7 093.4	5 105.2
Individuals	142.3	74.1	142.3	74.1
Manufacturing	550.6	564.9	550.6	564.9
Mining	538.7	386.8	538.7	386.8
Other services	856.1	750.1	856.1	750.1
Transport	144.5	13.9	144.5	13.9
Wholesale	137.9	194.0	137.9	194.0
	9 856.5	7 171.3	9 856.5	7 171.3

Notes to the annual financial statements continued

	Group 2006 $m	Group 2005 $m	Company 2006 $m	Company 2005 $m
6 Credit impairments against loans and advances				
Balance at beginning of the year	70.1	93.2	70.1	93.2
Credit losses written off	(13.3)	(9.9)	(13.3)	(9.9)
Net impairments raised and (released) (note 19.4)	3.2	(16.4)	3.2	(16.4)
Exchange and other movements	7.5	3.2	7.5	3.2
Balance at end of the year	67.5	70.1	67.5	70.1
Comprising:				
Impairments for non-performing loans	55.3	58.3	55.3	58.3
Impairments for performing loans	12.2	11.8	12.2	11.8
	67.5	70.1	67.5	70.1
Impairments for non-performing loans allocated against:				
Loans and advances to customers	55.3	58.3	55.3	58.3
	55.3	58.3	55.3	58.3
Segmental analysis of impairments for non-performing loans - industry				
Finance	5.5	20.5	5.5	20.5
Manufacturing	-	6.4	-	6.4
Mining	33.4	22.6	33.4	22.6
Wholesale	16.4	8.8	16.4	8.8
	55.3	58.3	55.3	58.3
7 Other assets				
Unsettled dealing balances	200.6	45.2	200.6	45.2
Other receivables	114.2	90.3	111.5	90.4
	314.8	135.5	312.1	135.6
Included above are the following amounts due from related parties:				
Group undertakings - fellow subsidiaries	11.3	8.0	11.6	8.0
Minimum amount during the year	0.3	19.9	-	19.9
Maximum amount during the year	67.1	109.5	67.1	109.5

Notes to the annual financial statements continued

	Group		Company	
	2006 $m	2005 $m	2006 $m	2005 $m
8 Current and deferred tax assets				
8.1 Summary				
Current tax assets	2.5	11.5	2.0	11.3
Deferred tax (note 8.2)	12.0	16.8	12.0	16.8
	14.5	28.3	14.0	28.1
8.2 Summary				
Deferred tax liability (note 15)	(3.7)	-	(3.7)	-
Deferred tax asset	12.0	16.8	12.0	16.8
	8.3	16.8	8.3	16.8
8.3 Deferred tax				
The major components of the deferred tax asset are as follows:				
Timing differences on:				
Capital allowances	1.4	2.2	1.4	2.2
Portfolio impairment	3.1	3.6	3.1	3.6
Other short-term timing differences	7.5	11.0	7.5	11.0
Cash flow hedges	(3.7)	-	(3.7)	-
	8.3	16.8	8.3	16.8
The movements in the deferred tax balance is as follows:				
Deferred tax asset at 1 January	16.8	18.1	16.8	18.1
Change in accounting policy on adoption of IFRS	-	(3.1)	-	(3.1)
	16.8	15.0	16.8	15.0
Amount charged to profit and loss account	(2.8)	(3.3)	(2.8)	(3.3)
Amount charged directly to equity	(5.7)	5.1	(5.7)	5.1
	8.3	16.8	8.3	16.8

Notes to the annual financial statements continued

	2006 $m	2005 $m
9 Investments in group companies		
Company		
Carrying value at end of the year	0.7	0.7

The subsidiary undertakings are as follows:

Company	Activity	Class of share	Interest %
Standard Aval s.r.o	Trade and other finance	Czech Koruna common stock	100*
Standard Commodities (Asia) Limited	Introducing broker	HK$1 ordinary	100**
Standard Resources (China) Limited	Trading company	Chinese Renminbi registered capital	100***

* Incorporated in the Czech Republic.
** Incorporated in Hong Kong.
*** Incorporated in the People's Republic of China.

Equity is held directly by Standard Bank Plc for all subsidiary companies.

	Group		Company	
	2006 $m	2005 $m	2006 $m	2005 $m
10 Intangible assets				
Computer software				
Cost at beginning of the year	7.6	2.4	7.6	2.4
Additions	17.1	5.2	17.1	5.2
Cost at end of the year	24.7	7.6	24.7	7.6
Accumulated amortisation at beginning of the year	-	-	-	-
Amortisation	1.0	-	1.0	-
Accumulated amortisation at end of the year	1.0	-	1.0	-
Net intangible assets	23.7	7.6	23.7	7.6

Capitalised computer software represents information technology computer software and development costs which are of a strategic nature with an expected useful life of at least 3 years. They comprise mainly of core front office trading systems and back office settlement or risk systems and comprise a combination of internal and external costs which are not separable.

Capitalised development costs are not treated as a realised loss for the purpose of determining the Company's distributable profits as the costs meet the conditions requiring them to be treated as an asset in accordance with IAS 38.

Notes to the annual financial statements continued

	2006 Cost $m	2006 Accumulated depreciation $m	2006 Carrying value $m	2005 Cost $m	2005 Accumulated depreciation $m	2005 Carrying value $m
11 Property, plant and equipment						
Group						
11.1 Summary						
Equipment						
Computer equipment	22.9	22.3	0.6	22.6	22.0	0.6
Motor vehicles	0.7	0.6	0.1	0.7	0.6	0.1
Office equipment	8.0	6.2	1.8	6.2	5.9	0.3
Furniture and fittings	10.4	5.2	5.2	6.3	5.0	1.3
	42.0	34.3	7.7	35.8	33.5	2.3

	2005 Carrying value $m	Additions $m	Disposals $m	Depreciation $m	Exchange movements $m	2006 Carrying value $m
11.2 Movement						
Equipment						
Computer equipment	0.6	0.3	-	(0.3)	-	0.6
Motor vehicles	0.1	0.1	-	(0.1)	-	0.1
Office equipment	0.3	1.7	-	(0.2)	-	1.8
Furniture and fittings	1.3	4.1	-	(0.2)	-	5.2
	2.3	6.2	-	(0.8)	-	7.7

	2004 Carrying value $m	Additions $m	Disposals $m	Depreciation $m	Exchange movements $m	2005 Carrying value $m
Equipment						
Computer equipment	1.5	-	-	(0.9)	-	0.6
Motor vehicles	0.2	-	-	(0.1)	-	0.1
Office equipment	0.7	-	-	(0.4)	-	0.3
Furniture and fittings	0.7	0.8	-	(0.2)	-	1.3
	3.1	0.8	-	(1.6)	-	2.3

Notes to the annual financial statements continued

	2006 Cost $m	2006 Accumulated depreciation $m	2006 Carrying value $m	2005 Cost $m	2005 Accumulated depreciation $m	2005 Carrying value $m
Company						
11.3 Summary						
Equipment						
Computer equipment	22.8	22.2	0.6	22.6	22.0	0.6
Motor vehicles	0.6	0.6	-	0.6	0.6	-
Office equipment	7.9	6.1	1.8	6.2	5.9	0.3
Furniture and fittings	10.4	5.2	5.2	6.3	5.0	1.3
	41.7	34.1	7.6	35.7	33.5	2.2

	2005 Carrying value $m	Additions $m	Disposals $m	Depreciation $m	Exchange movements $m	2006 Carrying value $m
11.4 Movement						
Equipment						
Computer equipment	0.6	0.3	-	(0.3)	-	0.6
Motor vehicles	-	0.1	-	(0.1)	-	-
Office equipment	0.3	1.7	-	(0.2)	-	1.8
Furniture and fittings	1.3	4.1	-	(0.2)	-	5.2
	2.2	6.2	-	(0.8)	-	7.6

	2004 Carrying value $m	Additions $m	Disposals $m	Depreciation $m	Exchange movements $m	2005 Carrying value $m
Equipment						
Computer equipment	1.5	-	-	(0.9)	-	0.6
Motor vehicles	0.1	-	-	(0.1)	-	-
Office equipment	0.7	-	-	(0.4)	-	0.3
Furniture and fittings	0.7	0.8	-	(0.2)	-	1.3
	3.0	0.8	-	(1.6)	-	2.2

Notes to the annual financial statements continued

	Group 2006 $m	Group 2005 $m	Company 2006 $m	Company 2005 $m
12 Trading liabilities				
Listed	1 037.3	655.9	1 037.3	655.9
Unlisted	2 223.9	549.6	2 223.9	549.6
	3 261.2	1 205.5	3 261.2	1 205.5
Comprising:				
Debt	3 139.4	1 199.5	3 139.4	1 199.5
Equity	121.8	6.0	121.8	6.0
	3 261.2	1 205.5	3 261.2	1 205.5
Maturity analysis				
The maturities represent periods to contractual redemption of the trading liabilities recorded.				
Maturing within 1 month	395.8	27.4	395.8	27.4
Maturing after 1 month but within 6 months	577.2	97.0	577.2	97.0
Maturing after 6 months but within 12 months	580.9	163.2	580.9	163.2
Maturing after 12 months	1 707.3	917.9	1 707.3	917.9
	3 261.2	1 205.5	3 261.2	1 205.5
Included above are the following amounts due to group undertakings - fellow subsidiaries:				
Unlisted debt	616.6	100.3	616.6	100.3
Minimum amount during the year	15.8	-	15.8	-
Maximum amount during the year	616.6	100.3	616.6	100.3
13 Deposit and current accounts				
Deposit and current accounts at amortised cost	8 080.4	7 001.2	8 080.4	6 991.1
Deposits and loans from banks				
Deposits from banks and central banks	4 504.1	3 583.9	4 504.1	3 583.9
Deposits from banks under repurchase agreements	739.4	1 245.8	739.4	1 245.8
Other deposits and loan accounts	1 810.9	1 527.2	1 810.9	1 517.1
Negotiable certificates of deposit	179.9	217.1	179.9	217.1
Customer deposits received under repurchase agreements	846.1	427.2	846.1	427.2
Deposit and current accounts held at fair value	5 866.9	1 947.6	5 866.9	1 947.6
Deposits from banks and central banks	4 421.7	1 456.4	4 421.7	1 456.4
Other deposits and loan accounts	1 445.2	491.2	1 445.2	491.2
	13 947.3	8 948.8	13 947.3	8 938.7

Notes to the annual financial statements continued

	Group 2006 $m	Group 2005 $m	Company 2006 $m	Company 2005 $m
13 Deposit and current accounts (cont.)				
The contractual amounts due at maturity of deposits and current accounts held at fair value is	5 834.9	1 937.6	5 834.9	1 937.6
Included above are amounts owing to related parties:				
Group undertakings - fellow subsidiaries				
Deposits and current accounts at amortised cost	4 066.7	2 837.2	4 066.7	3 616.0
Deposits from banks and central banks	3 690.9	2 562.1	3 690.9	3 334.8
Other deposits and loan accounts	195.9	58.0	195.9	64.1
Negotiable certificates of deposit	179.9	217.1	179.9	217.1
Deposits and current accounts held at fair value	2 438.3	778.8	2 438.3	-
Deposits from banks and central banks	2 326.6	772.7	2 326.6	-
Other deposits and loan accounts	111.7	6.1	111.7	-
	6 505.0	3 616.0	6 505.0	3 616.0
Group undertakings - parent				
Other deposits and loan accounts	0.1	1.2	0.1	1.2
Group undertakings - total	6 505.1	3 617.2	6 505.1	3 617.2
Minimum amount during the year	4 211.3	3 617.2	4 211.3	3 617.2
Maximum amount during the year	7 305.5	6 691.3	7 305.5	6 691.3
Maturity analysis				
The maturity analysis is based on the remaining periods to contractual maturity from year end.				
Repayable on demand	5 471.1	3 571.1	5 471.1	3 561.0
Maturing within 1 month	4 414.8	2 680.4	4 414.8	2 680.4
Maturing after 1 month but within 6 months	2 886.9	1 531.8	2 886.9	1 531.8
Maturing after 6 months but within 12 months	346.9	253.4	346.9	253.4
Maturing after 12 months	827.6	912.1	827.6	912.1
	13 947.3	8 948.8	13 947.3	8 938.7

Notes to the annual financial statements continued

	Group		Company	
	2006	2005	2006	2005
	$m	$m	$m	$m
14 Other liabilities				
Unsettled dealing balances	217.6	75.0	239.5	75.0
Other	288.6	200.0	266.9	201.0
	506.2	275.0	506.4	276.0
Comprising:				
Due within one year	458.1	241.8	458.3	242.8
Due after one year	48.1	33.2	48.1	33.2
	506.2	275.0	506.4	276.0
Included above are the following amounts due to related parties:				
Group undertakings - fellow subsidiaries	25.4	5.0	26.7	5.0
Minimum amount during the year	1.0	24.5	1.0	24.5
Maximum amount during the year	59.9	115.1	61.7	115.1
15 Current tax liabilities				
Current tax liabilities (due within one year)	21.1	42.3	20.1	42.0
Deferred tax liability (note 8.2)	3.7	-	3.7	-
	24.8	42.3	23.8	42.0
16 Subordinated loan capital				
Carrying value				
Subordinated Floating Rate Loan Stock 2050	19.2	19.2	19.2	19.2
Step-Up Subordinated Floating Rate Notes 2015	250.0	250.0	250.0	250.0
Step-Up Perpetual Subordinated Notes	200.0	-	200.0	-
Subordinated Floating Rate EUR Loan Stock 2008	56.7	-	56.7	-
Accrued interest	11.1	3.4	11.1	3.4
	537.0	272.6	537.0	272.6
Included above are the following amounts due to related parties:				
Group undertakings - fellow subsidiaries	19.2	19.2	19.2	19.2
Minimum amount during the year	19.2	19.2	19.2	19.2
Maximum amount during the year	77.6	22.1	77.6	22.1

Notes to the annual financial statements continued

16 Subordinated loan capital (cont.)

Interest on the Subordinated Floating Rate Loan Stock 2050 is payable on 31 March and 30 September of each year at the London interbank offered rate for six-month deposits in US dollars plus 125 basis points. The principal is repayable at par at maturity on 30 September 2050 but may be repaid at par prior to maturity upon five years and two days' notice from either the holder or the issuer and subject to the consent of the Financial Services Authority(FSA). As at the date of signature of these accounts, no such notice had been given or received.

Interest on the Step-Up Subordinated Floating Rate Notes 2015 is payable every three months at the London interbank offered rate for three-month deposits in US dollars plus 115 basis points until 8 October 2010 when this increases to 165 basis points. The principal is repayable at par at maturity on 7 October 2015 but may be repaid at par on 8 October 2010 at the option of the borrower and subject to the consent of the Financial Services Authority.

On 27 July 2006 the Company issued US$200,000,000 of Step-Up Perpetual Subordinated Notes. Interest on the Step-Up Perpetual Subordinated Notes is payable at a rate of 8.012 per cent per annum payable annually on 27 July each year until 27 July 2016 after which interest is payable every three months at the London interbank offered rate for three-month deposits in US dollars plus 325 basis points. The principal has no fixed repayment date.

On 19 April 2006 the Company issued EUR43,000,000 of Subordinated Floating Rate EUR Loan Stock 2008. Interest on the Subordinated Unsecured Floating Rate EUR Loan Stock 2008 is payable on 31 March and 30 September of each year at the London interbank offered rate for six-month deposits in Euros plus 125 basis points. The principal is payable at par at maturity on 21 April 2008.
Claims in respect of the loan capital are subordinated to the claims of the other creditors.

		2006 $m	2005 $m
17 Ordinary share capital			
Authorised			
1 'A' ordinary share of US$1		0.0	0.0
1 'A' ordinary share of £1		0.0	0.0
299,999,999	ordinary shares of £1 each	536.4	536.4
700,000,000	ordinary shares of US$1 each	700.0	500.0
Issued and fully paid			
1 'A' ordinary share of $1		0.0	0.0
503,541,077	ordinary shares of US$1 each	503.5	424.2
50,000	ordinary shares of £1 each	0.1	0.1
		503.6	424.3

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

During the year the company increased the authorised share capital by 200,000,000 ordinary shares of US$1, and subsequently issued 79,365,079 ordinary shares of US$1 each at a premium of US$0.26 per share.

Notes to the annual financial statements continued

	2006 Contract amount $m	2006 Risk Weighted $m	2005 Contract amount $m	2005 Risk Weighted $m
18 Contingent liabilities and commitments				
Group and company				
18.1 Contingent liabilities				
Guarantees	168.5	73.9	112.3	75.7
18.2 Commitments				
Letters of credit	143.6	90.7	186.6	106.3
Direct credit substitutes	212.4	51.6	102.4	29.3
Unutilised facilities				
Less than one year	350.1	-	62.4	33.8
One year and over	31.0	15.5	20.5	20.5
	905.6	231.7	484.2	265.6

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

From time to time the Group is involved in litigation, receives claims from tax authorities or claims arising from the conduct of its business. Based upon available information and, where appropriate, legal advice, the directors do not believe that there are any potential or actual proceedings, or other claims which will have a material adverse impact on the Group's financial position.

	2006 Contract amount $m	2006 Risk Weighted $m	2005 Contract amount $m	2005 Risk Weighted $m
18.3 Operating lease commitments				
The future minimum payments under non-cancellable operating leases are as follows:				
Properties				
Within 1 year	9.6	7.8	9.4	7.6
After 1 year but within 5 years	18.7	24.1	18.6	24.1
After 5 years	2.3	2.3	2.3	2.3
	30.6	34.2	30.3	34.0

Notes to the annual financial statements continued

	2006 $m	2005 $m
19 Supplementary income statement information		
19.1 Interest income		
Interest on loans and advances and short-term funds	444.5	296.3
Discount element recognised from credit impairments for loans and advances	0.3	0.7
	444.8	297.0
Included above are the following amounts received from related parties:		
Group undertakings - fellow subsidiaries	20.1	6.4
Group undertakings - parent	-	0.1
	20.1	6.5
19.2 Interest expense		
Subordinated bonds	25.2	14.2
Designated as held at fair value	142.4	118.0
Other interest-bearing liabilities	177.3	108.5
	344.9	240.7
Included above are the following amounts paid to related parties:		
Group undertakings - fellow subsidiaries	310.1	222.7
Group undertakings - parent	0.1	-
	310.2	222.7
19.3 Non-interest income		
Net fees and commission	(35.6)	(3.0)
Trading income	302.1	229.8
Foreign exchange	34.2	19.6
Debt securities	109.5	88.6
Commodities	151.1	108.8
Equities	7.3	12.8
	266.5	226.8
Included above are the following amounts from related parties:		
Group undertakings - fellow subsidiaries	(26.1)	(6.0)
Group undertakings - subsidiaries	(6.8)	(2.4)

Net fees and commission includes payments made to group companies under transfer pricing arrangements.

Dealing profits arise from the use of the following customer facilitation and proprietary trading activities:

Commodities - physical, forward, futures and option contracts in precious metals, base metals and energy.

Foreign exchange - foreign exchange spot, forwards and option contracts.

Debt securities and interest rate - debt securities, interest rate futures, swaps, forward rate agreements and credit derivatives.

Equities - equity and equity derivatives.

Dealing profits include related fee and investment income as well as associated funding costs as a result of trading operations.

Notes to the annual financial statements continued

	2006 $m	2005 $m
19.4 Credit impairment charge/(release)		
Net credit impairment release and charged	3.2	(15.9)
Credit impairments charge/(release) for non-performing loans (note 6)	2.9	(14.2)
Credit impairments charge/(release) for performing loans (note 6)	0.3	(2.2)
Credit impairments against other assets	-	0.5
19.5 Staff costs		
Salaries and allowances	192.0	147.8
Social security costs	19.3	17.3
Long-term incentive scheme	6.3	2.7
Retirement benefit costs	6.8	6.5
	224.4	174.3

The following table indicates the average number of persons employed by the group:

	Group		Company	
	2006 Number	2005 Number	2006 Number	2005 Number
Key management	15	13	15	13
Other	763	661	755	655
	778	674	770	668

Notes to the annual financial statements continued

		2006 $m	2005 $m
19.6 Other operating expenses			
Auditors' remuneration		2.4	1.8
Statutory audit fees	- Current year	1.2	1.2
Non audit fees	- Assurance services	0.1	-
	- Tax advisory services	1.1	0.6
Depreciation (note 11)		0.8	1.6
- Computer equipment		0.3	0.9
- Motor vehicles		0.1	0.1
- Office equipment		0.2	0.4
- Furniture and fittings		0.2	0.2
Indirect tax expense		4.9	3.6
Value added tax		4.9	3.5
Duties		-	0.1
Operating lease charges		8.8	7.6
- Properties and other		8.8	7.6
Information technology and communication		24.9	24.1
Premises		6.7	6.0
Other expenses		49.8	32.9
		98.3	77.6

Notes to the annual financial statements continued

19.7 Long-term incentive schemes

The immediate holding company, Standard International Holdings S.A. has a long-term incentive scheme ("the Scheme") whereby certain employees, including certain executive directors of Standard Bank Plc group, are granted notional 'shadow' share options. The Scheme, which was set up in 1998, provides for eligible employees to be rewarded in cash, the value of which is derived from current and future performance of SIH. Throughout the life of the Scheme, the liability is valued at the end of each period based on a defined formula. The notional share options which have a 10 year life are generally first exercisable in a one month period, the month after the month in which the Standard Bank Group Limited accounts are approved, 50% after three years, up to 75% after 4 years and 100% after 5 years. Exercise thereafter may take place in the month after the month in which the final or interim accounts of SBG are approved up until the expiry of the shadow share options.

The Scheme up until and including options issued in March 2004 were underpinned by share options issued by Standard Bank Group Limited. From March 2005 shadow share options have been issued without funding from Standard Bank Group options.

Commencing in 2005, certain shadow share options have been allocated with a zero strike price all of which can be exercised after 4 years. All other terms of these shadow share options are the same as those described above.

The change in liability under the scheme is accounted for through the income statement over the vesting period of the shadow share options and includes assumptions about future performance and leavers.

The provision in respect of liabilities under the shadow share scheme amount to US$27.9m at 31 December 2006 (2005: US$22.0m), and the charge for the year is US$5.8m (2005: US$2.7m).

Additionally in 2006, certain employees were granted share options under the SBG equity-settled share based scheme. The provision in respect of liabilities under the SBG share scheme amount to US$0.5m at 31 December 2006 (2005: nil), and the charge for the year is US$0.5m (2005: nil).

	2006 Number ('000)	2005 Number ('000)
Long-term incentive scheme liability		
At 1 January	21 880.6	17 078.0
Issued	4 422.5	6 708.4
Transfers	(306.6)	(304.6)
Leavers/lapses	(3 035.2)	(1 601.2)
Exercised	(333.6)	-
At 31 December	22 627.7	21 880.6
Of which relates to key management	3 448.2	7 376.8

Notes to the annual financial statements continued

19.7 Long-term incentive scheme (cont.)

a) Terms of unexpired and unexercised Shadow Share Options at balance sheet date:

Option Expiry Date	Exercise periods	Grant price per Shadow Share (USD)	2006 Number ('000)	2005 Number ('000)
01/10/2008	April and September 2004 to 2008	-	429.1	429.1
01/10/2008	April and September 2002 to 2008	1.15	2 283.4	2 468.5
01/01/2010	April and September 2003 to 2009	2.21	1 431.6	1 819.2
01/01/2011	April and September 2004 to 2010	2.79	1 924.9	2 222.6
01/01/2012	April and September 2005 to 2011	2.38	2 426.5	2 886.0
01/01/2013	April and September 2006 to 2012	1.59	2 693.6	3 291.9
01/01/2014	April and September 2007 to 2013	2.83	2 238.7	2 682.2
01/01/2015	April and September 2008 to 2014	2.2	3 402.3	3 932.3
01/01/2015	April and September 2009 to 2014	-	1 706.8	2 106.5
01/07/2015	September and April 2008 to 2015	1.89	42.3	42.3
01/01/2016	April and September 2009 to 2015	1.79	3 326.0	-
01/01/2016	April and September 2010 to 2015	-	78.2	-
01/07/2016	September and April 2010 to 2016	-	644.3	-
			22 627.7	21 880.6

b) Details of Shadow Share Options granted during the year, all of which were granted for nil consideration:

Exercise period	Grant price per Shadow Share (USD)	2006 Number ('000)	2005 Number ('000)
01/01/2007 - 31/12/2013	2.83	-	-
01/01/2008 - 31/12/2014	2.2	-	4 242.3
01/01/2009 - 31/12/2014	-	-	2 333.7
01/07/2008 - 30/06/2015	1.89	-	42.3
01/01/2008 - 31/12/2015	1.79	3 700.0	-
01/01/2009 - 31/12/2015	-	78.2	-
01/07/2009 - 30/06/2016	-	644.3	-
		4 422.5	6 618.3

Notes to the annual financial statements continued

	2006 $m	2005 $m
19.8 Directors' emoluments		
Executive directors		
Emoluments of directors in respect of services rendered:		
Emoluments	6.7	4.9
Pension contribution	0.1	0.1
Highest paid director		
. Emoluments	2.5	1.7
Pension contribution*	0.0	0.0
Number of directors accruing benefits under defined pension contribution scheme	3	2

Long-term benefits under the SIH shadow option scheme	Number ('000)	Number ('000)
Number of options brought forward	1 873.8	5 164.9
Issued during the year to the current directors	894.3	710.0
Retirement as directors	-	(4 001.1)
As at 31 December	2 768.1	1 873.8

*Includes an amount of US$18 548 (2005: US$46 816)

19.9 Company profits

As permitted by section 230 of the Companies Act 1985, the income statement of Standard Bank Plc has not been presented. The company profit of US$24.9m (2005: US$21m) has been included in the Group income statement account.

19.10 Dividends

No dividends were declared in 2006 (2005: nil)

Notes to the annual financial statements continued

	2006 $m	2005 $m
20 Taxation		
Direct income tax expense		
Current year	14.1	13.5
UK corporation tax	9.8	10.7
UK deferred tax	2.8	2.0
Overseas tax	1.5	0.8
Prior years	(1.5)	13.2
UK corporation tax	(1.5)	11.9
UK deferred tax	-	1.3
Total tax expense	12.6	26.7

The corporation tax liability for the year has been offset by US$2.4m (2005: US$3.9m) Group relief for losses of other Group companies which have been surrendered. The tax on Group relief is payable in full.

The current tax charge for the year is higher (2005: higher) than the standard rate of corporation tax in the UK 30% (2005: 30%). The differences are explained below:

	2006 $m	2005 $m
UK tax rate reconciliation (%)		
Profit on ordinary activities before tax	40.5	47.1
Corporation tax	12.2	14.1
Effects of:		
Different tax rates in other countries	(0.5)	(0.3)
Non-deductible expenses	2.4	0.5
Change in portfolio impairment	(0.4)	(0.6)
Other short-term timing differences	(2.4)	(1.4)
Group relief received	(2.4)	(3.9)
Payment for group relief	2.4	3.1
Adjustment to tax charge in respect of prior years	(1.5)	11.9
	9.8	23.4
Total deferred tax	2.8	3.3
Current deferred tax	2.8	2.0
Capital allowances	0.8	-
Portfolio impairment	0.4	0.6
Other short-term timing differences	1.6	1.4
Deferred tax - Prior year	-	1.3
	12.6	26.7
Effective tax rate	31.1%	56.8%

Notes to the annual financial statements continued

	Group		Company	
	2006 $m	2005 $m	2006 $m	2005 $m
21 Cash flow statement				
21.1 Reconciliation of net income from operations to cash flows from operating activities				
Net income from operations	40.5	47.1	35.1	47.1
Adjusted for:				
Amortisation of intangible assets	1.0	-	1.0	-
Credit impairment charges on loans and advances	34.5	9.8	34.5	9.8
Depreciation - property and equipment	0.8	1.6	0.8	1.5
Discount element recognised from credit impairments for loans and advances	(0.3)	(0.7)	(0.3)	(0.7)
Cash-settled share-based payments	5.8	2.7	5.8	2.7
Equity-settled share-based payments	0.5	-	0.5	-
Provisions for leave pay	1.2	1.2	1.2	1.2
Cash flows from operating activities	84.0	61.7	78.6	61.6
21.2 Cash flows from operations				
Interest, fees and commission receipts	408.9	385.7	399.9	381.9
Interest receipts	444.5	388.7	444.5	388.8
Fees and commission receipts (net)	(35.6)	(3.0)	(44.6)	(6.9)
Trading receipts	302.1	229.9	302.0	228.3
Cash recovery of credit impairments	31.3	25.7	31.3	25.7
Interest payments	(344.9)	(333.2)	(344.9)	(333.2)
Cash payments to employees and suppliers	(313.4)	(246.4)	(309.7)	(243.6)
Dividend received	-	-	-	2.5
	84.0	61.7	78.6	61.6
21.3 Increase in income-earning assets				
Trading assets	(4 628.5)	(80.7)	(4 628.5)	(80.7)
Loans and advances	(2 722.0)	(1 626.1)	(2 722.0)	(1 626.3)
Other assets	(185.2)	261.3	(181.1)	265.7
	(7 535.7)	(1 445.5)	(7 531.6)	(1 441.3)
21.4 Increase/(decrease) in deposits, other liabilities and provisions				
Deposits and current accounts	4 998.5	(660.0)	5 008.6	(670.0)
Net derivative liabilities	32.4	234.9	32.4	234.9
Trading liabilities	2 055.7	439.2	2 055.7	439.2
Other liabilities	235.1	(134.7)	234.2	(141.6)
	7 321.7	(120.6)	7 330.9	(137.5)
21.5 Tax paid				
Amounts unpaid at beginning of the year	(30.8)	(28.4)	(30.6)	(28.4)
Direct income tax per the income statement	(9.7)	(23.4)	(8.6)	(22.8)
Amounts unpaid at end of the year	18.6	30.8	18.1	30.6
	(21.9)	(21.0)	(21.1)	(20.6)

Notes to the annual financial statements continued

22 Third party funds under management

Members of the Group provide discretionary and non-discretionary investment management services to institutional and private investors. Commissions and fees earned in respect of trust and management activities performed are included in the income statement. Assets managed on behalf of third parties include:

	2006 $m	2005 $m
Fund management	1 196.0	1 088.0

23 Related party transactions

23.1 Subsidiaries

The subsidiary companies in the Group comprise a limited part of the Group's activities and transactions with these entities is not significant.

The principal nature of the transactions are payments for business introduced and trading facilitation activities.

Intercompany transactions, balances and unrealised surpluses and deficits are eliminated on consolidation.

23.2 Fellow subsidiaries

The Group enters into transactions with other entities forming part of the ultimate parent company, the Standard Bank Group Limited.

The transactions are entered into in the course of banking operations, including lending, acceptance or interbank deposits and correspondent banking transactions. The transactions are priced at the prevailing market rates at the time of the transactions.

A significant portion of this activity involves the placement of excess liquidity by other entities with the company. The extent of these activities is presented in note 13.

The Group also advances funds to other group entities, as part of normal activity, the extent of which is disclosed in note 5.

23.3 Key management compensation

Key management is comprised of directors and the members of the executive committee of the principal operating entities.

	2006 Directors and key management $'000	2005 Directors and key management $'000
Salaries and other short-term benefits	9 587.7	11 707.0
Post-employment benefits	189.0	325.6
Gains on exercise of long-term incentives and other payments	80.2	174.1
	9 856.9	12 206.7

Value of shadow share scheme options vested at 31 December 2006 was US$4.1m (2005: US$7.9m).

23.4 Transactions with key management

Foreign exchange contracts entered into during the year	-	573.0

Notes to the annual financial statements continued

24 Pensions and other post-retirement benefits

The Company operates a defined contribution pension scheme. The assets of the scheme is held separately. Included in other pension costs are contributions paid by Group companies which amounted to $6.8m (2005: $6.5m). There were no outstanding contributions due to the fund at year end (2005: $nil).

25 Financial risk management

25.1 Risk management framework

Overall responsibility for risk management rests with the Board of Standard Bank Plc. Day-to-day responsibility is delegated to the Executive Committee of Standard Bank Plc and its sub-committees, which review, inter alia, summaries of market, credit, operational and country risks. The Board of Standard Bank Plc delegates certain functions and responsibilities to the following Board Committees; the Audit Committee and the Risk Management Committee.

Governance Standards ('Standards') for each principal risk type have been established as a key component of good governance and business practice in the Bank. The Standards form an integral part of the Bank's control infrastructure and represent a high level articulation of the expectation and requirements of the Board in respect of risk appetite, risk reporting and key areas of control activity within the Bank.

The Standards underpin the Bank's risk governace principles, which are:

Shareholder value based

The Bank's primary objective is to protect and enhance shareholder value. As such, this objective drives the Bank's system of internal control.

Embedded

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

Supported and assured

The system of governance and internal control should provide management with the assurance it needs that risks are being managed appropriately. The Board regularly receives and review reports on governance and control process.

Reviewed

The Board does undertake a specific review of the effectiveness of the system of internal control and risk management processes at least annually.

25.2 Risk management and internal control practices

The Bank is committed to employing best practice controls and compliance:

- Complying with the letter and the spirit of the laws that govern us;
- Setting high standards for our control and compliance activities;
- Viewing 'excellence' in compliance as a key leadership responsibility;
- Working with regulators to ensure compliance and to support the development of best practice capabilities;
- Being open amongst ourselves and with external stakeholders about our standards and opportunities for improvement; and
- Not relying solely on internal audit to detect control weaknesses.

A key organisational capability is to develop, implement and operate a management framework with appropriate risk identification and measurement processes and efficient control mechanisms, including appropriate controls around reputationally sensitive business.

Business areas within the Bank own, and are responsible for managing, the risks that arise within their operations. The role of the 'Support Functions' is to establish a risk control framework and advise the business areas in the management of the risks.

Effective risk management should provide complete, timely, accurate and relevant information to enhance senior management's decision-making ability to:

- Calculate risk adjusted performance earnings;
- Manage volatility of earnings;
- Minimise financial distress;
- Help appraise new business initiatives on a comparable basis; and
- Address other stakeholder issues with a view to maximising shareholder value.

Notes to the annual financial statements continued

25 Financial risk management (cont.)

This approach to risk management is integrated into business area processes and the bank's system of internal control is:

- Embedded in the operations of the Bank and form part of its culture;
- Capable of responding quickly to evolving risks to the businesses arising from factors within the bank and to changes in the business environment; and
- Includes procedures for reporting immediately, to appropriate levels of management, any significant control failings or weaknesses that are identified, together with details of corrective action being undertaken.

25.3 Risk profile

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

The Group's non-trading portfolios of financial instruments include loans, deposits, and debt securities. Certificates of deposit are highly liquid and form an important part of the Group's liquidity portfolio.

The Group's credit and country risk is well diversified, although as an active participant in the international banking markets, it has a sectoral concentration of risk to financial institutions. The largest exposures are to the US, UK and EU countries. The largest emerging market exposures are to China and Russia, both investment grade countries.

Main market risks relate primarily to credit spread risk from emerging market obligors, diversified across countries, a majority of which exhibit high degrees of liquidity, and commodity price and volatility risk. Other market risks include interest rate and currency risk, and to a lessor extent, equity price risk.

Liquidity/funding risk is mitigated by way of the utilisation of third party term finance. As at the date of this report, Standard Bank Plc benefits from the use of US$200m of five-year funding and US$200m of three-year funding, raised through the syndicated loan market. Additionally the Group has US$450m of third party term subordinated debt, which qualifies as regulatory capital.

25.4 Market risk

Market risk is the risk that will impact on the Group's profitability as a result of movements in market parameters such as interest rates, foreign exchange rates, assets or equity prices. The object of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return on risk. Major exposures to market risk occur in markets served by formal financial exchanges and over-the -counter markets. These exposures arise from customer-driven business and from proprietary positions. The Group is exposed to market risk on the financial instruments mainly held in foreign exchange, commodity and capital markets as well as the equity market.

Market risk positions are taken as a result of the execution of customers' orders and principal trading activities.

Trading risk management is primarily the responsibility of traders, overseen by trading management on the desk. The Group provides its traders with appropriate technology and assures itself that risks are measured, monitored and controlled by the independent processes and that risk limits are overseen by the Market Risk department and Asset and Liability Committee ('ALCO').

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

The Bank generally uses the historical VaR approach to derive quantitive measures, specifically for market risk under normal market conditions. While VaR, calculated daily, provides an indication of possible losses under normal market conditions, the Bank supplements VaR with stress tests. The stress testing takes into account likely events that characterise the markets in which the Bank operates.

The Bank back-tests its VaR models to verify the predictive power of the VaR calculations. Back-testing compares the daily profit and losses under the buy and hold assumption with the estimates our VaR models had forecast.

Loss triggers are designed to contain daily, monthly and year-to-date losses for individual business units by enforcing management intervention at predetermined loss levels. Other basic risk measures specific to individual business units are also used. These measures include permissable instruments, concentration of exposures, gap limits and maximum tenor.

Notes to the annual financial statements continued

	2006 $m	2005 $m
The Group's market risk from trading activities comprises:		
Value-at-Risk (VaR):		
At 31 December	5.7	4.9
Highest	6.4	5.3
Lowest	3.0	2.5
Average	4.7	3.9

The market risk figures above are derived from monthly figures covering the year to 31 December 2006.

Risk appetite and limits are based on the value at risk using a 95th percentile confidence interval and a one day holding period.

The agreed standard method for calculating value at risk within the Bank is to use a historical simulation using the last 250 days of historical market data, however, due to differences that exist in the infrastructure across business lines, the value at risk may be calculated using data sets up to 3 years.

Notes to the annual financial statements continued

25 Financial risk management (cont.)

25.4.1 Currency risk

The Group's foreign exchange positions arise mainly from foreign exchange trading activities, which are governed by position limits approved by the Asset and Liability Committee in accordance with the Group's Market Risk policy. These position limits are subject to review at least annually to ensure the exposures are within the approved risk appetite in VaR context.

25.4.2 Assets and liabilities denominated in foreign currency

The following table indicates the concentration of currency risk at the balance sheet date. The currency risk profile of the company closely follows the analysis below and is therefore not separately disclosed.

Group
As at 31 December 2006

	USD $m	EUR $m	GBP $m	ZAR $m	Other $m	Total $m
Assets						
Cash and balances with banks	551.5	40.0	140.1	93.0	168.2	992.8
Derivative assets	3 931.2	231.9	59.7	36.7	523.5	4 783.0
Trading assets	4 043.6	1 035.2	720.6	302.3	2 142.3	8 244.0
Loans and advances	7 199.1	1 559.1	227.1	448.8	354.9	9 789.0
Other assets	262.4	11.2	10.7	5.1	25.4	314.8
Current and deferred tax assets	14.0	-	-	-	0.5	14.5
Intangible assets	23.7	-	-	-	-	23.7
Property, plant and equipment	7.6	-	-	-	0.1	7.7
Total assets	16 033.1	2 877.4	1 158.2	885.9	3 214.9	24 169.5
Equity and liabilities						
Liabilities	16 206.5	2 276.9	2 367.0	1 133.7	1 513.4	23 497.5
Derivative liabilities	3 866.5	259.5	33.2	258.4	803.4	5 221.0
Trading liabilities	2 633.5	230.7	12.5	17.6	366.9	3 261.2
Deposit and current accounts	8 824.2	1 698.1	2 313.1	850.4	261.5	13 947.3
Other liabilities	397.8	30.3	(9.7)	7.3	80.5	506.2
Current and deferred tax liabilities	5.8	-	17.9	-	1.1	24.8
Subordinated loan capital	478.7	58.3	-	-	-	537.0
Equity						
Equity attributable to ordinary shareholders	672.0	-	-	-	-	672.0
Ordinary share capital and premium	524.3	-	-	-	-	524.3
Reserves	147.7	-	-	-	-	147.7
Total equity and liabilities	16 878.5	2 276.9	2 367.0	1 133.7	1 513.4	24 169.5
Net off-balance sheet currency position						
Commitments to purchase foreign currency	85 542.3	2 756.4	2 069.2	5 769.4	12 713.5	108 850.8
Commitments to sell foreign currency	84 732.6	3 417.7	885.6	5 518.8	14 296.1	108 850.8
Net currency position	(35.7)	(60.8)	(25.2)	2.8	118.9	-

Notes to the annual financial statements continued

Group
As at 31 December 2005

	USD $m	EUR $m	GBP $m	ZAR $m	Other $m	Total $m
Assets						
Cash and balances with banks	291.2	22.3	313.9	51.9	131.9	811.2
Derivative assets	4 362.0	62.1	49.3	24.4	295.1	4 792.9
Trading assets	2 150.3	746.0	38.5	148.4	532.3	3 615.5
Loans and advances	5 624.2	887.2	105.4	451.0	33.4	7 101.2
Other assets	124.0	2.1	2.1	1.0	6.3	135.5
Current and deferred tax assets	15.7	-	12.6	-	-	28.3
Intangible assets	7.6	-	-	-	-	7.6
Property, plant and equipment	2.3	-	-	-	-	2.3
Total assets	12 577.3	1 719.7	521.8	676.7	999.0	16 494.5
Equity and liabilities						
Liabilities	12 293.9	872.5	1 560.3	669.6	565.3	15 961.6
Derivative liabilities	4 722.6	77.4	40.6	41.3	335.5	5 217.4
Trading liabilities	933.4	129.1	1.2	100.3	41.5	1 205.5
Deposit and current accounts	6 150.4	629.6	1 493.1	528.9	146.8	8 948.8
Other liabilities	182.7	36.4	15.3	(0.9)	41.5	275.0
Current and deferred tax liabilities	32.2	-	10.1	-	-	42.3
Subordinated loan capital	272.6	-	-	-	-	272.6
Equity						
Equity attributable to ordinary shareholders	532.9	-	-	-	-	532.9
Ordinary share capital	424.3	-	-	-	-	424.3
Reserves	108.6	-	-	-	-	108.6
Total equity and liabilities	12 826.8	872.5	1 560.3	669.6	565.3	16 494.5
Net off-balance sheet currency position						
Commitments to purchase foreign currency	75 122.0	1 162.0	2 267.8	2 298.0	4 959.7	85 809.5
Commitments to sell foreign currency	74 939.5	2 037.6	1 274.9	2 302.2	5 255.3	85 809.5
Net currency position	(67.0)	(28.4)	(45.6)	2.9	138.1	

The Bank's net investments in overseas operations at 31 December were as follows:

Functional currency of the operation involved	2006 $m	2005 $m
Czech Krona	2.0	1.5
Chinese Renminbi	4.3	1.5
HK Dollar	0.3	0.3
	6.6	3.3

Notes to the annual financial statements continued

25 Financial risk management (cont.)

25.4.3 Liquidity and Interest rate risk

Liquidity risk is the risk that the Bank cannot meet its current obligations. The Bank manages the liquidity structure of its assets, liabilities and commitments to ensure that the Bank's operations can meet its funding needs and the statutory liquidity gap requirement.
The Bank's Asset and Liability Committee reviews the current and prospective funding requirements for all operations on an on-going basis through regular review of the maturity mismatch, deposit base diversification and stability as well as liquidity stress testing results. In addition, adequate standby facilities are maintained to provide strategic liquidity to meet unexpected and material cash outflow in the ordinary course of business.

Liquidity is a key risk in a number of markets and the Bank has an integrated approach to risk measurement that combines liquidity, market and credit risks. This approach is consistent across the measurement of credit and country risks for leveraged products and the market risks for the Bank's own proprietary positions.

Credit and country risk in the Group is measured and controlled on both a gross and "weighted" basis. Weightings are used to reflect the differing liquidity of both our own financial assets and those held as collateral. In this way higher levels of liquidity are reflected in a lower limit usage.

The principal interest rate risk to which the bank is exposed occurs in the trading portfolios. This risk is managed within the Market Risk framework described in note 26.4. Within the non-trading portfolios the principal risk to which the Bank is exposed is the risk of loss from fluctuations in future cashflows because of a change in market interest rates. Non-trading book interest rate risk is limited as non-trading portfolios are required to match fund exposures within prescribed limits and generally terms are on a floating rate basis. Interest rate risk is managed principally through monitoring interest rate gaps.

The Bank's repricing analysis of assets and liabilities is disclosed below. The analysis of the Company closely follows the analysis below and is therefore not disclosed.

At 31 December 2006:

	Not more than three months $m	More than three months but not more than six months $m	More than six months but not more than one year $m	More than one year but not more than five years $m	More than five years $m	Trading book and non-interest bearing $m	Total $m
Assets							
Cash and balances with banks	992.8	-	-	-	-	-	992.8
Derivative assets	-	-	-	-	-	4 783.0	4 783.0
Trading assets	-	-	-	-	-	8 244.0	8 244.0
Loans and advances	5 095.6	1 583.6	953.2	1 619.8	536.8	-	9 789.0
Other assets	79.7	77.5	132.9	24.5	0.2	45.9	360.7
Total assets	6 168.1	1 661.1	1 086.1	1 644.3	537.0	13 072.9	24 169.5
Equity and liabilities							
Liabilities	(6 126.4)	(2 066.0)	(830.7)	(595.0)	(827.6)	(13 051.8)	(23 497.5)
Derivative liabilities	-	-	-	-	-	(5 221.0)	(5 221.0)
Trading liabilities	-	-	-	-	-	(3 261.2)	(3 261.2)
Deposit and current accounts	(5 341.1)	(2 056.2)	(830.7)	(346.9)	(827.6)	(4 544.8)	(13 947.3)
Other liabilities	(448.3)	(9.8)	-	(48.1)	-	(24.8)	(531.0)
Subordinated loan capital	(337.0)	-	-	(200.0)	-	-	(537.0)
Equity	-	-	-	-	-	(672.0)	(672.0)
Equity attributable to ordinary shareholders	-	-	-	-	-	(672.0)	(672.0)
Total equity and liabilities	(6 126.4)	(2 066.0)	(830.7)	(595.0)	(827.6)	(13 723.8)	(24 169.5)
Interest rate sensitivity gap	41.7	(404.9)	255.4	1 049.3	(290.6)	(650.9)	
Cumulative gap	41.7	(363.2)	(107.8)	941.5	650.9	-	

Notes to the annual financial statements continued

At 31 December 2005:

	Not more than three months $m	More than three months but not more than six months $m	More than six months but not more than one year $m	More than one year but not more than five years $m	More than five years $m	Trading and non-interest bearing $m	Total $m
Assets							
Cash and balances with banks	811.2	-	-	-	-	-	811.2
Derivative assets	-	-	-	-	-	4 792.9	4 792.9
Trading assets	-	-	-	-	-	3 615.5	3 615.5
Loans and advances	5 774.9	151.1	453.0	520.2	202.0	-	7 101.2
Other assets	61.9	50.2	22.9	0.5	-	38.2	173.7
Total assets	6 648.0	201.3	475.9	520.7	202.0	8 446.6	16 494.5
Equity and liabilities							
Liabilities	(6 237.0)	(65.1)	(263.5)	(836.1)	(109.2)	(8 450.7)	(15 961.6)
Derivative liabilities	-	-	-	-	-	(5 217.4)	(5 217.4)
Trading liabilities	-	-	-	-	-	(1 205.5)	(1 205.5)
Deposit and current accounts	(5 733.8)	(64.0)	(253.4)	(802.9)	(109.2)	(1 985.5)	(8 948.8)
Other liabilities	(230.6)	(1.1)	(10.1)	(33.2)	-	(42.3)	(317.3)
Subordinated loan capital	(272.6)	-	-	-	-	-	(272.6)
Equity	-	-	-	-	-	(532.9)	(532.9)
Equity attributable to ordinary shareholders	-	-	-	-	-	(532.9)	(532.9)
Total equity and liabilities	(6 237.0)	(65.1)	(263.5)	(836.1)	(109.2)	(8 983.6)	(16 494.5)
Interest rate sensitivity gap	411.0	136.2	212.4	(315.4)	92.8	(537.0)	
Cumulative gap	411.0	547.2	759.6	444.2	537.0	-	

Notes to the annual financial statements continued

25.4.4 Credit risk

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

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

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

Credit risk arises from lending, trade finance, treasury, capital markets and other activities undertaken by the Bank.

A formal structure exists for the approval of credit including Credit Committees that meet weekly. The Bank has a formal credit rating process and monitors economic capital, incurred and expected losses using both internally and externally developed models and systems across its portfolios. The Bank has applied a revised credit rating model following the implementation of new processes in preparation for the implementation of Basel II. The Bank made an application to use an internal – rating based approach for credit risk capital regulatory under Basel II during the course of 2006.

Credit risk is managed by means of a goverance structure with clearly defined mandates and delegated authorities. The Standard Bank Group credit committee delegates authority to the Standard Bank Plc credit committees for the approval of credit proposals. These Standard Bank Plc committees further delegate authority within its limits. The delegated authorities are documented and take into consideration credit quality, size of facility and committee representation.

Credit exposure to sovereign states, corporates and financial institutions is usually in the form of short and long-term and advances, other debt instruments, advancement of securities, contracts to support customer obligations, and exposures created through derivative contracts. In these circumstances, credit risk management is characterised by a close working relationship between the counterparty, the customer relationship team and an independent credit officer. Credit decisions are based on a in-depth knowledge of the counterparty, country and the industry in which it operates, as well as an assessment of the creditworthiness of the counterparty based on a review of audited financial information and underlying risk parameters.

The use of sophisticated credit rating modelling techniques, combined with an in-depth knowledge and understanding of each customer, is essential in assessing the credit risk of each counterparty dealt with. A credit rating framework has been developed to house credit rating models for each counterparty type. The probabilities of default produced by these models are an important component of the formal credit assessment process for new and existing business. In addition, these models form the basis for continual monitoring of changes in credit quality.

The Bank further mitigates credit risk through the use of documentation that permits netting and collateralisation. These effects are recognised in risk measurement where there are appropriate legal and jurisdictional approvals.

A Country Risk Committee meets on a monthly basis to approve country risk appetite limits for countries other than sub-Saharan Africa. Limits for sub-Saharan Africa are referred to South Africa for decision. A country-rating model is used to determine the relative ranking of each country. The internal model is continuously updated to reflect the economic and political changes in individual countries. The results are compared with those of reputable rating agencies to validate the consistency of our model.

Problematic debts are independently managed by the Business Support and Recovery unit, which focuses on managing problem credit exposures before default occurs, and maximising recoveries from provisioned accounts.

The maximum credit exposure for the Bank on 31 December 2006 is US$25 075 million (2005: US$16 876 million).

Loans and advances analysis by industry segment is disclosed in note 5.

Notes to the annual financial statements continued

The credit and issuer risk concentration by rating (Standard and Poors equivalent) and by region at 31 December 2006 is set out below:

Rating	2006 %	2005 %	Region	2006 %	2005 %
Group	1	3	North America	18	24
AAA/AA	15	12	Asia	10	7
AA-/A	13	17	Eastern Europe	12	14
A	8	8	Western Europe	40	36
A-/BBB+	11	12	North Africa and Middle East	8	7
BBB/BBB-	14	10	South America	7	6
BB+/BB	14	11	Sub-Saharan Africa	5	6
BB-	9	17			
B+/B-	12	7			
CCC+/CCC	2	2			
CC+ and Below	1	1			
Total	100	100		100	100

Impaired exposures

Impaired exposures are loans and other exposures for which the Bank determines that it is probable that it will be unable to collect all principal and interest due according to the contractual terms of the loans or securities agreements.

The table below sets out the impaired loans and other exposures, expected recoveries and credit impairment provisions raised.

At 31 December 2006:

	Gross NPLs (net of interest in suspense) $m	Securities and expected recoveries $m	Net after securities and expected recoveries $m	Impairments of NPLs $m	Gross impairment coverage %
Loans and advances	72.1	17.5	54.6	55.3	76.7
Derivatives	0.2	-	0.2	0.2	100.0
	72.3	17.5	54.8	55.5	76.8
At 31 December 2005:					
Loans and advances	65.1	8.4	56.7	58.3	89.6
Derivatives	0.2	-	0.2	0.2	100.0
Trading securities	8.7	-	8.7	8.6	98.9
	74.0	8.4	65.6	67.1	90.7

Notes to the annual financial statements continued

25 Financial risk management (cont.)

NPL coverage % to gross advances

	2006 %	2005 %
Gross NPLs	0.7	0.9
Less: Securities and collateral	(0.2)	(0.1)
Less: Impairments for non-performing loans	(0.5)	(0.8)
Net NPLs	-	-
Coverage: Gross *	76.7	89.6
Net †	101.3	102.8
Gross advances ($m)	9 856.5	7 171.3

* Gross coverage = impairment for NPLs/gross NPL

† Net coverage = impairment for NPLs/(gross NPL - security)

26 Fair values of financial instruments

26.1 Estimation of fair values

Fair value estimates are generally subjective in nature, and are made as of a specific point in time based on the characteristics of the financial instruments and relevant market information. Where available, the most suitable measure for fair value is the quoted market price. In the absence of organised secondary markets for most financial instruments, and in particular for loans, deposits and unlisted derivatives, direct market prices are not available. The fair value of such instruments was therefore calculated on the basis of well-established valuation techniques using current market parameters. In particular, the fair value is a theoretical value applicable at a given reporting date, and hence can only be used as an indicator of the value realisable in a future sale.

All valuation models are validated before they are used as a basis for financial reporting, by qualified personnel independent of the area that created the model. Wherever possible, the Group compares valuations derived from models with quoted prices of similar financial instruments, and with actual values when realised, in order to further validate and calibrate the models. These techniques involve uncertainties and are significantly affected by the assumptions used an judgments made regarding risk characteristics of various financial instruments, discount rates, estimates of future cash flows, future expected loss experiences and other factors. Changes in assumptions could significantly affect these estimates and the resulting fair values. Derived fair value estimates cannot necessarily be substantiated by comparison to independent markets and, in many cases, could not be realised in an immediate sale of the instruments.

The following methods and significant assumptions have been applied in determining the fair values of financial instruments explained in note 26.2 below:

- The fair value of demand deposits with no specific maturity is assumed to be the amount payable on demand at the balance sheet date;
- The fair value of variable rate financial instruments is assumed to be approximated by their carrying amounts and, in the case of loans and unquoted debt securities, does not, therefore, reflect changes in their credit quality, as the impact of credit risk is recognised separately by deducting the amount of the impairment allowances from both the carrying amount and fair value;
- The fair value of fixed rate loans carried at amortised cost is estimated by comparing market interest rates when the loans were granted with current market rates offered on similar loans. Changes in the credit quality of loans within the portfolio are not taken into account in determining gross fair values, as the impact of credit risk is recognised separately by deducting the amount of the impairment loss and allowances from both the carrying amount and fair value;
- For secured loans and deposits arising from sale and repurchase agreements and for bond transactions that are due to settle on a date beyond the market norm (forward transactions), the Group receives collateral in the form of cash or securities. The collateral is valued using established valuation techniques and variation margin is called or paid. Balance sheet carrying amounts therefore closely reflect fair values;
- The fair value of unquoted equity investments is estimated, using obtainable market information of similar listed investments; and
- The fair value of forward exchange contracts and interest rate swaps is estimated either using broker quotes or by discounting future cash flows. Broker quotes are back tested using pricing models or discounted cash flow techniques. Future cash flows are estimated based on management's best estimates of the amount it would receive or pay to terminate the contract at the balance sheet date taking into account current market conditions and the current credit worthiness of the counterparties. The discount rate used is a market rate for a similar instrument at the balance sheet date. The fair value of an option contract is determined by applying the Black-Scholes option valuation model. Inputs are based on market related data at the balance sheet date.

Notes to the annual financial statements continued

26.2 Fair value

All financial instruments are stated at fair value or carried at amounts not materially different from their fair values as at 31 December 2006 and 2005

27 Ultimate holding company

The largest group in which the results of the company are consolidated is that headed by Standard Bank Group Limited, a company incorporated in the Republic of South Africa. The smallest group in which they are consolidated is that headed by Standard Bank London Holdings Plc, a company incorporated in the United Kingdom. The consolidated financial statements of these groups are available to the public for inspection at:

Standard Bank Group Limited
9th Floor
Standard Bank Centre
5 Simmonds Street
Johannesburg 2001
Republic of South Africa

Standard Bank London Holdings Plc
Cannon Bridge House
25 Dowgate Hill
London
EC4R 2SB

Contact information

Standard Bank Group Limited

Address	5 Simmonds Street	Main switchboard	(27 11) 636 9111
	Johannesburg 2001	Facsimile	(27 11) 636 4207
	Republic of South Africa	Website	www.standardbank.co.za
Group Chief Executive	Jacko Maree		

Standard Bank Plc

Address	Cannon Bridge House	Main switchboard	(44 20) 7815 3000
	25 Dowgate Hill	Facsimile	(44 20) 7815 3099
	London	Website	www.standardbank.com
	EC4R 2SB		
Chief Executive International	Robert Leith		
Chief Executive Standard Bank Plc	David Duffy		
Global markets	Brad Koen		
Principal trading	David Feld		
Resource banking	Andrew King		
Banking	Mike Crabb		
Asset management and Private client services	Ian Gibson		
Central Eastern Europe, Middle East and Central Asia	Martin Botha		
Finance	Tim Wheeler		
Risk management	Paul Hartwell		
IT and Operations	Patrick Tam		

ASIA REGION

Chief Executive Asia Region	Nick Hamilton

Standard Bank Asia Limited

Address	36th Floor	Main switchboard	(852) 2822 7888
	Two Pacific Place	Facsimile	(852) 2822 7999
	88 Queensway		
	Hong Kong		
Chief Executive	Tom Chenoweth		

Standard Merchant Bank (Asia) Limited

Address	80 Raffles Place	Main switchboard	(65) 6533 4111
	No 41-01 UOB Plaza 1	Facsimile	(65) 6533 4555
	Singapore 048624		
Chief Executive	Saw Jin Hong		

Standard Bank of South Africa - Taipei branch

Address	13th Floor, No 218	Main switchboard	(886 2) 2192 4488
	Section 2	Facsimile	(886 2) 2377 6911
	Dunhua South Road		
	Taipei City 106, Taiwan		
General Manager	Jack Hsu		

Standard London (Asia) Sdn Bhd

Address	Level 32, Suite B, Menara Maxis	Main switchboard	(60 3) 2380 8080
	Kuala Lumpur City Centre	Facsimile	(60 3) 2380 8033
	50088 Kuala Lumpur		
	Malaysia		
Director	Saw Jin Hong		

Contact information

China Representative Office (Standard Bank Plc)

Address	Suite 121, 15th floor, HSBC Tower, 1000 Lu Jia Zui Ring Road Pudong New Area Shanghai 200120 The People's Republic of China	Main switchboard Facsimile	(86 21) 6841 2666 (86 21) 6841 2333
Representative	Fan Bing		

Standard Resources (China) Limited

Address	Suite 022, 28th Floor HSBC Tower 1000 Lu Jia Zui Ring Road Pudong New Area Shanghai 200120 The People's Republic of China	Main switchboard Facsimile	(86 21) 6841 1688 (86 21) 6841 1588
Contact	Victor Yu		

Australia Representative Office (Standard Bank Plc)

Address	Level 42, Gateway 1 Macquarie Place Sydney NSW 2000 Australia	Main switchboard Facsimile	(61 2) 8221 0600 (61 2) 8221 0699
Representative	Kelvin Russell		

AMERICAS REGION

Standard New York, Inc.
Standard New York Securities, Inc.
Standard Americas, Inc.

Address	19th Floor 320 Park Avenue New York, N.Y. 10022 USA	Main switchboard Facsimile	(1 212) 407 5000 (1 212) 407 5025
Managing Director	William Dorson		

Banco Standard de Investimentos S.A.

Address	Edificio Plaza Iguatemi Av. Faria Lima, 2277 12º andar CEP 04509-001 São Paulo Brazil	Main switchboard Facsimile	(55 11) 3030 4300 (55 11) 3030 4456
Managing Director	Fabio Solferini		

Brazil Representative Office (Standard Bank Plc)

Address	Edificio Plaza Iguatemi Av. Faria Lima, 2277 12º andar CEP 04509-001 São Paulo Brazil	Main switchboard Facsimile	(55 11) 3030 4300 (55 11) 3030 4456
Representative	Fabio Solferini		

Contact information

Standard Bank Argentina S.A.

Address	Torre Bouchard Bouchard 599, Piso22º Buenos Aires C1106ABG Republic of Argentina	Main switchboard Facsimile	(54 11) 5031 5500 (54 11) 5031 5599
Director	Fernando Canzani		

Argentina Representative Office (Standard Bank Plc)

Address	Torre Bouchard Bouchard 599, Piso22º Buenos Aires C1106ABG Republic of Argentina	Main switchboard Facsimile	(54 11) 5031 5500 (54 11) 5031 5599
Representative	Fernando Canzani		

Mexico Representative Office (Standard Bank Plc)

Address	Campos Eliseos 345 Edificio Omega, Piso 5 Col. Chapultepec Polanco 11560 Mexico City Mexico	Main switchboard Facsimile	(5255) 5279 4500 (5255) 5279 4504
Representative	Francisco Hernandez Lozano		

Peru Representative Office (Standard Bank Plc)

Address	Edificio Fundación Oficina 702 Av. José Pardo 513 Lima 18, Peru	Main switchboard Facsimile	(5 11) 445 9696 (5 11) 447 8137
Contact	Alex de la Fuente		

CENTRAL EASTERN EUROPE, MIDDLE EAST REGION AND CENTRAL ASIA

ZAO Standard Bank

Address	Business Center 'Mokhovaya' 4/7, Vozdvihenka St., Bldg 2 125009 Moscow Russian Federation	Main switchboard Facsimile	(7 495) 783 3800 (7 795) 783 3801
Chief Executive	Yury Voicehovsky		

Standard Bank Plc Dubai Branch

Address	16th Floor Emirates Towers PO Box 504904 Dubai United Arab Emirates	Main switchboard Facsimile	(971 4) 3300 011 (971 4) 3300 169
Contact	Jean-Luiz Dazin		

Standard Yatirim Menkul Kiymetler A.S.

Address	Baltalimanı Cad. No:4 Ressam ¸Sevket Dag˘ Yalısı 34450 Rumelihisar› Sarıyer Istanbul, Turkey	Main switchboard Facsimile	(90 212) 323 4888 (90 212) 323 4850
Director	Mehmet Gonen		

Contact information

Turkey Representative Office (Standard Bank Plc)

Address	Baltalimanı Cad. No:4 Ressam Şevket Dağ Yalısı 34450 Rumelihisar› Sarıyer Istanbul, Turkey	Main switchboard Facsimile	(90 212) 323 4878 (90 212) 323 4874
Representative	Binnur Uz		

Milan Representative Office (Standard Bank Plc)

Address	Largo Treves, 5 20121 Milan Italy	Main switchboard Facsimile	(39 02) 6200 451 (39 02) 6200 4528
Representative	Umberto Forasassi		

Tehran Representative Office (Standard Bank Plc)

Address	Sayeh Tower, 8th Floor, Unit 2 1409 Vali-e-Asr Ave Tehran 19677 Iran	Main switchboard Facsimile	(98 21) 220 19 806-10 (98 21) 220 15 298
Representative	Hamid Anoushahpour		

OFFSHORE SERVICES

Chairman	Robert Leith
Chief Executive	Ian Gibson

Jersey

Address	Standard Bank House P O Box 583, 47-49 La Motte Street St Helier Jersey JE4 8XR Channel Islands	Main switchboard Facsimile	(44 1534) 881188 (44 1534) 811199

Standard Bank Jersey Limited

Managing Director Banking and Investment Services	Haydn Taylor
Managing Director Private Client Services	Lindsay Bateman
Managing Director Treasury and Product Development	Herman Wessels

Standard Bank Offshore Trust Company Jersey Limited

Managing Director — Justin Greig

Standard Bank Fund Administration Jersey Limited

Managing Director — Peter Hart

Isle of Man

Address	Standard Bank House One Circular Road Douglas Isle of Man IM1 1SB	Main switchboard Facsimile	(44 1624) 643643 (44 1624) 643800

Standard Bank Isle of Man Limited

Managing Director — John Coyle

Standard Bank Trust Company (Isle of Man) Limited

Managing Director — Johathan Sprigg

Mauritius

Standard Bank Trust Company (Mauritius) Limited

Address	Les Jamalacs Vieux Conseil Street Port Louis, Mauritius	Main switchboard Facsimile	(230) 202 4200 (230) 202 4210
Managing Director	Karl Foden		

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