

## Accounting policies

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

### 1 Basis of presentation

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

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

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

#### Elections applicable 1 January 2004

- **Business combinations:** The group elected not to retrospectively apply the requirements of IFRS 3 for business combinations that occurred prior to 1 January 2004. As a result, the carrying amount of goodwill is the amortised amount on 31 December 2003, and previously amortised goodwill and goodwill eliminated against reserves were not reinstated.
- **Property, equipment and intangible assets:** A first-time adopter may elect to use the fair value of individual property, equipment and intangible assets at transition date as the deemed cost. The group did not make use of this transitional exemption and elected to measure individual items of property, equipment and intangible assets at depreciated cost determined in accordance with IFRS.
- **Employee benefits:** The group elected not to apply the exemption to account for all deferred actuarial gains or losses, including a 10% tolerance limit for differences in actuarial assumptions, in opening equity as at 1 January 2004. This exemption was not elected as the group's accounting policy for employee benefits under previous

South African Generally Accepted Accounting Practice (SA GAAP) was already substantially in compliance with IAS 19 – Employee Benefits. After consideration of retrospective application of IAS 19 on adoption of IFRS, no adjustments were required.

- **Cumulative foreign currency translation adjustment:** The cumulative foreign currency translation reserve existing on transition to IFRS has been retained and the option to reset the reserve to zero was not elected as the group's accounting for translation adjustments under previous SA GAAP was already substantially in compliance with IAS 21 – The Effects of Changes in Foreign Exchange Rates. After consideration of retrospective application of IAS 21, no adjustments were required.
- **Share-based payments:** The group elected not to apply the provisions of IFRS 2 – Share-based Payments to equity-settled awards granted on or before 7 November 2002, or to awards granted after that date but which had vested prior to 1 January 2005.

#### Elections applicable 1 January 2005

- **Comparative numbers restated for financial instruments and insurance contracts:** The group elected the exemption not to restate its comparatives for IAS 32 – Financial Instruments: Disclosure and Presentation, IAS 39 – Financial Instruments: Recognition and Measurement and IFRS 4 – Insurance Contracts. The group has therefore applied SA GAAP applicable as at 31 December 2004 to financial instruments and insurance contracts in its 2004 numbers disclosed as comparatives for the 2005 IFRS results.
- **Designation of financial assets and financial liabilities in terms of IAS 39:** In terms of the transitional arrangements the group elected the option to reclassify certain financial assets and liabilities. These reclassifications were not material.

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

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

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

Accounting policies *continued***Accounting policies before adoption of IFRS***Elimination of treasury shares*

Shares held in group companies to cover obligations to policyholders in the group's insurance operation were disclosed as part of investments. Fair value changes on these shares were accounted for in the income statement.

**Accounting policies adopted for IFRS**

Shares held in group companies for the benefit of policyholders are now treated as treasury shares for accounting purposes. The cost of treasury shares acquired is eliminated against equity. The elimination of the cost of the shares is split between shareholders' equity and minorities based on the effective interest of the group's shareholding in the equity of the subsidiary company where the shares are accounted for. No fair value movements on treasury shares are recognised in the income statement. The corresponding fair value movements on policyholders' liabilities relating to these shares are however recognised in the income statement and not eliminated.

In calculating earnings per share the weighted number of shares are reduced by the total number of treasury shares within the group and not only the portion relating to ordinary shareholders. This treatment is required in terms of IAS 33.

*Impairment for credit losses*

Impairment for credit losses on performing loans was based on an expected loss model. In terms of this model expected future cash flows were discounted using the effective interest rate excluding the credit premium inherent in the contract.

Impairment for credit losses on performing loans is now based on an incurred loss model and estimated future cash flows are discounted using the original effective interest rate inherent in the loan, including the credit premium.

*Origination fees received on financial assets*

Some origination fees received, including documentation and assessment fees, were previously accounted for as income when the related origination services were performed. Where origination fees were deferred it was generally brought to income on a straight-line basis.

All origination fees received on financial assets are now accounted for as part of the carrying value of the financial asset and recognised in income by adjusting the effective interest rate over the term of the financial asset.

*Equity-linked transactions*

Equity-linked instruments issued in terms of the group's equity compensation plans and the Tutuwa initiative were accounted for at the value of the cash consideration received, when the cash was received.

Equity-linked instruments issued after 7 November 2002 that have not vested by 31 December 2004 are now accounted for at the fair value of the instruments granted and expensed over the vesting period of the instruments.

*Goodwill*

Goodwill arising on the acquisition of subsidiaries, associates or joint ventures occurring on or after 1 January 2000 was capitalised and amortised over its estimated useful life. Goodwill arising on acquisitions before 1 January 2000 was accounted for in equity.

Goodwill arising on acquisitions after 31 December 2003 and the carrying values of goodwill that existed at this date are not amortised, but allocated to cash generating units and tested annually for impairment.

*Depreciation of buildings and equipment*

Buildings and equipment were previously depreciated on a straight-line basis to their estimated residual values. These residual values were fixed at the date of acquisition and not reassessed annually.

The residual values of buildings and equipment are now reassessed at each balance sheet date. Depreciation ceases when the carrying value of the asset equals the residual value. The carrying values that were previously fully depreciated have been partially reinstated to reflect the residual value at the time when the carrying value equalled the revalued residual value.

**Accounting policies before adoption of IFRS***Profit on initial recognition*

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

**Accounting policies adopted for IFRS**

Unquoted financial instruments are now recognised at fair value on initial recognition. Any profit or loss on initial recognition, calculated based on valuation models that include unobservable market data, is deferred and recognised on a straight-line basis over the life of the instrument. Any profit or loss on initial recognition, based only on observable market data, is recognised immediately.

*Deferred acquisition costs (DAC) on investment contracts*

Commission expense was recognised upfront when it was paid.

Commissions paid and other acquisition costs are incurred when new investment contracts are obtained or existing investment contracts renewed. These costs, if attributable to a specific contract, are deferred and amortised over the expected life of the contract. A DAC balance is recognised for all applicable policies with the amortisation being calculated on a portfolio basis.

An impairment test is conducted annually on the DAC balance to ensure that the amount will be recovered from future revenue from the applicable remaining investment contracts.

*Deferred revenue liability on investment contracts*

Service fees were recognised upfront when received.

A deferred revenue liability is recognised when initial fees, which are directly attributable to an investment contract, are charged for securing the management service responsibility. The liability is recognised as revenue over the expected duration of the services to be provided.

*Classification of insurance and investment contracts*

Policyholder contracts that do not transfer significant insurance risk are classified in the financial statements at fair value, with changes in fair value being accounted for in the income statement.

The group issues contracts that transfer insurance risk or financial risk or, in some cases, both. Insurance contracts are those contracts that transfer significant insurance risk, which can be defined as the possibility of having to pay benefits on the occurrence of an insured event that are at least 10% more than the benefits payable if the insured event did not occur.

All contracts that do not fall within the definition of an insurance contract have been classified as investment contracts and measured at fair value through profit or loss under IAS 39.

*Consolidation of mutual funds*

Not consolidated under SA GAAP.

Mutual funds, in which the group has a greater than 50% economic interest, have been consolidated. The consolidation principles as contained in the existing basis of consolidation accounting policy have been applied.

*Straight-lining of leases*

Lease income was previously recognised based on the amount accrued in terms of the lease agreement. Lease income and expenses were only spread for balloon payments.

Lease payments with fixed escalation clauses are recognised on a straight-line basis over the term of the lease.

*Deferred tax on present value of in-force (PVIF) business and investment properties*

The carrying value of PVIF was based on after-tax cash flows.

The PVIF is based on pre-tax cash flows with a corresponding deferred tax liability recognised.

Deferred tax on investment properties was previously raised at the capital gains tax rate, being the tax payable on sale of investment properties.

Deferred tax is now raised on a blended rate based on the expected method of use and is accounted for as a reduction of policyholders' liabilities.

## Accounting policies continued

Due to the specialised nature of banking and life insurance businesses, the accounting policies appropriate to each business, where required, are separately detailed below.

### 2 Basis of consolidation

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

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

Mutual funds in which the group has more than 50% economic interest or control are consolidated.

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

Inter-company transactions, balances and unrealised gains and losses within banking and insurance operations are eliminated on consolidation. Equity instruments of group entities held by subsidiaries are classified as treasury shares and accounted for in terms of accounting policy 23.

Accounting policies of subsidiaries conform to the policies adopted by the group for its banking and insurance operations.

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.

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

#### Group companies

The results and financial position of all foreign operations (excluding those in hyperinflationary economies) that have a functional currency different from the group's presentation currency are translated into the presentation currency as follows:

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

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

The revenues and expenses of foreign operations in hyperinflationary economies are translated to rand at the foreign exchange rates ruling at the balance sheet date.

#### Transactions and balances

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

underlying items. Foreign exchange gains and losses on equities classified as available-for-sale financial assets are included in the available-for-sale reserve in equity whereas the exchange differences on equities held at fair value through profit or loss are reported as part of the fair value gain or loss.

#### 4 Cash and cash equivalents

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

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

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

##### Recognition and measurement

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

##### Classification

Management determines the appropriate classification of financial assets on acquisition.

##### Held-to-maturity

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

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

##### Financial assets at fair value through profit or loss

- Financial assets that the group holds for short-term profit taking (trading assets) are classified as financial assets at fair value through profit or loss. Subsequent to initial recognition, these trading assets are measured at fair value. All related realised and unrealised gains and losses arising from the change in fair value are included in trading revenue under non-interest revenue in the income statement. Interest earned and dividends received while holding trading assets at fair value through profit or loss are included in trading revenue.
- Financial assets that the group designates at inception as financial assets at fair value through profit or loss are carried at fair value subsequent to initial recognition. All income and realised and unrealised gains and losses arising from the change in fair value of these financial assets are included in interest income for all dated financial assets and in other revenue within non-interest revenue for all undated financial assets. Such classification is not changed subsequent to initial recognition.

##### Available-for-sale

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

##### Fair value

The best evidence of the fair value on initial recognition is the transaction price, unless the fair value is evidenced by comparison with other observable current market transactions in the same instrument or based on discounted cash flow models and option pricing valuation techniques whose variables include only data from observable markets.

Accounting policies *continued*

When such valuation models, with only observable market data as input, indicate that fair value differs from cost on initial recognition, the resulting profit or loss is recognised immediately. If non-observable market data is used as part of the input to the valuation models, any resulting profit or loss is deferred and recognised over the period of the instrument.

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

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

## 6 Repurchase and resale agreements and lending of securities

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

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

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

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

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

## 7 Derivative financial instruments

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

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

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

## 8 Hedge accounting

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

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

A hedging relationship exists where:

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

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

#### Fair value hedges

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

#### Cash flow hedges

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

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

#### 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. 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.

## 9 Policyholder insurance and investment contracts

### Insurance and investment contract classification

The group issues contracts that transfer insurance risk or financial risk or both.

An insurance contract is a contract under which the group (insurer) accepts significant insurance risk from the policyholder by agreeing to compensate the policyholder if a specified uncertain future event (the insured event) adversely affects the policyholder. Such contracts may also transfer financial risk. The group defines significant insurance risk as the possibility of having to pay benefits on the occurrence of an insured event that are significantly more than the benefits payable if the insured event did not occur.

Investment contracts are those contracts that transfer financial risk with no significant insurance risk. Financial risk is the risk of a possible future change in one or more of a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates, credit rating or credit index or other variable, provided in the case of a non-financial variable that the variable is not specific to a party to the contract.

### Discretionary participation features (DPF)

A number of insurance and investment contracts contain a discretionary participation feature (DPF). This feature entitles the policyholder to receive, as a supplement to guaranteed benefits, additional benefits or bonuses:

- that are likely to be a significant portion of the total contractual benefits;
- whose amount or timing is contractually at the discretion of the group; and
- that are contractually based on:
  - the performance of a specified pool of contracts or a specified type of contract; and/or
  - realised and/or unrealised investment returns on a specified pool of assets held by the group.

The terms and conditions or practice of these contracts set out the bases for the determination of the amounts on which the additional discretionary benefits are based (the DPF

## Accounting policies *continued*

eligible surplus) and within which the group may exercise its discretion as to the quantum and timing of their payment to policyholders. Typically at least 90% of the eligible surplus must be attributed to policyholders as a group (which can include future policyholders), while the amount and timing of the distribution to individual policyholders is at the discretion of the group, subject to the advice of the statutory actuary.

### Insurance contracts

#### Measurement

These contracts are valued in terms of the Financial Soundness Valuation (FSV) basis, on a gross premium valuation methodology described in Practice Guidance Note (PGN) 104 issued by the Actuarial Society of South Africa and the liability is reflected as "Policyholders' liabilities under insurance contracts". PGN 104 is available on the website of the Actuarial Society of South Africa ([www.assa.org.za](http://www.assa.org.za)).

The liability is based on assumptions of the best estimate of future experience, plus compulsory margins as required in terms of PGN 104, plus additional discretionary margins.

Discretionary margins are added so that the shareholders' participation in profits emerges in the year in which it is earned. These discretionary margins include an allowance for the shareholders' participation in the reversionary and terminal bonuses expected to be declared each year in respect of with-profit business, an allowance for the shareholders' participation in the bonus expected to be declared and a portion of the management fees levied under certain classes of market related business. In addition to the provision made in the basic reserves, discretionary margins are held for further possible deviations in risk experience and in respect of minimum investment guarantees.

Liabilities for individual market related policies where benefits are dependent on the performance of underlying investment portfolios (including business with stabilised bonuses where bonuses were taken at full value) are taken as the aggregate value of the policies' investment in the investment portfolio at the valuation date, reduced by the excess of the present value of the expected future risk benefits and expenses on a policy by policy cash flow basis.

Reversionary bonus and the major non-profit classes of policies are valued by discounting the expected future cash flows at a market related rate of interest reduced by an allowance for investment expenses and the relevant prescribed margins. Future bonuses have been allowed for at the latest declared rates.

Annuities, other than term certain annuities, are valued by discounting annuity instalments and expenses at the rate of return yielded by the matching assets reduced by an

allowance for investment expenses and the relevant compulsory margin.

Liabilities for group benefit policies (including policies where bonuses are stabilised) are established as the value of the policies' investment in the respective investment portfolios, including the face value of all bonuses (vested and unvested) declared up to the balance sheet date.

In respect of insurance contracts with DPF where bonuses are stabilised, bonus stabilisation reserves are held arising from the difference between the after-tax investment performance of the assets net of the relevant management fees and the value of the bonuses declared.

A reserve for minimum investment return guarantees is calculated on a stochastic basis in accordance with PGN 110 issued by the Actuarial Society of South Africa. PGN 110 is available on the website of the Actuarial Society of South Africa.

The liability calculation methodology and assumptions are periodically reviewed, with any changes in estimates reflected in the income statement as they occur.

#### Outstanding claims provisions

Provision is made in the policyholders' liabilities under insurance contracts for the estimated cost of claims outstanding at the end of the year, including those incurred but not reported at that date. Outstanding claims and benefit payments are stated gross of reinsurance.

#### Embedded derivatives

The group does not separately measure any derivatives embedded in insurance contracts as they are measured as part of the insurance contracts.

#### Liability adequacy test

At each balance sheet date, liability adequacy tests are performed to ensure the adequacy of the insurance contract liabilities net of any related intangible PVIF assets. Since the liability is calculated in terms of the FSV basis, and the FSV basis meets the minimum requirement of the liability adequacy test, it is not necessary to perform a liability adequacy test on the liability component. However it is still necessary to perform an impairment test on the intangible PVIF asset. In performing this test the current PVIF in respect of the acquired book is compared to the intangible PVIF asset. Any deficiency is immediately charged to profit or loss initially by writing off the intangible PVIF asset and by subsequently establishing a provision for losses arising from the liability adequacy tests (the unexpired risk provision).

Any intangible PVIF asset written off as a result of this test cannot subsequently be reinstated.

## Investment contracts

### Investment contracts without DPF

The group issues investment contracts without fixed benefits (unit linked and structured products) and investment contracts with fixed and guaranteed benefits (term certain annuity).

Investment contracts without fixed benefits are financial liabilities whose fair value is dependent on the fair value of the underlying financial assets, derivatives and/or investment property (unit linked) and are designated at inception as fair value through profit or loss.

The fair value at inception and each reporting date is measured with reference to the designated matching financial instruments.

The group's valuation methodologies incorporate all factors that market participants would consider and are based on observable market data. The fair value of a unit linked financial liability is determined using the current unit price that reflects the fair values of the financial assets contained within the group's unitised investment funds linked to the financial liability, multiplied by the number of units attributed to the policyholder at the balance sheet date.

If the investment contract is subject to a put or surrender option, the fair value of the financial liability is never less than the amount payable on the put or surrender option.

For investment contracts with fixed and guaranteed terms, future benefit payments and premium receipts are discounted using the rates implied by the government zero-coupon yield curve at the relevant balance sheet date. Any adjustments are immediately recognised as income or expense in the income statement.

### Investment contracts with DPF

Within the group all monies invested in investment smoothed bonus portfolios are classified as investment contracts with DPF. The classification between investment and investment contracts with DPF is not done at a contract level, but at a portfolio level within each contract (i.e. a contract can have investment without DPF and investment with DPF component).

For the investment with DPF component, the unit linked financial liability is taken as the value of units attributable to the policyholders along with the bonus stabilisation reserve at the balance sheet date. The bonus stabilisation reserve represents the difference between the bonus declared and what is earned on the underlying policyholder assets.

If the investment contract is subject to a put or surrender option, the value of the financial liability is never less than the amount payable on the put or surrender option.

### Value of business acquired

On acquisition of a portfolio of contracts, either directly from another insurer or through the acquisition of a subsidiary undertaking, the group recognises an intangible asset representing the PVIF. PVIF represents the present value of future profits embedded in acquired insurance contracts. The group amortises the cost of PVIF over the effective life of the acquired contracts on a straight-line basis.

### Reinsurance contracts held

Reinsurance contracts are contracts entered into by the group with reinsurers under which the group is compensated for the entire or a portion of losses arising on one or more of the insurance contracts issued by the group.

The benefits to which the group is entitled under its reinsurance contracts held are recognised as reinsurance assets. These assets consist of short-term balances due from reinsurers (classified within other assets) as well as longer-term receivables (classified as reinsurance assets) that are dependent on the present value of expected claims and benefits arising net of expected premiums payable under the related reinsurance contracts. Amounts recoverable from or due to reinsurers are measured consistently with the amounts associated with the reinsured insurance contracts and in accordance with the terms of each reinsurance contract.

The group reinsurance assets are assessed for impairment. If there is objective evidence that the reinsurance asset is impaired, the group reduces the carrying amount of the reinsurance asset to its recoverable amount and recognises that impairment loss in the income statement.

### Receivables and payables related to insurance contracts and investment contracts

Receivables and payables are recognised when due. These include amounts due to and from agents, brokers and policyholders. If there is objective evidence that the insurance receivable is impaired, the group reduces the carrying amount of the insurance receivable accordingly and recognises that impairment loss in the income statement.

## 10 Loans and advances

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

## Accounting policies continued

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

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

### 11 Impairment of financial assets

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

#### Available-for-sale financial assets

An available-for-sale equity financial instrument is generally considered impaired if a significant or prolonged decline in the fair value of the instrument below its cost has occurred. An available-for-sale debt instrument is impaired if there is objective evidence of impairment, resulting from one or more loss events that occurred after initial recognition but before the balance sheet date, that indicates that it is probable that the group will be unable to collect all amounts due. Where an available-for-sale asset, which has been remeasured to fair value directly through equity, is impaired, the impairment loss is recognised in the income statement. If any loss on the financial asset was previously recognised directly in equity as a reduction in fair value, the cumulative net loss that had been recognised in equity is transferred to the income statement and is recognised as part of the impairment loss. The amount of the loss recognised in the income statement is the difference between the acquisition cost and the current fair value, less any previously recognised impairment loss.

If, in a subsequent period, the amount relating to an impairment loss decreases and the decrease can be linked objectively to an event occurring after the write-down, where the instrument is a debt instrument, the write-down is reversed through the income statement. An impairment loss in respect of an equity instrument classified as available-for-sale is not reversed through the income statement but accounted for directly in equity.

#### Loans and receivables

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

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

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

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

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

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

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

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

Finance charges earned are computed using the net investment method which reflects a constant periodic return

on the investment in the finance lease. Initial direct costs paid are capitalised to the value of the lease amount receivable and accounted for over the lease term as an adjustment to the effective rate of return. The benefits arising from investment allowances on assets leased to clients are accounted for in tax.

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

## 13 Interest in associates and joint ventures

### Associates and jointly controlled entities

An associate is an entity, not being a subsidiary, in which an investment is held and over whose financial and operating policies the group is able to exercise significant influence. Investments in mutual funds in which the group has between 20% and 50% of the economic interest are deemed to be associates.

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

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

Where a mutual fund investment is acquired and held for the purposes of investment activities within the insurance operations, it is not accounted for under the equity method but classified as held at fair value through profit or loss and accounted for on the basis set out in accounting policy 5.

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

### Jointly controlled operations

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

## 14 Goodwill

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

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

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

## 15 Other intangible assets

### Computer software

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

## Accounting policies continued

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.

### Present value of acquired in-force life insurance business

Where a portfolio of life contracts is acquired, the PVIF business on the portfolio, being the net present value of estimated future pre-tax cash flows of the existing contracts, is recognised as an intangible asset and amortised on a straight-line basis at rates appropriate to the expected life of the purchased contracts (five to 15 years). The PVIF is carried in the balance sheet at cost less any accumulated amortisation and impairment losses.

## 16 Fixed assets

### Equipment and owner-occupied properties

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

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

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

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

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

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

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

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

### Investment properties and properties under development

Investment properties are held to earn rental income and for capital appreciation.

Investment properties are reflected at valuation based on open-market fair value at the balance sheet date. If this information cannot be reliably determined, the group uses alternative valuation methods such as discounted cash flow projections or recent prices on active markets. The fair values are the estimated amounts for which a property could be exchanged on the date of valuation between a willing buyer and a willing seller in an arm's length transaction. The open-market fair value is determined annually by independent professional valuers.

Fair value adjustments on investment properties are included in the income statement as investment returns in the period in which these gains or losses arise and are adjusted for any double counting arising from the recognition of lease income on the straight-line basis compared to the accrual basis normally assumed in the fair value determination.

Properties under development are properties not yet available to earn investment returns or for use. Properties under development form part of the carrying value of investment properties. Once development is complete, the properties are transferred to investment properties or owner-occupied properties as appropriate. Properties under development are carried at cost less any required impairment.

## 17 Financial liabilities

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

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

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

## 18 Lessee accounting

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

Leases of assets are classified as operating leases if the lessor effectively retains all the risks and benefits. Payments made under operating leases are charged to the income statement on a straight-line basis over the period of the lease, unless another systematic basis is more representative of the time pattern in which the benefit is derived from the leased asset.

## 19 Provision for leave pay

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

## 20 Other provisions

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

and a reliable estimate of the amount of the obligation can be made.

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

## 21 Tax

### Normal tax

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

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

- temporary differences relating to goodwill;
- the initial recognition of assets and liabilities which affect neither accounting nor taxable profits or losses; and
- investments in subsidiaries and joint ventures (excluding mutual funds) where the group controls the timing of the reversal of temporary differences and it is probable that these differences will not reverse in the foreseeable future.

Deferred tax assets are recognised to the extent that it is probable that future taxable income will be available against which the unused tax losses can be utilised. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of the asset or liability and is not discounted.

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

### Secondary tax on companies (STC)

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

The STC effect of dividends paid on equity instruments is recognised in the period in which the company declares the

## Accounting policies continued

dividend. For financial instruments that are classified as liabilities, the STC relating to any contractual payments is accrued in the same period as the interest accrual.

### Indirect tax

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

## 22 Offsetting

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

## 23 Equity

### Re-acquired equity instruments

Where companies within the group purchase the reporting entity's equity instruments, the consideration paid is deducted on consolidation from total shareholders' equity as treasury shares until they are sold. Fair value changes recognised in the subsidiary's financial statements on equity investments in the holding entity's shares, are reversed on consolidation and dividends received are eliminated against dividends paid. Where such shares are subsequently sold or re-issued, any consideration received is included in shareholders' equity.

### Share issue costs

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

### Dividends on ordinary shares

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

## 24 Equity-linked transactions

### Equity compensation plans

The group operates equity-settled share-based compensation plans. All share options issued after 7 November 2002 that have not vested by 31 December 2004 are accounted for as share-based payment transactions. The fair value of share options is determined on the grant date and is accounted for as an employee services expense over the vesting period of

the share options, with a corresponding increase in the share-based payment reserve. Non-market vesting conditions are not considered in the valuation but are included in the estimate of the number of options expected to vest. At each balance sheet date the estimate of the number of options expected to vest is reassessed and adjusted against income and equity over the vesting period.

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

### Equity participation plans

Where participants use dividends on ordinary shares to repay a purchase consideration for an acquisition of an entity's ordinary equity, the outstanding purchase consideration receivable is not recognised as an asset but is recognised as a reduction in equity as it represents cash flows generated by the entity in the form of the return of ordinary dividends. Equity will be reinstated in future to the extent that the purchase consideration is not backed by the reporting entity's equity.

Consideration paid to acquire the reporting entity's equity instruments for purposes of the Tutuwa transaction concluded in 2004 is therefore recognised as a reduction in equity. The amount receivable from the black participants resulting from the legal transfer of those equity instruments is not recognised as an asset on the basis that it will be recovered from ordinary dividend cash flows generated by the group.

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

## 25 Revenue and expenditure

Revenues described below represent the most appropriate equivalent of turnover.

### Banking operations

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

### Net interest income

Interest income and expenses are recognised in the income statement for all interest-bearing instruments on an accrual basis using the effective interest method. In terms of the

effective interest method, interest is recognised at a rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument to the carrying amount on the financial statements. Direct incremental transaction costs incurred and origination fees received as a result of bringing margin-yielding assets on balance sheet, are capitalised to the carrying amount of financial instruments (excluding financial instruments at fair value through profit or loss) and amortised as interest income over the life of the asset.

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

#### Non-interest revenue

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

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

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

### Insurance contracts

#### Premium income on insurance contracts

Premiums and annuity considerations on insurance contracts, other than in respect of the Lifestyle series of policies and group schemes, are recognised when due. Premiums receivable in respect of group schemes are recognised when there is reasonable assurance of collection in terms of the policy contract. Premiums in respect of the Lifestyle series of policies are recognised on a cash receipt

basis as failure to pay a premium will result in either a lapse of the policy or reduction of attributable fund value. Premium income on insurance contracts is shown gross of reinsurance. Premiums are shown before deduction of commission.

Reinsurance premiums are recognised when due for payment.

#### Claims and policyholders' benefits

Claims on insurance contracts, which include death, disability, maturity, surrender and annuity payments, are charged to income as incurred based on the estimated liability for compensation owed to policyholders. They include claims that arise from events that have occurred up to the balance sheet date even if they have not been reported to the group. The group does not discount its liabilities for unpaid claims other than for disability claims. Liabilities for unpaid claims are estimated using the input of assessors for individual cases reported to the group and statistical analyses for the claims incurred but not reported.

Reinsurance recoveries are accounted for in the same period as the related claim.

#### Acquisition costs for insurance contracts

Acquisition costs for insurance contracts represent commission and other costs (including bonuses payable and company's contribution to agents' pension and medical aid funds) that relate to the securing of new contracts and the renewing of existing contracts.

The FSV method for valuing insurance contracts makes implicit allowance for the deferral of acquisition costs and hence no explicit deferred acquisition cost asset is recognised in the balance sheet for insurance contracts.

#### Commission expense

Commissions, comprising commissions on new insurance and investment policies along with renewal commissions, as well as expenses related thereto including bonuses payable, and the company's contribution to agents' pension and medical aid funds, are shown gross of reinsurance commission received. Commissions relating to unearned premiums are deferred in liabilities on insurance policies and accounted for in the same period in which those premiums are accounted for.

#### Investment contracts

##### Amounts received and claims incurred

Amounts received under investment contracts, such as premiums and investment returns, are recorded as deposits to investment contract liabilities whereas claims incurred are recorded as deductions from investment contract liabilities.

## Accounting policies continued

### Service fees on investment contracts

Service fee income on investment contracts (including contracts with DPF) is recognised on an accrual basis as and when the services are rendered. Fees charged for investment management service contracts in the asset management segment are also recognised on this basis.

### Deferred revenue liability (DRL) on investment contracts

A DRL is recognised in respect of fees, which are directly attributable to a contract, that are charged for securing the investment management service contract. The liability is then recognised as revenue when the services are provided, over the expected duration of the contract.

A DRL has been recognised for all applicable policies on transition to IFRS as at 1 January 2005.

### Deferred acquisition costs (DAC) on investment contracts

Commissions paid and other acquisition costs are incurred when new investment contracts (including those contracts with DPF) are renewed. These costs, if specifically attributable to an investment contract with an investment management service element, are deferred and amortised over the expected life of the contract as they represent the right to receive future management fees. A DAC asset is recognised for all applicable policies with the amortisation being calculated on a portfolio basis.

An impairment test is conducted annually on the DAC balance to ensure that the amount will be recovered from future revenue from the applicable remaining investment contracts.

DAC have been recognised for all applicable policies on transition to IFRS as at 1 January 2005.

### Investment income

Investment income comprises income from financial services activities, rental income from properties, interest and dividends. Dividends are recognised when the right to receive payment is established. Interest and other investment income are accounted for on an accrual basis. Net rental income comprises rental income net of property expenses. Rental income in respect of group owner-occupied properties is eliminated on consolidation.

## 26 Non-current assets and disposal groups held for sale

Non-current assets and disposal groups are classified as held for sale if their carrying amount will be recovered through a sale transaction rather than continuing use. This classification is only met if the sale is highly probable and the assets or disposal groups are available for immediate sale.

Non-current assets held as investments as part of the group's operating activities are not classified as held for sale as ongoing investment management implies regular purchases and sales in the ordinary course of business.

Immediately before classification as held for sale, the measurement (carrying amount) of assets and liabilities in relation to a disposal group is recognised based upon the appropriate IFRS standards. On initial recognition as held for sale, the non-current assets and liabilities are recognised at the lower of the carrying amount and fair value less costs to sell. Any impairment losses on initial classification as held for sale are recognised in the income statement.

Non-current assets and disposal groups held for sale are reclassified immediately when there is a change in intention to sell. Subsequent measurement of the asset or disposal group at that date, is the lower of:

- its carrying amount before the asset or disposal group was classified as held for sale, adjusted for any depreciation, amortisation or revaluations that would have been recognised had the asset or disposal group not been classified as held for sale; and
- its recoverable amount at the date of the subsequent decision not to sell.

## 27 Post-retirement benefits

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

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

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

The group's current service costs to the defined benefit funds are recognised as expenses in the current year. Past service costs, experience adjustments and the effect of changes in actuarial assumptions are recognised as expenses or income in the current year to the extent that they relate to retired employees or past service. For active employees,

these items are recognised as expenses or income systematically over a period not exceeding the expected remaining service period of employees.

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

## 28 Segment reporting

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

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

## 29 Fiduciary activities

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

## 30 Comparative figures

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

Accounting policies *continued*

## Standards and interpretations not yet effective

	<i>Standard/interpretation</i>	<i>Effective date<sup>1</sup></i>
IFRS 6	<p>Exploration for and Evaluation of Mineral Resources</p> <p>This statement is not applicable to the business of the group.</p>	Annual periods commencing on or after 1 January 2006
IFRS 7	<p>Financial Instruments: Disclosures (including amendments to IAS 1, Presentation of Financial Statements: Capital Disclosures)</p> <p>The statement deals mainly with the disclosure of financial instruments and the related qualitative and quantitative risks. Most of these disclosure requirements are currently provided in terms of IAS 30 and IAS 32. The statement will therefore not impact the results of the group but will impact the format of disclosure of financial instruments.</p>	Annual periods commencing on or after 1 January 2007
IAS 19 amendment	<p>Employee Benefits (December 2004)</p> <p>The statement permits an entity to recognise all actuarial gains and losses in the period in which they occur, outside profit or loss, in a statement of recognised income and expense. The group will consider the appropriateness of this option.</p>	Annual periods commencing on or after 1 January 2006
IAS 39 amendment	<p>Financial Instruments: Recognition and Measurement (April 2005) – Cash flow hedge accounting of forecast intragroup transactions</p> <p>The amendment to IAS 39 allows the designation, as a hedged item in consolidated financial statements, of the foreign currency risk of a highly probable forecast intragroup transaction under certain conditions. The group will consider the amendment but the application is expected to be limited.</p>	Annual periods commencing on or after 1 January 2006
IAS 39 amendment	<p>Financial Instruments: Recognition and Measurement (June 2005) – Fair value option</p> <p>The revisions to IAS 39 restrict the extent which entities can designate a financial asset or financial liability as fair value through profit or loss only to specific situations. The statement is not expected to reduce the group's current application of the fair value option materially.</p>	Annual periods commencing on or after 1 January 2006
IAS 39 and IFRS 4 amendment	<p>Financial Instruments: Recognition and Measurement (August 2005) and Insurance Contracts – Financial Guarantee Contracts</p> <p>Under the revised statements the issuer of a financial guarantee contract would generally measure the contract:</p> <ul style="list-style-type: none"> <li>• initially at fair value; and</li> <li>• subsequently at the higher of the amount determined in accordance with IAS 37 and the amount initially recognised less, when appropriate, cumulative amortisation.</li> </ul> <p>The group's current policy is substantially in line with this approach and no significant adjustment is expected.</p>	Annual periods commencing on or after 1 January 2006

<sup>1</sup>The group will comply with the new standards and interpretations from the effective date.

## Standards and interpretations not yet effective

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

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

## 1 Segment reporting

2005	Domestic Banking			Total Rm
	Personal & Business Banking SA Rm	Corporate & Investment Banking SA Rm	Other domestic operations Rm	
Income from banking operations	16 434	6 451	(99)	22 786
Net interest income	8 474	2 400	(191)	10 683
Interest income	19 899	19 541	(5 494)	33 946
Interest expense	11 425	17 141	(5 303)	23 263
Non-interest revenue	7 960	4 051	92	12 103
Fee and commission revenue	7 445	1 412	(27)	8 830
Trading revenue	–	1 577	4	1 581
Other revenue	515	1 062	115	1 692
Income from life insurance operations	–	–	–	–
Net insurance premiums	–	–	–	–
Investment income and gains	–	–	–	–
Management and service fee income	–	–	–	–
Total income	16 434	6 451	(99)	22 786
Credit impairment charges	1 273	(2)	(21)	1 250
Benefits due to policyholders	–	–	–	–
Net insurance benefits and claims	–	–	–	–
Fair value adjustment to policyholders' liabilities under investment contracts	–	–	–	–
Fair value adjustment on third party fund interests	–	–	–	–
Income after credit impairment charges and policyholders' benefits	15 161	6 453	(78)	21 536
Operating expenses in banking operations	9 727	2 649	(319)	12 057
Staff costs	3 172	1 455	2 051	6 678
Other operating expenses	6 555	1 194	(2 370)	5 379
Operating expenses in life insurance operations	–	–	–	–
Acquisition costs – insurance and investment contracts	–	–	–	–
Other operating expenses	–	–	–	–
Net income before goodwill	5 434	3 804	241	9 479
Goodwill impairment	13	–	–	13
Net income from banking and insurance	5 421	3 804	241	9 466
Income from associates and joint ventures	141	58	–	199
Net income before indirect taxation	5 562	3 862	241	9 665
Indirect taxation	222	75	165	462
Profit before direct taxation	5 340	3 787	76	9 203
Direct taxation	1 686	528	(98)	2 116
Profit for the year	3 654	3 259	174	7 087
Attributable to minorities	–	1	(1)	–
Attributable to preference shareholders	–	–	–	–
Attributable to ordinary shareholders	3 654	3 258	175	7 087
Headline earnings	3 664	3 213	114	6 991
Return on equity (%)	31,2	40,6	–	33,6
Average ordinary shareholders' equity	11 757	7 913	1 110	20 780
Cost-to-income ratio (%)	59,2	41,1	–	52,9
Net interest margin (%)	4,81	1,56	–	3,16
Credit loss ratio (%)	0,73	(0,00)	–	0,50
Total assets	197 897	246 674	7 467	452 038
Average assets (excluding derivatives)	176 181	154 044	7 319	337 544
Total liabilities	184 922	238 122	5 923	428 967
Interest in associates and joint ventures	203	561	–	764
Capital expenditure	435	154	488	1 077
Depreciation and amortisation	328	130	206	664
Impairment of non-financial assets	13	–	–	13
Number of employees	17 653	3 213	7 652	28 518