Standard International Holdings S.A. 08

Consolidated Annual Report

Standard Bank

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Directors' report

The directors present their report and accounts for the year ended 31 December 2008.

Basis of preparation

Although exempt under Luxembourg company law 1915 Article 316, the directors wish to prepare consolidated financial statements. The company is incorporated in Luxembourg, whilst the company's principal operating subsidiary, Standard Bank Plc, is incorporated in the United Kingdom. The directors therefore consider it appropriate that these financial statements be prepared in accordance with International Financial Reporting Standards ('IFRSs') as adopted by the EU. Accordingly, the company's consolidated financial statements have been prepared under IFRSs as adopted by the EU and as if the Companies Act 1985 had applied to the company. Also, as permitted under Luxembourg company law, the financial statements have been prepared in United States dollars.

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$160 billion and employing 50,000 people worldwide, the Standard Bank Group is one of Africa's leading banking and financial services organisations. In November 2007 Standard Bank Group announced a major strategic partnership with Industrial and Commercial Bank of China Limited ('ICBC'), the world's largest bank by market capitalisation, which resulted in ICBC becoming a 20% shareholder in the Standard Bank Group.

The Standard Bank Group operates within three key business segments: Personal & Business Banking, Corporate & Investment Banking and Investment Management & 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 segment of the Corporate & Investment Banking business of the Standard Bank Group. The business acquired in Argentina also includes an element of retail operations. SIH's principal operating subsidiary is Standard Bank Plc ('SB Plc'). SIH's other main operating subsidiaries include Standard Bank Asia Limited (Hong Kong), Standard Bank Argentina S.A. (Argentina), Standard New York, Inc. (America), Banco Standard de Investimentos S.A. (Brazil), ZAO Standard Bank (Russia) and Standard Ünlü Menkul Degerler (Turkey).

Principal activities and product areas

The principal activity of the company continues to be the holding of investments in subsidiaries.

The company provides, through its subsidiaries (together 'the group'), an extensive range of investment banking, financial and related services throughout the world. Details of the group's principal subsidiary undertakings are listed in note 33 of the financial statements.

Standard Bank 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).

Standard Bank Asia Limited is a fully licensed bank in Hong Kong regulated by the Hong Kong Monetary Authority and a registered institution with the Securities and Futures Commission. In Tokyo Standard Bank Plc has a non-banking branch which is regulated by the Ministry of Economy, Trade and Industry, and a subsidiary, Standard Capital Japan Co. Limited.

Standard New York Securities, Inc. is registered with the Securities and Exchange Commission as a broker/dealer and is a member of the Financial Industry Regulatory Authority. Standard Americas, Inc. is registered with the Commodity Futures Trading Commission as a commodity trading adviser and commodity pool operator, and is a member of the National Futures Association.

ZAO Standard Bank is a licensed bank in the Russian Federation regulated by the Central Bank of Russia. It also holds a securities license from the Federal Services and Securities Market, a precious metals license from the Central Bank of Russia and a precious metals export license from the Ministry of Foreign Trade.

Banco Standard de Investimentos S.A. is licensed by the Central Bank of Brazil for investment banking activities. An additional investment of US$120 million to support business expansion was made into Banco Standard de Investimentos S.A. in June 2008.

In Argentina the group holds a 75% interest in Standard Bank Argentina S.A. The bank acts as a universal bank, serving retail customers, small to medium sized companies and corporates. Standard Bank Argentina S.A. is licensed by the Central Bank of Argentina.

In Turkey the group holds a majority interest in Standard Ünlü, a licensed securities and brokerage house regulated by the Turkish Capital Markets Board. The group also subscribed for 38,333,000 YTL1 shares on 7 February 2008. On 7 April 2008 the sale of Standard Yatirim Menkul Degerler, was completed for US$8.7 million, resulting in a net gain of US$2.7 million.

Directors' report continued

Principal product areas

Global Markets Division

The Global Markets division comprises all customer-driven market-making activities across the full spectrum of traded risk namely, the trading of interest rate, FX, credit, equity and commodity risk together with the funding activities of the group. The division seeks to originate exposures directly from clients or market-making activities which are repackaged and traded with market participants, asset managers and other clients through the group's distribution network. A comprehensive range of foreign exchange, money markets, interest rate and commodity products are provided, ranging from simple risk management tools to sophisticated investment structures. The division's expertise extends across all the major metals and the major and developing market currencies.

Investment Banking Division

Investment Banking

The Investment Banking division provides a full suite of cross border advisory and financing solutions to clients, ranging from corporate loans and bond issues to highly structured products across the equity and debt capital markets. Key structured product areas include Project Finance, Structured Trade and Commodity Finance, Acquisition and Leverage Finance, Asset and Lease Finance, Islamic Finance and Securitisation. The business focuses on emerging economies and offers specialised expertise in the group's key coverage sectors. The division works closely with the Client Coverage and Distribution team to provide bespoke client solutions.

Emerging Markets Asset Management

The Emerging Markets Asset Management business houses the group's alternative investment related activities of Private Equity, Real Estate, Special Situations and Asset Management (Traded Markets).

Private Client Services

Private Client Services ('PCS') leverages the group's expertise in emerging markets and high yield assets into investment products that can be distributed to individual investors on a wholesale basis. PCS serves high net worth clients through the group's developing banking network. By distributing a combination of the group's specialist developing markets and resources product range, PCS complements the established private banking, asset management and fiduciary activities in the Standard Bank Group.

Client Coverage and Distribution

The Client Coverage and Distribution division entrenches client centricity into the business operating model of the group. It is responsible for the servicing of the group's core client relationships both for Global Markets and Investment Banking. The division locates itself across the globe to be close to and help key clients exploit relevant market opportunities and ideas across the group's emerging markets footprint. The division centres on client interaction and advice but will provide solutions on the financing, hedging of market exposures, and an ability to distribute risk to the group's global investor base. The Coverage team has a number of specialised sector teams, namely Oil, Gas and Renewables; Telecoms and Media; Financial Institutions and Power and Infrastructure. The group is supported by a Research team, which provides relevant market and corporate research around the relevant core sectors and market driven research around Africa and commodities.

Other

Personal and Business Banking provides a full range of banking and other financial services to individual customers and small to medium sized enterprises. The main products for individuals comprise of investment and transactional products such as term deposits, mutual funds, current accounts and saving accounts, and lending products including mortgages, personal loans, car loans, as well as payroll services, credit card servicing and insurance. The targeted segment includes the upper and middle level of the socio-economic pyramid.

The main product offering for small to medium size companies include cash management, trade services, current accounts, leasing, commercial lending, and import/export financing.

The Argentina Personal and Business Banking division is supported through different channels, including 93 branches covering almost all the country, an ATM network with national coverage, phone and internet access.

Market conditions and developments

The international business delivered a strong performance for the year, in line with 2007. Achieving this level of performance was especially pleasing given the chaotic events in the rapidly deteriorating market place that was the feature of 2008. All banks were fully tested throughout the year and the group was not immune to the significant market turbulence and de-leveraging of the financial markets which took place. The senior management, working closely as a global team, ensured the necessary management actions were executed swiftly and diligently and that the group's liquidity and capital ratios were robust at all times.

Looking forward it is anticipated that the international markets will remain very challenging in a recessionary environment with the likelihood of continued depressed commodities prices. In the emerging markets, capital investment is likely to decline over the coming year but the quantum of this will vary by region. The group will ensure its strategy and operating model is responsive to the market conditions it may face over the coming year and will take advantage of the opportunities which will be forthcoming in its key markets.

The group is particularly well positioned to take advantage of any cross border flows notably between Africa and China, India and

Directors' report continued

Brazil, and Russia and China respectively. The ICBC relationship has proved to be an important driver for business in 2008 and it is anticipated this will continue for many years to come.

Good progress was made on the investment on the infrastructure with further trading platforms being implemented during the year including a major system roll out of the Rates and FX business trading platform. The group also applied to the FSA for model accreditation for its Credit Trading business at the end of the year, which if approved will enable the business to move to a CAD2 capital adequacy environment. This together with the aim to achieve Basel II AIRB regulatory approval will provide the business with an enhanced risk management platform and a more capital efficient operating model going forward.

SIH's long-term credit ratings from Moody's Investors Service (Baa1) and from Fitch Ratings (A-) remained unchanged during the year, as well as the short-term ratings remaining unchanged.

Performance by division

Global Markets Division

During the year, as part of the group's overall divisional restructuring, the sales and trading capabilities of the group's Precious & Base Metals and Energy trading businesses were transferred to Global Markets. These trading desks now sit along side the Foreign Exchange, Local Markets and Credit Trading businesses to provide a centralised trading group with a single management platform and a common approach to risk management across all trading aspects of the business.

This newly enlarged trading group performed exceptionally well during the year, increasing revenues and returns substantially when compared to the prior year. The division's client driven trading model continued to operate successfully despite the difficult market conditions and was well positioned to take advantage of the widening credit spread environment and volatile market conditions which existed. The geographic and product diversity of the division built over prior years also provided a more stable income stream than would otherwise have been the case with countries such as Argentina, Russia and Singapore proving particularly resilient and Precious & Base Metals and Local Markets proving to be key product revenue generators over the year.

Investment Banking Division

Investment Banking

In spite of the challenging market conditions, Investment Banking posted strong results, ahead of the prior year.

Business development achieved during the year included the successful consolidation and restructuring of the various financing and advisory functions into a single Investment Banking division which is now fully aligned globally. In addition, a Merger and Acquisition team was established to facilitate clients needs in terms of cross border transactions between the group's core geographies of Africa, China, Brazil, Turkey and Russia.

The structured product teams performed well and generated considerable revenue using a diverse number of structures including a number with equity-linked performance fees. The Commodity Finance business in Asia and the Project Finance team also posted strong results. The division continues to be supported by the Business Administration and Transaction Management Unit which came into its own during the year and proved its worth as a highly effective front office risk management, deal execution and transaction monitoring function.

Looking ahead to 2009, the division will focus on developing its cross border Advisory capability globally and consolidating its core product capability and client relationships with the view to maximising any cross-sell potential across its products.

Emerging Markets Asset Management

The Private Equity business continued to grow its emerging market franchise based on two key components; the callibre of its team and its investment track record and its focus on markets where, through Standard Bank Group's franchise and network, the group has real differentiation.

The Special Situations team produced pleasing positive results for 2008, an achievement in a year where the vast majority of funds and proprietary desks were down significantly. Geographic diversification played a key role with the Asian NPL/ distressed debt portfolio performing particularly well, offset by negative performance in African and Latin American local currency assets. Given the recent proliferation of distressed assets and sellers thereof, it is anticipated that there will be a number of extremely attractive debt investment opportunities for the team to consider over the next two years.

During the year the Asset Management (Traded Markets) business was buffeted by the market conditions in its core markets of emerging market debt and corporate high yield bonds and by client redemptions.

Private Client Services

In spite of the unprecedented financial events that prevailed during 2008, Private Client Services experienced revenue growth over the year. Good progress was made at the Family Office client level across the key target regions of Eastern Europe and the Middle-East.

The team worked closely with the other divisions on the wholesale side of the group to enhance its product capability to private clients. A number of the Family Office clients have been included in the wholesale bank client coverage model with a view to working more closely with other divisions in the future.

Looking ahead to 2009, Private Client Services will continue to actively market key Family Offices and deepen its coverage of target geographies.

Directors' report continued

Client Coverage and Distribution

The Coverage teams in the Oil, Gas and Renewables, Power and Infrastructure, and Telecoms and Media sectors all showed strong growth during the year. The group was on hand to offer its services to the companies within these sectors as they faced the financial challenges of the year which required, inter alia, strategic advice, innovative financing structures and hedging against volatile market exposures.

The Distribution team also performed well, as fixed income and credit market volatility helped customer flow. The unwinding of local currency exposures and distressed selling of high yielding assets were the dominant themes, with the team's ability to intermediate these flows to selective value investors continuing to be a very strong source of low or non-risk revenue.

Greater emphasis was placed on supporting the group's strong China and Africa link. Specifically, a client coverage team within China has been established and is working closely with colleagues in ICBC, to help unlock the potential to participate in trade and investment flows between China, Africa and other emerging markets.

Looking ahead into 2009, the strong drivers of activity will be around advice, financing and hedging within the core sectors of Oil, Gas and Renewables, Telecoms and Media and Power and Infrastructure. It is expected that the distribution market will remain tough, but will slowly open up as the market begins to regain confidence. The group's connectivity to specialist investors will continue to allow the bank to find buyers for properly priced and well structured risk.

Performance by region

The Americas

The Americas recorded notable success across the region particularly in Argentina and New York. In New York the group avoided the sub-prime and leveraged loan exposure that devastated many of its competitors. In Investment Banking, revenues were on budget with strong performances coming from the Oil and Gas, Telecom and Media, and Mining sector teams.

In Argentina, the group performed well in the face of difficult local conditions that damaged the international investor's view of the country. Credit risk was held to a minimum and Global Markets had a record breaking year in Foreign Exchange and Local Markets. Domestic Lending and Transactional Banking also had very strong results.

A major strategic initiative commenced during the year to significantly develop the group's footprint in Brazil. This has successfully resulted in a build up in Mergers & Acquisitions, Project Finance, Structured Solutions and Trade Finance product groups. In addition there were further key hires in sector coverage in Power & Infrastructure, Telecom & Media, Mining & Metals and Financial Institutions together with the necessary investment in the infrastructure to support this initiative.

Asia

Asia reported satisfactory results for 2008 given the prevailing market conditions. Revenues for all business divisions were marginally down on 2007. This illustrates the strength, resilience and diversity of the business across the region.

Despite the weaknesses in the Asia economies and volatile market conditions in the region, there were extremely strong performances from the Precious & Base Metals, Commodity Finance and Structured Solutions.

The prospects for the region remain very positive for 2009, especially with regard to the group's Chinese growth initiatives. The new offices in Beijing, supporting the group's ICBC strategic partnership opened for business in February, 2009.

During the year the group successfully completed a series of major enhancements in its operating model in the region and related platform structure to improve capital efficiency and reduce costs. This will provide a scalable and flexible infrastructure for the future growth.

CEEMECA

Despite the turbulent year in the Russian market, the group's Russian activities experienced significant growth through lucrative restructuring opportunities presented by the difficult market conditions. The Moscow based management team was augmented with senior hires and the seconding of experienced employees from elsewhere in the Standard Bank Group.

The integration of Standard Ünlü during the year proved a success with the Istanbul based execution teams being closely supported by Standard Bank personnel elsewhere on a number of high profile deals. In particular, there were significant transactions in the Power and Infrastructure sector where the value of Ünlü's local relationships combined well with the group's product expertise to deliver strong customer solutions.

In the Middle East, the DIFC regulated Dubai Branch, continued to be the hub for regional business development. The year 2008 saw a significant growth in the business from the Telecoms & Media sector in the region in particular.

Other changes in subsidiary shareholdings

In 2007, on the acquisition of Standard Bank Argentina S.A., Standard Bank London Holdings Plc entered into an option agreement with the minorities whereby they could acquire sufficient shares to take their holding from 23.32% to 25% in 2008 and to 30% in 2009. On 15 October 2008 the minorities exercised their option and increased their holding to 25%, thus reducing the holding of Standard Bank London Holdings Plc to 75%.

Financial results

The group's results for the period are shown in the consolidated income statement on page 13. Profit attributable to Standard Bank Group shareholders at US$136.7 million was US$66.0

Directors' report continued

million lower than the prior year, primarily due to the profit on the Argentina acquisition of US$54 million included in 2007. Notwithstanding significantly increased credit impairment charges and losses incurred on equity portfolios held, the net income from operations was up from US$206.4 million in 2007 to US$229.5 million following strong performances by the core businesses within Global Markets and Investment Banking. The operating return on equity of 7.6% (2007: 12.5%) decreased as a consequence of an increased equity base. The substantially improved cost to income ratio of 72.1% (2007: 77.3%) reflects the increase in operating revenue and the benefits of cost management initiatives. The effective tax rate increased in the year to 36.5% (2007: 19.6%) due mainly to a greater proportion of profits being earned in higher tax jurisdictions and due to higher non-deductible costs being incurred in the group.

The amendment to the accounting standard IAS 39 recognised the impact of the extreme market conditions on asset trading strategies and allowed for the transfer of trading book assets to the banking book. Trading assets with a combined value of US$531.1 million at transfer date, are now held at amortised cost.

Total assets increased to US$40 292.1 million from US$37 965.5 million in the prior year, primarily as a result of selective increases in lending and substantially higher derivatives balances following increased trading activity and market volatility. Reductions in trading assets and loans granted under resale agreements reflect risk reduction management actions.

Capital resources

At the year-end the group's equity capital resources amounted to US$2 148.4 million (2007: US$1 567.9 million) and total capital resources qualifying for prudential purposes amounted to US$2 710.4 million (2007: US$2 273.3 million). The substantial increase in the regulatory capital base has been in response to the extreme market conditions and potential impacts on the group's capital position. The group remains well capitalised with a capital adequacy ratio of 13.5% (2007: 16.9%) and a core Tier 1 ratio of 9.8% (2007: 9.7%).

During the year Standard Bank London Holdings issued US$300 million preference share capital and US$200 million share capital to Standard Bank Group International Limited which is included in the SIH group capital resources.

Subordinated debt instruments of US$100 million and €43 million held by Standard Bank Group entities, and which qualified as regulatory capital, were redeemed in the year. In December 2008 SIH's main subsidiary, Standard Bank Plc, bought back Subordinated Floating Rate Notes redeemable in 2015 and Perpetual Subordinated Notes with notional values of US$10.4 million and US$58.3 million respectively, held by parties external to the Standard Bank Group.

We expect to maintain the Core Tier 1 ratio at levels which significantly exceed the minimum requirements of the Financial Services Authority, for the duration of the current period of financial and economic stress.

Risk management

The effective management of risk is fundamental to the business activities of SIH as we remain committed to the objective of increasing shareholder value by developing and growing business that is consistent with our agreed risk appetite.

The group had a strong focus on managing credit risk in the current environment by means of a number of management actions including early response to credit changes, credit portfolio analysis and stress testing, specific reviews and sector analysis. This process has been enhanced in 2008 by the formation of a Credit Risk Review team in late 2007 who in 2008 undertook a review of all credit portfolios and the credit approval processes in every region where assets are booked. This has proved to be particularly helpful in early identification of problem concentrations within specific portfolios and allowed the group to take proactive action to minimise loss.

A strong liquidity profile was maintained throughout the rapidly deteriorating market place that was a feature of 2008, specifically taking a number of management actions following the market crisis of September 2008 to ensure that liquidity cushions above the minimum requirements were maintained at a high level, on precautionary grounds. In the current market environment, access to and the shortage in wholesale term funding has been one of the key challenges for all financial institutions. Our diversified funding base, comprising a combination of corporate and institutional deposits, interbank deposits and longer term funding from a variety of Standard Bank Group sources, has grown over the year and has allowed us to meet these market challenges. The Standard Bank Group will ensure that, except in the case of political risk, and unless specifically excluded by local public notice, that the banking entities within SIH are able to meet their contractual liabilities.

The key risks and risk management processes and policies are set out in note 31 of this report.

Directors' report continued

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)
J E Bodoni
J K Knott
R A G Leith
S P Ridley

Mr. D F Dugmore resigned on 16 March 2008 and Ms J K Knott was appointed on 16 March 2008.

None of the directors held any beneficial interest in the ordinary share capital of the company or any of its subsidiaries during the year or at 31 December 2008.

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 that information.

Transactions with directors and related parties
No loans, arrangements or agreements require disclosure under the Companies Act 1985 or International Accounting Standard 24 regarding transactions with related parties other than those shown in the notes to the financial statements.

Directors' liability insurance
The company's main operating subsidiaries have maintained directors' and officers' liability insurance during the year.

Employees
It is the group'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 group, every effort will be made to ensure continued employment, with appropriate training if necessary.

Employee involvement in the group's business is encouraged and information is disseminated through communication meetings and group newsletters.

The group 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.

Auditors
KPMG Audit Plc have indicated their willingness to continue as auditors of the group. Accordingly, a resolution is to be proposed at the annual general meeting for the reappointment of KPMG Audit Plc as auditors of the group.

By order of the board

JKnott

J.K. Knott
Director
25 February 2009

180 rue des Aubépines
L-1145 Luxembourg
Registered in Luxembourg No 39445

Directors' responsibility for financial reporting

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

Company law requires the directors to prepare group financial statements for each financial year. Under that law they have elected to prepare the financial statements in accordance with IFRSs as adopted by the EU and applicable law.

The group financial statements are required by law to present fairly the financial position and the performance of the group; 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 group financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether they have been prepared in accordance with IFRSs as adopted by the EU; and
- prepare the group financial statements on the going concern basis unless it is inappropriate to presume that the group 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 company and enable them to ensure that its financial statements comply with the Companies Act 1985. They have 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.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the company's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Independent auditors' report to the members of Standard International Holdings S.A.

We have audited the financial statements of Standard International Holding S.A. for the year ended 31 December 2008 which comprise the Income Statement, the Balance Sheet, the Cash Flow Statement, the Statement of Changes 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 financial statements in accordance with applicable law and International Financial Reporting Standards (IFRSs) as adopted by the EU are set out in the Statement of Directors' Responsibilities on page 10.

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 whether the financial statements have been properly prepared in accordance with the Companies Act 1985. We also report to you whether in our opinion the information given 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 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 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 IFRSs as adopted by the EU, of the state of the group's affairs as at 31 December 2008 and of its profit for the year then ended;
- the group financial statements have been properly prepared in accordance with the Companies Act 1985; 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
25 February 2009

Consolidated balance sheet at 31 December 2008

	Note	2008 $m	2007 $m
Assets			
Cash and balances with central banks	3	**621.0**	371.2
Derivative assets	4	**11 265.6**	7 329.1
Trading assets	5	**5 324.2**	9 375.8
Pledged assets	6	**271.1**	26.2
Financial investments	7	**395.4**	369.7
Loans and advances	8	**21 311.0**	19 853.7
Loans and advances to banks	8	**9 240.6**	7 675.8
Loans and advances to customers	8	**12 070.4**	12 177.9
Other assets	9	**806.4**	418.1
Current tax asset	10	**5.7**	15.6
Deferred tax asset	10	**66.1**	36.0
Interest in associates and joint ventures	11	**3.7**	0.5
Goodwill and other intangible assets	12	**111.3**	91.3
Property and equipment	13	**110.6**	78.3
Total assets		**40 292.1**	37 965.5
Liabilities and equity			
Liabilities		**38 143.7**	36 397.6
Derivative liabilities	4	**11 087.5**	8 258.5
Trading liabilities	14	**2 064.4**	3 694.7
Deposit and current accounts	15	**23 163.1**	22 484.4
Deposits from banks	15	**15 458.9**	16 136.9
Deposits from customers	15	**7 704.2**	6 347.5
Other liabilities	16	**1 018.5**	946.6
Current tax liability	17	**91.8**	54.4
Deferred tax liability	17	**3.3**	3.7
Subordinated debt	18	**715.1**	955.3
Equity		**2 148.4**	1 567.9
Equity attributable to ordinary shareholders		**1 345.6**	1 301.9
Ordinary share capital	23.1	**33.5**	33.5
Ordinary share premium	23.1	**508.9**	508.9
Reserves		**803.2**	759.5
Minority interest attributable to the Standard Bank Group	23.2	**721.5**	203.8
External minority interest	23.2	**81.3**	62.2
Total liabilities and equity		**40 292.1**	37 965.5

The accounting policies and notes on pages 16 to 83 should be read as part of the financial statements.

Approved by the Board of Directors and signed on its behalf on 25 February 2009.

J.H. Maree, Chairman

J.K. Knott, Director

Consolidated income statement for the year ended 31 December 2008

	Note	2008 $m	2007 $m
Net interest income		**469.4**	240.7
Interest income	25.1	**1 423.1**	896.2
Interest expense	25.2	**(953.7)**	(655.5)
Non-interest revenue		**791.6**	774.3
Net fees and commission		**232.2**	200.7
Fees and commission revenue	25.3	**306.5**	251.4
Fees and commission expenses	25.4	**(74.3)**	(50.7)
Trading revenue	25.5	**517.4**	545.4
Other revenue	25.6	**42.0**	28.2
Net income		**1 261.0**	1 015.0
Credit impairment charges	25.7	**(122.4)**	(23.5)
Net income after impairment charges		**1 138.6**	991.5
Operating expenses		**(909.1)**	(785.1)
Staff costs	25.8	**(540.6)**	(518.6)
Other operating expenses	25.9	**(368.5)**	(266.5)
Net income from operations		**229.5**	206.4
Gain on acquisition		**-**	54.2
Income / (loss) from associates and joint ventures	11	**12.3**	(0.1)
Profit before income tax		**241.8**	260.5
Income tax expense	26	**(88.3)**	(51.0)
Profit for the period		**153.5**	209.5
Profit attributable to minorities outside the Standard Bank Group		**(16.8)**	(6.8)
Profit attributable to Standard Bank Group companies		**136.7**	202.7
Profit attributable to Standard Bank Group minority		**(27.3)**	-
Profit attributable to equity shareholders		**109.4**	202.7

The accounting policies and notes on pages 16 to 83 should be read as part of the financial statements.

Consolidated statement of changes in shareholders' equity

for the year ended 31 December 2008

	Ordinary share capital and share premium $m	Available-for-sale reserve $m	Cash flow hedging reserve $m	Foreign currency translation reserve $m	Foreign currency hedge of net investment reserve $m	Long-term incentive reserve[1] $m	Other non-distributable reserve[2] $m	Statutory reserve[3] $m	Retained earnings $m	Ordinary shareholders' equity $m	Standard Bank Group minority[4] $m	Other minority interest $m	Total equity $m
Balance at 1 January 2007	150.7	-	8.6	17.1	(6.0)	17.6	143.0	2.2	372.7	705.9	100.0	7.2	813.1
Total recognised income for the year	-	(3.8)	(9.3)	22.3	(11.7)	1.9	-	-	204.9	204.3	(96.2)	55.0	163.1
Profit attributable to equity shareholders	-	-	-	-	-	-	-	-	202.7	202.7	-	6.8	209.5
Items recognised directly in reserves	-	(3.8)	(9.3)	22.3	(11.7)	1.9	-	-	2.2	1.6	(96.2)	48.2	(46.4)
- Acquisition of subsidiaries	-	-	-	-	-	-	-	-	-	-	-	54.7	54.7
- Available-for-sale investments	-	(3.8)	-	-	-	-	-	-	-	(3.8)	-	(2.5)	(6.3)
- Cash flow hedge fair value change	-	-	2.6	-	-	-	-	-	-	2.6	-	-	2.6
- Hedge transferred to income statement	-	-	(15.9)	-	(11.7)	-	-	-	-	(27.6)	-	-	(27.6)
- Deferred tax on hedges	-	-	4.0	-	-	-	-	-	-	4.0	-	-	4.0
- Increase in minority interest	-	-	-	-	-	-	-	-	-	-	(100.0)	-	(100.0)
- Long-term incentive transactions	-	-	-	-	-	1.9	-	-	-	1.9	-	-	1.9
- Other direct reserve movements	-	-	-	-	-	-	-	-	2.2	2.2	3.8	(4.0)	2.0
- Translation of subsidiary companies	-	-	-	22.3	-	-	-	-	-	22.3	-	-	22.3
Issue of share capital and share premium	391.7	-	-	-	-	-	-	-	-	391.7	200.0	-	591.7
Balance at 31 December 2007	542.4	(3.8)	(0.7)	39.4	(17.7)	19.5	143.0	2.2	577.6	1 301.9	203.8	62.2	1 567.9
Balance at 1 January 2008	**542.4**	**(3.8)**	**(0.7)**	**39.4**	**(17.7)**	**19.5**	**143.0**	**2.2**	**577.6**	**1 301.9**	**203.8**	**62.2**	**1 567.9**
Total recognised income for the year	**-**	**4.2**	**(39.0)**	**(97.8)**	**62.9**	**(5.8)**	**-**	**-**	**119.2**	**43.7**	**517.7**	**19.1**	**580.5**
Profit attributable to equity shareholders	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**109.4**	**109.4**	**27.3**	**16.8**	**153.5**
Items recognised directly in reserves	**-**	**4.2**	**(39.0)**	**(97.8)**	**62.9**	**(5.8)**	**-**	**-**	**9.8**	**(65.7)**	**490.4**	**2.3**	**427.0**
- Acquisition of subsidiaries	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
- Available-for-sale investments	**-**	**2.8**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**2.8**	**-**	**0.8**	**3.6**
- Hedge fair value change recorded in equity	**-**	**-**	**(77.0)**	**-**	**62.9**	**-**	**-**	**-**	**-**	**(14.1)**	**-**	**-**	**(14.1)**
- Hedge transferred to income statement	**-**	**-**	**21.0**	**-**	**-**	**-**	**-**	**-**	**-**	**21.0**	**-**	**-**	**21.0**
- Deferred tax on hedges	**-**	**2.0**	**17.0**	**-**	**-**	**-**	**-**	**-**	**-**	**19.0**	**-**	**0.4**	**19.4**
- Change in minority interest	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**0.6**	**0.6**	**500.0**	**3.8**	**504.4**
- Long-term incentive transactions	**-**	**-**	**-**	**-**	**-**	**(5.8)**	**-**	**-**	**-**	**(5.8)**	**-**	**-**	**(5.8)**
- Other direct reserve movements	**-**	**(1.0)**	**-**	**-**	**-**	**-**	**-**	**-**	**9.2**	**8.2**	**(9.6)**	**4.6**	**3.2**
- Translation of subsidiary companies	**-**	**0.4**	**-**	**(97.8)**	**-**	**-**	**-**	**-**	**-**	**(97.4)**	**-**	**(7.3)**	**(104.7)**
Issue of share capital and share premium	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Balance at 31 December 2008	**542.4**	**0.4**	**(39.7)**	**(58.4)**	**45.2**	**13.7**	**143.0**	**2.2**	**696.8**	**1 345.6**	**721.5**	**81.3**	**2 148.4**

[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.

[2] Other non-distributable reserves relates to the capitalisation of reserves in Standard Bank Plc, a subsidiary company, created during 2003 on the issue of one 'A' ordinary share to the group's ultimate parent company, Standard Bank Group Limited.

[3] Legal reserve in accordance with Luxembourg company law.

[4] During the year Standard Bank London Holdings (67.1% effective holding), issued US$200 million ordinary share capital and US$300 million preference share capital. All held 100% within the Standard Bank Group.

Consolidated cash flow statement for the year ended 31 December 2008

	Note	2008 $m	2007 $m
Cash flows from operating activities			
Profit for the period		229.5	206.4
Adjusted for:			
Amortisation of intangible assets		11.9	3.6
Cash-settled share-based payments		(13.8)	8.5
Credit impairment charges against loans and advances		109.6	27.7
Depreciation - property and equipment		10.5	6.8
Discount element recognised from credit impairments against loans and advances		(2.7)	(0.4)
Equity-settled share-based payments		1.3	1.1
Impairment of property and equipment		4.7	0.5
Provision for leave pay		(1.4)	2.6
Changes in operating funds		2 529.0	(105.0)
Decrease / (increase) in income-earning assets	27.2	4 519.3	(4 908.4)
(Decrease) / increase in deposits and other liabilities	27.3	(1 990.3)	4 803.4
Tax paid	27.4	(25.7)	(25.0)
Net cash flows from operating activities		2 852.9	126.8
Investing activities			
Capital expenditure on - intangible assets		(38.3)	(35.2)
- property and equipment		(56.3)	(11.9)
Proceeds on sale of intangibles		0.1	-
Proceeds on sale of property and equipment		2.5	1.1
Net cash paid on acquisition of subsidiaries	27.5	-	(39.2)
Net cash flows used in investing activities		(92.0)	(85.2)
Financing activities			
Proceeds from issue of ordinary share capital to shareholders		-	383.3
Increase in minority interest		500.0	-
(Redemption) / issue of subordinated debt	18	(237.1)	290.9
Redemption of Subordinated Floating Rate Notes 2007		-	(40.0)
Redemption of Subordinated Floating Rate EUR Loan Stock 2008		(68.4)	-
Issue of Subordinated Floating Rate Notes 2009		-	50.0
Issue of Subordinated Unsecured Floating Rate Loan Stock 2009		-	35.0
Issue of Subordinated Floating Rate Notes 2012		-	145.9
Redemption of Step-Up Subordinated Floating Rate Notes 2015		(10.4)	-
(Redemption) / issue of Subordinated Floating Rate Loan 2017		(100.0)	100.0
Redemption of Step-Up Perpetual Subordinated Notes		(58.3)	-
Net cash flows generated from financing activities		262.9	674.2
Effects of exchange rate changes on cash and cash equivalents		(85.8)	25.6
Net increase in cash and cash equivalents		2 938.0	741.4
Cash and cash equivalents at beginning of the year		2 938.3	1 931.6
Cash acquired through business combinations		-	265.3
Cash and cash equivalents at end of the year	27.6	5 876.3	2 938.3

Accounting policies

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

1 Basis of preparation

Although exempt under Luxembourg Company Law 1915 Article 316, the directors wish to prepare consolidated financial statements. The company is incorporated in Luxembourg, whilst the company's principal operating subsidiary, Standard Bank Plc, is incorporated in the United Kingdom. The directors therefore consider it appropriate that these financial statements be prepared in accordance with International Financial Reporting Standards ('IFRSs') as adopted by the EU. Accordingly, the company's consolidated financial statements have been prepared under IFRSs as adopted by the EU and as if the Companies Act 1985 had applied to the company.

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:

- financial instruments classified as available-for-sale;
- financial assets and liabilities held at fair value through profit or loss; and
- liabilities for cash-settled share-based payment arrangements.

The consolidated financial statements include the parent company and all subsidiary companies.

The ultimate parent company, Standard Bank Group ('SBG') has made certain accounting policy elections in terms of IFRS, in the preparation of the SBG consolidated financial statements. Accordingly SIH has made the following elections in terms of IFRS with reference to the detailed accounting policies shown in brackets:

- transactions with minority shareholders are treated as transactions with equity owners and accounted for directly in equity (accounting policy 2);
- purchase or sale of financial assets are recognised and derecognised using trade date accounting (accounting policy 5);
- jointly controlled entities are accounted for using the equity method (accounting policy 6); and
- property and equipment are accounted for using the cost model (accounting policy 8).

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

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

IFRIC 11 - *IFRS 2 Group and Treasury Share Transactions*
The group has adopted IFRIC 11, an interpretation which provides guidance on applying IFRS 2 Share-based Payment. The group's previous accounting treatment complies with this interpretation and it has therefore not impacted the group's results or position. Refer to accounting policy 14 for the detailed policy relating to long-term incentive schemes.

IFRIC 12 - *Service Concession Arrangements*
The standard is not applicable to the group.

IFRIC 14 - *IAS 19 - The limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction.*
The standard is not applicable to the group.

IAS 39 - *Amendment Reclassification of Financial Assets*
During October 2008, the IASB issued amendments to IAS 39, 'Financial Instruments: Recognition and Measurement', and IFRS 7, 'Financial Instruments: Disclosures', titled 'Reclassification of Financial Assets'. The amendments to IAS 39 allow reclassifications of non-derivative financial assets (other than those designated under the fair value option) out of the fair value through profit or loss category to the loans and receivables category, applicable to assets with fixed and determinable repayments, not actively quoted or traded in the market, where the intent and ability is to hold the asset for the foreseeable future or until maturity.

The amendment is effective retrospectively from 1 July 2008 provided the decision to reclassify was made prior to 1 November 2008. All other reclassifications shall be effective from the date of reclassification. This amendment has had an impact on the results of the group, but has had no affect on the comparative period. Refer to note 20 and accounting policy 5 for the detailed policy relating to the reclassification of financial assets.

Early adoption of standard

IFRS 8 - *Operating Segments*
The group has chosen to early adopt IFRS 8 in 2008. This standard is effective for annual periods beginning on or after 1 January 2009, with early adoption permitted. IFRS 8 replaces IAS 14 Segment Reporting. This standard requires an entity to adopt the 'management approach' when reporting on the financial performance of its operating segments. The reporting is based on the information that management uses internally for evaluating segment performance and when deciding how to allocate resources to operating segments. The standard has no impact on the results of the group but has impacted the format of disclosure and measurement of the results of reportable segments for the current and comparative period. Refer to accounting policy 17 for the detailed policy relating to segment reporting.

IAS 23 - *Borrowing costs*
The revision of IAS 23 requires the capitalisation of borrowing costs that relate to qualifying assets, i.e. assets that necessarily take a substantial period of time to get ready for their intended use or sale. Previously the group applied the alternative treatment of expensing the borrowing costs on these assets. The amendment has been early adopted by the group and it did not have a material effect on the current year's results.

Accounting policies continued

2 Basis of consolidation

Subsidiaries

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 to obtain the benefits from its activities. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the group controls another entity.

The purchase method of accounting is used to account for the acquisition of subsidiaries by the group. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of an acquisition over the group's share of the fair value of identifiable net assets acquired is recorded as goodwill and accounted for in terms of accounting policy 7. If the cost of the acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference, referred to as negative goodwill, is recognised directly in the income statement.

Inter-company transactions and balances are eliminated on consolidation and consistent accounting policies are used throughout the group for the purpose of consolidation.

Special purpose entities

Special purpose entities are entities created to accomplish a narrow and well-defined objective such as the securitisation of financial assets. These entities may take different legal forms. A special purpose entity is consolidated when the substance of the relationship between the group and the special purpose entity's risks and rewards indicate that the group effectively controls the entity and is re-assessed in response to market conditions.

Transactions with minority shareholders

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

3 Foreign currency translations

Functional and presentation currency

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

Goodwill and fair value adjustments arising on the acquisition of foreign operations are treated as assets and liabilities of the foreign operation and translated at closing rates at balance sheet date.

Transactions and balances

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

Non-monetary assets and liabilities denominated in foreign currencies that are measured at historical cost are translated using the exchange rate at the transaction date. 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.

Accounting policies continued

4 Cash and cash equivalents

Cash and cash equivalents disclosed in the cash flow statement consist of cash and balances with central banks, along with other highly liquid short-term placements. 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 central banks comprise coins and bank notes and balances with central banks, whereas other short-term placements are disclosed under loans and advances. These balances are subject to insignificant changes in fair value and are reported at amortised cost.

5 Financial instruments

Initial recognition and measurement

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

Subsequent measurement

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

Held-to-maturity

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that management has both the positive intent and ability to hold to maturity. Were the group to sell more than an insignificant amount of held-to-maturity assets, the entire category would be tainted and reclassified as available-for-sale assets and the difference between amortised cost and fair value will be accounted for in equity.

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

Trading assets and liabilities

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

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

Interest earned and dividends received while holding trading assets at fair value through profit or loss are included in trading revenue.

Persuant to the amendments to IAS39 issued in October 2008, the group reclassified certain non-derivative financial assets out of trading assets and into loans and advances (refer to note 20).

Financial assets and liabilities designated at fair value through profit or loss

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

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

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

Loans and receivables

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

Accounting policies continued

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

Available-for-sale

Financial assets classified by the group as available-for-sale financial assets are strategic capital investments held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices.

Available-for-sale financial assets are subsequently carried at fair value. Unrealised gains or losses arising from changes in the fair value of available-for-sale financial assets are recognised directly in the available-for-sale reserve until the financial asset is derecognised or impaired. When available-for-sale financial assets are disposed of, the fair value adjustments accumulated in equity are recognised in the income statement.

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

Fair value

Fair value is the amount for which an asset could be exchanged, or liability settled, between knowledgeable willing parties in an arms length transaction on the measurement date. The best evidence of the fair value of a financial instrument on initial recognition is the transaction price, i.e. the fair value of the consideration paid or received, unless the fair value is evidenced by comparison with other observable current market transactions in the same instrument, without modification or repackaging, or based on discounted cash flow models and option pricing valuation techniques whose variables include only data from observable markets.

When such valuation models, with only observable market data as input, indicate that the fair value differs from the transaction price, this initial difference, commonly referred to as day one profit or loss, is recognised in the income statement immediately. If non-observable market data is used as part of the input to the valuation models, any resulting difference between the transaction price and the model value is deferred. The timing of recognition of deferred day one profit or loss is determined individually. It is either amortised over the life of the transaction, deferred until the instrument's fair value can be determined using market observable inputs, or realised through settlement, depending on the nature of the instrument and availability of market observable inputs.

Subsequent to initial recognition, the fair values of financial assets and liabilities are based on quoted market prices or dealer price quotations for financial instruments traded in active markets. If the market for a financial asset is not active or the instrument is an unlisted instrument, the fair value is determined by using applicable valuation techniques. These include the use of recent arms length transactions, discounted cash flow analysis, pricing models and valuation techniques commonly used by market participants. Assets and long positions are measured at a bid price; liabilities and short positions are measured at an asking price. Where the group has positions with offsetting risks, mid-market prices are used to measure the offsetting risk positions and a bid or asking price adjustment is applied only to the net open positions as appropriate.

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

Impairment of financial assets

Assets carried at amortised cost

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

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

Non-performing loans are impaired for doubtful debts identified during periodic evaluations of advances. Retail loans and advances are considered non-performing when amounts are due and unpaid for three months. Corporate loans are analysed on a case-by-case basis taking into account breaches of key loan conditions. The impairment of non-performing loans takes account of past loss experience adjusted for changes in economic conditions and the nature and level of risk exposure since the recording of the historic losses. The methodology and assumptions used for estimating future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

Accounting policies continued

When a loan carried at amortised cost has been identified as impaired the carrying amount of the loan is reduced to an amount equal to the present value of estimated future cash flows, including the recoverable amount of any collateral, discounted at the financial assets' original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised as a credit impairment in the income statement.

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

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

Increases in loan impairments and any subsequent reversals thereof, or recoveries of amounts previously impaired, are reflected in the income statement. Previously impaired advances are written off once all reasonable attempts at collection have been made and there is no realistic prospect of recovering outstanding amounts. Any subsequent reductions in amounts previously impaired are reversed by adjusting the allowance account and the amount of the reversal is recognised as a reduction in impairment for credit losses in the income statement. Subsequent recoveries of previously written off advances are recognised in the income statement.

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

Renegotiated loans

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

Loans whose terms have been renegotiated are subject to ongoing review to determine whether they are considered impaired or past due if the terms of renegotiation result in any impairment.

Available-for-sale financial assets

Available-for-sale financial assets are impaired if there is objective evidence of impairment, resulting from one or more loss events that occurred after initial recognition but before the balance sheet date, that have an impact on the future cash flows of the asset. In addition, an available-for-sale equity instrument is generally considered impaired if a significant or prolonged decline in the fair value of the instrument below its cost has occurred. Where an available-for-sale asset, which has been remeasured to fair value directly through equity, is impaired, the impairment loss is recognised in the income statement. If any loss on the financial asset was previously recognised directly in equity as a reduction in fair value, the cumulative net loss that had been recognised in equity is transferred to the income statement and is recognised as part of the impairment loss. The amount of the loss recognised in the income statement is the difference between the acquisition cost and the current fair value, less any previously recognised impairment loss.

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

Offsetting financial instruments

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

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

Derivative financial instruments and hedge accounting

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

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

Embedded derivatives included in hybrid instruments are treated and disclosed as separate derivatives when their

Accounting policies continued

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

When hybrid instruments are reclassified to loans and advances, the embedded derivative is separated out and not reclassified.

The method of recognising fair value gains or losses depends on whether derivatives are held for trading or are designated as hedging instruments, and if so, the nature of the hedged item. All gains and losses from changes in the fair value of derivatives held for trading are recognised in the income statement in trading revenue. When derivatives are designated in a hedging relationship, the group designates them as either:

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

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

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

Fair value hedges

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

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

Cash flow hedges

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

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

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

Net investment hedge

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

Derivatives that do not qualify for hedge accounting

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

Accounting policies continued

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

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

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

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

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

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

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

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

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

Securities purchased under agreements to resell (reverse repos) are recorded as loans granted under resale agreements and included under loans and advances to other banks or customers as appropriate. The difference between the sale and repurchase price is treated as interest and amortised over the life of the repurchase agreement using the effective interest method.

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

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

6 Interest in associates and joint ventures

Associates and jointly controlled entities
An associate is an entity, not being a subsidiary, in which an investment is held and over whose financial and operating policies the group is able to exercise significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights.

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

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 recognising the investment initially at cost, including goodwill, and subsequently adjusting the carrying value for the group's share or 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

Accounting policies continued

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.

Jointly controlled operations

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

7 Intangible assets

Goodwill

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

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

Goodwill arising on acquisitions after 31 December 2003 and the carrying values of goodwill that existed on this date are not amortised, but allocated to cash generating units and are tested annually for impairment. Negative goodwill is recognised as income in the period in which it arises. Gains or losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Computer software

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

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

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

8 Property and equipment

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

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

Property and equipment are depreciated on the straight-line basis over the estimated useful lives of the assets to the current values of their expected residual values. Land is not depreciated. The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date and the depreciation method is reviewed annually.

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

Accounting policies continued

The estimated useful lives of tangible assets for the current financial year are as follows:

Property	50 years
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.

9 Impairment of non-financial assets

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

10 Leases

Group as lessee

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

Leases of assets are classified as operating leases if the lessor effectively retains all the risks and rewards of ownership. Payments made under operating leases, net of any incentives received from the lessor, are charged to the income statement on a straight-line basis over the period of the lease. When an operating lease is terminated before the lease period has expired, any payment required to be made to the lessor by way of penalty is recognised as an expense in the period in which termination takes place.

Group as lessor

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

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

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

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

12 Tax

Income tax on the profit or loss for the year comprises 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 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.

Accounting policies continued

Deferred tax is not recognised 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 and joint ventures where the group controls the timing of the reversal of temporary differences and it is probable that these differences will not reverse in the foreseeable future.

Deferred tax assets are recognised to the extent that it is probable that future taxable income will be available against which the unused tax losses can be utilised. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of the asset or liability and is not discounted. Deferred tax assets are reviewed at each balance sheet date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

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

13 Equity

Share issue cost

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

Dividends on ordinary shares

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

14 Long-term incentive scheme

The group operates both cash-settled and equity-settled share-based compensation plans.

The cash-settled incentive scheme grant employees notional 'shadow' share options, the value of which is derived from the SIH's current and future performance. Throughout the life of the scheme, the liability is valued at the end of each period based on a defined formula. The changes in liability are accounted for through the income statement over the life of the shadow share options and includes assumptions about future performance and leavers.

The Standard Bank Group Quanto Stock scheme awards a number of Quanto Stock units denominated in US$ and is a cash settled incentive scheme. The value is based on the Standard Bank Group share price and moves in parallel to the change in price of the SBG shares listed on the Johannesburg Stock exchange. The awards vest at the end of a three year period dependent on the employee being in service for the period and are accrued over the vesting period. The scheme provides for an incremental amount to be paid if the employee is in service for four years. The amount of the accrued liability is valued at the end of each period, taking into account assumptions about leavers. The changes in liability are accounted for through the income statement over the life of the Quanto Stock units. The changes in the liability arising from share price movements have been hedged.

The equity-settled share-based compensation plan awards options over the Standard Bank Group Ltd shares. Throughout the life of the scheme, the obligation is valued at the end of each period based on a valuation of the option. The changes in liability are accounted for through the income statement over the vesting period of the share options with a corresponding increase in the long-term incentive 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.

15 Revenue

Revenues described below represent the most appropriate equivalent of turnover. Revenue is derived substantially from the business of banking and related activities and comprises net interest income and non-interest revenue.

Net interest income

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

Accounting policies continued

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; and
- interest and fair value changes on interest bearing financial instruments designated as held at fair value.

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

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

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

Non-interest revenue

Net fee and commission revenue

Fee and commission revenue, including transactional fees, account servicing fees, investment management fees, sales commission, placement fees and syndication fees are recognised as the related services are performed. Loan commitment fees for loans that are not expected to be drawn down are recognised on a straight line basis over the commitment period. Loan syndication fees, where the group does not participate in the syndication or participate at the same effective interest rate for comparable risk as other participants, are recognised as revenue when the syndication has been completed.

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

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

Trading revenue

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

Other revenue

Other revenue includes gains and losses on equity instruments designated at fair value through profit or loss, gains and losses on realised undated available-for-sale financial assets and dividends relating to these financial instruments.

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

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

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

Dividend income

Dividends are recognised in the income statement in the period in which right to receipt is established.

16 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 are held in separate trustee-administered funds. Contributions to these plans are charged to the income statement in the period to which they relate.

17 Segment reporting

An operating segment is a component of the group engaged in business activities, whose operating results are regularly reviewed by management in order to make decisions about resources to be allocated to segments and assessing segment performance. The group's identification of segments and the measurement of segment results are based on the group's internal reporting to management. It represents the classification of the group's activities in segments that reflect the risk and return of the group's product offerings in different product markets. Transactions between segments are priced at market-related rates.

Accounting policies continued

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

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

Accounting policies continued

	Standard / interpretation	Effective date[1]
IAS 27	**Consolidated and Separate Financial Statements** The amendments to IAS 27 require changes in a parent's ownership interest in a subsidiary that does not result in a loss of control to be accounted for within equity as transactions with owners in their capacity as owners. At the time at which control is lost, a parent shall derecognise all assets, liabilities and non-controlling interest at their carrying amounts. Any retained interest in the former subsidiary is recognised at its fair value at the date control is lost. A gain or loss on the loss of control is recognised in profit or loss. The revised standard also requires an entity to attribute its share of total comprehensive income to the non-controlling interest even if this results in the non-controlling interest having a deficit balance. The effect on the financial statements will be a function of the number and value of transactions that result in the loss of control over subsidiaries after the implementation of the new standard.	Annual periods commencing on or after 1 July 2009
IAS 32 and IAS 1 amendments	**Financial Instruments: Preparation and IAS 1 Presentation of Financial Statements – Puttable Financial Instruments and Obligations Arising on Liquidation** The amendment to IAS 32 requires the classification of certain puttable financial instruments and financial instruments that impose on the issuer an obligation to deliver a pro-rata share of the entity only on liquidation as equity. The amendment sets out specific criteria that are to be met to present the instruments as equity together with related disclosure requirements. This amendment is not expected to have a significant impact on the group's results.	Annual periods commencing on or after 1 January 2009
IFRIC 13	**Customer Loyalty Programmes** The interpretation addresses the recognition and measurement of obligations to provide customers with free or discounted goods or services if and when they choose to redeem their loyalty award credits. The interpretation requires entities to allocate some of the proceeds of the initial sale to the award credits and recognise these proceeds as revenue only when the obligations have been fulfilled. They may fulfil their obligations by supplying awards themselves, or engaging and paying a third party to do so. This interpretation is in accordance with the group's existing policy and is therefore not expected to impact the group's results.	Annual periods commencing on or after 1 July 2008
IFRIC 15	**Agreements for the Construction of Real Estate** IFRIC 15 provides guidance on the recognition of revenue among real estate developers for sales of units. This standard is not applicable to the business of the group.	Annual periods commencing on or after 1 January 2009

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

Accounting policies continued

	Standard / interpretation	Effective date[1]
IFRIC 16	**Hedges of a Net Investment in a Foreign Operation** IFRIC 16 provides guidance on accounting for the hedge of a net investment in a foreign operation in an entity's consolidated financial statements. The main change introduced by IFRIC 16 is to eliminate the possibility of an entity applying hedge accounting for a hedge of foreign exchange differences between the functional currency of a foreign operation and the presentation currency of the parent's consolidated financial statements. This interpretation is in accordance with the group's existing policy and is therefore not expected to impact the group's results.	Annual periods commencing on or after 1 October 2008

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

Notes to the annual financial statements

1 Segment reporting

1.1 Business segments

	Global Markets		Investment Banking		Other Services		Total	
	2008 $m	2007 $m	2008 $m	2007 $m	2008 $m	2007 $m	2008 $m	2007 $m
Profit for the period	**102.3**	56.8	**57.3**	94.4	**(6.1)**	58.3	**153.5**	209.5
Included in profit for the period:								
Net interest income [1]	**72.2**	23.6	**280.9**	150.0	**116.3**	67.1	**469.4**	240.7
Credit impairment charges	**(24.6)**	-	**(84.2)**	(16.9)	**(13.6)**	(6.6)	**(122.4)**	(23.5)
Depreciation	**(3.8)**	(2.9)	**(2.7)**	(1.9)	**(4.0)**	(2.0)	**(10.5)**	(6.8)
Amortisation of intangible assets	**(6.1)**	(1.8)	**(4.3)**	(1.3)	**(1.5)**	(0.5)	**(11.9)**	(3.6)
Gain on acquisition	**-**	-	**-**	-	**-**	54.2	**-**	54.2
Income / (loss) from associates and joint ventures	**-**	-	**0.4**	-	**11.9**	0.1	**12.3**	0.1
Income tax expense	**(69.0)**	(27.0)	**(27.8)**	(23.0)	**8.5**	(1.0)	**(88.3)**	(51.0)

[1] The group relies primarily on net interest income to assess the performance of the segments, not interest income and interest expense.

Centrally incurred expenses are allocated to business units based primarily on direct expenses.

	Global Markets		Investment Banking		Other services		Total	
	2008 $m	2007 $m	2008 $m	2007 $m	2008 $m	2007 $m	2008 $m	2007 $m
Other information								
Total assets	**27 946.0**	25 921.6	**9 614.9**	8 635.4	**2 731.2**	3 408.5	**40 292.1**	37 965.5
Total liabilities	**27 575.0**	25 677.3	**9 380.0**	8 410.4	**1 188.7**	2 309.9	**38 143.7**	36 397.6
Interest in associates and joint ventures	**-**	-	**2.4**	0.5	**1.3**	-	**3.7**	0.5

The group is structured on the basis of products and services and the segments have been identified on this basis. The principal business units in the group are as follows:

Business unit	
Global Markets	Global Markets - Includes foreign exchange, fixed income, derivatives, equities and commodities trading businesses, debt origination, money market funding units and resource banking.
Investment Banking	Commercial and investment banking services to corporates and financial institutions include equity investment and advisory businesses, project finance, structured lending as well as asset management.
Other services	Personal and business banking as well as support functions to business units and advisory services, including expense items and taxes not allocated to business units.

The central treasury is housed within Global Markets and business units pay and receive interest on an arms length basis to reflect the allocation of funding costs.

1.2 Geographical analysis

The geographical analysis have been compiled on the basis of location of office where the transactions are recorded.

	United Kingdom		Outside the UK		Total	
	2008 $m	2007 $m	2008 $m	2007 $m	2008 $m	2007 $m
Total income	**771.0**	663.2	**490.0**	351.8	**1 261.0**	1 015.0
Non-current assets	**106.1**	86.2	**119.5**	83.9	**225.6**	170.1

No countries outside the UK are deemed to be individually material. There has been no reliance on any major customers and no one customer makes up a material portion of the revenue streams.

Notes to the annual financial statements continued

2 Key management judgements and estimates

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

2.1 Credit impairment losses on loans and advances

Performing loans

The group assesses its loan portfolios for impairment at each balance sheet date. In determining whether an impairment loss should be recorded in the income statement, the group makes judgements as to whether there is observable data indicating a measurable decrease in the estimated future cash flows from a portfolio of loans before the decrease can be allocated to an individual loan in that portfolio. Estimates are made of the duration between the occurrence of a loss event and the identification of a loss on an individual basis. The impairment for performing loans is calculated on a portfolio basis, based on 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. At year end, the group applied a loss emergence period of 6 months.

Non-performing loans

Retail loans are individually impaired if the amounts are due and unpaid for three or more months. Corporate loans are analysed on a case-by-case basis taking into account breaches of key loan conditions. Management's estimates of future cash flows on 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.

2.2 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.

2.3 Determining fair value

The best evidence of fair value of financial instruments is quoted prices in an active market. A financial instrument is regarded as quoted in an active market if quoted prices are readily and regularly available and these prices represent actual and regularly occurring market transactions on an arms length basis. In markets or instruments that exhibit very low trading volumes and intermittent trading patterns it can be difficult to establish if a price reflects a fully active market. If the market for financial investments is not active the group establishes fair value using valuation techniques.

The determination of fair value for financial assets and liabilities for which there is no direct 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.

Where valuation techniques (for example, models) are used to determine fair values, they are validated and periodically independently reviewed by qualified senior personnel. All models are approved 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.

Such assumptions include risk premiums, liquidity discount rates, credit risk, volatilities and correlations. Changes in these assumptions could affect the reported fair values of financial instruments. For example, if the discount rate used in determining the fair values was decreased by 1%, the mark-to-market would have increased by US$23.3 million (2007: US$12.1 million). If the discount rate was increased by 1% the impact on profit would have been a US$23.0 million decrease (2007: US$11.9 million decrease). The total amount of the change in fair value estimated using a valuation technique not based on observable market data that was recognised in profit or loss for the year ended 31 December 2008 was a profit of US$26.3 million (2007: US$46.2 million).

2.4 Special purpose entities

The group sponsors the formation of special purpose entities ('SPEs') primarily for the purpose of allowing clients to hold investments for asset securitisation transactions and for buying or selling credit protection. The group 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. All aspects of control are considered in making these judgements. The group makes investments in portfolios of non-performing loans and other distressed debt, primarily in the Asia region. The portfolios are acquired by SPEs specifically set up in each jurisdiction to acquire these loans. The group is exposed to the major risks on these portfolios and a substantial portion of economic benefit and accordingly consolidates the entities. The total assets consolidated amount to US$381 million (2007: US$377 million).

Notes to the annual financial statements continued

3 Cash and balances with central banks

	2008 $m	2007 $m
Balances with central banks	**621.0**	371.2
	621.0	371.2

4 Derivative instruments

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

4.1 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.

4.2 Derivative assets and liabilities

	2008							2007			
	Maturity analysis										
	< 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 held for trading											
Foreign exchange derivatives	**(557.2)**	**(147.8)**	**5.9**	**(699.1)**	**2 176.3**	**(2 875.4)**	**75 423.6**	(742.8)	1 094.4	(1 837.2)	72 552.9
Forwards	**(67.1)**	**176.3**	**5.9**	**115.1**	**2 124.3**	**(2 009.2)**	**35 265.4**	127.0	1 057.5	(930.5)	45 871.2
Futures	**0.1**	**0.2**	**-**	**0.3**	**0.4**	**(0.1)**	**359.5**	1.9	10.6	(8.7)	501.9
Options	**(490.2)**	**(324.3)**	**-**	**(814.5)**	**51.6**	**(866.1)**	**39 798.7**	(871.7)	26.3	(898.0)	26 179.8
Interest rate derivatives	**168.7**	**(12.3)**	**(9.5)**	**146.9**	**2 355.2**	**(2 208.3)**	**466 710.3**	38.6	738.3	(699.7)	237 314.2
Bonds and options	**-**	**(1.1)**	**0.6**	**(0.5)**	**14.8**	**(15.3)**	**1 356.9**	1.8	3.1	(1.3)	87 832.4
Future options	**66.6**	**(20.0)**	**3.8**	**50.4**	**174.5**	**(124.1)**	**388 174.5**	5.1	26.3	(21.2)	75 994.9
Forwards	**(1.3)**	**-**	**-**	**(1.3)**	**3.2**	**(4.5)**	**1 172.2**	0.3	2.2	(1.9)	10 821.1
Swaps	**103.4**	**8.8**	**(13.9)**	**98.3**	**2 162.7**	**(2 064.4)**	**76 006.7**	31.4	706.7	(675.3)	62 665.8
Commodity derivatives	**742.6**	**48.3**	**7.9**	**798.8**	**5 503.4**	**(4 704.6)**	**407 248.9**	334.6	4 870.5	(4 535.9)	283 751.3
Forwards	**800.9**	**50.6**	**-**	**851.5**	**4 803.8**	**(3 952.3)**	**395 167.2**	202.8	4 096.3	(3 893.5)	275 277.9
Options	**(58.3)**	**(2.3)**	**7.9**	**(52.7)**	**699.6**	**(752.3)**	**12 081.7**	131.8	774.2	(642.4)	8 473.4
Credit derivatives	**3.0**	**64.6**	**(176.9)**	**(109.3)**	**1 091.5**	**(1 200.8)**	**16 929.0**	(560.6)	407.9	(968.5)	16 178.6
Credit default swaps	**(1.6)**	**242.7**	**27.9**	**269.0**	**994.8**	**(725.8)**	**15 635.1**	77.5	298.5	(221.0)	14 370.9
Total return swaps	**4.6**	**(178.1)**	**(204.8)**	**(378.3)**	**96.7**	**(475.0)**	**1 293.9**	(638.1)	109.4	(747.5)	1 807.7
Equity derivatives	**26.0**	**1.3**	**-**	**27.3**	**57.0**	**(29.7)**	**48 844.0**	4.3	217.8	(213.5)	42 946.1
Forwards	**(1.8)**	**-**	**-**	**(1.8)**	**1.3**	**(3.1)**	**11.6**	(3.5)	-	(3.5)	0.5
Options	**27.8**	**1.3**	**-**	**29.1**	**55.7**	**(26.6)**	**48 832.4**	7.8	217.8	(210.0)	42 945.6
Total derivative assets / (liabilities) held for trading	**383.1**	**(45.9)**	**(172.6)**	**164.6**	**11 183.4**	**(11 018.8)**	**1 015 155.8**	(925.9)	7 328.9	(8 254.8)	652 743.1
Derivatives held for hedging											
Derivatives designated as cash flow hedges	**(55.4)**	**0.7**	**-**	**(54.7)**	**0.8**	**(55.5)**	**533.4**	(1.0)	0.2	(1.2)	468.9
Exchange traded currency options	**(55.3)**	**0.4**	**-**	**(54.9)**	**0.5**	**(55.4)**	**524.7**	(1.1)	-	(1.1)	443.5
Interest rate swaps	**(0.1)**	**0.3**	**-**	**0.2**	**0.3**	**(0.1)**	**8.7**	0.1	0.2	(0.1)	25.4
Derivatives designated as hedge of net investment in subsidiaries	**53.4**	**14.8**	**-**	**68.2**	**81.4**	**(13.2)**	**344.6**	(2.5)	-	(2.5)	139.0
Forward exchange contracts	**53.4**	**14.8**	**-**	**68.2**	**81.4**	**(13.2)**	**344.6**	(2.5)	-	(2.5)	139.0
Total derivative assets / (liabilities) held for hedging	**(2.0)**	**15.5**	**-**	**13.5**	**82.2**	**(68.7)**	**878.0**	(3.5)	0.2	(3.7)	607.9
Total derivative assets / (liabilities)	**381.1**	**(30.4)**	**(172.6)**	**178.1**	**11 265.6**	**(11 087.5)**	**1 016 033.8**	(929.4)	7 329.1	(8 258.5)	653 351.0
Included above are the following amounts with related parties:											
Group undertakings - fellow subsidiaries				**(1 263.7)**	**324.1**	**(1 587.8)**		(1 051.4)	228.4	(1 279.8)	

Notes to the annual financial statements continued

4 Derivative instruments continued

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

4.4 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:

4.4.1 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.

4.4.2 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.

4.4.3 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.

4.4.4 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 and total return swaps.

4.4.5 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.

Notes to the annual financial statements continued

4 Derivative instruments continued

4.5 Derivatives held for hedging

4.5.1 Derivatives designated as cash flow hedges

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.

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

The schedule of forecast cash flows that will result in the release of the cash flow hedging reserve at 31 December 2008 is as follows:

	2008 $m	2007 $m
3 months or less	**57.8**	52.5
More than 3 months but less than 1 year	**177.9**	157.5
More than 1 year but less than 5 years	**58.2**	57.8
	293.9	267.8
Reconciliation of movements in the cash flow hedging reserve		
Balance at beginning of the year	**(0.7)**	8.6
Amounts recognised directly in equity during the year	**(77.0)**	2.6
Less: amounts released in the income statement (operating costs)	**21.0**	(15.9)
Less: deferred tax	**17.0**	4.0
Balance at end of the year	**(39.7)**	(0.7)

There were no transactions for which cash flow hedge accounting had to be ceased in 2008 or 2007 as a result of highly probable cash flows no longer expected to occur. No gain or loss on ineffective portions of such derivatives were recognised in the income statement in 2008 or 2007.

4.5.2 Derivatives designated as hedges of net investments

The objective of the hedge of net investments is to limit the risk of a decline in net asset value of the investment in a foreign entity brought about by changes in exchange rates. To limit the risk, currency option contracts have been purchased where considered appropriate.

The ineffectiveness recognised in the income statement for the year ended 31 December 2008 that arose from hedges in foreign operations was US$0.4 million loss (2007: US$3.2 million loss).

4.6 Unobservable inception profits

Any initial gain or loss on financial instruments in a situation in which valuation is dependent on unobservable parameters is not recognised in profit or loss immediately but is recognised over the life of the instrument on an appropriate basis or until the instrument is redeemed, transferred or sold, or the fair value becomes observable.

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

	2008 $m	2007 $m
Unamortised balance at beginning of the year	**(0.6)**	(0.9)
Deferral on new transactions	**1.9**	(0.2)
Recognised in the income statement during the year	**0.6**	0.5
Unamortised balance at end of the year	**1.9**	(0.6)

Notes to the annual financial statements continued

5 Trading assets

	2008 $m	2007 $m
Government, municipality and utility bonds	**1 256.8**	3 185.9
Corporate bonds	**1 382.2**	3 130.4
Listed equities	**51.4**	323.3
Unlisted equities	**131.0**	223.7
Mutual funds	**8.7**	25.5
Commodities	**1 774.1**	1 775.5
Other unlisted instruments	**720.0**	711.5
	5 324.2	9 375.8
Maturity analysis		
The maturities represent periods to contractual redemption of the trading assets recorded.		
- Redeemable on demand	**1 842.5**	2 095.5
- Maturing within 1 month	**127.8**	464.0
- Maturing after 1 month but within 6 months	**356.6**	1 425.3
- Maturing after 6 months but within 12 months	**384.5**	808.3
- Maturing after 12 months	**2 428.5**	4 129.5
- Undated assets	**184.3**	453.2
	5 324.2	9 375.8

6 Pledged assets

6.1 Financial assets that may be repledged or resold by counterparties

Government, municipality and utility bonds	**41.4**	6.3
Corporate bonds	**203.6**	19.9
Loans and advances to banks	**9.5**	-
Loans and advances to customers	**16.6**	-
	271.1	26.2
Maturity analysis		
The maturities represent periods to contractual redemption of the pledged assets recorded.		
- Maturing within 1 month	**12.8**	-
- Maturing after 1 month but within 6 months	**43.2**	19.7
- Maturing after 6 months but within 12 months	**25.1**	-
- Maturing after 12 months	**190.0**	6.5
	271.1	26.2

The associated liabilities relating to pledged assets amount to US$260.2 million (2007: US$6.4 million). Risks to which the group remains exposed include credit and interest rate risk.

6.2 Total assets pledged

The carrying amount of total financial assets that have been pledged as collateral for liabilities (including amounts reflected in 6.1) at 31 December 2008 was US$1 068.7 million (2007: US$638.8 million).

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

Notes to the annual financial statements continued

6 Pledged assets continued

6.3 Collateral accepted as security for assets

As part of the reverse repurchase and securities borrowing agreements, the group has received securities that it is allowed to sell or repledge. The fair value of the financial assets accepted as collateral that the group is permitted to sell or repledge in the absence of default is US$6 635.7 million (2007: US$3 977.2 million).

The fair value of financial assets accepted as collateral that have been sold or repledged is US$1 116.9 million (2007: US$1 921.5 million). The group is obliged to return equivalent securities.

These transactions are conducted under terms that are customary to standard securities borrowing and lending activities as well as requirements determined by exchanges where the bank acts as an intermediary.

7 Financial investments

	2008 $m	2007 $m
Govenment, municipality and utility bonds	**278.1**	273.0
Corporate bonds	**21.6**	17.9
Unlisted equities	**84.3**	49.8
Mutual funds	**11.4**	27.2
Other unlisted instruments	**-**	1.8
	395.4	369.7
Maturity analysis		
The maturities represent periods to contractual redemption of the financial investment recorded.		
- Maturing within 1 month	**31.1**	6.7
- Maturing after 1 month but within 6 months	**146.7**	93.9
- Maturing after 6 months but within 12 months	**43.6**	126.1
- Maturing after 12 months	**89.8**	143.0
- Undated investments	**84.2**	-
	395.4	369.7

Notes to the annual financial statements continued

8 Loans and advances

	2008 $m	2007 $m
8.1 Loans and advances net of impairment		
Loans and advances to banks	9 240.6	7 675.8
Gross loans and advances to banks	9 244.5	7 675.8
- Call loans	7 336.5	4 919.1
- Loans granted under resale agreements	1 908.0	2 756.7
Credit impairments for loans and advances to banks	(3.9)	-
Loans and advances to customers	12 070.4	12 177.9
Gross loans and advances to customers	12 233.8	12 244.2
- Mortgage loans	58.3	84.5
- Instalment finance (note 8.2)	333.6	290.4
- Card debtors	164.0	120.2
- Overdrafts and other demand loans	164.8	73.8
- Term loans	8 515.4	6 571.0
- Loans granted under resale agreements	1 866.4	4 542.9
- Other loans and advances	1 131.3	561.4
Credit impairments for loans and advances to customers (note 8.3)	(163.4)	(66.3)
- Credit impairments for non-performing loans	(103.1)	(32.7)
- Credit impairments for performing loans	(60.3)	(33.6)
Net loans and advances	21 311.0	19 853.7
Comprising:		
Gross loans and advances	21 478.3	19 920.0
Less: Credit impairments for non-performing loans	(107.0)	(32.7)
Less: Credit impairments for performing loans	(60.3)	(33.6)
	21 311.0	19 853.7
Maturity analysis		
The maturity analysis is based on the remaining periods to contractual maturity from year-end.		
- Redeemable on demand	2 321.9	2 305.2
- Maturing within 1 month	7 184.6	5 969.7
- Maturing after 1 month but within 6 months	3 588.1	5 694.7
- Maturing after 6 months but within 12 months	1 543.9	1 880.1
- Maturing after 12 months	6 839.8	4 070.3
Gross loans and advances	21 478.3	19 920.0

Notes to the annual financial statements continued

8 Loans and advances continued

	2008 $m	2007 $m
Segmental analysis - industry		
Agriculture	**588.7**	319.1
Construction	**150.1**	151.8
Electricity	**237.9**	176.6
Finance	**13 125.5**	13 655.8
Individuals	**699.9**	539.5
Manufacturing	**1 278.6**	1 129.4
Mining	**1 805.0**	827.5
Other services [1]	**2 776.6**	2 548.1
Transport	**583.2**	162.8
Wholesale	**232.8**	409.4
Gross loans and advances	**21 478.3**	19 920.0

[1] Generally include telecommunications, hospitality, recreational and other industries.

	2008 $m	2007 $m
Included above are the following amounts due from related parties:		
Group undertakings - fellow subsidiaries		
Loans and advances to banks - Call loans	**1 674.3**	213.0
Loans granted under resale agreements	**221.3**	208.0
Loans and advances to customers	**277.8**	55.6
	2 173.4	476.6
Minimum amount during the year	**704.1**	476.6
Maximum amount during the year	**2 173.4**	1 285.7

8.2 Instalment finance

	2008 $m	2007 $m
Gross investment in instalment finance	**382.1**	437.1
Unearned finance charges deducted	**(48.5)**	(146.6)
Net investment in instalment finance	**333.6**	290.5
Receivable within 1 year	**143.0**	124.5
Receivable after 1 year but within 5 years	**190.3**	165.7
Receivable after 5 years	**0.3**	0.3

Notes to the annual financial statements continued

8 Loans and advances continued

8.3 Credit impairments for loans and advances

2008	Mortgage lending $m	Instalment finance $m	Card debtors $m	Corporate and other lending $m	Total $m
Non-performing loans					
Balance at beginning of the year	**0.6**	**0.2**	**0.6**	**31.3**	**32.7**
Amounts written off	**0.1**	**(0.2)**	**(0.3)**	**(5.5)**	**(5.9)**
Discount element recognised in interest income	**-**	**-**	**-**	**(2.7)**	**(2.7)**
Net impairments raised / (released)	**(0.6)**	**0.4**	**1.9**	**90.8**	**92.5**
Exchange and other movements	**-**	**(0.1)**	**(0.2)**	**(9.3)**	**(9.6)**
Balance at end of the year	**0.1**	**0.3**	**2.0**	**104.6**	**107.0**
Performing loans					
Balance at beginning of the year	**0.8**	**1.3**	**1.2**	**30.3**	**33.6**
Net impairments raised / (released)	**(0.8)**	**(0.5)**	**2.2**	**29.0**	**29.9**
Exchange and other movements	**-**	**(0.1)**	**(0.3)**	**(2.8)**	**(3.2)**
Balance at end of the year	**-**	**0.7**	**3.1**	**56.5**	**60.3**
Total	**0.1**	**1.0**	**5.1**	**161.1**	**167.3**

2007	Mortgage lending $m	Instalment finance $m	Card debtors $m	Corporate and other lending $m	Total $m
Non-performing loans					
Balance at beginning of the year	-	-	-	55.3	55.3
Acquisition of subsidiary	1.1	1.2	0.4	5.4	8.1
Amounts written off	(0.1)	(1.2)	(0.2)	(46.3)	(47.8)
Discount element recognised in interest income	-	-	-	(0.4)	(0.4)
Net impairments raised / (released)	(0.4)	0.2	0.4	16.4	16.6
Exchange and other movements	-	-	-	0.9	0.9
Balance at end of the year	0.6	0.2	0.6	31.3	32.7
Performing loans					
Balance at beginning of the year	-	-	-	14.7	14.7
Acquisition of subsidiary	0.9	-	1.0	5.9	7.8
Net impairments raised / (released)	(0.1)	1.3	0.2	5.5	6.9
Exchange and other movements	-	-	-	4.2	4.2
Balance at end of the year	0.8	1.3	1.2	30.3	33.6
Total	1.4	1.5	1.8	61.6	66.3

Notes to the annual financial statements continued

8 Loans and advances continued

8.3 Credit impairments for loans and advances continued

	2008 $m	2007 $m
Segmental analysis of impairments for non-performing loans - industry		
Agriculture	18.7	0.8
Construction	-	0.4
Finance	31.2	1.6
Individuals	13.8	3.1
Manufacturing	4.4	0.4
Mining	-	5.7
Other services	32.4	9.6
Wholesale	6.5	11.1
	107.0	32.7

9 Other assets

	2008 $m	2007 $m
Unsettled dealing balances	594.9	187.8
Items in the course of collection	23.8	5.0
Other receivables	187.7	225.3
	806.4	418.1
Included above are the following amounts due from related parties:		
Group undertakings - fellow subsidiaries	19.4	251.5
Minimum amount during the year	7.8	146.9
Maximum amount during the year	220.1	269.5

10 Current and deferred tax assets

10.1 Summary

	2008 $m	2007 $m
Current tax assets	5.7	15.6
Deferred tax assets (note 10.2)	66.1	36.0
	71.8	51.6

10.2 Deferred tax analysis

	2008 $m	2007 $m
Deferred tax liability (note 17)	(3.3)	(3.7)
Deferred tax asset	66.1	36.0
	62.8	32.3
The major components of the deferred tax asset are as follows:		
Timing differences on:		
- Capital allowances	(5.2)	(2.3)
- Bad debts	17.1	5.0
- Other short-term timing differences	54.2	33.3
	66.1	36.0

Included in other short-term timing differences is an increase of US$21.9 million recognised directly in equity in relation to a hedge on UK Sterling denominated expenses (2007 increase of US$0.4 million).

Notes to the annual financial statements continued

10 Current and deferred tax assets continued

10.2 Deferred tax analysis continued

	2008 $m	2007 $m
The movements in the deferred tax balance were as follows:		
Balance at beginning of the year	36.0	19.9
Amounts recognised in the income statement	12.4	2.3
Amounts charged directly to equity	21.9	0.4
Additions through business combinations	-	12.9
Other movements	(4.2)	0.5
Balance at end of the year	66.1	36.0

11 Interest in associates and joint ventures

	2008 $m	2007 $m
Associates and joint ventures accounted for under the equity method	3.7	0.5
	3.7	0.5
Equity accounted associates and joint ventures		
Carrying value at beginning of the year	0.5	0.4
Share of profit / (loss)	12.3	(0.1)
Share of reserves	1.2	0.2
Distribution of profit	(10.3)	-
Carrying value at end of the year	3.7	0.5
Comprising:		
Cost	1.4	-
Share of reserves	2.3	0.5
	3.7	0.5

12 Goodwill and other intangible assets

	2008 $m	2007 $m
Goodwill (note 12.1)	29.1	35.7
Other intangible assets (note 12.2)	82.2	55.6
	111.3	91.3

12.1 Goodwill

	2008 $m	2007 $m
Goodwill on acquisition of subsidiaries		
Balance at beginning of the year	35.7	6.3
Acquisitions	-	31.0
Impairment	-	(1.6)
Disposals	(0.2)	-
Exchange movements	(6.4)	-
Balance at end of the year	29.1	35.7

Notes to the annual financial statements continued

12 Goodwill and other intangible assets continued

12.1 Goodwill continued

	2008 Gross goodwill $m	2008 Accumulated impairment $m	2008 Net goodwill $m	2007 Net goodwill $m
Goodwill comprises:				
Standard Bank Asia Limited	4.5	-	4.5	4.5
Standard Ünlü Menkul Degerler	24.6	-	24.6	31.0
Standard Yatirim Menkul Kiymetler A.S.	0.2	(0.2)	-	0.2
	29.3	(0.2)	29.1	35.7

Impairment testing

For the purpose of impairment testing, the goodwill is allocated to the smallest cash generating unit. The goodwill is tested annually for impairment and is tested using the value in use as the recoverable amount.

	2008 Cost $m	2008 Accumulated amortisation $m	2008 Carrying value $m	2007 Cost $m	2007 Accumulated amortisation $m	2007 Carrying value $m
12.2 Other intangible assets						
Summary						
Computer software	89.9	15.2	74.7	55.3	4.6	50.7
Argentina brand	7.5	-	7.5	4.9	-	4.9
	97.4	15.2	82.2	60.2	4.6	55.6

	2007 Carrying value $m	Additions $m	Disposals $m	Amortisation $m	Exchange movements $m	2008 Carrying value $m
Movement						
Computer software	50.7	35.3	(0.1)	(11.9)	0.7	74.7
Argentina brand	4.9	3.0	-	-	(0.4)	7.5
	55.6	38.3	(0.1)	(11.9)	0.3	82.2

	2006 Carrying value $m	Additions $m	Disposals $m	Amortisation $m	Exchange movements $m	2007 Carrying value $m
Movement						
Computer software	24.0	30.3	-	(3.6)	-	50.7
Argentina brand	-	4.9	-	-	-	4.9
	24.0	35.2	-	(3.6)	-	55.6

Capitalised computer software represents information technology computer software and development costs which are of a strategic nature with an expected life of at least 3 years. They comprise mainly core front office systems or back office settlement or risk systems and comprise a combination of external and internal costs which are not separable. The assets are amortised on the straight-line basis over their expected life.

Capitalised development costs are not treated as a realised loss for the purpose of determining the group's 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

13 Property and equipment

	2008 Cost $m	2008 Accumulated depreciation $m	2008 Carrying value $m	2007 Cost $m	2007 Accumulated depreciation $m	2007 Carrying value $m
13.1 Summary						
Property						
Freehold	72.8	1.1	71.7	45.8	0.5	45.3
Equipment						
Computer equipment	34.5	27.7	6.8	34.5	27.7	6.8
Motor vehicles	2.2	1.1	1.1	2.0	1.0	1.0
Office equipment	20.0	6.7	13.3	7.0	3.7	3.3
Furniture and fittings	43.8	26.1	17.7	40.1	18.2	21.9
	100.5	61.6	38.9	83.6	50.6	33.0
	173.3	62.7	110.6	129.4	51.1	78.3

	2007 Carrying value $m	Additions $m	Disposals $m	Depreciation charge $m	Impairments $m	Exchange and other movements $m	2008 Carrying value $m
13.2 Movement							
Property							
Freehold	45.3	31.5	-	(0.7)	-	(4.4)	71.7
Equipment							
Computer equipment	6.8	5.9	-	(2.0)	-	(3.9)	6.8
Motor vehicles	1.0	0.6	(0.1)	(0.4)	-	-	1.1
Office equipment	3.3	9.5	-	(2.9)	-	3.4	13.3
Furniture and fittings	21.9	8.8	(2.4)	(4.5)	(4.7)	(1.4)	17.7
	33.0	24.8	(2.5)	(9.8)	(4.7)	(1.9)	38.9
	78.3	56.3	(2.5)	(10.5)	(4.7)	(6.3)	110.6

	2006 Carrying value $m	Additions $m	Disposals $m	Depreciation charge $m	Impairments $m	Exchange and other movements $m	2007 Carrying value $m
Property							
Freehold	-	45.8	-	(0.5)	-	-	45.3
Equipment							
Computer equipment	3.1	6.6	(1.1)	(2.0)	-	0.2	6.8
Motor vehicles	0.4	1.1	(0.3)	(0.3)	-	0.1	1.0
Office equipment	1.0	2.8	-	(0.5)	-	-	3.3
Furniture and fittings	13.0	12.4	(0.2)	(3.5)	-	0.2	21.9
	17.5	22.9	(1.6)	(6.3)	-	0.5	33.0
	17.5	68.7	(1.6)	(6.8)	-	0.5	78.3

Notes to the annual financial statements continued

14 Trading liabilities

	2008 $m	2007 $m
Government, municipality and utility bonds	781.0	893.8
Corporate bonds	22.8	389.0
Listed equities	6.9	5.3
Unlisted equities	18.4	148.0
Other unlisted instruments	1 235.3	2 258.6
	2 064.4	3 694.7
Maturity analysis		
The maturities represent periods to contractual redemption of the trading liabilities recorded.		
– Redeemable on demand	27.5	11.2
– Maturing within 1 month	80.5	132.0
– Maturing after 1 month but within 6 months	145.8	517.7
– Maturing after 6 months but within 12 months	208.3	445.4
– Maturing after 12 months	1 541.4	2 165.6
– Undated liabilities	60.9	422.8
	2 064.4	3 694.7
Included above are the following amounts due to related parties:		
Group undertakings – fellow subsidiaries	53.3	91.5
Minimum amount during the year	53.3	91.5
Maximum amount during the year	195.0	604.3

15 Deposit and current accounts

	2008 $m	2007 $m
Deposits from banks	15 458.9	16 136.9
Deposits from banks	14 844.2	15 303.2
Deposits from banks under repurchase agreements	547.7	768.7
Negotiable certificates of deposit	67.0	65.0
Deposits from customers	7 704.2	6 347.5
Current accounts	982.1	826.8
Call deposits	3 161.7	2 261.9
Savings accounts	328.8	386.2
Term deposits	2 763.4	1 111.9
Repurchase agreements	342.0	540.4
Other funding	126.2	1 220.3
	23 163.1	22 484.4

Notes to the annual financial statements continued

15 Deposit and current accounts continued

	2008 $m	2007 $m
Maturity analysis		
The maturity analysis is based on the remaining periods to contractual maturity from year-end.		
- Repayable on demand	**9 135.2**	7 185.9
- Maturing within 1 month	**4 507.0**	7 890.5
- Maturing after 1 month but within 6 months	**4 880.1**	3 345.6
- Maturing after 6 months but within 12 months	**2 556.1**	1 509.7
- Maturing after 12 months	**2 084.7**	2 552.7
	23 163.1	22 484.4
Included above are the following amounts due to related parties:		
Group undertakings - fellow subsidiaries		
Deposits from banks	**9 085.3**	10 878.0
Other deposits and loan accounts	**359.8**	343.5
	9 445.1	11 221.5
Minimum amount during the year	**9 034.1**	7 012.6
Maximum amount during the year	**12 879.0**	11 227.5

16 Other liabilities

	2008 $m	2007 $m
Unsettled dealing balances	**241.7**	323.8
Other	**776.8**	622.8
	1 018.5	946.6
Comprising:		
Due within one year	**1 003.1**	896.9
Due after one year	**15.4**	49.7
	1 018.5	946.6
Included above are the following amounts due to related parties:		
Group undertakings - fellow subsidiaries	**6.9**	139.1
Minimum amount during the year	**0.8**	115.0
Maximum amount during the year	**264.7**	267.8

17 Current and deferred tax liabilities

	2008 $m	2007 $m
Current tax liabilities	**91.8**	54.4
Deferred tax liabilities (note 10.2)	**3.3**	3.7
	95.1	58.1
The major components of the deferred tax liability are as follows:		
Timing differences on:		
- Capital allowances	**-**	-
- Other short-term timing differences	**3.3**	3.7
	3.3	3.7
The movements in the deferred tax liability were as follows:		
Balance at beginning of the year	**3.7**	5.7
Amounts recognised in the income statement	**(2.9)**	1.6
Amounts charged directly to equity	**2.5**	(3.6)
Balance at end of the year	**3.3**	3.7

Notes to the annual financial statements continued

18 Subordinated debt

	2008 $m	2007 $m
Carrying value		
Subordinated Floating Rate EUR Loan Stock 2008 [1]	-	62.7
Subordinated Floating Rate Notes 2009 [2]	50.0	50.0
Subordinated Unsecured Floating Rate Loan Stock 2009 [3]	35.0	35.0
Subordinated Floating Rate Notes 2012 [4]	139.6	145.9
Step-Up Subordinated Floating Rate Notes 2014 [5]	100.0	100.0
Step-Up Subordinated Floating Rate Notes 2015 [6]	239.6	250.0
Subordinated Floating Rate Loan 2017 [7]	-	100.0
Step-Up Perpetual Subordinated Notes [8]	141.7	200.0
Accrued interest	9.2	11.7
	715.1	955.3
Included above are the following amounts due to related parties:		
Group undertakings - fellow subsidiaries	-	162.7
Minimum amount during the year	-	55.9
Maximum amount during the year	162.7	162.7

[1] Bonds issued in Euros (€43.0 million) were redeemed at par on 21 April 2008 (US$68.4 million equivalent).

[2] Bonds issued in US Dollars (US$50.0 million) at a floating rate equal to the aggregate of 1.85% per annum and the London interbank offer rate for three-month US Dollar deposits, until maturity on 13 December 2009.

[3] Bonds issued in US Dollars (US$35.0 million) at a floating rate equal to the aggregate of 2% per annum and the London interbank offer rate for three-month US Dollar deposits, until maturity on 27 December 2009.

[4] Bonds issued in Euros (€100.0 million) at a floating rate equal to the aggregate of 4% per annum and the interbank offer rate for three-month Euro deposits, until maturity on 28 December 2012. The bonds carry an option to be redeemed in full at their nominal value on or after 29 December 2009.

[5] Bonds issued in US Dollars (US$100.0 million) at a floating rate equal to the aggregate of 2.5% per annum and the London interbank offer rate for three-month US Dollar deposits. The bonds carry an option to be redeemed in full at their nominal value on or after 15 July 2009. After this option date, the bonds bear interest at the aggregate of 3% per annum and the London interbank offer rate for three-month US Dollar deposits, until maturity on 14 July 2014.

[6] Bonds issued in US Dollars (US$239.6 million; 2007: US$250.0 million) bearing interest equal to the aggregate of 1.15% per annum and the London interbank offered rate for three-month US Dollar deposits. The bonds carry an option to be redeemed in full at their nominal value on or after 8 October 2010. After this option date, the bonds bear interest at the aggregate of 1.65% per annum and the London interbank offer rate for three-month US Dollar deposits, until maturity on 7 October 2015. During December 2008, bonds with a nominal value of US$10.4 million were bought back at market price.

[7] Bonds issued in US Dollars (US$100.0 million) at a floating rate equal to the aggregate of 3.75% per annum and the London interbank offer rate for three-month US Dollar deposits were redeemed on 30 September 2008.

[8] Bonds issued in US Dollars (US$141.7 million; 2007: US$200.0 million) at a fixed rate equal to 8.012% per annum. The bonds carry an option to be redeemed in full at their nominal value on or after 27 July 2016. After this option date, the bonds bear interest at the aggregate of 3.25% per annum and the London interbank offer rate for three-month US Dollar deposits. The principal has no fixed repayment date. During December 2008, bonds with a nominal value of US$58.3 million were bought back at market price.

Claims in respect of the loan capital are subordinated to the claims of the other creditors. The group has not had any defaults of principal, interest or other breaches with respect to its subordinated liabilities during 2008 and 2007.

Notes to the annual financial statements continued

19 Classification of assets and liabilities

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

	Note	Held for trading $m	Designated at fair value $m	Loans and receivables/ amortised cost $m	Available-for-sale $m	Other non-financial assets/ liabilities $m	Total carrying amount $m	Fair value $m
31 December 2008								
Assets								
Cash and balances with central banks	3	-	-	621.0	-	-	621.0	621.0
Derivative assets	4	11 265.6	-	-	-	-	11 265.6	11 265.6
Trading assets	5	5 324.2	-	-	-	-	5 324.2	5 324.2
Pledged assets	6	244.9	-	26.2	-	-	271.1	271.1
Financial investments	7	-	96.4	19.3	279.7	-	395.4	394.7
Loans and advances to banks	8	-	4 784.2	4 456.4	-	-	9 240.6	9 268.6
Loans and advances to customers	8	-	893.5	11 176.9	-	-	12 070.4	11 882.8
Financial assets		16 834.7	5 774.1	16 299.8	279.7	-	39 188.3	39 028.0
Other non-financial assets		-	-	-	-	1 103.8	1 103.8	
Total assets		16 834.7	5 774.1	16 299.8	279.7	1 103.8	40 292.1	
Liabilities								
Derivative liabilities	4	11 087.5	-	-	-	-	11 087.5	11 087.5
Trading liabilities	14	2 064.4	-	-	-	-	2 064.4	2 064.4
Deposits from banks	15	-	6 706.2	8 752.7	-	-	15 458.9	15 473.6
Deposits from customers	15	-	1 759.1	5 945.1	-	-	7 704.2	7 703.0
Subordinated debt	18	-	-	715.1	-	-	715.1	670.7
Financial liabilities		13 151.9	8 465.3	15 412.9	-	-	37 030.1	36 999.2
Other non-financial liabilities		-	-	-	-	1 113.6	1 113.6	
Total liabilities		13 151.9	8 465.3	15 412.9	-	1 113.6	38 143.7	
31 December 2007								
Assets								
Cash and balances with central banks	3	-	-	371.2	-	-	371.2	371.2
Derivative assets	4	7 329.1	-	-	-	-	7 329.1	7 329.1
Trading assets	5	9 375.8	-	-	-	-	9 375.8	9 375.8
Pledged assets	6	26.2	-	-	-	-	26.2	26.2
Financial investments	7	-	97.2	-	272.5	-	369.7	369.7
Loans and advances to banks	8	-	465.0	7 210.8	-	-	7 675.8	7 672.0
Loans and advances to customers	8	-	377.2	11 800.7	-	-	12 177.9	12 161.7
Financial assets		16 731.1	939.4	19 382.7	272.5	-	37 325.7	37 305.7
Other non-financial assets		-	-	-	-	639.8	639.8	
Total assets		16 731.1	939.4	19 382.7	272.5	639.8	37 965.5	
Liabilities								
Derivative liabilities	4	8 258.5	-	-	-	-	8 258.5	8 258.5
Trading liabilities	14	3 694.7	-	-	-	-	3 694.7	3 694.7
Deposits from banks	15	-	4 133.5	12 003.4	-	-	16 136.9	16 136.9
Deposits from customers	15	-	1 325.9	5 021.6	-	-	6 347.5	6 347.5
Subordinated debt	18	-	-	955.3	-	-	955.3	955.3
Financial liabilities		11 953.2	5 459.4	17 980.3	-	-	35 392.9	35 392.9
Other non-financial liabilities		-	-	-	-	1 004.7	1 004.7	
Total liabilities		11 953.2	5 459.4	17 980.3	-	1 004.7	36 397.6	

Notes to the annual financial statements continued

20 Reclassification of financial assets

	2008 $m	2007 $m
Amount reclassified from held as trading to loans and receivables at amortised cost		
Following the amendments to IAS 39 and IFRS 7, 'Reclassification of Financial Assets', certain trading assets were reclassified to loans and receivables for which there was a clear change of intent to hold the assets for the foreseeable future rather than to exit or trade in the short-term.		
Carrying value at date of transfer	**531.1**	-
Carrying value at year-end	**494.6**	-
Fair value at year-end	**417.0**	-

As at the reclassification date, the average effective interest rate on the reclassified assets was 5.1% with expected recoverable cash flows of US$618.3 million. If the reclassification had not been made, the income statement would have included unrealised fair value losses of US$86.4 million. Reclassifications were made with effect from 1 July 2008 (transfer value of US$342.8 million) and 1 October 2008 (transfer value US$188.3 million).

The table below sets out the amounts actually recognised in profit or loss:

	2008 $m	2007 $m
Period before reclassification		
Trading income	**(14.0)**	9.5
Period after reclassification		
Net interest income	**8.9**	-
Net income	**(5.1)**	9.5

21 Fair values of financial instruments

21.1 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 financial instruments, such as loans, deposits, illiquid securities and unlisted derivatives, direct market prices are not always 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 and judgements 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 affect these estimates and the resulting fair values. Derived fair value estimates cannot necessarily be substantiated by comparison to independent markets and may 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:

- 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 and fixed rate financial instruments carried at amortised cost is estimated by comparing market interest rates when the loans were granted with current market rates offered on similar loans.
- 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.

Notes to the annual financial statements continued

21 Fair values of financial instruments continued

21.1 Estimation of fair values continued

- The fair value of derivatives is estimated either using broker quotes or by discounting future cash flows. 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 if applicable. 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.
- The fair values of portfolios of non-performing loans acquired are based on discounted cash flow models, determined by the underlying nature of each portfolio. The discount rates applied reflect the internal rate of return based on initial projected cash flows used in pricing allocations. The actual vs projected cash flows are reviewed on a loan by loan basis.

22 Financial assets and financial liabilities designated at fair value through profit or loss

22.1 Loans and advances

The group's maximum exposure to credit risk for loans and advances designated at fair value through profit or loss is US$5 677.7 million (2007: US$842.2 million). No credit derivatives were used to mitigate credit risk on these instruments.

Recorded in the income statement is US$247.8 million (2007: US$34.4 million) relating to loans and advances designated at fair value through profit or loss. The change in fair value of the designated loans and advances attributable to changes in their credit risk is determined as the amount of change in fair value that is not attributable to changes in market conditions.

22.2 Financial liabilities

The change in fair value of the financial liabilities designated at fair value through profit or loss attributable to changes in credit risk amounts to US$11.5 million.

The amount the group would contractually be required to pay at maturity of the financial liabilities designated at fair value through profit or loss amounts to US$8 537.7 million (2007: US$4 817.6 million).

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

23 Equity

23.1 Ordinary share capital

	2008 $m	2007 $m
Company		
Authorised		
14 000 000 ordinary Class A shares	**244.6**	244.6
1 000 000 ordinary Class B shares	**17.5**	17.5
Issued and fully paid		
1 844 133 ordinary Class A shares (2007: 1 844 133)	**32.6**	32.6
50 003 ordinary Class B shares (2007: 50 003)	**0.9**	0.9
	33.5	33.5

The rights of the ordinary Class A and B shares are identical with regard to voting rights and amounts receivable upon winding up. Ordinary Class B shares carry a preferential right to dividends, the extent of which may be determined by the company at a general meeting.

Notes to the annual financial statements continued

23 Equity continued

23.2 Minority interest

	2008 $m	2007 $m
Minority interest attributable to the Standard Bank Group		
Standard Bank London Holdings Plc (33%) [1]	**721.5**	203.8
External minority interest		
Standard Bank Argentina S.A. (25%)	**63.4**	51.7
Standard Unlu Menkul Degerler (33%)	**5.4**	6.4
Other [2]	**12.5**	4.1
	81.3	62.2

[1] Minorities of Standard Bank London Holdings Plc are 100% held within the Standard Bank Group. During 2008 SBLH issued US$200.0 million ordinary shares and US$300.0 million preference shares.

[2] Includes minority interest relating to Dundas Ünlü Partners S.A. (Luxembourg) (33.1%).

24 Contingent liabilities and commitments

	2008 $m	2007 $m
24.1 Contingent liabilities		
Guarantees	**297.3**	310.8
	297.3	310.8
24.2 Commitments		
Letters of credit	**798.1**	1 099.4
Unutilised facilities		
- Less than one year	**120.8**	72.6
- One year and over	**167.4**	639.2
	1 086.3	1 811.2

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.

	2008 $m	2007 $m
24.3 Operating lease commitments		
The future minimum payments under non-cancellable operating leases are as follows:		
Properties		
Within 1 year	**14.0**	16.6
After 1 year but within 5 years	**58.8**	30.6
After 5 years	**105.4**	8.7
	178.2	55.9

Notes to the annual financial statements continued

25 Supplementary income statement information

	2008 $m	2007 $m
Group		
25.1 Interest income		
Interest on loans and advances and short-term funds	1 128.8	837.0
Designated as held at fair value	247.8	34.4
Unwinding of discount element of credit impairments for loans and advances (note 8.3)	2.7	0.4
Interest on investment securities	43.8	24.4
	1 423.1	896.2
Included above are the following amounts received from related parties:		
Group undertakings - fellow subsidiaries	20.9	28.7
25.2 Interest expense		
Subordinated debt	47.3	41.0
Designated as held at fair value	169.4	226.0
Other interest-bearing liabilities	737.0	388.5
	953.7	655.5
Included above are the following amounts paid to related parties:		
Group undertakings - fellow subsidiaries	556.0	507.7
25.3 Fees and commission revenue		
Knowledge based fees and commission[1]	232.9	189.3
Point of representation fees	25.6	36.0
Card-based commission	38.7	22.1
Other	9.3	4.0
	306.5	251.4
25.4 Fees and commission expenses		
Fee and commission expenses[1]	(74.3)	(50.7)
	(74.3)	(50.7)

[1] In order to provide a comparable base, prior year includes a reclassification of US$39.0 million between fees and commission revenue and fees and commission expenses.

	2008 $m	2007 $m
25.5 Trading revenue		
Foreign exchange	70.6	84.2
Debt securities	279.6	239.4
Commodities	237.3	172.3
Equities	(70.1)	49.5
	517.4	545.4

Notes to the annual financial statements continued

25 Supplementary income statement information continued

	2008 $m	2007 $m
25.6 Other revenue		
Gain on sale of private client services business	-	16.8
Gain on early redemption of subordinated debt	33.7	-
Gain on revaluation of private equity funds	4.6	5.9
Other	3.7	5.5
	42.0	28.2
Included in total non-interest income are the following amounts received from related parties:		
Group undertakings - fellow subsidiaries	70.8	12.4

Trading revenue arises from the use of the following customer facilitation and proprietary trading activities:

- 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.
- Commodities: physical, forward, futures and option contracts in precious metals, base metals and energy.
- Equities: equity and equity derivatives.

Trading revenue includes related fee and investment income as well as associated funding costs as a result of trading operations.

	2008 $m	2007 $m
25.7 Credit impairment charges		
Credit impairment charges for non-performing loans (note 8.3)	92.5	16.6
Credit impairment charges for performing loans (note 8.3)	29.9	6.9
	122.4	23.5
25.8 Staff costs		
Salaries and allowances	473.7	446.9
Other direct staff costs	65.6	50.5
Long-term incentive scheme	(12.5)	9.6
Retirement benefit costs	13.8	11.6
	540.6	518.6

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

	2008 Number	2007 Number
Key management	16	15
Other	4 338	3 968
	4 354	3 983

Notes to the annual financial statements continued

25 Supplementary income statement information continued

	2008 $m	2007 $m
25.9 Other operating expenses		
Amortisation of intangible assets	**11.9**	3.6
Auditors' remuneration	**6.0**	4.3
Statutory audit fees - Current year	**3.5**	2.9
Non audit fees - Assurance services	**2.1**	0.3
Non audit fees - Tax advisory services	**0.4**	1.1
Depreciation (note 13.2)	**10.5**	6.8
Property		
- Freehold	**0.7**	0.5
Equipment		
- Computer equipment	**2.0**	2.0
- Motor vehicles	**0.4**	0.3
- Office equipment	**2.9**	0.5
- Furniture and fittings	**4.5**	3.5
Impairment of equipment	**4.7**	-
Indirect tax expense	**45.9**	31.4
Operating lease charges	**30.9**	27.7
Properties and other	**30.7**	27.5
Furniture and equipment	**0.2**	0.2
Information technology and communication	**67.8**	49.8
Premises	**20.6**	15.7
Other expenses	**170.2**	127.2
	368.5	266.5

25.10 Long-term incentive schemes

Standard International Holdings S.A. has a long-term incentive scheme ('the Scheme') whereby certain employees, including certain executive directors of the 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 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 four years and 100% after five years.

Up until March 2004 the Scheme options 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.

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 Scheme amount to US$20.3 million at 31 December 2008 (2007: US$44.5 million), and the amount released for the year is US$14.1 million (2007: US$9.0 million charge).

With effect from 2006, certain employees have been granted share options under the SBG equity settled share based scheme. The provision in respect of equity under the SBG share scheme amount to US$3.0 million at 31 December 2008 (2007: US$1.6 million), and the amount charged for the year is US$1.3 million (2007: US$1.1 million).

Notes to the annual financial statements continued

25 Supplementary income statement information continued

25.10 Long-term incentive schemes continued

In 2007, a new long-term incentive scheme was introduced termed the Standard Bank Group Quanto Stock scheme. In terms of this scheme, qualifying employees are awarded a number of Quanto Stock units denominated in US$, the value of which moves in parallel to the change in price of the Standard Bank Group shares listed on the Johannesburg Stock exchange. The awards vest at the end of a three year period dependent on the employee being in service for the period and the employee may call for payment, termed 'exercise' at any point up until the 10 year maturity of the units (except for US taxpayers where it is an automatic settlement date). The scheme includes a discretionary option for an incremental amount to be paid if the employee is in service for four years and has not exercised his/her units. The cost of the award is accrued over the vesting period, commencing in the year the units are issued.

	2008 Number ('000)	2007 Number ('000)
25.10.1 Shadow Share Scheme		
Reconciliation of Shadow Share Scheme		
Options outstanding at beginning of the year	37 399	29 419
Granted	-	11 197
Exercised	(6 953)	(469)
Transfers	(166)	-
Leavers / Lapses	(1 970)	(2 748)
Options outstanding at end of the year	28 310	37 399
Of which relate to key management:	6 013	5 726

Shadow Share Options granted not yet exercised at balance sheet date

Expiry date	Exercise periods	Grant price per Shadow Share (US$)	2008 Number ('000)	2007 Number ('000)
10/1/08	April and September 2004 to 2008	-	-	430
10/1/08	April and September 2002 to 2008	1.15	-	2 292
1/1/10	April and September 2003 to 2009	2.21	1 060	1 602
1/1/11	April and September 2004 to 2010	2.79	1 482	2 068
1/1/12	April and September 2005 to 2011	2.38	1 907	2 993
1/1/13	April and September 2006 to 2012	1.59	1 588	3 007
1/1/14	April and September 2007 to 2013	2.83	2 459	2 861
1/1/15	April and September 2008 to 2014	2.20	3 223	4 153
1/1/15	April and September 2009 to 2014	-	2 339	2 521
7/1/15	September and April 2008 to 2015	1.89	42	42
1/1/16	April and September 2009 to 2015	1.79	3 580	4 060
1/1/16	April and September 2010 to 2015	-	78	78
7/1/16	September and April 2010 to 2016	-	1 160	1 160
1/1/15	April and September 2010 to 2016	1.99	9 251	9 991
7/1/15	September and April 2010 to 2017	2.48	141	141
			28 310	37 399

Notes to the annual financial statements continued

25 Supplementary income statement information continued

25.10 Long-term incentive schemes continued

25.10.1 Shadow Share Scheme continued

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

Exercise periods	Grant price per Shadow Share (US$)	2008 Number ('000)	2007 Number ('000)
01/07/2010 - 30/06/2016	-	-	515
01/01/2010 - 31/12/2016	1.99	-	10 541
01/01/2010 - 30/06/2017	2.48	-	141
		-	11 197

	2008 Number ('000)	2007 Number ('000)
25.10.2 SBG equity scheme		
Reconciliation of SBG equity settled share based scheme		
Units outstanding at beginning of the year	2 993	2 276
Granted	1 362	823
Exercised	(71)	(55)
Leavers / lapses	(141)	(51)
Units outstanding at end of the year	**4 143**	2 993
Of which relates to key management	1 876	1 486

SBG options granted not yet exercised at balance sheet date

Option expiry period	Option price range per share (ZAR)	2008 Number ('000)	2007 Number ('000)
By 31 December 2014	17.50 - 50.91	653	707
By 31 December 2015	60.35 - 65.50	415	445
By 31 December 2016	79.50 - 81.00	975	1 035
By 31 December 2017	92.05 - 107.91	783	806
By 31 December 2018	89.00 - 92.00	1 317	-
		4 143	2 993

	2008 Units ('000)	2007 Units ('000)
25.10.3 Quanto Stock Scheme		
Reconciliation of Quanto Stock Units		
Units outstanding at beginning of the year	-	-
Granted	445	-
Leavers / lapses	(33)	-
Units outstanding at end of the year	**412**	-
Of which relates to key management	79	-

Notes to the annual financial statements continued

25 Supplementary income statement information continued

25.10 Long-term incentive schemes continued

25.10.3 Quanto Stock Scheme continued

Quanto units granted not yet exercised at balance sheet date

Exercise periods	Grant price per unit (US$)	2008 Units ('000)	2007 Units ('000)
January 2011 to January 2018	92.00	359	-
February 2011 to March 2018	85.02 - 89.70	5	-
April 2011 to June 2018	77.35 - 88.20	32	-
July 2011 to September 2018	85.10 - 90.40	9	-
November 2011 to November 2018	77.00 - 83.00	7	-
		412	-

Details of Quanto units granted during the year, all of which were granted for nil consideration

Exercise periods	Grant price per unit (US$)	2008 Units ('000)	2007 Units ('000)
January 2011 to January 2018	92.00	390	-
February 2011 to March 2018	85.02 - 89.70	5	-
April 2011 to June 2018	77.35 - 88.20	34	-
July 2011 to September 2018	85.10 - 90.40	9	-
November 2011 to November 2018	77.00 - 79.00	7	-
		445	-

	2008 $m	2007 $m
25.11 Directors' emoluments		
Executive directors		
Emoluments of directors in respect of services rendered		
Emoluments	3.4	3.8
Proceeds from exercise of options	1.0	0.1
Pension contribution	0.1	0.1
Highest paid director		
Emoluments	2.1	3.1
Proceeds from exercise of options	1.0	0.1
Pension contribution	0.1	0.1
Number of directors for whom pension contributions are paid	2	2

	2008 Number ('000)	2007 Number ('000)
Long-term benefits under the SIH shadow option scheme		
Number of options brought forward	2 226	2 124
Issued during the year to the current directors	-	280
New directors existing options	-	224
Retirement as directors	(304)	(295)
Exercised	(476)	(107)
	1 446	2 226

Notes to the annual financial statements continued

25 Supplementary income statement information continued

25.11 Directors' emoluments continued

Long-term benefits under the SBG equity settled share based scheme

	2008 Number ('000)	2007 Number ('000)
Number of options brought forward	**593**	500
Issued during the year to the current directors	**75**	75
New directors existing options	**45**	18
Retirement as directors	**(18)**	-
Exercised	**-**	-
	695	593

Long-term benefits under the Quanto Stock Scheme

	2008 Units ('000)	2007 Units ('000)
Number of units brought forward	**-**	-
Issued during the year to the current directors	**17**	-
	17	-

26 Income tax expense

	2008 $m	2007 $m
Current year	**84.5**	52.2
- UK corporation tax	**38.8**	29.8
- UK deferred tax	**4.6**	0.1
- Overseas tax	**61.0**	23.1
- Overseas deferred tax	**(19.9)**	(0.8)
Prior years	**3.8**	(1.2)
- UK corporation tax	**3.8**	(1.1)
- UK deferred tax	**-**	(0.1)
Total tax expense	**88.3**	51.0

Notes to the annual financial statements continued

26 Income tax expense continued

	2008 $m	2007 $m
UK tax rate reconciliation		
Profit on ordinary activities before tax	241.8	260.5
Corporation tax [1]	68.9	78.2
Effects of:		
Adjustment to tax charge in respect of prior years	3.8	(1.1)
Change in bad debt provision	(10.1)	1.2
Differences between book depreciation and capital allowances	2.3	(1.6)
Group relief	(2.0)	(1.5)
Impact on differently taxed profits in overseas locations	5.7	(15.9)
Non-deductible expenses	12.4	3.9
Non-taxable income	(2.1)	(22.0)
Other short-term timing differences	(7.5)	1.1
Other	1.6	9.4
	73.0	51.7
Deferred tax		
Deferred tax - current year	15.3	(0.7)
Capital allowances	(2.3)	1.6
Bad debt provision	10.1	(1.2)
Other short-term timing differences	7.5	(1.1)
	88.3	51.0
Effective tax rate	36.5%	19.6%

[1] The applicable tax rate decreased during the period under review from 30.0% to 28.5%.

Notes to the annual financial statements continued

27 Cash flow statement notes

	2008 $m	2007 $m
27.1 Cash flows from operations		
Interest, fees and commission receipts	**1 652.6**	1 096.9
Interest receipts	**1 420.4**	896.2
Net fees and commission receipts	**232.2**	200.7
Trading receipts	**517.4**	545.4
Other receipts	**42.0**	28.2
Cash recovery of credit impairments	**(12.8)**	3.8
Interest payments	**(953.7)**	(655.5)
Cash payments to employees and suppliers	**(895.9)**	(762.0)
	349.6	256.8
27.2 Decrease / (increase) in income-earning assets		
Trading assets	**4 051.6**	526.3
Pledged assets	**(244.9)**	82.4
Financial investments	**(21.5)**	(126.7)
Loans and advances	**1 124.0**	(5 427.7)
Interest in associates and joint ventures	**9.1**	(0.2)
Other assets	**(399.0)**	37.5
	4 519.3	(4 908.4)
27.3 (Decrease) / increase in deposits and other liabilities		
Deposits and current accounts	**(211.0)**	5 078.0
Deposits received under repurchase agreements	**889.7**	(312.9)
Net derivative liabilities	**(1 103.0)**	492.1
Trading liabilities	**(1 630.3)**	(597.7)
Other liabilities	**64.3**	143.9
	(1 990.3)	4 803.4
27.4 Tax paid		
Amounts unpaid at beginning of the year	**(38.8)**	(24.1)
Additions through business combinations	**-**	13.2
Direct income tax	**(73.0)**	(52.9)
Amounts unpaid at end of the year	**86.1**	38.8
	(25.7)	(25.0)

Notes to the annual financial statements continued

27 Cash flow statement notes continued

27.5 Investment resulting in acquisition of subsidiaries

	2008 $m	2007 $m
Cash and balances with central banks	-	(265.3)
Trading assets	-	(44.7)
Financial investments	-	(219.6)
Loans and advances	-	(1 399.4)
Other assets	-	(29.7)
Current and deferred tax asset	-	(16.7)
Property and equipment	-	(56.8)
Total assets acquired	-	(2 032.2)
Derivative liabilities	-	3.5
Deposit and current accounts	-	1 785.8
Other liabilities	-	119.6
Current and deferred tax liability	-	3.5
Net asset value	-	(119.8)
Minority interests	-	54.7
Net assets acquired	-	(65.1)
Net gain / goodwill on acquisition	-	25.9
Net gain on acquisition	-	54.2
Goodwill	-	(28.3)
Cash consideration	-	(39.2)
Less: cash and balances with central banks acquired	-	265.3
Net cash acquired	-	226.1

27.6 Cash and cash equivalents

	2008 $m	2007 $m
Cash and balances with central banks	**621.0**	371.2
Other cash equivalents (included in loans and advances) [1]	**5 255.3**	2 567.1
Cash and cash equivalents at end of the year	**5 876.3**	2 938.3

[1] Other cash equivalents include short-term placements that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. Other cash and cash equivalents consist of highly liquid short-term placements which are subject to insignificant changes in fair value and are reported at amortised cost.

28 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:

	2008 $m	2007 $m
Fund management	**330.0**	947.9

Notes to the annual financial statements continued

29 Related party transactions

29.1 Subsidiaries
Details of interests in subsidiaries are disclosed in note 33. Transactions between subsidiaries are conducted in the ordinary course of business at arms length. Intercompany transactions and balances are eliminated on consolidation.

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

29.3 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 and are conducted in the ordinary course of business at arms length. These transactions include 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 15.

The group also advances funds to other group entities, as part of normal activity, the extent of which is disclosed in note 8.

29.4 Key management compensation
Key management is composed of directors and the members of the senior management team of the principal operating entities.

	2008 Directors and key management $'000	2007 Directors and key management $'000
Salaries and other short-term benefits	**17 534.5**	16 413.0
Post-employment benefits	**-**	333.9
Gains on exercise of long-term incentives and other payments	**2 623.0**	238.5
	20 157.5	16 985.4

The value of shadow share scheme options vested at 31 December 2008 was US$5.5 million (2007: US$8.0 million).

29.5 Transactions with key management
There were no transactions with key management in 2008 (2007: nil).

30 Pensions and other post-retirement benefits

Certain of the Company's subsidiaries make defined contributions to employees' pension providers. The assets of these providers are held separately from those of the companies concerned in independently administered funds. Included in other pension costs are contributions paid by group companies which amounted to US$13.9 million (2007: US$11.6 million). There were no outstanding contributions at year end (2007: nil).

Notes to the annual financial statements continued

31 Financial risk management

31.1 Overview and executive summary

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

Risk management is at the core of the operating and management structures of the group. Managing and controlling risks, and in particular avoiding undue concentrations of exposure, limiting potential losses from stress events, and restricting significant positions in less quantifiable risk areas, are essential elements of the risk management and control framework which ultimately leads to the protection of the group's reputation and business franchise.

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

In the first line of defence, business unit management is primarily responsible for risk management. Their assessment, evaluation and measurement of risk is an ongoing process and is integrated with the day-to-day business activities. This includes the continued development of the group's risk management framework, identification of material issues and the implementation of remedial action where required. Business unit management is also accountable for appropriate reporting to the governance bodies within the bank.

The second line of defence is represented by the group's risk Management function which is independent of line management within the business areas. The risk function is primarily accountable for setting the group's risk management framework and policy, and providing risk oversight and independent reporting of risk to the group's executive management, board level committees and to group board.

The third line of defence consists of Internal Audit which provides an independent assessment of the adequacy and effectiveness of the group's overall system of internal control and risk governance structures; the audit function reports independently to the Board Audit Committee and to the group Audit Committee.

External audit has a statutory duty to report its independent opinion on the group's financial statements to the shareholder.

During the recent financial crisis the group's risk management capabilities were proven to be appropriate and effective. In fact, the group anticipated the weakening credit environment and as a result had initiated a series of management actions to de-risk and de-leverage the portfolio in response to a series of 'deep drill' reviews that highlighted potential areas of concern. Specific action taken in this regard included a:

- Reduction in the group's exposure to Russian and CIS financial institutions.
- Reduction in the group's exposure to real estate, especially in South East Asia.
- Reduction in the group's exposure in Brazil.
- Reduction in the group's client forward sale book as well as a renegotiation in terms to improve pricing and collateral haircuts.
- Reduction in the group's exposure to the hedge fund sector and again supported by a renegotiation in the terms of trade.

The group also has in place procedures which enable it to identify at an early stage any deterioration in the quality of its credit portfolios, these include:

- Portfolio Risk Management Committee which meets monthly to review the key performance indicators in the portfolio (e.g. PD, EAD, LGD, Recap utilisation, concentration limits) and to stress the portfolio with a view to initiating management action where it is necessary to curtail the portfolio risk tendency within the stated risk appetite.
- Credit Risk Review function which reviews the quality of the credit decisions taken within delegated authority based on the information available to make those decisions.
- Watchlist Review – an early warning mechanism under which if any counterparty / performing asset in the banking book breaches, for example, a condition of sanction or a key performance ratio, it is immediately subject to independent scrutiny and, where necessary, a programme of intensive care until such time as the position can be transferred back to 'line management'.

31.2 Risk management framework

Governance structure

Overall responsibility for risk management within the group rests with the Board of Directors. Day-to-day responsibility is delegated to the Executive Committees of subsidiaries and its sub-committees, which review, inter alia, summaries of market and liquidity, credit, operational, country and regulatory risks.

The Board of SIH delegates certain functions and responsibilities to the Audit Committee and the Risk Management Committee.

Notes to the annual financial statements continued

Risk governance standards, policies and procedures

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 group'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 group.

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

The group has developed a set of risk governance standards for each principal risk type. The standards set out and ensure alignment and consistency in the manner in which the major risk types across the bank are governed, identified, measured, managed, controlled and reported.

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

Each standard is supported by both bank-wide and business unit policies and procedural documents as required.

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

Risk appetite

Risk appetite is an expression of the maximum level of residual risk that the bank is prepared to accept in order to deliver its business objectives. It is reviewed by Executive Management and the Board at least annually and is defined using a number of measures, including:

- a target credit rating for the bank;
- the level of income statement volatility the bank is prepared to accept; and
- capital adequacy as measured by the ratio of available financial resources to economic capital consumption.

The risk profile of the bank is monitored against risk appetite by balancing:

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

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

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

Stress testing

Stress testing serves as a diagnostic and forward-looking tool to improve the group's understanding of how its risk profile may change (i.e. the risk tendency) based on certain stress scenarios.

A robust stress testing framework guides the regular execution (monthly) of scenario analysis on the group's portfolios. The stress scenarios are reviewed at least quarterly to ensure their continued appropriateness and applicability to the portfolios. A proprietary stress testing engine calculates the impact of the stress scenarios on earnings and capital adequacy. Management reviews the outcomes of stress tests at the Portfolio Risk Management Committee and selects appropriate mitigating actions to minimise and manage the risk tendency of the portfolios within the group's agreed risk appetite.

Examples of actions taken include:

- reviewing and changing limits;
- limiting exposures in specific sectors, countries, regions or portfolios;
- influencing the type, quantum and maturity of new business that can be originated;
- securitisation and/or rebalancing of the portfolio to reduce risk sensitivity; and
- hedging strategies.

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

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

Notes to the annual financial statements continued

Risk profile

The group's trading activities comprise both customer related and principal business. These activities result in the bank 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.

The group's credit and country risk is well diversified, although as an active participant in both the developed and emerging banking markets, it has a sectoral concentration of risk to financial institutions. The largest exposures are to the United States, United Kingdom and European Union countries. The largest emerging market exposures are to China and Russia, both investment grade countries.

31.3 Risk categories

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

Credit risk

Credit Risk is the risk that a customer or counterparty will not be able or willing to pay interest, capital or otherwise fulfil their contractual obligations under loan or other facilities as they fall due.

Country and cross-border risk

Country risk is the risk of loss arising when political or economic conditions or events in a particular country reduce the ability of counterparties in that country to meet their financial obligations to the bank.

Cross-border risk is the risk that actions taken by a government may restrict the transfer and convertibility of funds of local currency into non-local currency, thereby impacting the ability to obtain payment from counterparties on their financial obligations to the bank.

Market risk

Market risk is defined as the risk of a change in the actual or effective market value or earnings of a portfolio of financial instruments caused by adverse movements in market variables such as equity, bond and commodity prices, currency exchange rates, interest rates, credit spreads, recovery rates and correlations and implied volatilities in all of the above.

Liquidity risk

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

Operational risk

Operational risk is defined as the risk of loss suffered as a result of inadequacy of, or a failure in, internal processes, people and systems or from external events. This includes information risk and legal risk, but excludes reputational risk and strategic risk.

Business risk

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

31.4 Credit risk

Credit risk arises mostly from lending and related banking product activities, including their underwriting, and traded products such as derivative contracts and securities borrowing and lending products. In lending transactions, credit risk arises through non-performance by a customer or market counterparty for facilities granted. These facilities are typically loans and advances, including the advancement of securities and contracts to support customer obligations such as letters of credit and guarantees. In trading activities, credit losses arise due to non-performance by a counterparty for payments linked to trading-related financial obligations.

Market risk within traded credit products (whether traded as principal or held as collateral) including debt instruments and credit derivatives arises through market price sensitivity, issuer concentration and default risks. All of which are managed through market risk processes.

In times of severe stress and market illiquidity, market risk moves much closer to adopting credit risk characteristics.

The group currently holds retail assets in Argentina, with over 850 000 secured and unsecured loans to individual consumers and small businesses. Credit risk is managed by both a local credit team in Argentina and a credit risk oversight group based in London. To improve credit risk management practices for the retail portfolio, the two teams are in the process of developing and implementing internal risk models for all retail products.

Framework and governance

Strategy and process to manage risk

Credit risk is the group's most significant risk as measured by absolute amount and quantum of capital consumed; it is managed in accordance with the group's comprehensive risk management control framework, which is consistent with the previous financial reporting period. The group's credit standard sets out the principles under which it is prepared to assume credit risk.

Notes to the annual financial statements continued

The group's Chief Credit Officer has functional responsibility for credit risk across the organisation and reports to the Chief Risk Officer. The regional Heads of Credit report functionally to the Chief Credit Officer.

Structure and organisation of credit risk management function

A formal structure exists for the approval of credit limits which are agreed through delegated authority from the Global CIB Credit Committee to regional credit committees and individual delegated authority. The committees have clearly defined mandates, memberships and delegated authorities that are regularly reviewed. Credit committee responsibilities include oversight of governance; risk appetite; model performance, development and validation; counterparty and portfolio risk limits and approvals; country, industry, market, product, customer segment and maturity concentration risk; risk mitigation; impairments; stress testing; and risk usage and optimisation of regulatory and economic capital.

Methodology to assign credit limits

The group uses internal models and practices to measure and manage credit risk, deploying considerable resources to ensure that it is properly understood, managed and controlled. The credit modelling framework includes the use of probability of default, loss given default, exposure at default and economic measures in the way we run our business. Ongoing enhancements will continue in this focus area for the group.

Measuring credit risk requires an understanding of its core components, which are probability of default, loss given default and exposure at default. The way in which the group measures these components is described below.

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

The group makes use of an internationally comparable 21 point master rating scale for all performing counterparties. This is shown below calibrated against External Credit Assessment Institutions alphanumerical rating scales and group grading category.

Group master rating scale	Credit quality steps	Moody's	Standard and Poors	Fitch	Group grading category
1-4	1	Aaa to Aa3	AAA to AA-	AAA to AA-	Normal monitoring
5-7	2	A1 to A3	A+ to A-	A+ to A-	
8-13	3	Baa1 to Ba3	BBB+ to BB-	BBB+ to BB-	
14-16	4	B1 to B3	B+ to B-	B+ to B-	
17-21	5	Caa to C	CCC+ to C-	CCC+ to C-	Close monitoring
Default	6	D	D	D	Default

Credit risk mitigation and hedging

Collateral, guarantees, credit derivatives and on- and off-balance sheet netting are widely used by the group for credit risk mitigation. The amount and type of credit risk mitigation depends on the circumstances of each case. The Collateral Management function for our Corporate & Investment Banking business is centrally managed, on a global basis by Global Collateral Management in Johannesburg with oversight by and escalation to the relevant credit division as required. The amount and type of collateral required depends on an assessment of the credit risk of the counterparty as well as requirements or intentions with respect to reductions in capital requirements. Guidelines are implemented regarding the acceptability of types of collateral, their strength as credit risk mitigation and valuation parameters. Collateral is generally not held over loans and advances to banks, except when securities are held as part of reverse repurchase and securities borrowing activity.

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

Where the bank has uncollateralised marked to market risk and/or potential future exposure this is subject to weekly review at the bank's Credit Committee with the largest positions being subject to specific scrutiny and limit control.

Notes to the annual financial statements continued

The group holds collateral against loans and advances to customers in the form of registered securities over assets, guarantees and mortgage interest over property. The main types of collateral required are plant and machinery, charges over real estate properties, inventory and trade receivables and other assets such as life policies and physical commodities held to our order.

Guarantees and similar legal contracts are often required particularly in support of credit extension to groups of companies and weaker credits. Guarantor counterparties include banks, parent companies, shareholders and associated counterparties. Creditworthiness is established for the guarantor in the normal course for counterparty credit approvals.

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

The group performs monthly stress tests on its credit portfolio. The appropriateness of the stresses applied are reviewed and approved quarterly at the Portfolio Risk Management Committee (PRMC). The outputs from the stress results inform management of the expected risk tendency of the portfolio against the group's stated risk appetite. Where necessary, PRMC is empowered to initiate management action to contain the risk tendency within risk appetite. This process has been in place throughout 2008 and continues to be a cornerstone of our risk management discipline.

Wrong way risk exposure

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

Collateral required in respect of a rating downgrade

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

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

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

Analysis of maximum exposure to credit risk

The quality of the exposures in terms of creditworthiness, varying from normal monitoring to close monitoring as determined by the internal models, are defined in terms of the group master rating scale.

Notes to the annual financial statements continued

Credit quality based on the group's credit rating system

	Neither past due nor impaired		Past due but not impaired	Impaired	Gross credit exposure
	Normal monitoring $m	Close [1] monitoring $m	$m	$m	$m
2008					
Derivative assets	**11 075.3**	**189.8**	**-**	**-**	**11 265.1**
Loans and advances to banks	**9 069.8**	**125.9**	**-**	**48.8**	**9 244.5**
Loans and advances to customers	**10 460.6**	**1 212.1**	**141.1**	**420.0**	**12 233.8**
Personal and Business Banking	**844.5**	**6.1**	**106.2**	**22.7**	**979.5**
Corporate and investment Banking	**9 616.1**	**1 206.0**	**34.9**	**397.3**	**11 254.3**
	30 605.7	**1 527.8**	**141.1**	**468.8**	**32 743.4**
2007					
Derivative assets	7 144.3	184.8	-	-	7 329.1
Loans and advances to banks	7 551.0	113.5	11.3	-	7 675.8
Loans and advances to customers	11 335.1	616.6	236.4	56.1	12 244.2
Personal and Business Banking	768.3	111.7	81.0	18.7	979.7
Corporate and investment Banking	10 566.8	504.9	155.4	37.4	11 264.5
	26 030.4	914.9	247.7	56.1	27 249.1

[1] The majority of these balances relate to trading book financing products backed by collateral and margining or are structured such that the risk is transferred to a third party. Of these balances, US$469.0 million (2007: US$144.7 million) is subject to enhanced monitoring under the watchlist process.

Including gross derivatives and contingent exposures, the maximum credit exposure for the group on 31 December 2008 is US$34 081.0 million (2007: US$29 371.1 million). The value of collateral held is reviewed on a regular basis, although it is impractical to obtain a total fair value of collateral on a specified date for reporting purposes.

Past due loans and advances, but not impaired

The table below shows past due loans and advances by number of days after the due date that are not due to technical arrears or delays in payment due to timing. For the Personal & Business Banking portfolio, loans and advances are considered past due when an account is one day past due for instalment types up to 89 days after which it is considered to be non-performing. For loans and advances other than instalment types, i.e. cheque account and overdrafts, an account is considered past due where the limit has been breached. For the Corporate & Investment Banking portfolio, items that have defaulted but do not have interest in suspense and/or an impairment raised against them are considered past due but not impaired.

Notes to the annual financial statements continued

Age analysis of loans and advances past due but not impaired

	Less than 30 days $m	31 to 60 days $m	61 to 90 days $m	91 to 180 days $m	More than 180 days $m	Past due but not impaired $m
2008						
Loans and advances to banks	–	–	–	–	–	–
Loans and advances to customers	**105.8**	**18.9**	**16.4**	–	–	**141.1**
Personal and Business Banking	**85.9**	**13.7**	**6.6**	–	–	**106.2**
Corporate and investment Banking	**19.9**	**5.2**	**9.8**	–	–	**34.9**
	105.8	**18.9**	**16.4**	–	–	**141.1**
2007						
Loans and advances to banks	11.3	–	–	–	–	11.3
Loans and advances to customers	70.3	9.2	10.6	11.0	135.3	236.4
Personal and Business Banking	68.9	7.1	4.8	0.2	–	81.0
Corporate and investment Banking	1.4	2.1	5.8	10.8	135.3	155.4
	81.6	9.2	10.6	11.0	135.3	247.7

In addition to the amounts above is a distressed asset portfolio amounting to US$344.0 million (2007: US$314.8 million) which has not been included in the table as it was acquired in the ordinary course of business and is carried at fair value.

Impaired loans and advances

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

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

Analysis of financial assets impaired

	Sub standard [1] $m	Doubtful [2] $m	Loss [3] $m	Total $m	Security against impaired loans $m	Balance sheet impairment $m
2008						
Personal and Business Banking	**7.3**	**7.9**	**7.5**	**22.7**	**8.9**	**13.8**
Corporate and Investment Banking	**310.2**	**37.0**	**98.8**	**446.0**	**352.8**	**93.2**
	317.5	**44.9**	**106.3**	**468.7**	**361.7**	**107.0**
2007						
Personal and Business Banking	16.5	0.6	1.6	18.7	8.0	10.7
Corporate and Investment Banking	13.1	6.4	16.3	35.8	18.0	22.1
	29.6	7.0	17.9	54.5	26.0	32.8

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

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

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

Notes to the annual financial statements continued

Renegotiated loans and advances

Renegotiated loans and advances are exposures which have been refinanced, rescheduled, rolled over or otherwise modified because of weaknesses in the counterparty's financial position and where it has been judged that normal repayment will probably continue after the restructure. Renegotiated loans that would otherwise be past due or impaired totalled US$174.8 million as at 31 December 2008 (2007: US$5.3 million).

Collateral repossessed during the year

	Carrying amount 2008 $m	Carrying amount 2007 $m
Coal mine and mining assets	-	4.5
Residential property	-	0.5
Commercial property	-	0.2
Total collateral in possession	**-**	5.2

Disposal of collateral that is not readily realisable into cash is assessed on a case by case basis. The group's objective is to maximise cash recovery in the shortest time possible whilst minimising the risk of depreciation in the collateral value. The proceeds are used to reduce or repay the outstanding claim. In general, the group does not use repossessed assets for business purposes.

31.5 Country and cross-border risk

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

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

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

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 the parent in South Africa for review and 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.

Country risk limits are set to force diversification and to avoid a build up of concentration risk. In this regard the country limits are calibrated to a risk appetite which constrains the level of unexpected loss in the portfolio.

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

Notes to the annual financial statements continued

Geographical analysis of loans and advances [1]

	2008 %	2007 %
Region		
Asia	**10.5**	14.0
Eastern Europe	**6.6**	10.0
North Africa & Middle East	**7.7**	8.0
North America	**14.1**	16.0
South America	**11.7**	10.0
Sub-Saharan Africa	**15.5**	7.0
Western Europe	**33.9**	35.0
	100.0	100.0

[1] Based on the location of the customer

During the year we saw a progressive shift in our exposures towards sub-Saharan Africa as this part of the group's business continued to grow, albeit from a relatively low base. At the same time we also witnessed a decreasing level of primary exposure compensated by a growth in pre-settlement risk.

31.6 Market risk

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 primarily as a result of the execution of customers' orders, although the group also assumes proprietary risk positions. The group's exposure to market risk can be categorised as follows:

Definitions

Trading market risk

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

Banking book interest rate risk

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

Foreign currency risk

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

Equity investments

These risks arise from equity price changes caused by listed and unlisted investments, which is monitored and authorised by the investment committee.

Notes to the annual financial statements continued

Framework and governance

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

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

Market risk measurement

The techniques used to measure and control market risk include:

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

Daily value-at-risk

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

The use of historic VaR has limitations as it is based on historical correlations and volatilities in market prices and assumes that future prices will follow the observed historical distribution.

The group back-tests its VaR models to verify the predictive ability of the VaR calculations thereby ensuring the appropriateness of models. Back-testing compares the daily hypothetical profit and losses under the one-day buy and hold assumption to the prior day VaR.

Stress tests

Stress testing provides an indication of the potential losses that could occur in extreme market conditions. The stress tests carried out include individual market risk factor testing and combinations of market factors per trading desk and for combinations of trading desks. Stress tests include a combination of historical and hypothetical type simulations. The potential losses indicated from the market risk stress testing program are all within the risk appetite of the bank. This has been the case throughout the current period of market volatility and uncertainty.

Other market risk measures

Other market risk measures specific to individual business units include permissible instruments, concentration of exposures, gap limits, maximum tenor and stop loss triggers. In general, only approved products that can be independently priced and properly processed are permitted to be traded.

The Quantitative Analytics and Risk Methods (QARM) department independently validate and document new pricing models and perform an annual review of existing models to ensure models are still relevant and behaving within expectations.

ICAAP

The group monitors the usage of both regulatory and economic credit capital as well as incurred and expected losses using both internally and externally developed models and systems across its portfolios.

Analysis of trading book market risk exposures

The table below shows the aggregated historical VaR for SIH's trading positions. The maximum (and minimum) VaR amounts show the bands in which the values at risk fluctuated during the periods specified. Stop loss triggers are designed to contain losses for individual business units by enforcing management intervention at predetermined loss levels measured against the individual 'highwater mark' year-to-date profit and loss. Other basic risk measures specific to individual business units are also used. These measures include permissible instruments, concentration of exposures, gap limits and maximum tenor.

The agreed standard method for calculating VaR within the group is to use a historical simulation using the last 251 days of historical market data (to create 250 scenarios). Because of inconsistencies in the infrastructure across business lines, the VaR may be calculated using different data sets or using a different methodology such as a parametric model. In order to aggregate these different VaR calculations we combine either the resulting P&L vectors or a zero correlation (which is consistent with the manner in which the limits are allocated). Back-testing results indicate that the VaR is conservative at the overall trading level and hence this is regarded as a reasonable approach.

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	Maximum[1] $m	Minimum[1] $m	Average $m	Year end $m
		Normal VaR[2] 2008		
Commodities	**3.4**	**1.1**	**2.0**	**1.4**
Foreign exchange and interest rate trading	**3.7**	**1.7**	**2.3**	**2.7**
Equities	**3.5**	**1.2**	**2.3**	**1.3**
Credit trading	**5.5**	**2.0**	**3.6**	**4.5**
Diversification benefit[4]				**(4.3)**
		Stress VaR[3] 2008		
Commodities	**18.1**	**5.8**	**10.8**	**7.2**
Foreign exchange and interest rate trading	**19.8**	**9.1**	**11.9**	**14.0**
Equities	**18.5**	**6.5**	**12.1**	**6.8**
Credit trading	**40.9**	**14.8**	**26.8**	**33.5**
Diversification benefit[4]				**(23.9)**
		Normal VaR[2] 2007		
Commodities	4.4	1.4	2.6	1.8
Foreign exchange and interest rate trading	4.4	1.5	2.6	2.1
Equities	2.8	0.5	1.0	2.8
Credit trading	6.4	3.0	4.7	3.2
Diversification benefit[4]				(4.8)
		Stress VaR[3] 2007		
Commodities	21.5	6.8	12.4	8.9
Foreign exchange and interest rate trading	21.4	7.5	12.4	10.1
Equities	13.4	2.3	4.8	13.4
Credit trading	31.2	14.5	23.0	15.7
Diversification benefit[4]				(23.4)

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

[2] Normal VaR is based on a holding period of one day and a confidence interval of 95.0%.

[3] Stress VaR is based on a holding period of between 10 and 20 days and a confidence interval of 99.7%.

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

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Analysis of banking book interest rate risk exposure

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

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

The main analytical techniques used to quantify banking book interest rate risk are earnings and valuation-based measures. The results obtained from simulations assist in evaluating the optimal hedging strategies on a risk-return basis. Desired changes to a particular interest rate risk profile are achieved through the restructuring of the balance sheet and, where possible, the use of derivative instruments, such as interest rate swaps. The shape of the yield curve and the group's own view of future interest rates are used as inputs in developing hedging strategies. Interest rate risk limits are set in terms of both changes in forecast net interest income and economic value of equity.

The repricing gaps for the group's non-trading portfolios are shown below. This view is for the purpose of illustration only, as positions are managed by currency to take account of the fact that interest rate changes are unlikely to be perfectly correlated. All assets, liabilities and derivative instruments are sited in gap intervals based on their repricing characteristics. Assets and liabilities for which no specific contractual repricing or maturity dates exist are placed in gap intervals based on management's judgement and statistical analysis, as determined by the most likely repricing behaviour.

Repricing gap for non-trading portfolios

	0-3 months $m	3-6 months $m	6-12 months $m	>12 months $m
2008				
Interest rate sensitivity gap	**(213.9)**	**872.8**	**237.6**	**540.3**
Cumulative interest rate sensitivity gap	**(213.9)**	**658.9**	**896.5**	**1 436.8**
Cumulative interest rate sensitivity gap as a percentage of total banking assets	**(1.6%)**	**5.0%**	**6.8%**	**10.9%**
2007				
Interest rate sensitivity gap	(1 181.5)	1 290.6	538.7	1 202.1
Cumulative interest rate sensitivity gap	(1 181.5)	109.1	647.8	1 849.9
Cumulative interest rate sensitivity gap as a percentage of total banking assets	(5.7%)	0.5%	3.1%	8.9%

Notes to the annual financial statements continued

Sensitivity of net interest income

The table below indicates the sensitivity in US Dollar equivalents of the group's net interest income in response to a change in interest rates, after taking into account all risk mitigating instruments, with all other variables held constant.

	Increase in basis points	1 month $m	2 months $m	3 months $m	4-6 months $m	6-12 months $m
2008						
1% up (interest rate increase)	**100**	**0.4**	**0.4**	**0.9**	**(0.6)**	**3.8**
1% down (interest rate decrease)	**100**	**(0.4)**	**(0.5)**	**(0.9)**	**0.5**	**(4.0)**
2007						
1% up (interest rate increase)	100	0.7	8.1	10.5	11.3	5.5
1% down (interest rate decrease)	100	(0.7)	(8.1)	(10.6)	(11.2)	(5.5)

It is the group's policy that banking book assets and liabilities with duration greater than one week be match funded with the money markets desk, thus removing interest rate risk. However, a few business areas are exempt where their banking book interest rate risk is monitored in the same way as if it were a trading book, i.e. PV01 sensitivities are calculated. This is then aggregated in a similar manner to the other traded risks as detailed earlier.

Foreign currency risk

The group's foreign exchange positions arise mainly from foreign exchange trading activities, which are governed by position limits approved by the Capital Management Committee in accordance with the group's Market Risk policy. These position limits are subject to review at least annually and forex exposures are monitored daily by the Market Risk function and reviewed monthly to ensure they remain within the approved risk appetite.

The group does not ordinarily hold open exposures in respect of the banking book of any significance. All gains and losses on foreign exposures and derivatives are reported in profit and loss. Gains or losses on derivatives that have been designated in terms of either net investment or cash flow hedging relationships are reported directly in equity, with all other gains and losses on derivatives being reported in profit and loss.

Foreign investment risk

Net investment in foreign operations

	2008 $m	2007 $m
Functional currency		
Argentine Peso	**253.7**	220.0
Brazilian Real	**136.3**	76.6
Chinese Renmimbi	**14.8**	8.1
Czech Krona	**-**	0.7
Hong Kong Dollar	**21.5**	21.5
Japanese Yen	**1.1**	0.3
Malaysian Ringgits	**0.2**	0.1
Russian Roubles	**77.3**	77.9
Singapore Dollar	**28.7**	19.0
Turkish Lira	**22.7**	24.7
Ukraine Hryvnia	**0.4**	0.4
	556.7	449.3

Notes to the annual financial statements continued

Hedge of net investments

	2008 $m	2007 $m
Argentine Peso	110.0	89.0
Brazilian Real	134.0	63.8
Russian Roubles	60.7	80.0
Turkish Lira	40.0	60.0
Chinese Renminbi	4.5	-
	349.2	292.8

Market risk on equity investments

The investment committee approves investments in listed and unlisted entities, in accordance with delegated authority limits. Market risk on investments is managed in accordance with the purpose and strategic benefits of such investments, rather than purely on mark-to-market considerations. Periodic reviews and reassessments are undertaken on the performance of the investments.

31.7 Liquidity risk

Framework and governance

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

Liquidity and funding management

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

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

The CAPCOM reviews the current and prospective funding requirements for all operations on an on-going basis through regular review of the liquidity ratio, maturity mismatch, deposit base diversification and stability as well as liquidity stress testing results. In addition, where deemed necessary, adequate standby facilities are maintained to provide strategic liquidity to meet unexpected and material cash outflow in the ordinary course of business.

Notes to the annual financial statements continued

The group maintained a strong liquidity profile throughout the rapidly deteriorating market place that was a feature of 2008, specifically taking a number of management actions following the crisis of September 2008 to ensure that liquidity cushions above the minimum requirements were maintained at a high level, on precautionary grounds. Our diversified funding base, comprising of a combination of corporate and institutional deposits, interbank deposits and longer term funding from a variety of Standard Bank Group sources, has grown over the year and has allowed us to meet these market challenges. The Standard Bank Group will ensure that, except in the case of political risk, and unless specifically excluded by local public notice, that the banking entities within the group are able to meet their contractual liabilities.

Structural requirements

The maturity analysis for financial liabilities represents the basis for effective management of exposure to structural liquidity risk. The table shows the undiscounted cash flows for all financial liabilities on a contractual basis based on the earliest date on which the group can be required to pay. This basis of disclosure differs from the balance sheet carrying value of financial liabilities since those values are typically disclosed on a discounted basis. The table also includes contractual cash flows with respect to off-balance sheet items which have not yet been recorded on the balance sheet. Where cash flows are exchanged simultaneously, the net amounts have been reflected. The data for 2008 included below is now sourced from the newly implemented liquidity system which has been designed and built to provide data for reporting both regulatory liquidity and management information. It is the most appropriate source for cashflow information. Accordingly the table is formatted using the categories for regulatory liquidity reporting.

Contractual maturities of the financial liabilities based on undiscounted cash flows

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

	Redeemable on demand $m	Maturing within 1 month $m	Maturing 1-6 months $m	Maturing 6-12 months $m	Maturing after 12 months $m	Undated $m	Total $m
2008							
Financial liabilities							
Derivative liabilities	694.6	(49.5)	134.2	140.2	1 476.5	111.7	2 507.7
Trading liabilities	1 289.8	1 909.5	1 706.4	309.5	1 331.1	13.8	6 560.1
Deposits from banks	4 266.5	2 370.4	4 523.5	2 604.3	2 201.6	-	15 966.3
Deposits from customers	3 357.9	1 107.1	466.8	197.3	371.4	-	5 500.5
Subordinated debt	-	0.2	1.2	86.4	608.2	141.7	837.7
Total recognised financial liabilities	9 608.8	5 337.7	6 832.1	3 337.7	5 988.8	267.2	31 372.3
Letters of credit	-	33.9	81.8	4.9	208.0	-	328.6
Financial guarantees	4.5	0.3	7.1	3.3	32.8	-	48.0
Irrevocable unutilised facilities	-	-	13.0	101.2	179.9	-	294.1
Total unrecognised financial liabilities	4.5	34.2	101.9	109.4	420.7	-	670.7
Total	9 613.3	5 371.9	6 934.0	3 447.1	6 409.5	267.2	32 043.0

Notes to the annual financial statements continued

	Redeemable on demand $m	Maturing within 1 month $m	Maturing 1-6 months $m	Maturing 6-12 months $m	Maturing after 12 months $m	Undated $m	Total $m
2007							
Financial liabilities							
Derivative liabilities	3 231.2	1 305.2	794.6	484.6	2 792.1	-	8 607.7
Trading liabilities	11.7	138.0	542.0	464.8	2 244.4	440.3	3 841.2
Deposits from banks	4 938.6	5 806.7	2 558.4	1 237.9	2 314.6	-	16 856.2
Deposits from customers	2 619.0	2 496.1	979.5	345.8	334.0	-	6 774.4
Subordinated debt	-	-	-	-	763.6	227.5	991.1
Total recognised financial liabilities	10 800.5	9 746.0	4 874.5	2 533.1	8 448.7	667.8	37 070.6
Letters of credit	-	171.2	368.3	26.3	332.4	-	898.2
Financial guarantees	7.3	54.3	37.9	11.1	212.6	-	323.2
Irrevocable unutilised facilities	9.3	-	26.7	42.5	671.3	-	749.8
Total unrecognised financial liabilities	16.6	225.5	432.9	79.9	1 216.3	-	1 971.2
Total	10 817.1	9 971.5	5 307.4	2 613.0	9 665.0	667.8	39 041.8

Contractual liquidity mismatch

	Sight to 7 days $m	**8 days to 1 month $m**	**1 to 3 months $m**	**3 to 6 months $m**	**6 to 12 months $m**
2008					
Net liquidity mismatch	**0.8**	**(783.0)**	**(1 700.7)**	**(19.2)**	**1 159.3**
Cumulative mismatch	**0.8**	**(782.2)**	**(2 482.9)**	**(2 502.1)**	**(1 342.8)**
2007					
Net liquidity mismatch	695.6	(2 332.1)	(1 395.6)	1 225.3	302.7
Cumulative mismatch	695.6	(1636.5)	(3 032.1)	(1 806.8)	(1 504.1)

By way of illustration, the table below shows the group's cumulative maturity mismatch between assets and liabilities after applying behavioural profiling.

Cumulative maturity mismatch – behavioural

	Sight to 7 days $m	**8 days to 1 month $m**	**1 to 3 months $m**	**3 to 6 months $m**	**6 to 12 months $m**
2008					
Net liquidity mismatch	**2 576.2**	**(383.6)**	**(1 898.8)**	**(166.4)**	**(689.4)**
Cumulative mismatch	**2 576.2**	**2 192.6**	**293.8**	**127.4**	**(562.0)**
2007					
Net liquidity mismatch	3 048.1	(1 803.0)	(1 246.6)	1 160.3	(2 400.9)
Cumulative mismatch	3 048.1	1 245.1	(1.5)	1 158.8	(1 242.1)

Limits and guidelines are set to restrict the mismatch between the expected inflows and outflows of funds in different time buckets. As at the end of 2008, the group was within all regulatory and internal mismatch limits, and met all other internal requirements. An additional tool to maintain a robust liquidity position is the active management of the long-term funding ratio. This ratio is defined as those funding-related liabilities with a remaining maturity of greater than six months, as a percentage of total funding-related liabilities.

Notes to the annual financial statements continued

Contingency liquidity
Portfolios of highly marketable assets over and above prudential requirements are maintained as protection against unexpected disruptions in cash flows. These portfolios are managed within limits and, apart from acting as a buffer under going concern conditions, also form an integral part of the broader liquidity generation strategy in the event of a liquidity crisis. These assets include stocks of precious and base metals as well as securities. Additional to the possibility of liquidating asset positions, there are a range of other management actions available to manage liquidity under stressed conditions. These include reductions in the rate of origination of assets, transfers of assets to other group companies to optimize liquidity, and additionally declining to roll-over loans or reverse repos as they fall due from clients.

It should be noted that Standard Bank Group publishes in its annual accounts a statement of support for its banking subsidiaries to the effect that 'The Standard Bank Group will ensure that, except in the case of political risk, and unless specifically excluded by local public notice, the banking entities are able to meet their contractual liabilities.

Liquidity contingency plans
Liquidity contingency plans are designed to, as far as possible, protect stakeholder interests and maintain market confidence in order to ensure a positive outcome in the event of a liquidity crisis. The crisis response strategy is formulated around the relevant crisis management structures and addresses internal and external communications, liquidity generation, operations, as well as heightened and supplementary information requirements. The liquidity contingency plan has been updated to reflect the experience of 2008, and in particular the market stress subsequent to the failure of Lehman Brothers in September, and the range of management actions adopted to protect the group's position at that time.

Diversified funding base
Concentration risk limits are used to ensure that funding diversification is maintained across products, sectors, geographic regions and counterparties. Primary sources of funding are in the form of deposits across a spectrum of clients, as well as long-term loan and capital market funding. A significant proportion of funding is received from the group's affiliate banks in Jersey and Isle of Man which handle the group's wealth businesses, and accordingly provide an element of retail funding to the SIH group. Further funding is received from Standard Bank of South Africa's surplus foreign currency liquidity position. The bank sets limits on this funding source to avoid undue dependence on South African sourced funding.

Liquidity stress testing
Anticipated on- and off-balance sheet cash flows are subjected to a variety of bank specific and systemic stress scenarios in order to evaluate the impact of unlikely but plausible events on liquidity positions. Scenarios are based on both historical events, such as past emerging markets crises, and hypothetical events, such as a bank specific crisis together with combinations of general market and firm specific stress events. The results obtained from stress testing provide meaningful input when defining target liquidity risk positions. At the current time liquidity stress tests are run on a monthly basis and controlled to ensure that the results do not breach the parameters set by the Capital Management Committee. As at end of 2008 the bank was compliant with all stress testing limits.

The FSA consultation paper on liquidity indicates a range of prescriptive requirements on the management and control, of liquidity by banks, with an especial focus on the use of stress tests. Standard Bank Plc has designed and implemented a liquidity database and stress testing system which will provide considerably enhanced management information and flexibility in planning its liquidity scenarios and stress tests, which will enable it to be compliant with the FSA requirements at an early stage.

31.8 Operational risk

Approach to operational risk management
The group's approach to managing operational risk is to adopt practices that are fit for purpose to suit the organisational maturity and particular environments in which our business operates. The current framework follows a primarily qualitative approach being focused on ensuring underlying risks are identified and owned and that the residual risk is maintained within an acceptable level in the opinion of the relevant management, overseen by an independent Operational Risk Function within Risk Management. Independent assurance on the satisfactory management of operational risk is provided by Internal Audit. The day-to-day management of operational risk is embedded within the business areas in order for the risks to be managed where they arise. This is intended to increase the efficiency and effectiveness of the group's resources and minimise losses.

Framework and governance
The Board Risk Management Committee ('BRMC'), as the appropriately delegated risk oversight body on behalf of the Board, has ultimate responsibility for operational risk. BRMC ensures that the ORM framework for the management and reporting of operational risk is implemented across the group whilst ensuring regulatory compliance where applicable.

Notes to the annual financial statements continued

The International Business Infrastructure Committee ('BIC') serves as the oversight body in the application of the group's operational risk management framework, including business continuity management and information risk. This is achieved through enforcing standards for identification, assessing, controlling, monitoring and reporting. The international BIC approves SIH level ORM policies and methodologies and oversees risk appetite and tolerance.

The roles and responsibilities for managing operational risks are stipulated in the Operational Risk Governance Standard and various ORM policies. These policies indicate the responsibilities of operational risk specialists, at all levels, and of the risk owners. Local heads of ORM may develop their own policies and procedures that better suit their unique environments. These policies and procedures must align to the SIH policies and procedures and must be approved by their respective Executive Committees.

The management and measurement of operational risk

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

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

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

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

Operational risk reports are produced on both a regular and an event-driven basis. The reports include a profile of the key risks to the achievement of business objectives, relevant control issues, and operational risk incidents. Specific reports are prepared on a regular basis for the BIC, BRMC and relevant Standard Bank Group Committees.

The group maintains adequate insurance to cover key operational and other risks. Our insurance process and requirements are the responsibility of the ORM Function.

Business continuity management

Business continuity management is an holistic management process that identifies potential impacts that threaten an organisation and provides a framework for building resilience and the capability for an effective response that safeguards the interests of its key stakeholders, reputation, brand and value creating activities. Business continuity policy and objectives are documented and include a considered strategy and a coordinated framework of actions that, if followed properly, will support the group through a crisis and help to restore operations to normal as soon as possible.

Information risk management

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

From a strategic perspective, information risk management is treated as a particular discipline within the operational risk framework. Essentially, information risk management not only protects the group's information resources from a wide range of threats, but also enhances business operations, ensures business continuity, maximises return on investments and supports the implementation of various services.

Fraud risk management

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

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31.9 Legal risk

The group's legal obligations arise throughout its global operations and where the group may be faced with risk where legal proceedings are brought against it.
Legal risk arises where:
- incorrect application of regulatory requirements takes place;
- the group may be liable for damages to third parties; and
- contractual obligations may be enforced against the group in an adverse way, resulting in legal proceedings being instituted against it.

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

31.10 Taxation risk

Framework and governance

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

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

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

The framework to achieve compliance with the group tax policy comprises four elements:
- Tax risk: identification and management of tax risk.
- Human resources: an optimal mix of staffing and outsourcing.
- Skills development: methods to maintain and improve managerial and technical competency.
- Communication: communication of information affecting tax within the group.

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

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

31.11 Compliance risk

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

Framework and governance

The group operates a decentralised compliance risk management structure. Each primary business operations unit has central independent compliance functions. Executives with responsibility for all aspects of compliance risk management are subject to the appropriate corporate governance reporting structures.

All business units are responsible for compliance with the relevant legislation and have a reporting responsibility for compliance matters to the Chief Risk and Compliance Officer. This position of head of compliance has a statutory responsibility accorded by the Banks Act, 1990, and takes its mandate from the GAC, to which significant compliance risk management matters are reported on a quarterly basis. To support the group's approach to compliance risk management, which includes the adherence to the implementation of the group compliance policy and standards, a centrally based monitoring discipline undertakes a programme of review of business areas and high risk compliance exposures, using a risk-based approach. This approach is substantially aligned to the methodologies used by the group's other risk assurance functions. In addition, all the decentralised business unit compliance functions are enhancing their independent monitoring assurance capabilities.

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

Regulation and supervision

The group operates within a highly regulated industry and across multiple jurisdictions. The group is supervised by various regulatory bodies with the Financial Services Authority its primary regulator. The group's ultimate holding company, Standard Bank Group is incorporated in South Africa and regulated by the Bank Supervision Department of the South African Reserve Bank, who also regulates the subsidiaries of Standard Bank Group.

Notes to the annual financial statements continued

Money laundering control

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

31.12 Reputational risk

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

31.13 Capital management

The group manages its capital resource and requirements to:

- achieve a prudent balance between maintaining capital ratios to support business growth and depositor confidence, and providing competitive returns to shareholders;
- ensure that each group entity maintains sufficient capital levels for legal and regulatory compliance purposes; and
- ensure that its actions do not compromise sound governance and appropriate business practices and it eliminates any negative effect on payment capacity, liquidity or profitability.

The group is subject to regulation and supervision by the Financial Services Authority (FSA) and forms part of the Standard Bank Group which is supervised by the South African Reserve Bank (SARB).

The group is subject to the Basel II regulatory framework for calculating minimum capital requirements published by the Basel Committee on Banking Supervision ('the Basel Committee') as implemented by the FSA with effect from 1 January 2008. Basel II is structured around three 'pillars':

- minimum capital requirements;
- supervisory review process; and
- market discipline.

SIH calculates credit and counterparty risk capital requirements using the FSA standard rules as well as on the FIRB basis for internal use and for reporting to the SARB. Market risk is calculated as a combination of approved models and standardised methods. Operational risk is calculated on the standardised approach.

As part of the pillar 2 process the group has adopted the Internal Capital Adequacy Assessment Process (ICAAP) which is the group self assessment of capital requirements including for those risks not captured by pillar 1. As part of the governance process, and incorporated into the ICAAP, the group has implemented a macro economic stress testing model to assess the additional capital requirements and the impact on capital resource as a result of adverse economic conditions.

In addition to managing against the regulatory capital requirements, management also increasingly utilise more risk sensitive internal economic capital models to monitor and control the risk profile of the organisation.

Regulatory capital

During the period under review the group complied with all externally imposed capital requirements to which its banking activities are subject, mainly, but not limited to, the relevant requirements of the FSA and the SARB.

In addition to compliance with the requirements prescribed by the FSA, the banks in the group are required to meet minimum capital requirements of regulators in those countries in which they operate. Banking regulations are generally based on the guidelines developed by the Basel Committee under the auspices of the Bank for International Settlements. In addition to the requirements of host country regulators, all banking operations are also expected to comply with the capital adequacy requirements in terms of the FSA banking regulations on a consolidated basis.

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

Capital is split into three tiers:

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

Risk-weighted assets are determined by applying prescribed risk weightings to on- and off-balance sheet exposures according to the relative credit risk of the counterparty. Included in overall risk-weighted assets is a notional risk weighting for market risks, counterparty risks and large exposure risks relating to trading activities. The use of non-equity forms of regulatory capital plays an important role in the group's capital management process.

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The group has increased its regulatory capital base during the year in response to the extreme market conditions and potential impact on the group's capital position. Core Tier I capital of US$571.0 million was contributed by the Standard Bank Group and subordinated debt redemptions were made of US$100.0 million and €43.0 million held by Standard Bank Group entities and US$68.7 million held by parties external to Standard Bank Group.

Capital resources

	2008 $m	2007 $m
Regulatory capital		
Core Tier I		
Share capital	33.5	33.5
Share premium	508.9	508.9
Reserves	1 539.8	858.6
Less intangible assets	(111.3)	(91.3)
Total Core Tier I	1 970.9	1 309.7
Tier II		
Subordinated debt instruments	481.3	650.0
General allowances	33.6	19.9
Total Tier II	514.9	669.9
Total qualifying Tier I and Tier II capital	2 485.8	1 979.6
Tier III		
Short-term subordinated debt instruments	224.6	293.7
Total Tier III	224.6	293.7
Total eligible capital	2 710.4	2 273.3

32 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 consolidated financial statements 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

Notes to the annual financial statements continued

33 Shareholding in group undertakings

The parent company have the following equity investments in group companies

	Nature of operations	Country of incorporation	Effective share holding Standard International Holdings %	Effective share holding Standard Bank Group %
Standard International Holdings S.A.				
Banco Standard de Investimentos S.A.	Banking	Brazil	99.9	100
SBIC Investments S.A.	Holding company	Luxembourg	99.9	100
Standard Americas, Inc.	Trading company	United States of America	99.9	100
Standard Bank Asia Limited	Banking	Hong Kong	99.9	100
Standard London (Asia) Sendirian Berhad	Introducing broker / Advisor	Malaysia	69.9	70
Standard Merchant Bank (Asia) Limited	Banking	Singapore	99.9	100
Standard New York Securities, Inc.	Broker / dealer	United States of America	99.9	100
Standard New York, Inc.	Holding company	United States of America	99.9	100
Standard Securities Asia Ltd	Trading and broking company	Hong Kong	99.9	100
ZAO Standard Bank	Banking	Russia	99.9	100
Standard Bank London Holdings Plc	Holding company	England	67.1	100
Du Finansal Danismanlik A.S.	NPL service company	Turkey	44.9	66.9
Inverso Diagonal S.A.	Service company	Argentina	46.9	70
Standard Bank Argentina S.A.	Banking	Argentina	50.3	75[2]
Standard Bank Plc	Banking	England	67.1[1]	100
Standard Capital Japan Co Limited	Other finance	Japan	67.1	100
Standard Commodities (Asia) Limited	Introducing broker	Hong Kong	67.1	100
Standard Debt Finance Plc	Trading company	England	67.1	100
Standard Investments S.A. Sociedad Gerente de Fondes Comunes de Inversion	Fund management	Argentina	46.9	70
Standard Resources (China) Limited	Trading company	The People's Republic of China	67.1	100
Standard Ukraine LLP	Trading company	Ukraine	67.1	100
Standard Unlu Menkul Degerler	Investment banking	Turkey	44.9	66.9
Standard Unlu Portfoy Yonetimi A.S.	Introducing company	Turkey	44.9	66.9
SU General Partners S.A.	Fund management	Turkey	44.9	66.9

All the above are unlisted subsidiary undertakings and are included in the consolidated accounts.

[1] One 'A' ordinary share in Standard Bank Plc is held directly by Standard Bank Group Limited.
[2] Minority shareholders hold options to increase their shareholding by 5% over the period to 1 April 2009. Minority shareholders increased their shareholding by 1.7% on 15 October 2008.

The business of Standard Yatirim Menkul Kimeter A.S. was transferred to Standard Unlu and the company sold.

Standard Bank London Holdings subscribed for 38 333 000 shares in Standard Unlu taking its holding to 66.86%.

Standard Bank Group International ('SBGI') subscribed for US$200m share capital and share premium of Standard Bank London Holdings ('SBLH') and in August 2008 SBIC Investments S.A. subscribed for US$71m share capital in SBLH, increasing SBGI's holding to 32.87% (and reducing SBIC Investments holding to 67.13%).

Annexure A – Associates and joint ventures

Ownership structure	**Associate**	**Associate**	**Associate**	**Joint Venture**
Name of business	**DMCC Jewellery Store**	**Argentina VISA**	**SEASAF Group**	**GCC Group**
Nature of business	Security	Finance	Fund Investment	Fund Investment
Year end	31 December	31 December	31 December	31 December
Date to which equity accounted	31 December	31 December	31 December	31 December

	2008	2007	**2008**	2007	**2008**	2007	**2008**	2007
Effective holding	**29%**	-	**9%**	-	**40%**	40%	**50%**	50%
	$m	$m	**$m**	$m	**$m**	$m	**$m**	$m
Carrying value	**1.3**	-	**1.3**	-	**0.6**	0.1	**0.5**	0.4
Balance sheet								
Non-current assets	**0.7**	-	**1.9**	-	**0.3**	0.1	**-**	-
Current assets	**0.7**	-	**17.3**	-	**0.4**	0.5	**0.6**	0.6
Non-current liabilities	**-**	-	**-**	-	**-**	-	**-**	-
Current liabilities	**(0.1)**	-	**(17.9)**	-	**(0.1)**	(0.5)	**(0.1)**	(0.2)
Group's share of net asset value	**1.3**	-	**1.3**	-	**0.6**	0.1	**0.5**	0.4
Income statement								
Attributable income included in consolidated income statement	**(0.2)**	-	**11.9**	-	**0.5**	(0.1)	**0.1**	-

Acronyms and abbreviations

ALCO	Asset and Liability Committee
ALM	Asset and Liability Management
BCM	Business Continuity Management
BIC	Business Infrastructure Committee
BRMC	Board Risk Management Committee
CAPCOM	Capital Management Committee
CIB	Corporate and Investment Banking division
FSA	Financial Services Authority
GORC	Group Operational Risk Committee
GRCMC	Group Risk and Capital Management Committee
GROC	Group Risk Oversight Committee
Group	Standard International Holdings S.A. and its subsidiaries
IAS	International Accounting Standards
ICAAP	Internal Capital Adequacy Assessment Process
IFRIC	International Financial Reporting Interpretations Committee
IFRS	International Financial Reporting Standards
ISDA	International Swap Dealers Association
ORM	Operational Risk Management
OTC	Over-the-counter
RWA	Risk Weighted Assets
SARB	South African Reserve Bank
SBG	Standard Bank Group
SIH	Standard International Holdings S.A.
SPE	Special purpose entity
Tier I	Primary capital
Tier II	Secondary capital
Tier III	Tertiary capital
VaR	Value-at-Risk
VAT	Value added tax
$m	Millions of US dollar

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