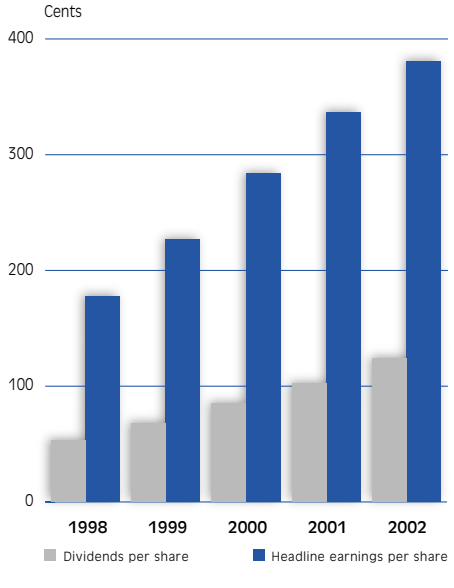
Over the past decade, Standard Bank Group has developed from a South African bank into a broad-based African financial services organisation with niche investment banking operations focused on other emerging markets.

Contents

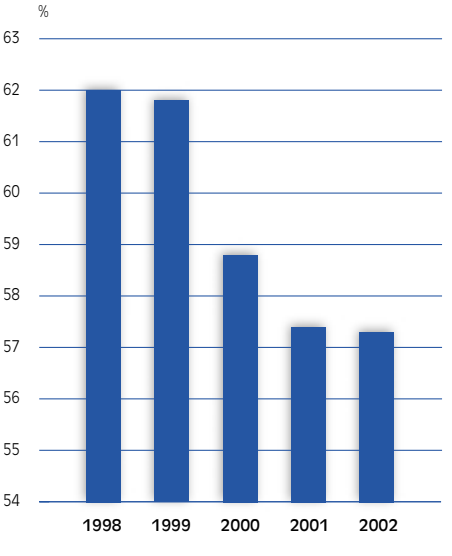
Group highlights

- Headline earnings of R5 263 million, 19% up
- Headline earnings per share of 396 cents, 18% higher
- Cost-to-income ratio 57,3%
- Return on equity 20,3%

Headline earnings and dividends per share



Cost-to-income ratio



A decade of growth

Before 1992

- Operations in two other African countries.
- Representative offices in London, Switzerland, Hong Kong and Taiwan.
- 15% effective interest in Liberty Group.

92

- Acquired a banking licence in the United Kingdom, the launchpad for our emerging market business.
- Acquisition of the Jersey and Isle of Man operations of Brown Shipley & Company.
- Purchase of banking operations in 10 African countries from ANZ Grindlays Limited.

93

- Trading and dealing operations opened in Hong Kong and New York enabling a base from which to operate in the Asian and Latin American emerging markets.
- International credit rating obtained – the first in South African banking.

94

Launch of E Plan, a simple transactional and savings account, which wins a Smithsonian Institution award for innovation.

95

- Corporate banking merged with our merchant bank to form Standard Corporate and Merchant Bank.
- BankMaster, SWIFT and ATMs introduced into operations in the rest of Africa.

96

Standard Bank London's share capital doubled to consolidate its position in resource banking and emerging debt capital markets.

97

- Purchase of Barclays Bank Swaziland.
- Retail Internet banking launched.

98

- More than 1,5 million E Plan accounts opened. Internet-based business banking system implemented.
- Offices opened in South America and Miami.

99

- Standard Bank acquired control of Liberty, followed by a simplification of the complex group structure.
- Offices opened in Istanbul, Milan and Shanghai.
- Acquisition of Lazards in Jersey.

00

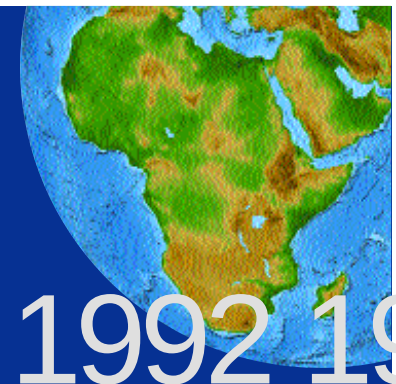
Successful resistance of a takeover bid by Nedcor. Standard Bank embraces a Simpler. Better. Faster. way of doing business.

01

- Capacity in Asia boosted by the acquisition of the banking arm of the Jardine Fleming Group in Hong Kong.
- Acquisition of Commercial Bank of Malawi.

02

- Acquisition of Uganda Commercial Bank.
- Standard Bank and Liberty fund management activities combined into STANLIB.



A decade of growth

Standard Bank Group is a major regional banking force employing more than 37 000 people in its banking and insurance operations. Based in South Africa, we have operations in 17 other African countries and niche investment and offshore banking operations in 21 countries outside Africa. Over the past 10 years we have structured ourselves for future growth, with:

- a substantial retail and SME banking presence in sub-Saharan Africa;
- a leading domestic corporate and investment bank, now integrating activities with our international investment bank focused on other emerging markets; and
- asset growth from R65 billion in 1992 to R390 billion in 2002.

Transformation

Ten years ago, Domestic Banking formulated a "Towards Equity" strategy focused on affirmative action, the valuing and management of diversity, the promotion of black economic empowerment and entrenchment of diversity and equity at all levels of employment.

The following table illustrates our domestic progress:

Executives and management

Year	AIC	Females
1992	5%	18%
2002	28%	38%

Total staff

Year	AIC	Females
1992	39%	64%
2002	56%	66%

AIC: African, Indian and Coloured staff members.

Banking technology leader in South Africa

- Rated by BMI TechKnowledge as having the highest share of primary online banking customers in South Africa (34,4%).
- Rated as the market leader in business electronic banking.
- Rated by our peers in the PricewaterhouseCoopers survey as South Africa's leader in Internet banking.

ATM statistics

Year	No. of ATMs	All transactions Rand value	Cash withdrawals No. transactions	Cash withdrawals Rand value
1992	1 363	R24 billion	117 million	R11 billion
2002	2 992	R138 billion	267 million	R77 billion

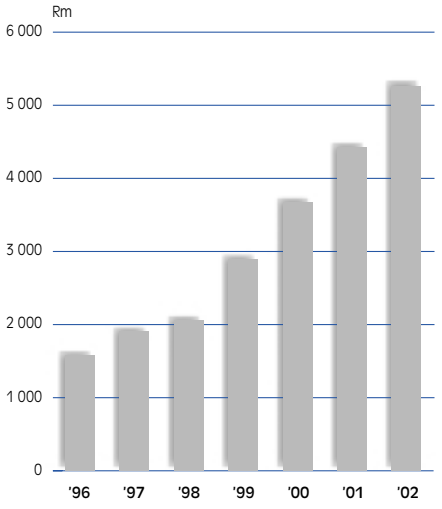
Financial highlights

	2002 Rm	2001 Rm	% change	2002 US$ equivalent $m
Standard Bank Group				
Income statement				
Headline earnings	5 263	4 419	19	613
Income attributable to ordinary shareholders	4 997	4 525	10	582
Balance sheet				
Ordinary shareholders' funds	26 054	25 685	1	3 037
Total assets	389 698	395 234	(1)	45 419
Ordinary shareholders' funds adjusted for the increase in market value over the carrying value of Liberty Group, investments and property	28 795	28 330	2	3 356
Financial performance (%)				
Return on equity	20,3	20,1		
Return on assets	1,3	1,3		
Share statistics per ordinary share (cents)				
Earnings	376,2	343,1	10	43,8
Headline earnings	396,3	335,1	18	46,2
Dividends	124,0	102,0	22	14,5
Net asset value	1 957	1 939	1	228
Net asset value – adjusted for increases in market value	2 163	2 138	1	252
Dividend cover (times)	3,2	3,3		
Capital adequacy				
Total risk-weighted assets	235 047	227 490	3	27 395
Primary capital to risk-weighted assets (%)	10,9	11,1		
Total capital to risk-weighted assets (%)	14,3	14,2		

The rand/US dollar exchange rate on 31 December 2002 was R8,58 (2001: R12,00)

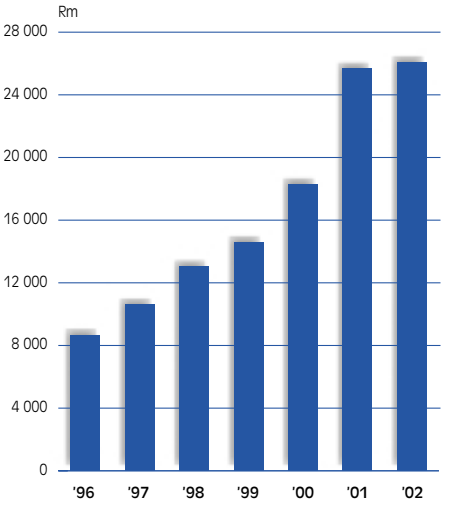
Standard Bank Group

Headline earnings



Standard Bank Group

Ordinary shareholders' funds

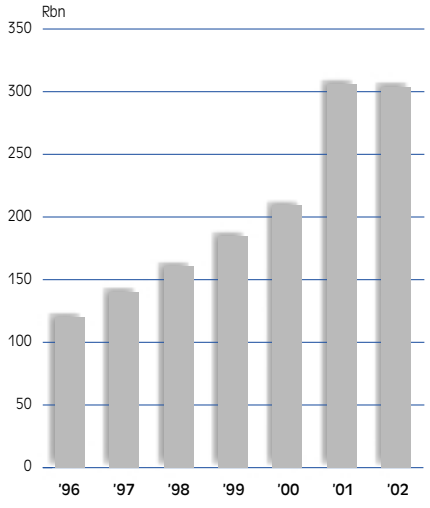


	2002 Rm	2001 Rm	% change	2002 US$ equivalent $m
Standard Bank operations*				
Income statement				
Operating profit	7 426	5 769	29	866
Income attributable to ordinary shareholders	4 814	3 920	23	561
Headline earnings	4 965	3 985	25	579
Balance sheet				
Ordinary shareholders' funds	23 653	23 252	2	2 757
Total assets	303 937	306 196	(1)	35 424
Loans and advances	170 377	162 002	5	19 857
Selected returns and ratios (%)				
Return on equity	21,2	19,9		
Return on assets	1,6	1,5		
Net interest margin	3,26	3,31		
Credit loss ratio	1,18	1,11		
Balance sheet credit provision to loans and advances	2,04	2,30		
Non-interest income to total income	52,1	52,8		
Cost-to-income ratio	57,3	57,4		
Effective tax rate	33,5	30,8		
Liberty Group operations				
Headline earnings from total operations	1 069	1 546	(31)	125
Headline earnings from continuing operations	1 069	1 499	(29)	125
Return on embedded value (%)	7,9	26,4		
Embedded value per Liberty Group share (rands)	55,28	54,21	2	6,44
New business premium income	11 301	9 819	15	1 317

* Standard Bank Group excluding Liberty Group

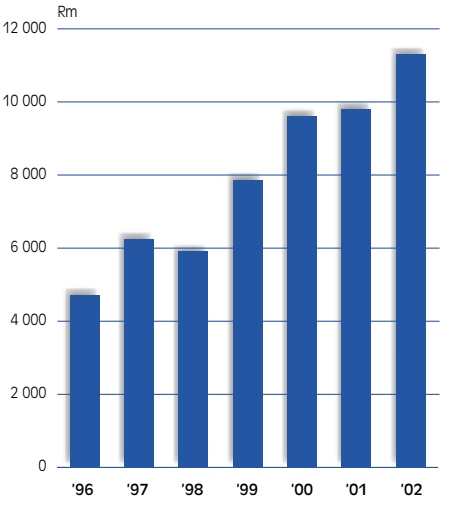
Standard Bank operations

Total assets



Liberty Group operations

New business premium income



Non-financial **highlights**

Standard Bank Group voted Bank of the Year for 2002 in both Africa and South Africa by The Banker magazine.

Standard Bank was the clear winner in the banking category in Markinor-Sunday Times Top Brands Survey 2002.

Creation of STANLIB, a wealth and asset management company held jointly by Standard Bank and Liberty Group. STANLIB launched on 15 May 2002.

Standard Bank was a regional sponsor of the ICC Cricket World Cup 2003 hosted by South Africa in February and March 2003.

Standard Bank and Orlando Pirates and Kaizer Chiefs football clubs jointly introduced E Plan accounts specially branded for supporters of each club.

Standard Bank and MTN Group were the first national corporate partners of the World Summit on Sustainable Development held in Johannesburg in September 2002.

Economic overview of 2002 and **outlook for 2003**

Iraj Abedian, 47
Group Economist
BA (Hons) MA Econ (UCT)
PhD (Canada)
Appointed 2000

South African economy resilient amid international turmoil

The year 2002 witnessed another turbulent period in international affairs that affected national and regional economies differently. The Japanese economy remained depressed, while the United States faced a deepening crisis of confidence with commensurate financial and economic consequences. The dollar lost its air of unassailability, losing value against most of the other major global currencies.

A mix of socio-political uncertainties in countries such as Brazil, Turkey and Venezuela affected global perceptions of emerging economy risks. The crisis of corporate governance in the United States and, to a lesser extent, in Europe, again brought volatility and unpredictability to global financial markets. In this context, the South African economy and, more broadly, the African economies, performed relatively well. Zimbabwe continues to pose a regional challenge.

South Africa remains the most important business environment for the group.

Sharp increases in inflation and interest rates

While the overall South African economy registered rising resilience and performed well above global average growth, the consequences of the run on the rand in 2001 culminated in rising inflation, which resulted in relatively sharp increases in interest rates. Contrary to most predictions in 2002, the currency regained nearly all the ground lost in the previous year. This augurs well for the pace of inflationary decline and price stability in general. Reinforced by successful export diversification, the economy showed remarkable strength despite the 400 basis point increase in interest rates in 2002. Consumer spending remained fairly buoyant and household debt continued to decline, as reflected in the chart on the following page. This trend was in part underpinned by substantial tax-breaks, particularly for low and middle-income households. More broadly, the healthy state of the national fiscus greatly contributed to the robustness of the business environment and general financial stability. Against this background, interest rate hikes in 2002 were regarded as ‘transitory’ with limited impact on consumer and business sector spending patterns. All these factors fortuitously combined to benefit the financial and banking sectors in South Africa in contrast to global trends in 2002.

The single most critical factor impacting on world economic performance in 2003 remains the rising uncertainties in global socio-political affairs. Developments in the Gulf, combined with those in the Korean Peninsula, will have a critical impact.

Sound fundamentals should help South Africa weather the storm

Financial markets in 2003 face a turbulent period. The global economy is bound to slow down, international flows of capital will diminish and overall productivity will decline. Countries with sound economic fundamentals and prudent fiscal policies stand to benefit insofar as they are better placed to weather the storms of insecurity, volatility and uncertainty. South Africa is comparatively well placed to reap the benefits of its hard-earned macro-economic and fiscal configuration. Moderate growth, underpinned by sound domestic conditions and preferential trade deals with the European Union and the United States (under the auspices of the Africa Growth and Opportunity Act), is likely to continue.

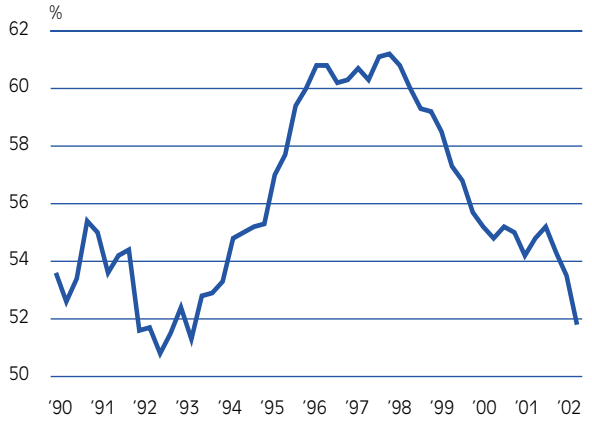
There has been a rise in disposable per capita income among South Africans over the last three years, as shown in the graph on disposable income below. This has been in part due to relatively large fiscal transfers (both in the form of tax breaks and social welfare payments) mainly to the lower and middle income households.

South Africa's foreign exchange market has stabilised early in 2003, suggesting a break from its recent historic trends. In the coming year, however, foreign exchange markets are likely to be dominated by the movements in the US dollar. At present, the dollar is depreciating and its structural weakness is unlikely to abate in the short-term. With declining money supply and falling inflation, the national financial sector should retain its stability, enhanced by declining inflation and interest rates.

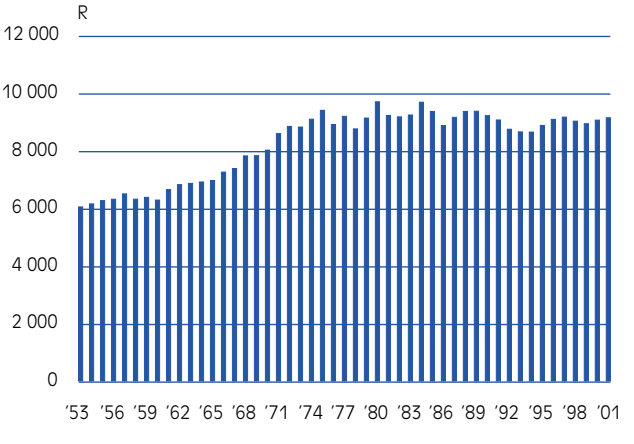
Assuming continued adherence to the sound macro-economic policy framework and provided that the currency stabilises, South Africa will continue to be well-positioned as an investment destination. Recent trends in private sector investment are likely to accelerate.

This again augurs well for South Africa's growth as well as for consumer spending in the near future despite the rising uncertainties within the global economy.

South African household debt to household disposable income



Real disposable income per capita of South African households



Financial objectives

Performance against financial objectives in 2002

Return on equity

Objective Return of 20%

Performance ROE for the group was 20,3%. High ROEs achieved in Business Banking, 35%, Retail Banking, 32%, and SCMB, 28%, contributed significantly to this performance. The group's ROE performance compares favourably with an internally calculated cost of equity for the year of approximately 18%.

Headline earnings

Objective Headline earnings increase to exceed domestic CPIX by at least 10 percentage points

Performance The average CPIX for 2002 increased from 6,6% to 10,1% following the weaker rand in 2001. This resulted in a growth target of 20,1%, slightly higher than the actual growth achieved of 19,1%.

Return on total assets

Objective ROA of 1,8% on banking assets

Performance ROA of 1,6% was achieved.

Cost-to-income ratio

Objective Continuous improvement in this ratio over time, 57% for 2002

Performance A ratio of 57,3% was achieved. Domestic Banking performed particularly well with an improvement from 55,9% in 2001 to 53,4% in 2002. The group achieved its sixth successive year of improvement.

Provision for credit losses

Objective Provision to approximate 1,0% of average advances

Performance Income statement charge of 1,18% of average advances was achieved.

Medium-term financial objectives

Key targets unchanged

ROE of 20%

Headline earnings percentage increase to exceed domestic CPIX by 10 percentage points

Cost-to-income ratio Continuous improvement over time, 57% for 2003

Provision for credit losses to approximate 1,0% of average advances

ROA is no longer regarded as a key performance measure at a group level

Derek Cooper Chairman

Jacko Maree Chief Executive

Myles Ruck Deputy Chief Executive

2002 Group review

We are pleased to report that Standard Bank Group has had another successful year, thanks largely to the continued buoyancy of the South African economy. Our domestic operations, which increased headline earnings by 33%, were again the major contributor to the increase in group headline earnings. Operations in Africa delivered very strong results, with headline earnings up 48%. Our international businesses were not immune to continued turmoil in world markets and Liberty Group was affected by declining equity markets.

The main achievements in the year were:

- headline earnings of R5 263 million, 19% higher;
- headline earnings per share of 396 cents, 18% up;
- shareholders' funds of R26,1 billion, 1% higher;
- return on equity of 20,3%; and
- the group's cost-to-income ratio improved to 57,3%.

South Africa remains the base of most of the group's earnings and consequently conditions in the domestic economy are a major influence on our performance. Consumers and business were generally resilient in the face of four interest rate hikes and confidence levels remained relatively high.

Domestic Banking performed strongly and benefited from a slight improvement in margins and from increased contributions from non-interest revenue. Improved credit quality led to a reduction in credit provisioning ratios and improved provisioning coverage,

despite the rising interest rate environment. Strong emphasis was placed on efficiencies in processes and service, and it was pleasing that our customer service levels showed continued steady improvement.

Stanbic Africa increased headline earnings by 48% as a result of good performances across most businesses and the acquisition in Uganda and Malawi of previously state-owned banks which have been integrated into our existing network of Stanbic Africa banks.

On the back of the significant slowdown in global markets and worsening credit environment, International Operations reported a decline of 34% in headline earnings. This reflected a sound performance from our core businesses but a marked increase in credit provisioning in line with global trends. We have positioned our businesses to cater for the continued fragile state of the global economy and are cautiously optimistic about prospects for 2003.

Liberty's results were characterised by a strong operational performance amid poor investment markets. All key indicators, other than investment returns, were positive. Indexed new business sales increased by 24%, expenses were well controlled, net cash flows from insurance operations continued to increase and new business margins improved.

The Liberty relationship continues to work well

The Liberty relationship continues to develop, with pleasing growth in high advice product sales since management of the sales force was transferred to Liberty. The integration of the formerly separate Standard Bank and Liberty asset and wealth management operations to form STANLIB is progressing on schedule and within budget. Post the announcement of our results, Myles Ruck, Deputy Chief Executive, was appointed successor to Roy Andersen as the Chief Executive of the Liberty Group. This will further strengthen operational ties between the two groups.

Black economic empowerment

We believe that broad-based Black Economic Empowerment (BEE) is a necessary process to address the previous exclusion of the majority of South Africans from full participation in the economy.

The industries represented by the financial services sector have proactively and voluntarily initiated a process to analyse and evaluate their appropriate contribution to BEE. Whereas government is fully supportive of this initiative, it has not been imposed nor driven by government.

Government shares the view that the Financial Services Sector Charter will be unique because of the role that the various constituent industries play as financiers across the South African economic landscape which requires the sector to retain the confidence of all stakeholders and its own stability and strength.

In establishing the Charter, emphasis will be on:

- broad-based black empowerment through support for black-owned businesses and financial institutions through procurement; and
- access to appropriate financial services and products for all South Africans.

The issue of ownership transfer will be carefully handled to ensure that:

- genuine and, where possible, broad-based empowerment occurs; and
- existing shareholders' rights and value are not threatened.

The Standard Bank Group is actively participating at the highest level in this process and we are confident that a positive outcome can be reached.

Increased foreign shareholding

We mentioned last year that we would like to achieve a better balance between our local and international shareholder base. Through active investor relations initiatives aimed at both existing and potential international investors, we have increased our international shareholding from 10% to 14% during the year.

Capital management and dividend payout ratio

As the group is well capitalised and, in some areas has surplus capital, it is planned that the dividend cover will gradually be reduced to 3,0 times at which stage it will be reassessed. Consequently, dividend growth over the medium-term will be higher than earnings growth. The current year's cover has decreased to 3,2 times from 3,3 times in 2001.

Commitment to social investment

This report contains a comprehensive review of our approach to the issues of governance and sustainability. The sustainability report, starting on page 177, complies with the relevant international reporting guidelines. We are committed to sustainable development and to comprehensive reporting thereon to stakeholders. The scope of the report will be extended over the years ahead in order to keep pace with international developments.

Material accounting changes

AC 133, the new accounting standard on financial instruments to be implemented in 2003, requires banks and other entities trading or holding financial instruments to mark certain of these to market and to take some unrealised gains or losses directly to equity and others through the income statement. Banks hold a large proportion of these investments and consequently, AC 133 will affect banks far more than other enterprises and is likely to result in greater volatility in reported earnings for banks.

Prospects

Sound economic fundamentals are in place in South Africa and the country is well positioned for sustained growth. We expect that the group will continue to benefit from efficiencies extracted from our strong domestic base and from our extensive African banking operations. The global political and economic conditions are uncertain but international credit markets are showing signs of improvement. Given the breadth and the ongoing integration of the group's activities, it is well placed to take advantage of any improvements in market conditions. The group has a stated medium-term objective for rand earnings growth of inflation (CPIX) plus 10 percentage points. While the attainment of this target is likely to be difficult in 2003, it nevertheless remains the group's earnings objective.

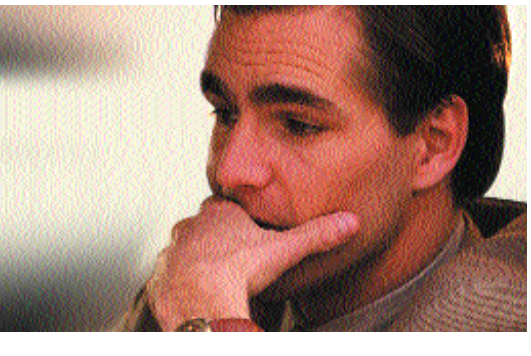
Directorate

We thank the directorate for their support and continued substantial contribution to the well-being of the group.

Reuel Khoza, who had been involved in group board structures since 1984 and a member of the board since 1 September 1997, resigned in November 2002 due to other business commitments. We thank him for his invaluable contribution to the group.

Eddie Theron retires by rotation at the AGM in terms of the Articles of Association and has not offered himself for re-election. Eddie, previously Group Chief Executive and a member of the board since 14 January 1985, contributed significantly to the establishment of our risk management culture and international expansion. We wish to thank him for his contribution and wish him well in his retirement.

Pieter Prinsloo retired from the board in December 2002. Pieter joined Standard Merchant Bank (SMB) in 1972 and was appointed Managing Director of SMB in 1987. In 1991, he was seconded to London to establish our international operations from a very small base and was appointed to the Standard Bank Group board in 1997. We thank Pieter for his enormous contribution, particularly in building our international operations and wish him health and happiness.



Subsequent to the announcement of our results on 5 March 2003, Roy Andersen informed the boards of Liberty and Standard Bank that he wished to proceed on early retirement. The boards respect his decision and have regretfully acceded to his request. In doing so, they acknowledge and thank Roy for the considerable contribution he has made to the Standard Bank Group. Consequently, Roy will be stepping down as Deputy Chairman and Chief Executive of Liberty and as a director of Liberty Group and Liberty Holdings. He will also be resigning as a director of Standard Bank Group.

Staff

The results in 2002 were made possible through the dedicated efforts of all our staff. Standard Bank is only as good as our people and we thank them sincerely for all their energy and effort.

Shareholders

Finally, to our shareholders, we thank you for your continuing support and assure you of our determination to provide you with the best possible medium-term return on your investment.

Derek Cooper
Chairman

Jacko Maree
Chief Executive

11 March 2003




Priorities for 2003

- Strive to be a leader in customer service.
- Further penetrate the mass market through our E Plan offering.
- Increase bancassurance sales into our customer base.
- Expand our retail presence in Africa by broadening our product range and geographic reach.
- Continue the selective search for acquisitions in Africa.
- Emphasise client centricity in SCMB, capitalising on what we believe is our competitive advantage.
- Further integrate SCMB and the group's international operations and, where beneficial, running businesses along global product lines.
- Contain costs as South Africa moves into a lower interest rate, low inflation rate environment.

Management structure in 2003

Significant changes to management structures have been announced since the financial year-end.

- Business Banking to be restructured with the larger client segment transferred to SCMB and the small to medium client segment transferred to Retail Banking.
- Myles Ruck to succeed Roy Andersen as Chief Executive of the Liberty Group.

The business unit reviews that commence on page 20, follow the management structure in place at 31 December 2002.

Standard Bank Group
Jacko Maree

Standard Corporate and Merchant Bank
Ben Kruger

Commercial and investment banking services to larger corporates in South Africa, foreign banks and international counterparties.

Property-related finance and advisory services and management of industrial, office, retail, specialised property and wholesale residential development.

International Operations
Rob Leith

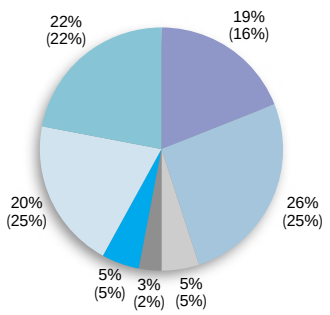
Investment banking activities and private client banking through offices in 21 countries outside Africa.

Group Finance
Simon Ridley

Group Risk
Paul Smith

Economics
Iraj Abedian

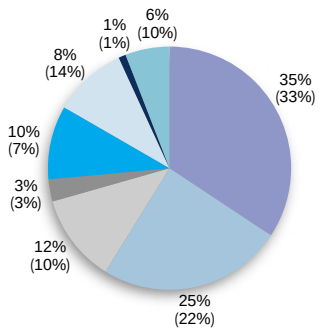
Contribution to total assets in 2002



- Retail Banking
- SCMB
- Business Banking
- Property Finance
- Stanbic Africa
- International Operations
- STANLIB
- Liberty Group operations

2001 figures in brackets

Contribution to headline earnings in 2002



Liberty Group 30%#
Myles Ruck

Value added financial and associated non-banking services both locally and internationally.

Stanbic Africa
Sim Tshabalala

Retail, commercial and investment banking services in 17 African countries outside of South Africa.

Retail Banking
Peter Wharton-Hood

Banking, investment, insurance and other financial services to individual customers, the agricultural sector and small to medium sized enterprises throughout South Africa.

STANLIB 65%#

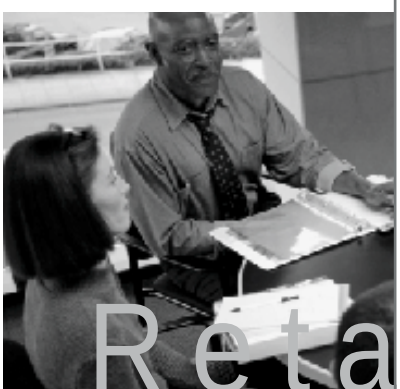
Management of institutional and retail funds, investment portfolios and financial product development.

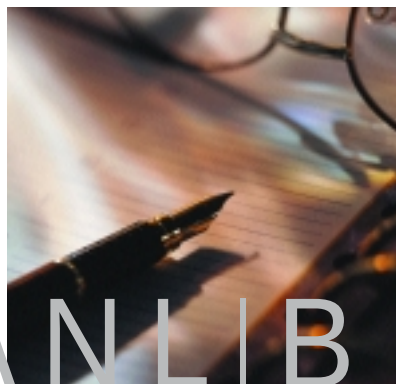
Standard Bank Group effective holding

Retail Credit
Chris Lombard

Group Human Resources
Sipho Ngidi

Stannic
Dipak Patel





Business unit reviews

Retail Banking

Peter Wharton-Hood, 37
Managing Director
Retail Banking
B Com (Hons) (Wits) CA (SA)
Appointed 2001

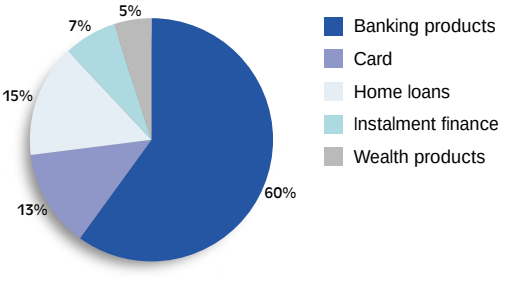
What we do

We provide banking, investment, insurance and other financial services to individual customers, the agricultural sector and small and medium sized enterprises throughout South Africa.

How we did

	2002	2001
Total assets (Rm)	76 612	64 871
Headline earnings (Rm)	1 796	1 441
Headline ROE (%)	31,7	26,9
Cost-to-income ratio (%)	62,2	64,5
Headline earnings contribution (%)	35	33

Revenue streams



The year ahead

We will • continue initiatives to become the leader in customer service • capitalise on high volume/low cost distribution advantages by maximising sales of embedded insurance products to the bank's customers • expand the wealth products' consultancy force, with special emphasis on quality of staff while focusing on customer segmentation • improve our share of the middle market segment • expand our mass market offering by means of increased distribution capability and simpler products • explore retail opportunities in other African countries • continue a range of end-to-end developments to improve branch and support processes, as well as the handling of cash, cheques and documents • improve physical security and operational risk standards and practices.

Sales and service boost earnings

Retail Banking increased headline earnings by 25% to R1 796 million. Market share increased in lending products, particularly in instalment finance and home loans, while customer retention improved across all products. Growth of 18% in non-interest revenue resulted mainly from increases in point of representation fees and card-based commission, while bancassurance income continued to improve its contribution. A decrease in the credit loss ratio from 1,27% to 1,24% was indicative of the improved book quality.

Our approach of selling integrated financial solutions to customers continued to show signs of improvement. There were good results in all major product areas, especially home loans, transactional products and wealth products.

Our efforts to build a unified sales and service culture continued, with significant investment in the development of training and rewards programmes.

Campaigns yielded many new accounts

There was improved focus by our transaction products division on segments of the middle income market and account acquisition campaigns yielded good results. The development of a management information system has improved our ability to provide better targeted marketing campaigns.

Our youth market offering was relaunched under the banner of Warner Brothers' cartoon characters, a world first. Other new products launched were the AutoPay facility for third-party payments via the Internet and a chequeless current account.

The number of active E Plan accounts continued to grow steadily and savings balances were 20% higher.

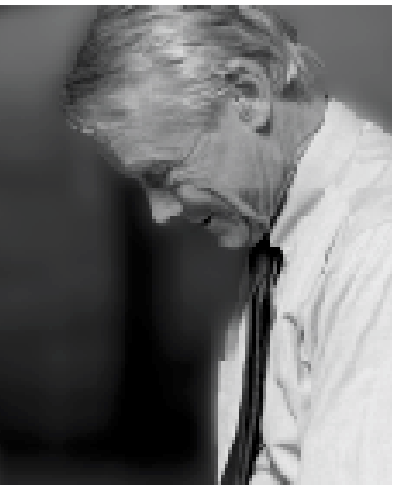
An E Loans capability, supplementing the successful E Plan mass market savings and transaction account, was introduced into our branch frontline system.

Lending book grows, with improved quality

There was strong growth in lending balances in the personal, agricultural and rural commercial segments despite strong agricultural cash inflows and margins improved overall.

Improved book quality was indicated by better behavioural risk indicators, good collection rates and management of irregular accounts.

Within the micro-loan joint venture with African Bank Investments Ltd (Abil), the loan book grew from R154 million to R256 million and the number of loans doubled to 89 000. The provision for bad debts was contained to 6%.



Card balances grew strongly

Card division's income grew by 40%, due largely to significant new account acquisitions through improved utilisation of a branch based model and higher debtor balances. Our market share increased from 21% to almost 25%. Credit losses were lower, reflecting the improved quality of the book and effective collection strategies. Our bluebean card product, being utilised to experiment in new markets, also assisted income growth.

Processing staff and systems outsourced to EDS in the late 1990s, were reabsorbed into Card division in a cooperative spirit and with positive staff feedback. The system transfer, to be completed in 2003, was made more urgent by system related difficulties experienced by EDS in late 2002 and early 2003.

Record year for Home Loans

Strong sales success, improved service levels and a buoyant property market despite four increases in interest rates, helped Homes Loans to a record year.

Faster application turnaround times and improved productivity through a focus on people and systems, played a big role in the 47% increase in new home loans registered. The number of properties in possession continued to decline and collections and defaults were better managed.

Opportunities to acquire other home loan books were evaluated in detail during the year, but were bypassed in the interest of remaining focused on existing business.

Embedded offerings boost Wealth Products

Wealth Products' 40% increase in profit contribution was largely attributable to good sales of insurance products embedded into banking services through a joint venture with Liberty. Sales were driven by increased distribution capacity, integration into central business units, electronic leads initiatives and sales incentivisation of the retail network. Bancassurance income grew by 35% to R350 million.

Support infrastructure redesigned

With the incorporation of operations support divisions into Retail Banking, there has been an increasing focus on process redesign and rationalisation of infrastructure support.

Due to a range of security enhancements, the number of successful robberies decreased by 47%. Standard Bank and the other major banks are founder shareholders in a new company formed to address violent and commercial crime.

Innovative systems developments have included a new teller terminal system, the ability of customers to transact conveniently at all points of representation and not only at their home branch, and new imaging services.

The volume of customer queries decreased by 36% and problem resolution time is decreasing. Our focus on service to customers resulted in a continuous improvement in both internal and external service ratings.

Business unit reviews

Standard Corporate and Merchant Bank

Ben Kruger, 43
Managing Director
Standard Corporate and Merchant Bank
B Com (Hons) (Pretoria) CA (SA) AMP (Harvard)
Appointed 2002

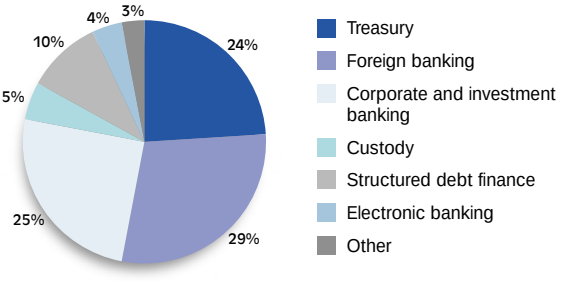
What we do

We provide commercial and investment banking services to the larger corporates in South Africa, foreign banks and international counterparties.

How we did

	2002	2001
Total assets (Rm)	101 731	97 861
Headline earnings (Rm)	1 301	955
Headline ROE (%)	28,0	26,8
Cost-to-income ratio (%)	49,6	52,8
Headline earnings contribution (%)	25	22

Revenue streams



The year ahead

We will • continue to strive to make SCMB the preferred South African corporate and investment bank employer, with strong emphasis on employment equity and transformation • strongly exploit efficiencies derived from the integration of international treasury operations • preserve our leadership in the provision of electronic business solutions in South Africa • prudently employ our capability to trade in world currency markets • retain strong client focus • seek to be the counterparty of choice for large structured transactions • combine our South African and international expertise to provide a full capital markets trading capability for all our clients, both domestically and internationally.

Core businesses boost earnings

Strong growth in revenue and our continued focus on optimising the operations of our core businesses assisted SCMB to again contribute meaningfully to group income in 2002. Headline earnings increased by 36% to R1 301 million. All the major business units performed well and balanced revenue growth was achieved across net interest income, fee and commission income and trading income. Provisions for credit losses increased by 9% over the previous year, mainly due to general provisions, but remained constant as a percentage of average advances.

Trading profits showed strong growth, primarily from higher client volumes.

Debt Capital Markets posted higher earnings, underpinned by client trades in its cash and derivative products across both liabilities and investments. Revenue generated from providing risk management solutions to clients was up 93%.

We continued to gain ground in the bond market, with bond turnover 58% up versus total market growth of just 6%, entrenching our position as the top primary dealer. Also pleasing was a 130% increase in international bond turnover, assisted by our strategic focus on playing a bigger role in the large international bond issues for the National Treasury and for South African corporates raising capital.

Commodity trading revenues showed good growth in 2002 due to a number of gold hedging transactions, as well as several customer orientated deals in the energy and base metals markets.

Our Equity Derivatives team finished the year strongly due to improved performance from our warrants business, structured transactions and some arbitrage opportunities that presented themselves during the year.

Foreign Banking produced better than expected revenue growth, considering the volatility experienced in currency markets and prevailing global uncertainty. Our client franchise continued to grow across all products.

Corporate Banking achieved significant growth by differentiated holistic pricing, maximising resource allocation and customer profitability. Continued focus on improving the overall quality of the lending book and on return on equity, helped us achieve positive results. Transactional business volumes and revenue continued to grow with cash services a key component.

SCMB is a significant investor in regional infrastructure and has entrenched its sectoral focus on energy, telecommunications and the transport industry. Key successes in infrastructure included a lead role in the planned refurbishment of the Maputo port, and being appointed lead commercial debt underwriter of the funding for Sasol's gas pipeline from Mozambique.

We were also active in financing new aircraft acquired by South African Airways during the year.

Good progress was made in improving the profitability of other major businesses. These included Electronic Banking, Custody, International Business Centres, Corporate Finance, International Banking and Private Equity.

We once again received recognition in external surveys across all of our key business units.

Global integration

Good progress was made in preparing to integrate our operations with those of the group's common international businesses. Synergies in our systems and operations will be realised over the next few years, with the aim of increasing revenues from the integrated operations through an intense customer focused strategy.

Risk management and support services

Our risk management processes continued to mature with further investments in both people and technology which assisted all business units during a volatile year. We also continued to make significant investment in technology to facilitate better analysis of risk positions and to improve efficiency in processing increased transaction volumes.

Core values

SCMB core values were reaffirmed with a strong commitment to leadership development, team work in customer relationship management and product development, maintenance of a rewarding work environment and the transformation of staff composition.

Business unit reviews

Business Banking

Dave Brown, 48
Managing Director, Business Banking
B Com MBA (UCT) PMD (Harvard)
Appointed 2000

Dipak Patel, 39
Managing Director, Stannic
MBA (Wits) MSc (London)
Appointed 2002

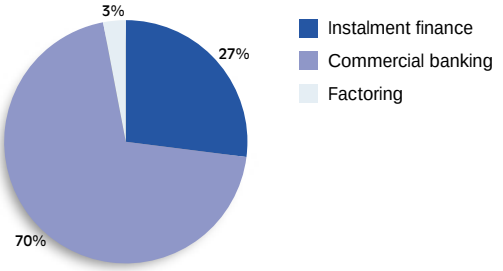
What we do

We provide financial services to medium sized businesses in South Africa through account executives working with financial specialists. Our operations include: Stannic asset finance and fleet management services; business lending, transactional and investment products; electronic banking services; debtor finance; franchising; and foreign exchange products.

How we did

	2002	2001
Total assets (Rm)	19 175	18 265
Headline earnings (Rm)	635	461
Headline ROE (%)	35,2	30,4
Cost-to-income ratio (%)	36,2	39,0
Headline earnings contribution (%)	12	10

Revenue streams



The year ahead

We will • restructure the division with the larger client segment transferred to SCMB and small to medium client segment transferred to Retail Banking • continue with Stannic as a product based division, with profits allocated between Retail and SCMB • ensure that this structure will be optimal for customer service and the ability to cross-sell group products • continue to focus on electronic transactional banking business and on delivering new value-added services.

Deposits and fee income growth drive good performance

Strong growth in deposits, fee income and higher asset finance volumes helped Business Banking increase headline earnings by 38%. Lending balances, other than asset finance, were at a lower level than the previous year.

Bad debts contained

We continued to place strong emphasis on improving the quality of our book. Bad debts were in line with the previous year, but were lower as a percentage of total assets.

Costs increased more than usual due to the recruitment of specialist staff, with the higher level of skills largely focused on niche sales, advisory and other value-added services.

Electronic focus

There was again strong growth in the use of electronic banking services, with four out of five customers now using online services. As business customers migrate to our market-leading electronic platform for business on-line services, paper-based transactions are declining commensurately.

Business unit reviews

Property Finance

Stewart Shaw-Taylor, 50
Managing Director, Property Finance
CA (SA)
Appointed 1994

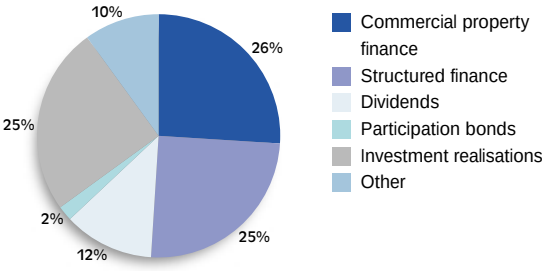
What we do

We provide property-related finance and advisory services and undertake joint ventures. Activities span commercial, industrial, office, retail, wholesale residential developments and specialised property. All operations are supported by our central office in Johannesburg. We have representative offices in major urban areas within South Africa as well as properties owned, financed and managed across sub-Saharan Africa.

How we did

	2002	2001
Total assets (Rm)	9 871	8 190
Headline earnings (Rm)	166	126
Headline ROE (%)	28,5	22,3
Cost-to-income ratio (%)	28,9	26,8
Headline earnings contribution (%)	3	3

Revenue streams



The year ahead

We will • capitalise on our reputation for exceptional service in finance, advisory services and joint ventures • continue to selectively identify opportunities in the property market offering attractive funding for development projects and property acquisitions • maintain our focus on value-added customer service levels and relationships.

Good performance, despite property oversupply

Property Finance increased headline earnings by 32% in 2002 mainly through growth in the structured loan book and increased involvement as financier and facilitator to the listed property sector. Joint venture activity and growth in the commercial property loan book were also contributing factors.

This performance, which was further boosted by realisation of certain listed trading property investments, was commendable considering the general oversupply in the market.

Property Finance participates, on a selective basis, in the development of commercial properties with well established property developers in the major urban centres of South Africa.

Property Income Fund launched

The Standard Bank Property Income Fund was successfully launched and since inception has been among the top performers in the unit trust industry.

In five years, the division's earnings have increased almost fivefold, while assets have more than doubled.

Business unit reviews

Stanbic Africa

Sim Tshabalala, 35
Managing Director
Stanbic Africa
BA LLB (Rhodes) LLM (University of Notre Dame USA) H dip Tax (Wits)
Appointed 2001

What we do

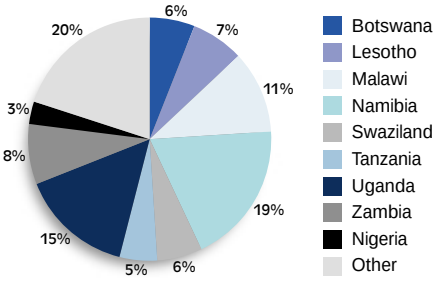
Stanbic Africa has a presence in 17 African countries outside South Africa. Through this network, we offer a wide range of banking products and services in retail, business and investment banking.

Products are tailored to meet our chosen market segments. Seamless cooperation with SCMB, our international investment banking unit in London and Retail Banking ensures that we offer access to innovative products and specialist expertise to meet our customers' needs.

How we did

	2002	2001
Total assets (Rm)	20 693	19 519
Headline earnings (Rm)	482	325
Headline ROE (%)	27,4	21,4
Cost-to-income ratio (%)	60,8	58,3
Headline earnings contribution (%)	10	7

Revenue streams



The year ahead

We will • enhance our corporate and business banking capability by upgrading our electronic banking offering, developing treasury businesses and working more closely with the specialist areas in SCMB and International Operations • de-emphasise geographic reporting lines and move towards a focus on product delivery and customer interface • continue to proliferate retail banking products, implement further retail segment value propositions and align the branch network with established best practice • complete the rollout of upgraded banking software and move towards greater electronic service delivery • reduce the costs of transactional processing through adoption of best operational practice and technology • intensify the focus on improving our risk management and compliance systems • continue to invest in the training and development of our people • look for ways to further optimise the amount of capital invested in countries • consider further acquisitions in both presence and non-presence countries.

Strong growth in earnings

Stanbic Africa's contributions from acquisitions, coupled with strong performances across almost all established operations, assisted in growing revenue by 55%. A focus on collection strategies resulted in a decrease of 33% in the provision for credit losses. The increase in the cost-to-income ratio from 58,3% to 60,8% was largely due to acquisitions, ongoing investment in upgrading our banking technology platform, the expansion of head office-based support functions and costs incurred in re-positioning some of our businesses for further growth.

Revenue growth occurred in both the interest income and non-interest revenue lines. Our focus on developing non-interest revenue saw a reduction in our reliance on interest income. This was characterised by a rapid improvement in fees and commission and a sound increase in treasury revenues.

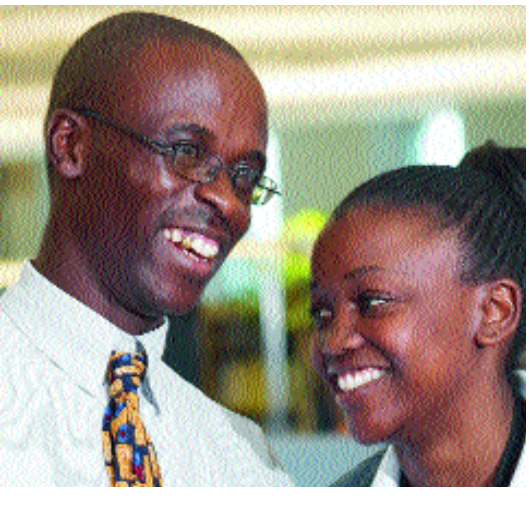
In Botswana, Ghana, Nigeria and Swaziland, profitability significantly improved through the introduction of new management teams who have started to correctly position these operations. Recoveries on the non-performing loan portfolio, as well as an improved operating performance, resulted in a significant turnaround in earnings for our bank in Kenya. Difficulties in the non-performing loan portfolio, as well as intense competition, continued to negatively impact the profitability of Stanbic Tanzania.

Conservative approach adopted in Zimbabwe

Despite the continued political, social and economic difficulties facing our bank in Zimbabwe, its performance in Zimbabwe dollar terms remained satisfactory. The Zimbabwean operations continue to be consolidated in the group's accounts. However, for reporting purposes a conservative approach has been adopted to translation, resulting in a very small contribution from Stanbic Zimbabwe to the overall earnings of Stanbic Africa.

Acquisitions have been successful

We have drawn on our experience in acquiring banks in Africa to rapidly integrate our new acquisitions in Malawi and Uganda. Positive feedback on the progress made in both countries has been received from all stakeholders, ranging from staff and customers to government and regulators.



Changes made in a few key senior positions in Malawi resulted in a positive turnaround in performance. This was particularly evident in the areas of treasury, retail banking and credit. The successful conversion of head office and selected local branches late in 2002 to our standardised banking software, has enabled the bank in Malawi to enhance the quality of products and services in both the retail and corporate markets. The findings of a detailed assessment of the network configuration, which was completed during 2002, will be implemented in the coming year as the remaining branches are converted.

Our acquisition of Uganda Commercial Bank has been positive for earnings growth. The bank has already been merged with our existing operation in Uganda and the conversion and rollout of our banking technology to branches is progressing well. It is anticipated that all branches will be integrated and automated by the end of 2003.

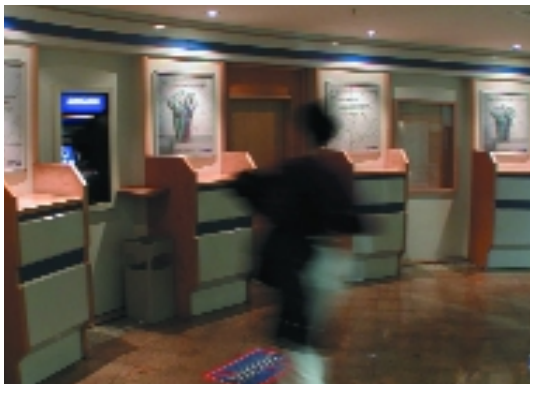
The quality of the banking products and services offered to the Ugandan banking population will be significantly enhanced through the rollout of technology, with customers migrating to electronic service delivery. The synergies realised by combining the largely retail Uganda Commercial Bank with our existing corporate bank are already enabling us to attract quality corporate lending business. A voluntary retrenchment programme has seen a reduction in staff levels, with a further reduction due to take place as technology automation is progressed.

Treasury focus is adding value

The contribution of treasury to our revenues has been enhanced by the establishment of a dedicated Africa treasury function based in SCMB. This desk is responsible for the proliferation of treasury products, systems, people and training across our African network. By working closely with the group's domestic treasury division, we have been able to improve our balance sheet management and deploy yield enhancement strategies across our network. In a number of countries we are beginning to play an influential role in developing local treasury markets.

Integration with the group is progressing well

Efforts to integrate with the rest of the group, and to offer a "one bank" solution to customers, are starting to produce positive results, particularly in the retail banking area. By accessing Domestic Banking's retail expertise, we have been able to prioritise the retail market space in Africa, evaluate, improve and competitively price our product offering, and assess the efficiency of our network configuration in each country. This will ensure increased interaction and cross-selling in the areas of



retail, corporate and business banking, investment banking, trade finance, custody, asset management and insurance premium finance, and is in line with our strategic intent to manage our businesses along product lines.

A new operations function, aligned with Domestic Banking operations, was established during the year. The role of this function is to create consistent and efficient banking practice across our African network while minimising the associated operational risks.

Technology upgrade ahead of schedule

During the year, we embarked on a major project to upgrade banking software across our network. This will increase operational efficiencies, reduce our time to market for new products and allow us to centralise processing in the future. The project is ahead of schedule, with five countries completed during the year and the remainder to be completed during 2003.

Risk management remains a key focus

The role of risk management was elevated in 2001 through increased capacity. This has resulted in an improved ability to track and manage credit and operational risk across the network. The introduction of a revised credit policy aligned with group and international best practice, as well as a restructuring of credit granting and administrative functions, has resulted in a substantial reduction in our non-performing loan portfolio. A dedicated operational risk function has also been established.

Continued investment in quality people

We have continued to focus on attracting and retaining quality people in the countries we operate in, thus reducing our reliance on expatriates. We have also successfully moved people between countries, creating new opportunities for key people. Initiatives around leadership, training and performance measurement continue to contribute to the development of our employees.

Capital maintenance enhances returns

An aggressive capital management drive during the year resulted in a reduction of excess capital levels in a number of our banks. This, together with the use of subordinated debt capital and our offshore bank in Mauritius, assisted in significantly increasing the return on equity invested in Africa and making capital available for new acquisitions.

Business unit reviews

International Operations

Pieter Prinsloo, 58
Chief Executive (retired)
International Operations
B Com CA (SA) PMD (Harvard)
Appointed 1997, retired December 2002

Rob Leith, 40
Chief Executive
International Operations
B Com (Hons) (UCT) CA (SA)
Appointed 2003

What we do

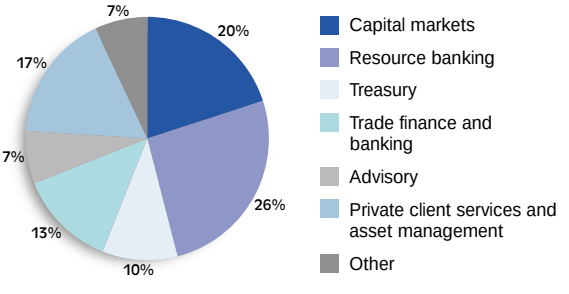
As the international arm of the group, we focus on investment banking activities for emerging markets and provide offshore services to our customers through offices in 21 countries outside Africa.

Our principal subsidiaries are Standard Bank London, Standard Bank Asia, Standard New York and private banking entities within the Standard Bank Offshore Group.

How we did

	2002	2001
Total assets (Rm)	80 005	100 631
Headline earnings (Rm)	429	648
Headline ROE (%)	6,3	10,9
Cost-to-income ratio (%)	71,4	63,8
Headline earnings contribution (%)	8	14

Revenue streams



The year ahead

We will • aim at generating revenue and operational benefits from closer cooperation with other entities within the group • pay significant attention to recently introduced cost-containment and efficiency-enhancement initiatives • continue to grow through the ongoing development of core customer-focused activities • complete the upgrade of subsidiaries in Brazil and Moscow to fully operational investment banks, which will enable the group to participate in these countries' growing local treasury and debt capital markets • derive further benefits from full integration of Standard Bank Asia's business and the ongoing expansion of capabilities within Asia • be well placed to take advantage of any recovery in market conditions.

Satisfactory performance in a tough environment

The slowdown in global markets intensified in 2002. In an environment of increasing volatility in asset prices, falling equity markets, increasing corporate credit pressures and Latin American instability, International Operations reported a 48% decline in earnings in sterling terms, largely due to increased credit provisioning. Core businesses, however, performed well, particularly Capital Markets trading and Resource Banking. Key initiatives were the selective expansion of international representation, the continued growth of customer-facing businesses and the pursuit of improved operating efficiencies.

Enhanced capital markets franchise in emerging markets

Capital Markets reported a reasonable year notwithstanding turbulence in certain key markets.

While good progress was made in expanding the client base, the underlying product results were mixed, leading to an overall revenue reduction. A strong performance by the origination businesses in Eastern European syndications was offset by increased credit provisions in Latin America and a lower level of Brazilian transactions due to election uncertainty. Customer numbers have increased and the sales team is now engaged with a number of key market players who will support the division's future origination efforts.

Proprietary trading results were good. Strong contributions continued to be generated from Asia and Russia. Trading profits from Latin America were slightly higher than in 2001, with the successful trading of sovereign bonds from Colombia, Ecuador, Mexico, Uruguay and Venezuela more than offsetting trading losses from Brazil.

Capital Market's investment book, comprising debt exposure to primarily investment grade credits, experienced a difficult year as a result of credit deterioration in investment grade debt markets. While no significant defaults have occurred, provisions have been raised using appropriate risk criteria.

Strong year for Resource Banking

Resource Banking enjoyed a successful year in both earnings and the development of new business. Our strengths in metals, mining finance and energy products have been complemented by the establishment of a Commodity Finance team which will increasingly focus on energy and metals transactions. The aim is to provide a full suite of services to customers who currently access only part of the division's product range.

Precious Metals trading and financing achieved another year of record profits. Producer hedging and physical orientated business were major contributors to earnings. Notwithstanding lower levels of activity and declining margins within the base metals industry, the group's Base Metals business achieved robust revenue growth. Market penetration was increased and the client base further strengthened.

Mining Finance enjoyed a record year, completing transactions in North and South America, Europe, Africa and Australia. The primary driver is to focus on business which links the group's specialist mining financing activities with its advisory metals trading, hedging and trade finance capabilities.

The Energy business continued to expand its regional, technical and product capability in both asset financing and risk management products. Specialising in providing asset-backed production finance, the Energy Finance team won mandates from the USA, Russia, Latin America, Scandinavia, Middle East and Africa. The structured transaction and trading capability developed in the UK electricity market continued its growth in client base and market penetration.

Building off a wider treasury platform

Treasury had a satisfactory year, with revenues marginally up due to geographic expansion and a broadening of the product range. Activities have been expanded in the Asia Pacific region following the successful integration of Standard Bank Asia. The upgrading of the group's operations in Brazil and Russia to investment bank status will further complement trading in emerging market currencies. Integration efforts with the greater Standard Bank Group continue as the division increases efficiencies and capitalises on local expertise around the world.

Foreign Exchange and Money Market activities enjoyed increasing volumes, benefiting from the expanded sales efforts within main markets as well as local representative offices.

The newly formed Collateral Management division completed its first full year of operation, establishing valuable counterparty relationships and working successfully with SCMB in facilitating a number of structured transactions.

Improved performance from banking activities

Trade Finance experienced another strong year in Russia, where close relationships have been formed with leading companies in the aluminium, copper and nickel industries. The oil-financing related business in Russia was somewhat slower in 2002 due to increased price competition. An increasing level of business is starting to flow from China, Latin America and Africa including oil related business in Angola. The forfaiting business further consolidated its market leadership, with volumes consistent with those achieved in 2001.

Corporate Banking continued to act as a leading arranger of finance for South African companies operating offshore. The division also worked closely with the Stanbic Africa network and SCMB to support multi-nationals operating in sub-Saharan Africa.

Tough environment for Private Client Services and Asset Management

Private banking, investment and fiduciary operations in the offshore centres of Jersey and the Isle of Man performed well, particularly in light of the difficult market environment. While the banking operations reported results broadly in line with the prior year, the investment and fiduciary businesses were impacted by weak equity markets and lower levels of client activity.

Good progress was made in the development of the recently established international Private Client Services business. More relationship managers were appointed in São Paulo, Buenos Aires, Istanbul and Singapore to supplement representation in London, Hong Kong, Taipei and Miami. The focus on the group's niche products and geographic footprint provides a key differentiating factor attractive to clients.

The asset management business grew significantly during 2002, with third party assets under management increasing by 58%. Growth was achieved primarily through the third party distribution network in the global high yield and emerging market mutual fund products.

The Energy, Infrastructure and Resources (EIR) Funds Group was formally established in 2002 to implement funds and fund management teams in order to support investment into primarily unquoted opportunities in the energy (oil and gas), infrastructure (power, transport, telecommunications and water) and resource (primarily mining) sectors. These are all industry sectors in which the group already has a well-established franchise.

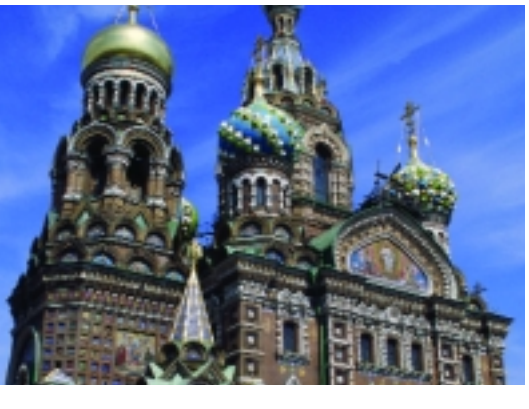
During 2002, the US$305 million Emerging Africa Infrastructure Fund was launched, with the group leading the consortium mandated by the UK government's Department for International Development to establish and manage the fund. The fund has been set up as a partnership between the public and private sectors, to provide long-term debt financing for infrastructure projects in sub-Saharan Africa.

Group coordination of advisory business

The general corporate finance market in 2002 was the most challenging in a decade.

The Telecoms Advisory division had a good year, reporting an increase in revenues. The division has retained its concentration on sub-Saharan Africa, where it remains the advisor of choice to the three largest pan-African telecommunications operators. The division, in conjunction with SCMB, arranged the Vodacom Tanzania financing, since voted "Euromoney Africa deal of the year" for 2002.

The Structured Finance team had another strong year as a component of the group's global structured finance operation, benefiting from working closely with other divisions within the group.



Business unit reviews

STANLIB

What we do

STANLIB was formed with effect from 1 January 2002 and officially launched in May. It brings together the wealth and asset management and wealth product marketing of the Standard Bank and Liberty groups.

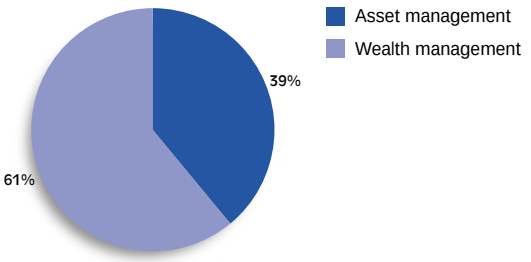
STANLIB serves African markets with a product mix featuring both local and global brands. STANLIB Asset Management is responsible for implementing Liberty Group's policyholders' investment strategies and managing segregated funds for third party clients and most of the Liberty and Standard Bank unit trust portfolios. STANLIB Wealth Management markets the largest pool of unit trusts in South Africa and focuses on unit trust management, financial product development, product marketing and client support.

How we did

	2002	2001
Funds under management (Rbn)	180	178
Headline earnings (Rm)	62	82
Headline ROE (%)	23,9	54,7
Headline earnings contribution (%)	1	1

Note: Due to merger related costs in 2002 and a pro-forma comparative for 2001, earnings for these periods are not fully comparable.

Revenue streams



The year ahead

We will • strive to make best use of the strengths of our merged investment team to outperform our peers • launch innovative wealth management products to meet new customer needs • explore new valuation methodologies to ensure that our research is best of breed.

Good performance in a challenging year

STANLIB experienced a notably challenging year, characterised by declining equity markets worldwide, but performed to expectations by generating an operating profit of R62 million after non-recurring items relating to the merger. Funds under administration at 31 December 2002 amounted to R48 billion while assets under management amounted to R132 billion.

Merger successfully completed

The first phase of the merger, focused on human resource and culture issues, was completed within the planned timeframe without any major disruption to customers. Non-recurring costs were incurred in establishing the new STANLIB offices, setting up technology platforms and support operations, and retrenchments. Significant benefit to fund management activities was derived from access to the combined distribution channels of Standard Bank and Liberty.

STANLIB Wealth Management is well placed to unlock new opportunities. Despite the challenges of integrating five different business units in a weak and volatile market, the business retained market share and is confident of increasing this in 2003.

Investment performance was sound with the biggest managed equity portfolio delivering a return significantly in excess of the JSE All Share index. International assets performed poorly, primarily because of the dramatic decline in international equity markets and the strong appreciation of the rand against major world currencies.

Business unit reviews

Liberty Group operations

Roy Andersen, 54
Group Chief Executive
Liberty Group
CA (SA) CPA (Texas)
Appointed 1999, retiring 2003

Myles Ruck, 47
Group Chief Executive
Liberty Group
B Bus Sc (UCT) PMD (Harvard)
Appointed 2003

What we do

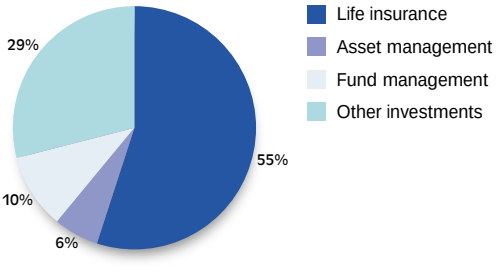
We offer a comprehensive and complementary range of non-banking financial services. We seek to be the preferred supplier of, and point of access to, quality value-added financial and associated services both locally and internationally.

Our key strengths remain our high-quality, well-trained and growing agency, franchise and broker marketing forces.

How we did

	2002	2001
Total assets (Rm)	85 761	89 038
Headline earnings (Rm)	298	434
Return on embedded value (%)	7,9	26,4
New business premium income (Rm)	11 301	9 819
Headline earnings contribution (%)	6	10

Revenue streams



The year ahead

We will • focus on individual business • further improve agency and franchise productivity • grow employee benefits • further develop bancassurance business • grow offshore distribution • contribute to the development of viable, sustainable empowerment enterprises • realise merger synergies in STANLIB • implement B^3 human capital vision: “The Best people doing the Best things Best”.

Strong operational performance in a demanding market

We experienced a challenging year in 2002 with a strong operational performance amid poor investment markets and demanding economic conditions. Headline earnings per share were down 31%.

All key indicators other than investment returns were positive. Indexed new business sales increased by 23,5%, expenses were well controlled, net cash flows from insurance operations increased by 54% to R4,5 billion and new business margins improved.

Headline earnings were further impacted by an increase in secondary taxation on companies.

Markets, strong rand hurt investment returns

Investment markets and the strengthened rand negatively affected earnings. Despite actual investment returns outperforming the investment return benchmarks set by the Liberty Investment Operations Committee, the weighted average investment return on the equity, managed and foreign assets portfolios was down 9,5%. This compares with a positive return of 25,3% for 2001 and the actuarial expectation of 14,5% for 2002.

Shareholders earn 10% of capital bonuses declared to policyholders on certain classes of business and the negative return for 2002 impacted adversely on the life fund operating surplus, resulting in a 33% decline.

Value of new business increased

The value of new business increased by 33% with the new business margin improving to 20,3% from 18,5% mainly as a result of reduced maintenance and acquisition costs, increased sales of products with higher margins and the successful launch of the Excelsior range of products.

Good growth in new business

All the major underlying business units contributed to the growth in new business. Liberty Personal Benefits, which offers insurance and investment products to the individual, again exceeded targets. Single premium new business rose by 21% while recurring premium new business rose by 28%.

Liberty Corporate Benefits, which markets a flexible, packaged solution for the retirement funding needs of corporate bodies, increased new recurring premiums by 23%, while new single premiums decreased by 3% giving an overall 2% increase in new business premiums. We acquired more than 1 000 new schemes during the year.

Charter Life's new recurring premiums increased by 31%, while new single premiums rose by 40%.

Continued focus on the bancassurance joint venture saw new premiums increasing by 91%. This channel produced 28% of total new sales for 2002, with the sale of simple products (mainly credit life and funeral policies)

rising by 31% and the sale of complex products (high advice) by 98%.

Productivity in the franchise distribution channel improved significantly with new business sales increasing by 23% notwithstanding the number of sales producers in the franchise division being managed down from 997 to 646.

The strong support of "non-group brokers" (i.e. non-Standard Bank financial consultants) is also most pleasing.

Due to continuous product innovation, improved productivity in distribution channels and the success of our customer value management programme, we have made consistent market share gains since June 2000, with our recurring individual market share increasing from 18,8% to 21,7% and single individual market share increasing from 14,0% to 20,7% at 30 June 2002.

New products well received

Our business unit structure drives the product design process and resultant service as close as possible to the specific target market and clients that it aims to serve.

We launched the Excelsior range of products in June 2002, following extensive market research that highlighted the need for a tax-efficient investment vehicle that is flexible, cost-effective, transparent and able to meet longer-term wealth creation needs of the individual. Excelsior has been well received by clients and intermediaries and is to be a core offering in the future.

Cost containment pays off

The average renewal cost per policy and the acquisition cost per policy decreased by 1,6% and 1,3% respectively, which substantially outperformed the actuarial expense inflation assumptions. Cost control measures taken early in 2002 partly offset the negative effect of poor investment markets. Direct expenses increased by 7% while the number of individual policies in-force increased by 50 595 (2001: 1 697).

Embedded value maintained

The effects of the poor investment markets have been offset by the strong operational performance of our life insurance operations, enabling us to increase our embedded value by 2%.

Clients get a window to international markets

Corporate activity has focused on the strategic positioning of Liberty in the international market to best serve a South African client base, while at the same time consolidating our local portfolio in order to focus on our strengths.

As an example, the acquisition of Liberty Ermitage in 2000 provides a cost-effective conduit to international markets for clients. The acquisition of Hightree Financial Services, a boutique brokerage company based in London, was another strategic investment. The acquisition provides an avenue for the distribution of Liberty Ermitage products in the United Kingdom retail market.

Capital adequacy becomes more important

In line with our strategy to deploy capital in areas aligned with our core business and to access growth markets, we disposed of certain non-core shareholders' assets during the year. Investments sold included 2,5 million Gold Fields shares, 2,2 million SABMiller shares and various low-yield properties.

Capital adequacy cover has become of increasing importance in the global life insurance industry. Our capital adequacy multiple, which is among the highest in the industry, was 3,0 at the end of December 2002. This compares with 3,5 at 31 December 2001 and provides a comfortable level of cover given the current uncertainty in investment markets. This ratio remains virtually unchanged at 2,9 based on the revised, more stringent basis that has been proposed by the Financial Services Board.

HIV/Aids gets high priority

An assessment of the impact of HIV/Aids on life insurance operations revealed no major increase in Aids-related deaths or HIV prevalence at new business testing stage. Reserves have been set aside in accordance with guidance notes issued by the Actuarial Society of South Africa.

Board of Directors

Derek Cooper,** 62
Chairman,
Standard Bank Group
CA (SA)
Appointed: 1993

Directorships: Liberty Holdings (Chairman), Liberty Group (Chairman), Reunert (Chairman).
Member: Group Credit Committee (Chairman), Africa Credit Committee, Group Risk Management Committee, Group Remuneration Committee, Governance and Nominations Committee (Chairman), Transformation Committee.

Graham Mackay,** 53
Joint Deputy Chairman,
Standard Bank Group
BSc (Eng) (Wits) B Com (Unisa)
Appointed: 1997

Directorships: SABMiller (Chief Executive), ABI, CRE Beverage, Brasseries et Glacieres Internationales, Brasseries Internationales Holdings.
Member: Governance and Nominations Committee, Group Remuneration Committee.

Saki Macozoma,** 45
Joint Deputy Chairman,
Standard Bank Group
BA (Unisa) BA Hons (Boston)
Appointed: 1998

Directorships: New Africa Investments (Chief Executive), Safika Holdings, Murray & Roberts Holdings, Business Trust, Hertz Rent a Car, VW South Africa.
Member: Governance and Nominations Committee, Transformation Committee (Chairman).

Jacko Maree#, 47
Chief Executive,
Standard Bank Group
B Com (Stellenbosch)
MA (Oxford) PMD (Harvard)
Appointed: 1997

Directorships: Liberty Group, Liberty Holdings, The Banking Council of South Africa (Chairman).
Member: Africa Credit Committee, Group Credit Committee, Transformation Committee, Group Executive Committee (Chairman).

Myles Ruck#, 47
Deputy Chief Executive,
Standard Bank Group
B Bus Sc (UCT) PMD (Harvard)
Appointed: 2002
Member: Africa Credit Committee (Chairman), Group Credit Committee, Group Executive Committee.

Roy Andersen#, 54
CA (SA) CPA (Texas)
Appointed: 1999
Directorships: Liberty Group (Deputy Chairman and Chief Executive), Liberty Holdings.

* *Non-executive director*
** *Independent non-executive director as defined in King II*
\# *Executive director*

Doug Band*, 58
B Com (Wits) CA (SA)
Appointed: 1997

Directorships: MTN Group, Tiger Brands, Business Against Crime SA, Supersport International Holdings.
Member: Group Credit Committee, Africa Credit Committee, Group Audit Committee, Group Remuneration Committee, Governance and Nominations Committee.

Elisabeth Bradley,** 64
B Sc (Free State) M Sc (London)
Appointed: 1986

Directorships: Wesco Investments (Executive Chairman), Toyota SA (Chairman), The Tongaat-Hulett Group, Sasol, Anglogold, Metair Investments.
Member: Group Audit Committee.

Buddy Hawton,** 65
FCIS (Natal)
Appointed: 1995

Directorships: Kersaf Investments (Executive Chairman), Allied Electronics Corporation, City Lodge Hotels, International Resorts, Nampak, Royale Resorts Holding, Sun Hotels International, Liberty Group, Liberty Holdings.
Member: Group Risk Management Committee, Group Remuneration Committee (Chairman).

Rick Menell,** 47
BA (Honours) MA (Cambridge)
M Sc (Stanford)
Appointed: 1997

Directorships: Anglovaal Mining (Executive Chairman), Telkom SA, SA Tourism (Chairman), Mutual and Federal, Assmang, Avgold, Village Main Reef, Chambishi Metals, National Business Initiative, Business Trust.
Member: Group Risk Management Committee, Group Remuneration Committee.

Robin Plumbridge,** 67
MA (Oxford) LLD (hc) (Rhodes)
Appointed: 1980

Directorships: Former Chairman Gold Fields of South Africa, Newmont Mining Corporation (Audit Committee Chairman).
Member: Group Risk Management Committee (Chairman), Group Audit Committee (Chairman).

Chris Stals,** 68
B Com M Com
D Com (Pretoria)
Appointed: 2000

Directorships: Former Governor – South African Reserve Bank.
Member: Group Risk Management Committee.

Conrad Strauss,** 67
BA PhD (Rhodes) MS (Cornell) AMP (Harvard) FIBSA DEcon (hc) (Rhodes) DSc (hc) (Pretoria)
Appointed: 1984

Directorships: Former Chairman Standard Bank Group, Sasol, Afrox.

Eddie Theron,** 61
B Com LLB (UCT)
Appointed: 1985

Directorships: Mutual and Federal, Barloworld, Pretoria Portland Cement.
Member: Group Risk Management Committee.

Corporate governance

Loren Wulfsohn, 34
Group Secretary
B Com LLB (Natal)
Appointed 2002

Codes

The group is committed to the highest level of corporate governance and is satisfied that it has complied with the provisions of the King Report on corporate governance (King II) for the reporting period.

The group supports the Code of Banking Practice and endorses the principles contained therein.

The implementation of governance structures is dynamic. During the course of 2003, compliance with relevant governance codes and the evolution of the group's governance policies and processes will continue as priorities.

Boards and directors

Board structure

For most of the year, the board comprised 16 directors, four of whom were executive. There are currently 14 directors. Details of board changes are provided in the Directors' report on page 102. It is a unitary board with a mix of executive (3) and non-executive (11) directors. The majority of board members are independent non-executive directors (as defined in King II). The board is accountable and ultimately responsible for all actions of the board, board committees and management.

The board is responsible for the appointment of the Chief Executive. The board ensures that, as part of succession planning, it familiarises itself with the executive management team at meetings (both formal and informal). Considerable attention is given to leadership development throughout the group in order to develop and retain a pool of talented individuals. The board has agreed an appointment process that ensures appointments to group subsidiary and associated entity boards receive the requisite consideration.

Strategy

The board is responsible for ensuring that clear strategic direction is provided to the group. As part of this process, the Chief Executive and senior executives annually present their strategic plans to the board for review and approval.

Board mandate

The board operates in terms of a mandate which sets out its roles and responsibilities. This mandate has been updated taking into account the provisions of King II. The key terms of reference set out in the mandate are:

- agree the group's objectives;
- agree the strategies and plans for achieving those objectives;
- annually review and assess achievement against objectives;
- review board and committee mandates at least annually and approve recommended changes;
- delegate to the Chief Executive or any director holding any executive office or any senior executive any of the powers, authorities and discretions vested in the board, including the power of sub-delegation. Delegate similarly such powers, authorities and discretions to any committee and subsidiary company boards as may be created from time to time;
- determine the terms of reference of all board committees and review reports and/or minutes of committees and significant subsidiary companies;
- review and monitor the performance of the Chief Executive and the executive team which includes the consideration and evaluation of reports;
- establish and review annually and approve major changes to the group's policies;
- approve the remuneration to be paid to non-executive directors for board and committee membership based on recommendations made by the Group Remuneration Committee;
- approve capital funding for the company and the group, and the terms and conditions of rights or other issues and any prospectus in connection therewith;
- ensure that an adequate budget and planning process exists, that performance is measured against budgets and plans and approve annual budgets for the group;
- approve significant acquisitions, mergers, take-overs, divestments of operating companies, equity investments and new strategic alliances by the company or its subsidiaries;
- consider and approve capital expenditure recommended by the Group Executive Committee;
- consider and approve any significant changes proposed in accounting policy or practice and consider the recommendations of the Group Audit Committee;
- consider and approve the annual financial statements, interim statements, dividend announcements and notices to shareholders, and consider and agree the basis for considering the group to be a going concern;
- have ultimate responsibility for ensuring the adequacy of financial and operational systems and internal controls, the review of which is delegated to sub-committees. The board ensures that reporting on these issues is acceptable;
- have ultimate responsibility for regulatory compliance and ensure that reporting to the board is comprehensive; and
- review non-financial matters which have not been specifically delegated to a sub-committee.

Delegation of authority and effective control

The board retains effective control over the operations of the organisation through a well-developed governance structure that comprises various board committees. These regularly report to the board in terms of their agreed mandates. Management performance is monitored through effective and regular reporting against board agreed strategies and budgets.

Compliance with all relevant laws, regulations and codes of business practice is monitored by the board through the group's governance structures and processes.

In terms of the Banks Act Regulations, the board has adopted a suitable definition of a material malfunction. This definition is reviewed by the board annually. In addition, the board's mandate requires certain material matters to be brought to its attention.

The board has formally delegated defined authority to the Chief Executive by virtue of a resolution, with the power of delegation, and this process is continually monitored.

In order to facilitate effective control, the information needs of the board are continually assessed. Board members can request further information they require from management. Management reporting is constantly modified to keep pace with changing legislative and other requirements of the board. The board has unrestricted access to all organisational information, records, documents and property that it may need or request.

Chairman and Chief Executive

The roles and responsibility of Chairman and Chief Executive remain separate and distinct.

The performances of the Chairman and Chief Executive are assessed by the Remuneration Committee when determining remuneration.

Board effectiveness

The board again agreed a corporate governance process and objectives in terms of that process. Achievements against this were considered by the board.

The board, through the Governance and Nominations Committee (GNC), regularly reviews and considers its effectiveness and structure. Similarly, consideration is given to the demographic diversity of the directors.

The effectiveness of the board as a whole is evaluated by the GNC in its annual review of performance against mandates. In terms of this, the performance of the board and the committees is benchmarked against their respective mandates. The results are reviewed by the external auditors and a report submitted to the GNC for discussion and, where necessary, remedial action is taken. In addition, the GNC considers board and committee composition and attendance at meetings on an annual basis.

All board and committee mandates specify that members are entitled to take independent advice at the company's expense.

Directors

The board's deliberations are free from the domination of any individual or group of individuals. The non-executive directors (NEDs) possess the calibre, credibility and experience required for them to deliberate, where necessary, independently of management. There are no shadow directors on the board.

No executive directors hold non-executive directorship positions outside the group.

Induction

On appointment, an induction programme designed to meet the needs of each new director, is implemented. The Group Secretary manages the induction programme. The board's code of conduct is provided to new directors on their appointment. New and prospective directors are required to complete the necessary formalities in terms of the relevant legislation and regulations. Directors are advised of new laws and regulations and changing risks to the organisation on an ongoing basis.

Board meetings

The board meets, at a minimum, once every quarter with

Board meeting attendance

Member	Feb	Mar	May	Aug	Oct	Nov	Dec
Derek Cooper (Chairman)	✓	✓	✓	✓	✓	✓	✓
Roy Andersen	✓	✓	✓	✓	✓	✓	✓
Doug Band	✓	✓	✓	✓	✓	✓	✓
Elisabeth Bradley	✓	✓	✓	✓	✓	A	A
Anthony Evans*	A	✓					
Buddy Hawton	✓	A	✓	✓	✓	✓	✓
Reuel Khoza**	A	A	✓	✓	✓	A	
Selwyn MacFarlane*	✓	✓					
Graham Mackay	✓	✓	✓	A	✓	✓	✓
Saki Macozoma	A	A	A	✓	✓	✓	A
Jacko Maree	✓	✓	✓	✓	✓	✓	✓
Barbara Masekela*	A	A					
Rick Menell	✓	✓	A	✓	✓	A	✓
Robin Plumbridge	✓	✓	A	✓	✓	A	✓
Pieter Prinsloo***	✓	✓	✓	✓	✓	A	A
Michael Rapp*	✓	✓					
Alan Romanis*	✓	✓					
Myles Ruck	✓	✓	✓	✓	✓	✓	✓
Chris Stals	A	✓	✓	✓	✓	✓	✓
Conrad Strauss	✓	✓	✓	✓	✓	✓	✓
Eddie Theron	✓	✓	✓	✓	✓	A	✓

* Resigned 12 March 2002
** Resigned 29 November 2002
***Resigned 31 December 2002

✓ Present / A Apologies

an additional meeting scheduled annually to discuss strategy. Additional meetings are held whenever deemed necessary. Seven board meetings were held during the year and details of individual attendance at board meetings are set out above.

Directors are provided with comprehensive board documentation at least four days prior to each of the scheduled meetings.

Board committees

The board has established a number of committees to which certain of its functions have been delegated. The committees, except for Group Credit, comprise a majority of independent NEDs and all are chaired by an independent NED. The membership of the committees for the year under review was as follows:

- Governance and Nominations – Derek Cooper (Chairman), Doug Band, Reuel Khoza[1], Graham Mackay and Saki Macozoma;
- Group Audit – Robin Plumbridge (Chairman), Doug Band, Elisabeth Bradley and Alan Romanis[2];
- Group Risk Management – Robin Plumbridge (Chairman), Derek Cooper, Buddy Hawton, Selwyn MacFarlane[3], Rick Menell, Chris Stals and Eddie Theron;
- Group Credit – Derek Cooper (Chairman), Doug Band, Jacko Maree, Simon Ridley, Myles Ruck and Paul Smith;
- Transformation – Saki Macozoma (Chairman), Derek Cooper, Reuel Khoza[1], Jacko Maree and Barbara Masekela[3]; and
- Group Remuneration – Buddy Hawton (Chairman), Doug Band, Derek Cooper, Graham Mackay and Rick Menell.

1 Resigned 29 November 2002

2 Alan Romanis, who resigned as a non-executive director on 12 March 2002, has remained on the committee. As a member of the Liberty Group Audit Committee and chairman of the STANLIB Audit Committee, he provides valuable insight from a group perspective.

3 Resigned 12 March 2002

Each of the above committees operates in terms of a mandate approved by the board. These mandates describe:

- the extent of its powers;
- the responsibility delegated to it;
- its term;
- its role and function;
- procedure for reporting to the board; and
- its authority to act.

At board meetings, relevant minutes are submitted and the chairman of each committee reports on the committee's activities.

Risk management framework

The group's risk management processes are detailed in the risk management review commencing on page 56. Fundamental to the management of risk in the group, is the risk framework endorsed by the board. The board has ultimate responsibility for ensuring the adequacy of internal controls. Where appropriate, certain of the board's risk management functions have been delegated to board committees.

The board regularly reviews processes and procedures to ensure the effectiveness of the internal systems of risk control. The framework and structure of the risk committees ensure the recognition of their status within the group.

Governance and Nominations Committee

The membership of the committee and the attendance at meetings were as follows:

Member	May	Dec
Derek Cooper (Chairman)	✓	✓
Doug Band	✓	✓
Reuel Khoza*	✓	
Graham Mackay	✓	✓
Saki Macozoma	A	A

* Resigned 29 November 2002

The committee's key terms of reference include the following:

- Setting criteria for the nomination of directors and committee members of the board and group subsidiaries and identifying, evaluating and recommending nominees for appointments;
- Reviewing the composition of the board;
- Considering corporate governance best practice and statutory compliance;
- Conducting an annual assessment of the performance of the board and reviewing the effectiveness of all board committees; and
- Periodically reviewing the format and content of the board and committee structures and mandates.

Group Audit Committee

The board has established a Group Audit Committee (GAC) with subsidiary audit committees where required by regulation or deemed appropriate. The majority of the members are independent and all of the members are financially literate. The Chief Executive, external and internal auditors, together with relevant management are required to attend meetings. The board chairman attends meetings by invitation. The committee membership and attendance at the six meetings held during the year were as follows:

Member	Feb	Mar	May	Aug	Nov
Robin Plumbridge (Chairman)	✓	✓	✓	✓	✓	✓
Doug Band	✓	✓	✓	✓	✓	✓
Elisabeth Bradley	✓	✓	✓	✓	✓	✓
Alan Romanis	✓	✓	✓	✓	✓	✓

The GAC operates in terms of a written mandate that deals comprehensively with its membership, authorities and duties. The key terms of reference are divided into the following:

External auditors and external audit – this includes the review or approval of:

- the group audit plan for the year ahead;
- guidelines for the appointment of the external auditors for non-audit related services and for the disclosure thereof. There is separate disclosure in the notes to the financial statements, on page 142, of the amounts paid to the external auditors for non-audit related services;
- reports from the external auditors relating to the systems of accounting and operational controls and the effectiveness of management's response thereto; and
- the external audit fee.

Financial reporting and financial controls – this includes a review of:

- the adequacy of capital, provisions for bad debts and any material diminution in the value of other assets;
- accounting policies and proposed changes thereto;
- the effectiveness of financial management and the quality of the accounting control systems and financial reporting;
- reports on material defalcations; and
- the group's interim results, annual financial statements, dividend announcements and all financial information for publication in the media.

Internal audit – this includes consideration of:

- the internal audit mandate and an evaluation of the independence and effectiveness of the internal audit function;
- the internal audit plan for the year ahead;
- quarterly reports on the activities of the internal audit function, including the identification of control weaknesses and of remedial action taken by management; and
- reports on the activities of the Forensic Audit department.

Compliance – this includes a review of:

- the compliance plan for the year ahead;
- the internal control structure;
- the effectiveness of the compliance function and the adequacy of its resources; and
- the level of compliance with relevant external legislation, regulations and codes, and with internal policies, procedures and controls. This includes identification of incidents of non-compliance and of remedial action taken by management.

Ethics – this includes monitoring ethical conduct throughout the group.

In addition to the above, the GAC undertakes such other reviews as may be considered necessary in the fulfilment of its responsibilities or as may be requested by the board.

Other relevant activities of the GAC include:

- the attendance by the chairman of the GAC at the annual general meeting and his availability to respond to questions from shareholders on the activities of the committee;
- a recommendation to the board on the appointment of external auditors. In this regard, the group is informed and has no reason to doubt that the external auditors are required to observe, and do so observe, high levels of business and professional ethics; and
- ensuring that there is reasonable and responsible integration of the activities of the external and internal audit functions.

In May 2003, the GAC will consider whether or not the interim financial reports should be reviewed by the external auditors.

Group Risk Management Committee

The Group Risk Management Committee (GRMC) had the following membership and attendance during the year:

Member	Mar	May	Aug	Nov
Robin Plumbridge (Chairman)	✓	✓	✓	✓
Derek Cooper	✓	✓	✓	✓
Buddy Hawton	✓	✓	✓	✓
Selwyn MacFarlane*	✓			
Rick Menell	✓	✓	A	✓
Chris Stals	✓	✓	✓	✓
Eddie Theron	✓	✓	✓	✓

* Resigned 12 March 2002

The GRMC's mandate includes the following key terms of reference:

- review reports which detail the adequacy and effectiveness of the group's risk management function and control its implementation by management;
- ensure that risk definitions and policies are formally and regularly reviewed. Further details on the group's approach and the risks considered are detailed in the risk management review on page 56;
- review the acceptability of the group's risk profile and its overall risk appetite; and
- review risk identification and measurement methodologies.

Key non-financial aspects are included in the quarterly GRMC reporting process. Some of the aspects reported on are:

- new products and services;
- people risk;
- environmental risk and sustainability issues; and
- information risk management.

Asset and liability risk issues are managed through the group Asset and Liability Committee (ALCO). The Group Strategic Technology Forum focuses on technology and systems risk issues.

Group Credit Committee

The credit governance structure of the group was reviewed during the course of 2002. There is now a Group Credit Committee with regional credit committees in Africa and London.

The committee's main terms of reference include:

- setting the group credit governance structure to ensure that there are clearly defined mandates and delegated authorities within the structure;
- reviewing the group credit portfolio, including trends and provisions, to ensure alignment with group credit strategy and risk appetite; and
- noting or approving large exposures as defined by the regulatory authorities.

The membership of and attendance at Group Credit Committee meetings were as follows:

Member	Jan		Feb	Mar	Apr	May	Jun	Oct
Derek Cooper (Chairman)	A	A	✓	A	✓	✓	✓	✓
Doug Band	✓	✓	✓	✓	✓	✓	✓	A
Jacko Maree	✓	✓	A	✓	✓	✓	A	A
Simon Ridley*								✓
Myles Ruck	✓	✓	A	✓	✓	✓	✓	✓
Paul Smith	✓	✓	✓	✓	✓	✓	✓	✓

* Appointed 8 October 2002

Transformation Committee

The Transformation Committee was established to accelerate the achievement of equity targets.
The membership of the committee and attendance at meetings for the year were as follows:

Member	Feb	Aug
Saki Macozoma (Chairman)	✓	✓
Derek Cooper	✓	✓
Reuel Khoza*	✓	A
Jacko Maree	✓	✓
Barbara Masekela**	A	

* Resigned 29 November 2002
** Resigned 12 March 2002

The Group Remuneration Committee is discussed on page 50 in the remuneration review.

Dealings in securities

The group has a formal policy restricting trading in securities by certain employees (as defined in the policy) during closed periods. No embargoed employees are permitted to trade in any Standard Bank instruments or securities from one month prior to the end of an accounting period (interim or final) until the announcement of results. This embargo includes directors.

All trading in Standard Bank instruments or securities by an employee must take place through the Group Share Incentive Scheme administration area. Compliance with the policy is monitored on an ongoing basis. In addition, certain nominated employees (as defined in the policy) are prevented from trading in shares of other companies during specified periods.

Group Secretary

In order to enable her to fulfil her duties, the Group Secretary has been fully empowered by the board and has complete access to people and resources to facilitate this.

The Group Secretary plays an important role in supporting the Chairman and the Chief Executive.

The Group Secretary provides a central source of guidance and advice on business ethics and good governance. In addition, guidance is provided to directors both together and individually on an ongoing basis. Relevant information on new regulations and legislation that may impact directors is tabled when necessary.

Going concern

In accordance with Companies Act requirements, the board records its opinion on going concern aspects in the annual report. The Banks Act Regulations also require the group to report on the going concern status of the bank.

The board considers the going concern concept in the context of its deliberations on the annual financial statements. The facts and assumptions underlying the board's assessment are documented. The directors' approval of the annual financial statements, containing the going concern declaration, is set out on page 100.

Sustainability

The group recognises its obligation to contribute to broader socio-economic goals and general social upliftment. This is done primarily through the Standard Bank Foundation.

Greater details on the group's sustainability activities are contained in the report commencing on page 177. The format of this report follows the Guidelines released by the Global Reporting Initiative, with consideration given to the group's relationship with various stakeholders including shareholders, customers, employees, suppliers, government and regulatory agencies, society and the community, and the environment.

Organisational integrity/ethical behaviour

Information on the group's Code of Business Ethics is set out in the sustainability report on page 200.

Currently, the forensic audit team assists in monitoring adherence to the group's ethical values. Attention will be given to further monitoring of the code in the year ahead.

Communication with shareholders

The group is involved in meaningful and constructive dialogue with investors. Further detail on the role of the investor relations function is provided on page 185.

Shareholders are invited by the Chairman, Derek Cooper (who is also chairman of the Group Credit and Governance and Nominations Committees) to attend the annual general meeting (AGM). The chairmen of the Group Audit and Remuneration Committees, Robin Plumbridge and Buddy Hawton respectively, will be available to respond to questions from shareholders.

A brief CV of the directors standing for re-election is set out on page 222 in the notice of the AGM.

The group is at all times mindful of its statutory and regulatory obligations regarding the dissemination of information. The effects of any proposed resolutions are fully explained in the AGM notice and in the letter from the chairman. The chairman provides adequate time for discussion of proposed resolutions at general meetings. Poll forms are prepared and available at a general meeting if required. The results of all special business at general meetings are publicly disseminated as soon as possible after the conclusion of the meeting.

The directors acknowledge their responsibility on page 100 for the fair presentation in the financial statements of the:

- state of affairs of the group as at the end of the financial year under review;
- net income for that period; and
- cash flows for that period.

Remuneration

Remuneration Committee

The board acknowledges that it is in the interest of all stakeholders to retain and motivate executives of the highest quality and this objective is recognised in the group's remuneration philosophy. The Remuneration Committee (Remco) comprises five NEDs, the majority of whom are independent. The Remuneration Committee is chaired by an independent NED. The members of the committee during the year were:

Buddy Hawton (Chairman), Doug Band, Derek Cooper, Graham Mackay and Rick Menell. Attendance at meetings during 2002 was as follows:

Member	Mar	Nov
Buddy Hawton (Chairman)	✓	✓
Doug Band	✓	✓
Derek Cooper	✓	✓
Graham Mackay	✓	✓
Rick Menell	✓	A

Remco operates in terms of a written mandate which clearly sets out the group's remuneration philosophy. Remco agrees overall remuneration structures and any amendments thereto. More specifically, it agrees remuneration packages for executive directors and senior group executives. The chairman of Remco attends the AGM and is available to clarify any information disclosed on remuneration.

Although not a member of Remco, the Chief Executive attends all meetings and recommends changes to the remuneration of other executives. He is excluded from, and does not participate in, any discussions or decisions related to his own remuneration. Similarly, the group Chairman is not present when his remuneration is discussed.

It is part of the group's remuneration philosophy that performance-related elements should constitute a substantial portion of executives' total remuneration packages.

No directors (executive or non-executive) have service contracts with any extended terms of service or which provide for severance arrangements. The non-executive directors are subject to rotation every three years with a third of the directors retiring each year. If eligible, directors may stand for re-election by the shareholders at the AGM. Executive directors are subject to the same terms of employment as other employees.

Fees for NEDs are recommended by Remco to the board for approval. NEDs' fees vary based on the number of boards and committees on which they serve. Fees paid to NEDs have in the past been approved by the shareholders at the AGM after they have been paid. This year, in addition to asking for ratification of payments made in 2002, shareholders will be requested at the AGM to approve the fees to be paid to non-executive directors for 2003.

Share options

Share options are not granted to non-executive directors.

In relation to Standard Bank Group share options granted to executive directors and employees:

- the specific grant is not subject to prior shareholder approval. The share option scheme has been approved by shareholders in general meeting and any subsequent amendments are also approved at a general meeting, where necessary;
- the issue of options is sanctioned by Remco;
- a vesting period applies to options granted;
- they have not been repriced; and
- there is no pricing discount.

Share options granted to, and gains made by executive directors during the course of the year are shown on the following page.

Overview of remuneration strategy

Domestic

The group has, over the past few years, moved to a remuneration structure that rewards achievement against predetermined targets in order to attain real differentiation based on contribution. An annual performance review is carried out for all staff and domestically, differentiation is ensured by ranking staff into three performance categories, i.e. top 20%, middle 70% and bottom 10%. Bonus awards are applied using guideline percentages in line with these performance rankings. An annual gain-sharing award has been introduced for general staff.

A framework of reward policies and practices is issued to all business units to promote consistency, good governance and appropriate risk management at corporate and business unit level. The key elements of this are:

Guaranteed remuneration

Guaranteed remuneration (or cost to company at managerial level in South Africa) reflects the market rate of salary required to attract and retain a particular set of skills necessary to deliver the job requirements. Individuals' remuneration must be related to their value to the organisation and there is no guarantee of an increase. The annual review takes into account factors such as overall performance, contribution to the organisation, position in pay range, growth in competencies and vulnerability.

Remuneration structures and pay ranges are evaluated each year and adjusted based on changes in market levels or as required by union settlements.

Benefits

Benefits are intended to meet a variety of individual and company risks or life-style needs on the basis of market competitiveness and good employment practice. As far as possible, they are designed to provide choice and flexibility to meet individuals' preferences and, at managerial level, are incorporated into packages on a cost to company basis. Core benefits for all staff are retirement, life cover, medical aid and funeral benefits.

Share options

For the year ended 31 December 2002	Options allocated in 2002				Prior allocations outstanding	Total options outstanding
	Number of options	Issue date	Issue price (R)	Expiry date		
Standard Bank Group						
Maree J H	–	–	–	–	2 135 000	2 080 000
Prinsloo P C	244 000	13 March 2002	27,80	13 March 2012	1 694 218	1 836 218[ø]
Ruck M J D	500 000	13 March 2002	27,80	13 March 2012	1 353 200	1 798 200[Δ]
Liberty Group						
Andersen R C	64 100	16 April 2002	58,20	31 March 2008	609 469	673 569
Liberty Holdings						
Andersen R C	–	–	–	–	51 054	51 054

[ø] 1 646 218 of P C Prinsloo's share options have further conditions attached to them in terms of the Standard International Holdings SA Shadow Share Option Scheme

[Δ] 968 200 of M J D Ruck's share options have further conditions attached to them in terms of the Standard Corporate and Merchant Bank Shadow Share Incentive Scheme. His last allocation under this scheme was 27 November 2000

For the year ended 31 December 2001	Options allocated in 2001				Prior allocations outstanding	Total options outstanding
	Number of options	Issue date	Issue price (R)	Expiry date		
Standard Bank Group						
Maree J H	975 000	13 March 2001	31,90	13 March 2011	1 135 000	2 135 000
	25 000	23 May 2001	33,50	23 May 2011		
Prinsloo P C	152 000	13 March 2001	31,90	13 March 2011	1 542 218	1 694 218
Liberty Group						
Andersen R C	95 563	3 April 2001	48,50	31 March 2007	441 406	609 469
	72 500	10 April 2001	45,10	31 March 2007		
Liberty Holdings						
Andersen R C	9 321	3 April 2001	135,00	31 March 2006	41 733	51 054

Gains on the exercise of share options

For the year ended 31 December 2002	Number of options	Issue date	Issue price (R)	Exercise date	Exercise price (R)	Gain R'000
Standard Bank Group						
Maree J H	5 000	6 November 1992	6,00	9 September 2002	28,50	113
	50 000	1 March 1993	8,35	9 September 2002	28,50	1 007
Prinsloo P C	2 000	6 November 1992	6,00	6 September 2002	28,00	44
	82 000	1 March 1993	8,35	5 September 2002	27,85	1 599
	18 000	1 March 1993	8,35	6 September 2002	28,00	354
Ruck M J D	15 000	6 November 1992	6,00	16 May 2002	35,54	443
	20 000	1 March 1993	8,35	6 September 2002	28,10	395
	20 000	7 September 1993	8,70	6 September 2002	28,10	388
Total						4 343

There were no gains on share options for the year ended 31 December 2001

Directors' emoluments

For the year ended 31 December 2002	Services as directors of Standard Bank Group or its subsidiaries	Cash portion of package	Bonuses/ perfor-mance related payments#	Expense allow-ances	Other benefits	Pension contri-butions	Otherwise in connec-tion with the affairs of Standard Bank Group or its subsidiaries	Subtotal	Gains on exercise of share options	Total
	R'000	R'000	R'000	R'000	R'000	R'000	R'000	R'000	R'000	R'000
Executive directors										
Andersen R C		2 367	2 000	185	116	545		5 213		5 213
Maree J H		4 227	5 981	2	158	584		10 952	1 120	12 072
Prinsloo P C†		5 674			1 792	8 508^		15 974	1 997	17 971
Ruck M J D††	59	2 054	5 600	3	258	331		8 305	1 226	9 531
Total	59	14 322	13 581	190	2 324	9 968	–	40 444	4 343	44 787
Non-executive directors										
Cooper D E (Chairman)	3 031						24	3 055		3 055
Band D D B	217						2 246	2 463		2 463
Bradley E*	116							116		116
Evans A R**	113							113		113
Hawton D A	325							325		325
Khoza R J***	130							130		130
MacFarlane W S**	105							105		105
Mackay E A G	424							424		424
Macozoma S J	191							191		191
Masekela B J M**	–							–		–
Menell R P	138							138		138
Plumbridge R A	272						48	320		320
Rapp M****	55							55		55
Romanis A**	136						12	148		148
Stals C L	270							270		270
Strauss C B	109							109		109
Theron E P	122			3				125		125
Total	5 754	–	–	3	–	–	2 330	8 087	–	8 087
Total	5 813	14 322	13 581	193	2 324	9 968	2 330	48 531	4 343	52 874

† Resigned 31 December 2002

†† Appointed 18 January 2002

* Individual not recipient of fees – fees paid to company

** Resigned 12 March 2002

*** Resigned 29 November 2002

**** Individual not recipient of fees – fees paid to company; Resigned 12 March 2002

In order to align incentive awards with the performance to which they relate, bonuses above reflect the amounts accrued in respect of each year and not the amounts paid in that year

^ Of this amount, R8,1 million relates to the establishment of international pension benefits approved by Remco in 1999 and accrued in 2002 on receipt of regulatory approvals

Directors' emoluments continued

For the year ended 31 December 2001	Services as directors of Standard Bank Group or its subsidiaries	Cash portion of package	Bonuses/ perfor-mance related payments#	Expense allow-ances	Other benefits	Pension contri-butions	Otherwise in connec-tion with the affairs of Standard Bank Group or its subsidiaries	Subtotal	Gains on exercise of share options	Total
	R'000	R'000	R'000	R'000	R'000	R'000	R'000	R'000	R'000	R'000
Executive directors										
Andersen R C		2 135	5 500°	182	103	500		8 420		8 420
Maree J H	365	2 782	5 820	3	245	256		9 471		9 471
Prinsloo P C		3 904		31	3 479	168		7 582		7 582
Total	365	8 821	11 320	216	3 827	924	–	25 473	–	25 473
Non-executive directors										
Cooper D E (Chairman)	3 078						28	3 106		3 106
Band D D B	244						2 155	2 399		2 399
Bradley E*	140							140		140
Evans A R	113							113		113
Hawton D A	267							267		267
Khoza R J	139							139		139
MacFarlane W S	221						25	246		246
Mackay E A G	563							563		563
Macozoma S J	804							804		804
Masekela B J M	99							99		99
Menell R P	141							141		141
Plumbridge R A	304						56	360		360
Rapp M*	146							146		146
Romanis A	225						48	273		273
Stals C L	270							270		270
Strauss C B	148							148		148
Theron E P	160			3				163		163
Total	7 062	–	–	3	–	–	2 312	9 377	–	9 377
Total	7 427	8 821	11 320	219	3 827	924	2 312	34 850	–	34 850

° Of this amount, R3 million relates to a retention bonus agreed in 2000

In order to align incentive awards with the performance to which they relate, bonuses above reflect the amounts accrued in respect of each year and not the amounts paid in that year

* Individual not recipient of fees – fees paid to companies

Performance awards

Variable pay programmes create a clear linkage between individual/team rewards and the results of the organisation. They are driven by the attainment of specific short and long-term business objectives, individual performance objectives and behaviours.

- Short-term bonuses/incentives

The amount of the bonus pool is determined by corporate and business unit results. Individual awards are then made on the basis of performance ranking and contribution to results.

All non-managerial staff participate in a gain-sharing scheme based on the bank achieving certain agreed targets. The intention is to align staff at all levels with organisational goals and put in place effective measures for improving performance.

- Long-term incentives

Share options are intended to be an opportunity for key staff to align their interests with those of shareholders, thereby promoting retention and, above all, remaining market competitive. Options are applied selectively and are a standard component of executive compensation. They are also used to provide special recognition of the performance and potential of key individuals who have not yet attained executive status.

Guidelines for participant eligibility and target awards are reviewed each year and are centrally established by the Chief Executive and confirmed by Remco.

International and Africa

International Operations have a relatively smaller number of employees with a niche focus. Their basic remuneration guidelines are set to ensure that remuneration policies are market driven.

In Africa, different standards and norms prevail in the various countries in which we operate but the same basic remuneration philosophies are gradually being implemented.

Management of the remuneration process

Governance is vested in Remco which meets at least twice each year to consider recommendations from the Chief Executive.

The Standard Bank London Remuneration Committee reports to Remco and carries out the more immediate review and approval of remuneration for International Operations. Limits are in place for the award of guaranteed increases and for other awards at various levels within these operations.

Group Human Resources advises on and coordinates the design and management of reward programmes. It also ensures that programmes are in line with corporate principles, support business unit strategies, are market related and comply with local laws and regulations. Business unit human resource areas are responsible for the implementation and on-going management of reward programmes within these set parameters.

Competitive framework

Remuneration structures and practices are benchmarked annually against a mix of direct competitors and best practice in the banking, finance and other specific industry sectors, not only locally but also internationally. In the global markets in which the group competes, skills are not geographically restrained.

Survey comparisons are made for both guaranteed remuneration (cost to company) and total remuneration including performance rewards.

The strategy is to realistically contain the fixed cost component of remuneration and provide an opportunity for significant variable reward.

Risk management

Paul Smith, 49
Director
Group Risk
B Com (Natal) CA (SA)
Appointed 1999

Chris Lombard, 56
Managing Director
Retail Credit
BA (Hons) (Econ) PMD (Harvard)
Appointed 2000

Contents

Risk management

Risk management culture

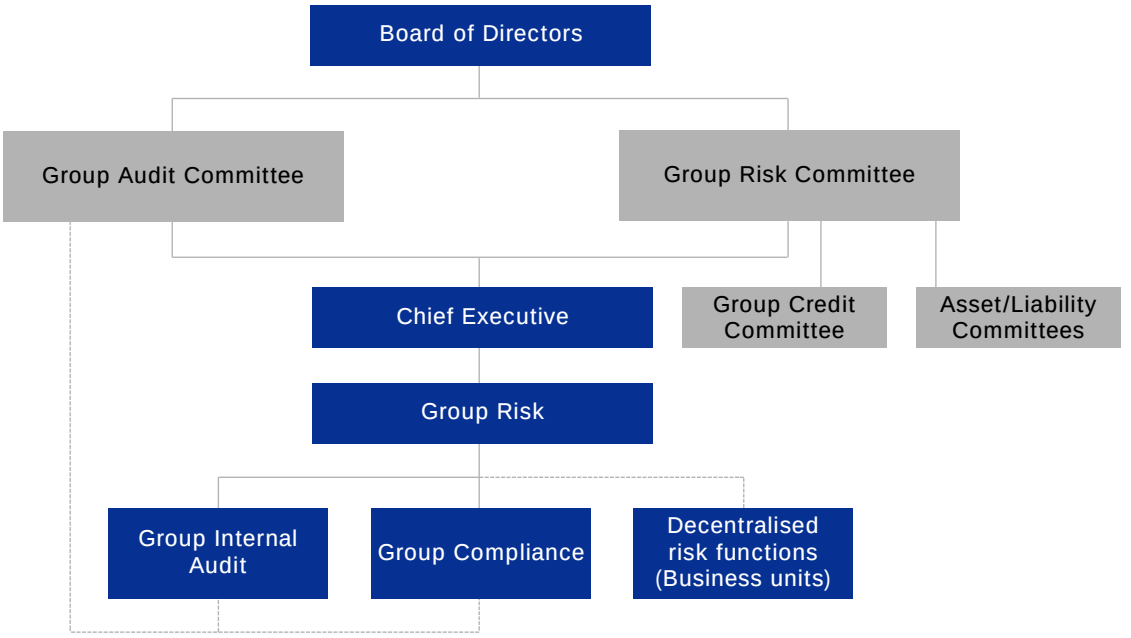
The cornerstone of effective risk management is a strong risk management culture. To ensure that this is in place, the risk management process in the Standard Bank Group is built on three pillars:

- comprehensive risk governance designed to ensure that the group has a strong and well-informed risk culture enabling sound business decisions that balance risk and reward;
- qualified risk professionals, who enable the development of a strong culture that values disciplined and effective risk management processes and controls; and
- effective processes to ensure the consistent and effective management of risk.

Risk governance structure

In response to the nature, complexity and risk inherent in the group's activities, a robust risk governance structure is in place to ensure adequate oversight.

Standard Bank Group risk governance structure



Role of the board

Risk management and oversight begins with the Board of Directors, which determines the level of risk that the bank is willing to take in pursuit of growth and in maximising opportunities. The board has delegated its role to a number of committees which focus on various aspects. The board committees and their functions are set out in the corporate governance report commencing on page 42.

The relevant committees are the Group Risk Committee, the Group Audit Committee and the Group Credit Committee.

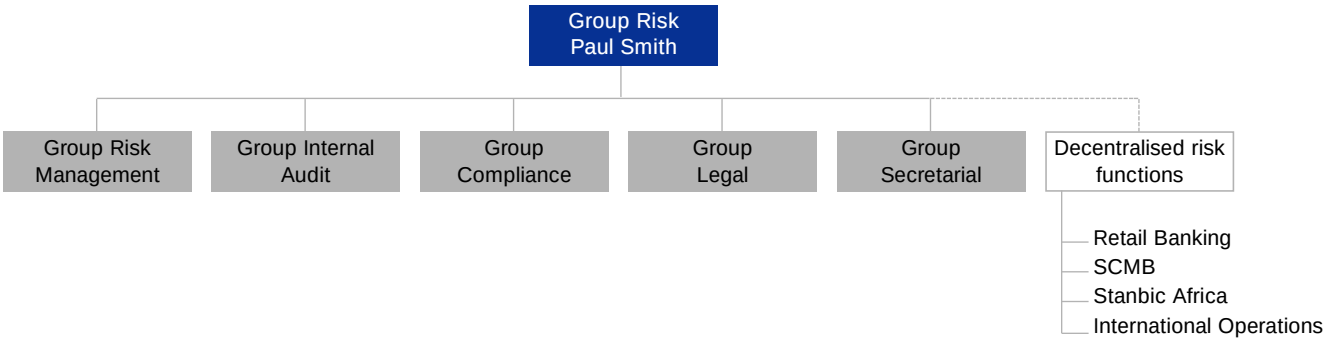
Approach to risk management

A partnership approach between risk management and business is designed to ensure strategic alignment of business, risk and resource issues. While the partnership approach is important, it is essential that the risk management functions retain independence.

The philosophy is to follow a decentralised approach in which the responsibility and accountability for risk management rest clearly with individual business units. To facilitate this, risk structures have been established in each of the business units. Each structure reports directly to the Managing Director of each business unit and is independent of the business operations. An indirect reporting line to the Director, Group Risk emphasises the independence of these roles.

The framework adopted by Group Risk ensures a consistent view of the risk profile across the entire group and enables the appropriate allocation of Group Risk resources to identified risk areas. A good working relationship has been established with Liberty Group's risk management division.

Risk management structure



Role of Group Risk

The Group Risk function exists to develop, communicate and oversee the processes for managing risks across the group. The structure of Group Risk is shown above.

The Director, Group Risk reports directly to the Chief Executive. The departments within Group Risk are outlined below:

Group Risk Management

Group Risk Management ensures that the appropriate refinements and best practice developments are introduced into the risk management processes across the group. Group Risk Management's main areas of focus are:

- understanding business and risk profiles;
- developing risk measurement processes, risk management strategies and risk management practices;
- monitoring, assessing and supporting risk management practices; and
- reporting on the state of risk and risk practices to executive management and the Group Risk Committee.

The Control and Risk Self Assessment (CRSA) team operates within this department. CRSA is a process for ongoing risk assessment and is used to ensure compliance with Regulation 39(4) of the Banks Act. This regulation requires directors to report annually on the systems of internal control, any potential or actual material malfunctions and the going concern status of the group.

Group Internal Audit

Group Internal Audit independently audits the adequacy and effectiveness of the group's management of risks. It operates under a mandate from the Group Audit Committee and has unrestricted authority to determine the scope and extent of work to be performed throughout the group. Its mission is to assist executive, senior and line management in meeting their business objectives through examination of the group's activities, assessment of the risks involved and evaluation of the adequacy and effectiveness of the processes, systems and controls to manage these risks. Material or significant control weaknesses and planned management remedial action are reported to the Group Audit Committee.

The Director, Group Internal Audit has unrestricted access to the Chief Executive and chairmen of the Group Audit Committee and the board. All internal auditors in the group report to Group Internal Audit.

During the year, the Group Audit Committee contracted external consultants to perform a best practice review of the internal audit activity. Its practices were found to be of a high standard.

Forensic Services is a specialised capability within Group Internal Audit. It operates independently under the Group Audit Committee's mandate and is accountable for the prevention, detection and investigation of criminal or irregular conduct.

Group Compliance

The group is subject to wide-reaching supervisory and regulatory regimes in South Africa and in other countries where it operates. Group Compliance is responsible for assisting management in complying with applicable statutory, regulatory and supervisory requirements and coordinating the overall compliance risk management system. A further key role is to establish and maintain good working relationships with regulators and supervisors wherever the group is represented.

Group Compliance is structured as an integral component of the overall risk management framework and is housed centrally in Group Risk. The Director, Group Compliance has unrestricted access to the Chief Executive and chairmen of the Group Audit Committee and the board. A decentralised approach has been implemented within business units which is closely aligned with the group's organisational structures. Compliance officers have been appointed in all significant business units and group services.

Group Compliance undertakes a regular risk-focused professional review of all business units and group services. The group's compliance function also provides risk-monitoring services related to specific regulatory requirements.

Group Legal

Group Legal provides a legal service in respect of commercial legal issues to all the divisions and subsidiaries, particularly in South Africa and other African businesses.

Group Secretarial

Group Secretarial oversees the systems, procedures and practices by which the group is managed and controlled to ensure a high standard of corporate governance. Corporate governance developments, both locally and internationally, are monitored and where appropriate, recommendations are made to the board for their inclusion in the existing governance practices.

Group Secretarial maintains mandates for the boards and their committees and is also responsible for managing the board's delegated authorities.

The Company Administration division provides company administrative and secretarial services to the group and its subsidiaries. A professional board administration service is also provided to group and subsidiary boards.

Major risks

The major risks to which the group is exposed are:

- credit risk – the risk of loss arising from counterparty default;
- market risk – the risk of a decrease in the value of a portfolio as a result of an adverse move in market variables such as prices, currency exchange rates and interest rates;
- liquidity risk – the risk that the bank has insufficient funds or marketable assets available to fulfil its obligation to a counterparty;
- compliance risk – the risk of non-compliance with any statutory requirements of central or local government, including regulations imposed by the South African Reserve Bank, the Bank Supervision Department, the Financial Services Board and the various exchanges;
- operational risk – the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events;

- reputational risk – the risk of damaging the group's image, which may impair its ability to retain and generate business; and
- insurance related risks – the risks that are unique to the business of life insurance, to which the group is exposed due to its effective 30% shareholding in Liberty Group. The more significant of these risks are investment and underwriting risks.

Credit risk

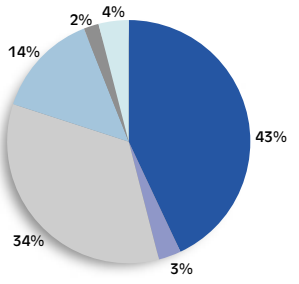
Credit risk management

Credit risk represents the potential loss to the group as a result of counterparty default. In lending transactions, credit risk arises through loans and advances, the advancement of securities and contracts to support client obligations (letters of credit and guarantees). In trading activities, credit risk comprises the following:

- *settlement risk* – the risk that a settlement within a transaction does not take place as expected which results in one party having delivered full value prior to receipt of value;
- *replacement risk* – the risk of having to replace a defaulted or cancelled in-the-money derivative instrument with a comparable instrument; and
- *issuer risk* – the risk that a particular principal payment or set of payments due from an issuer on a listed instrument (for example, a corporate bond) will not be forthcoming as scheduled.

Country risk is viewed as a component of credit risk. It represents the risk of loss arising when conditions or events in a particular country reduce the ability of counterparties in that country to meet their financial obligations. These conditions include the imposition of exchange controls, a debt moratorium, insufficient foreign exchange, political instability and war.

Group loans and advances



- Loans and overdrafts to customers (2001: 49%)
- Card debtors (2001: 2%)
- Mortgage advances (2001: 30%)
- Instalment sale and leasing accounts (2001: 13%)
- Trade, other bills and bankers' acceptances (2001: 3%)
- Loans and advances to banks (2001: 3%)

Sources of credit risk on lending transactions

Corporate, business banking and financial institutions

Credit exposure to the corporate, business banking and financial institution sectors are usually in the form of short and long-term loans and advances but may include exposures from derivative contracts.

In these sectors, credit risk management is characterised by a close working relationship between the counterparty, the customer relationship team and an independent credit evaluation manager. The credit evaluation manager bases the lending decision on an in-depth knowledge of the counterparty and the industry in which it operates, as well as an assessment of the creditworthiness of the counterparty based on a review of the audited financial statements and underlying risk parameters.

The group believes that the use of sophisticated modelling techniques combined with an in-depth knowledge and understanding of each client is essential in properly assessing the credit risk of each counterparty with whom it deals. To this end, rating models are used in the credit management process. Expected default frequencies are an important tool in the formal credit assessment process of both new and

existing business and also form the basis for monitoring day-to-day changes in counterparty credit quality. Expected default frequencies will continue to be a vital component of credit risk management as the group improves credit processes and increases focus on portfolio credit management.

Specific provisions for credit losses are raised on a case-by-case basis taking into account the expected recovery. General debt provisions are raised in line with regulatory requirements.

Retail

Retail credit exposures comprise mortgage loans, credit card facilities, personal loans, overdrafts and asset finance facilities.

The underlying methodology for credit extension is determined by the nature of the product. Application scoring techniques are widely applied in Stannic, Card division and Home Loans. In the branch network, credit is extended through a combination of application and behavioural scoring methodologies for low value/high volume loans.

Conventional and intuitive methods are applied to loans in excess of scoring limits. Decisions are taken in a centralised credit environment at a limited number of strategically located credit centres which handle ongoing credit management and compliance procedures.

A diverse range of performance analysis techniques are applied across product sets in recognition of differing asset and maturity profiles. Defaulting accounts receive prompt attention and in instances where loss is anticipated, they are handled centrally by separate product entities. Collections are a key component of the credit cycle and the underlying philosophy is to collect from the right customer at the right time, using available technologies as the principal driver.

Within the retail environment, specific provisions for credit losses are raised based on predetermined rules,

Credit exposure related to derivative financial instruments at 31 December (Rm)

	Current credit exposure		Potential credit exposure	
	2002	2001	2002	2001
Foreign exchange contracts				
Less than one year	8 584	22 322	12 434	26 147
One to five years	1 732	2 909	2 628	5 517
More than five years	515	3 694	997	5 734
Interest rate contracts				
Less than one year	1 271	1 040	9 956	1 041
One to five years	3 806	972	9 924	1 849
More than five years	3 169	1 611	8 316	2 439
Commodities and others				
Less than one year	3 927	7 455	7 984	8 381
One to five years	2 563	5 721	3 337	6 663
More than five years	386	–	524	–
Total	25 953	45 724	56 100	57 771

taking account of the number of days an account has been in arrears and past loss experience. General debt provisions are raised to meet regulatory requirements.

Sources of credit risk on trading activities

Trading of derivatives

The bank enters into forward, swap and option contracts, both exchange traded and over-the-counter, on a range of underlying instruments. Counterparties to these contracts may be clients of the bank or other market professionals. The contracts enable both the bank and clients to manage their interest rate, credit, commodity, bullion and equity risks.

Measuring credit risk on derivative instruments

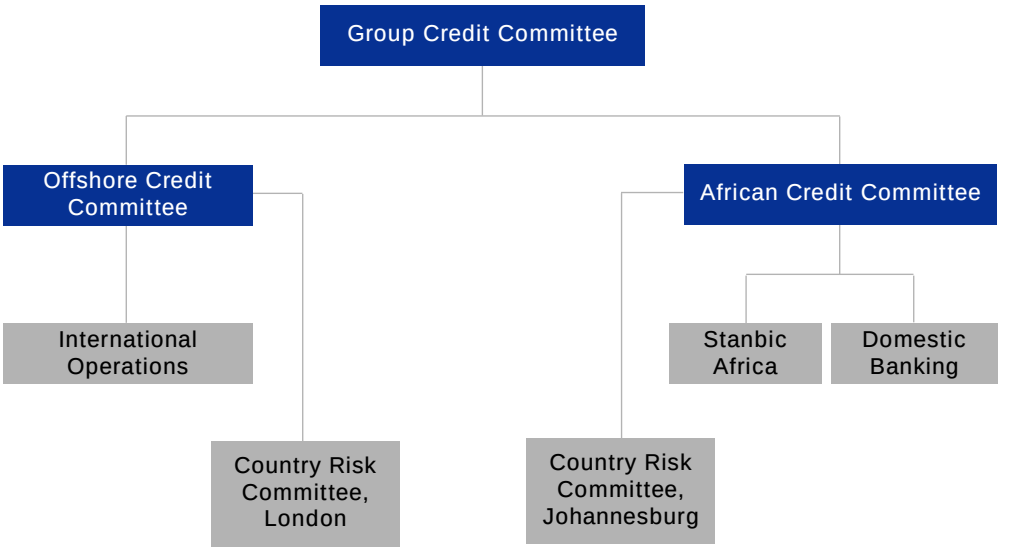
To the extent that a derivative contract requires performance by the counterparty at a future date, it may create credit risk for the bank. Such credit risk is mitigated by master netting agreements (such as ISDA – International Swaps and Derivatives Association) between the bank and its counterparty, which permit the offset of amounts due from and to the counterparty in the event of default. Master netting agreements are enforceable in the jurisdiction of our major counterparties. Further mitigation is provided by entering into collateral arrangements with most of our major counterparties.

Credit risk exposure on derivative contracts may be measured in terms of current exposure or potential exposure:

Current credit exposure on any one contract represents the loss to the bank assuming the client defaults at the time the exposure is being measured; and

Potential credit exposure on any one contract represents the loss to the bank assuming the counterparty defaults at some future date over the remaining term of the transaction. Potential credit exposure is estimated by simulating the impact of expected changes in market rates over the life of the contract. Aggregation of credit exposures on multiple derivative contracts with a single client is based on the terms of the master netting agreement with that client, specifically the extent to which it permits offset of amounts due from and to the counterparty.

Group Credit Committee structure



Approach to managing credit risk

Credit risk is managed within a clearly defined governance structure, approved by the Group Credit Committee. This is supported by mandates, detailing roles, responsibilities and delegated authorities, in line with the group's overall credit policy.

The objectives and responsibilities of the key credit committees appear in the table below.

Group Credit Committee	Offshore and African Credit Committees
Ensuring that effective credit risk governance is in place and the review of the credit portfolio against the group's appetite for credit risk.	The approval of credit proposals and the active management of the individual portfolios by: • reviewing portfolio trends and provisioning; • monitoring problem exposures; and • reviewing large exposures.

Delegated authority

The Group Credit Committee delegates authority to the African and Offshore Credit Committees for the approval of credit proposals. These committees have the authority to further delegate authority within their limits. The delegated authorities are documented and take into consideration the various levels of credit quality, exposure limits, committee representation and experience levels for individual authorities.

Credit policies are approved by the relevant credit committees.

Country risk

Country risk is managed by the Country Risk Committees based in Johannesburg and London, which report to the respective African and Offshore Credit Committees.

The Group Country Risk Policy is approved by the Group Credit Committee and ensures that adequate procedures are established to enable identification, measurement, approval and management of country risk on a consistent basis.

The Johannesburg committee is responsible for approving limits and ratings of countries in sub-Saharan Africa and the London committee for countries outside of sub-Saharan Africa. The committees convene regularly to review limits and ratings and to ratify decisions taken under delegated authorisation. Country risk is monitored at an operational level through continual review of economic and political data. In addition, the group has a network of representative offices and subsidiaries in key countries.

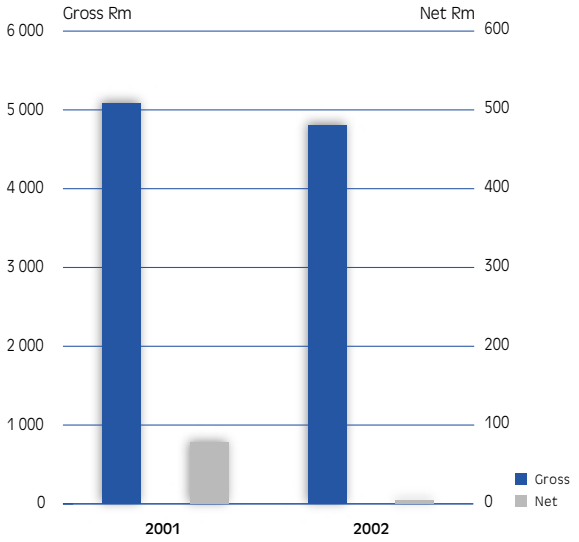
Exposures to individual countries must be within the limits set on a risk-weighted basis using various factors including value-at-risk (VaR) methods. The limits cover the overall country risk appetite and are sub-divided into product limits. Limit increases are considered on an individual basis taking into account group objectives in the particular country.

Non-performing loans (NPLs)

Loans and advances are classified as non-performing based on the following criteria:

	Retail	Corporate and commercial
Sub-standard	90 to 180 days overdue	Case-by-case analysis based on breaches of key loan conditions
Doubtful	180 to 365 days overdue	
Loss	365 days or more overdue	

Non-performing loans



This NPL definition has been changed from prior periods, with retail loans now classified as non-performing if due and unpaid for three months (compared with four months previously). The change is in line with regulatory reporting rules.

Gross non-performing loans as at 31 December 2001 have been restated to take account of the change in the classification criteria. The restatement has resulted in an increase in gross non-performing loans, mainly related to balances within the 90 to 120 day categories in the retail portfolios.

Non-performing loans (Rm)

	Gross non-performing loans			Security, guarantees and collateral held			Specific balance sheet provisions			Net non-performing loans		
	2002 Rm	2001 Rm	change %	2002 Rm	2001 Rm	change %	2002 Rm	2001 Rm	change %	2002 Rm	2001 Rm	change %
Loans, overdrafts and advances	3 670	3 907	(6)	1 477	1 843	(20)	1 510	1 441	5	683	623	10
Card debtors	32	43	(26)	–	–	–	28	28	–	4	15	(73)
Home loans	1 635	1 652	(1)	1 433	1 218	18	202	264	(23)	–	170	(100)
Instalment finance	154	226	(32)	60	116	(48)	94	97	(3)	–	13	(100)
	5 491	5 828	(6)	2 970	3 177	(7)	1 834	1 830	–	687	821	(16)
Interest suspended	(683)	(743)	(8)	–	–	–	–	–	–	(683)	(743)	(8)
Total	4 808	5 085	(5)	2 970	3 177	(7)	1 834	1 830	–	4	78	(95)

Restatement of non-performing loans

	Rm
Gross NPLs as at 31 December 2001 as disclosed	5 501
Loans and advances	206
Card debtors	21
Home loans	63
Instalment finance	37
Gross NPLs as at 31 December 2001 restated	5 828

Domestically, non-performing loans have continued to decrease in home loans, instalment finance, card, branches and corporate, mainly due to the relatively stable economic environment as well as focused management attention. Internationally, Stanbic Africa's gross non-performing loans have decreased, while Standard Bank London's non-performing loans have increased in pound terms as a result of the global economic downturn but have decreased in rand terms due to the strengthening of the rand. The adequacy of the provisioning process is evidenced by the fact that total current provision levels exceed the South African Reserve Bank's requirements.

Market risk

Market risk management

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

Sources of market risk

Market risk exists wherever the group has taken trading, banking or investment positions. Major exposures to market risk occur in markets served by formal financial exchanges and over-the-counter markets, both in South Africa and internationally. These exposures arise from customer-driven business and from proprietary positions.

Approach to managing specific kinds of market risk

Market risk from trading positions

Market risk from trading activities is contained within the group's three major trading operations, namely Domestic Banking, International Operations and Stanbic Africa. For Domestic Banking and Stanbic Africa, the Board of Directors grants general authority to undertake trading market risk to the Africa Asset and Liability Committee (ALCO), which is chaired by the Chief Executive. For International Operations, general authority is granted to the Standard Bank London ALCO, chaired by an executive director of Standard Bank London.

The group manages market risk through risk limits. The group uses a range of risk measurement methodologies and tools to establish limits including VaR, stress testing, loss triggers and traditional risk management measures.

The group uses the VaR approach to derive quantitative measures, specifically for market risk under normal market conditions. While VaR, calculated on a daily basis, provides an indication of possible losses under normal market conditions, the group simulates extreme market movements using stress tests. The stress testing takes into account illiquidity, breakdowns in correlation and event risks which characterise the markets in which the group trades. Loss triggers are designed to contain daily, monthly and year-to-date losses for individual business units by enforcing management intervention at pre-determined loss levels. Several traditional measures specific to individual business units are used and deal with, for example, permissible instruments, concentration of exposures, gap limits and maximum tenor.

The table on the following page shows the aggregated VaR calculations for the international and domestic operations in the markets in which the group holds trading positions. The minimum and maximum VaR amounts show the bands within which the values fluctuated during the periods specified. The group calculates VaR with a holding period of one day and a confidence interval of 95%.

Independent market risk management units, accountable to their ALCO, monitor exposures to market

Trading book value-at-risk analysis (Rm)

Market	2002 VaR				Regulatory capital
	Maximum	Minimum	Average	31 Dec	31 Dec
Equities – SA	40,3	–	6,7	21,9	74,7
Equities – other	8,6	1,7	3,5	8,6	56,0
Interest rates – SA	38,5	10,3	21,8	38,1	949,1
Interest rates – other	10,7	3,3	6,7	4,1	352,9
Precious metals	54,5	3,3	7,0	3,8	155,4
Base metals	6,7	0,5	2,1	1,2	251,9
Foreign exchange	8,0	1,8	4,0	3,6	350,6
Emerging market debt	37,7	11,9	22,0	19,2	414,3
Energy	5,9	0,4	2,0	3,1	222,3
Commodities	0,7	–	0,2	0,2	–
Credit derivatives	18,6	11,8	14,9	16,2	–
Asset management	5,8	0,5	3,1	1,2	52,8
Aggregate without diversification	128,3	57,7	79,3	120,5	2 880,0
Diversification effect	(53,6)	(18,9)	(29,9)	(48,4)	(123,9)
Aggregate with diversification	74,7	38,8	49,4	72,1	2 756,1

Market	2001 VaR				Regulatory capital
	Maximum	Minimum	Average	31 Dec	31 Dec
Equities – SA	13,5	–	1,7	–	71,4
Interest rates – SA	54,8	10,2	24,2	16,8	343,4
Interest rates – other	11,6	3,2	7,0	8,6	139,8
Precious metals	6,4	1,5	3,4	5,9	151,8
Base metals	6,7	1,9	3,9	6,7	234,5
Foreign exchange	7,1	1,6	3,2	3,1	404,1
Emerging market debt	61,2	16,5	39,2	46,1	674,2
Energy	6,3	0,4	2,3	6,3	486,7
Commodities	1,4	–	0,5	0,6	–
Credit derivatives	17,0	2,6	8,9	14,7	–
Asset management	20,1	2,9	8,4	5,0	210,6
Aggregate without diversification	144,8	37,6	101,0	113,8	2 716,5

Values attributable to Stanbic Africa have not been included in the above table because of the relative immateriality of these amounts. To enhance VaR disclosure, diversification effects have been included from 2002.

risk from trading operations. The units report the exposures and respective excesses monthly to each ALCO concerned and quarterly to the Board Risk Management Committee.

The chart below shows the value-at-risk, with and without diversification, and actual income of the trading units throughout the year. The comparison of the highest daily profits and losses relative to normal value-at-risk indicates that the risk was well controlled over the period. The chart also indicates that the trading units were sufficiently diversified to reduce overall risk. The chart does not include Stanbic Africa due to the relative immateriality of these amounts.

Market risk from banking positions

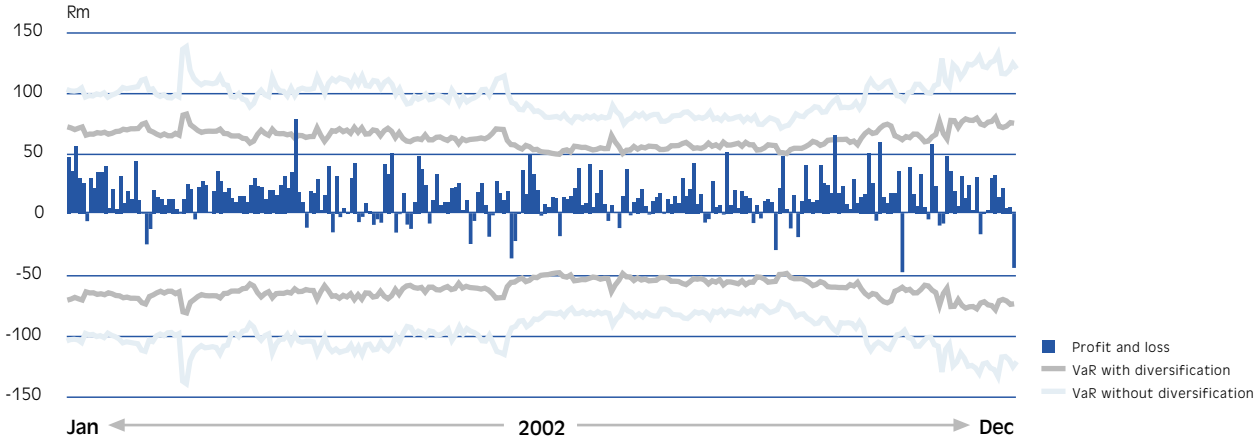
Banking related market risk is contained within the group's three major treasury operations. Independent asset and liability management functions monitor exposures to interest rate risk, i.e. the potential adverse effect of interest rate movements on net interest income.

Most of the interest rate risk in the banking book is transferred to treasury where the risk is actively managed. This management by treasury has the dual purpose of reducing the risk to an acceptable level according to the risk appetite of the bank and enhancing net interest income. Changes in the interest rate profile are achieved through the use of derivatives, particularly interest rate swaps, whereby the shape of the yield curve and the bank's own view of interest rates are used as guidelines. Several strategies relating to specific portfolios in the bank were implemented during the year within the boundaries of risk appetite and contributed to profitability.

The primary analytical techniques used to measure banking book interest rate risk are scenario analysis and repricing gap analysis. The risk is contained within strict limits. The results obtained from the analytical techniques used assist the bank in evaluating the optimal hedging and yield-enhancing strategies on a risk-return basis.

Scenario analysis is used to assess interest rate risk for the foreseeable future and enables the bank to analyse the impact of various interest rate scenarios on a forecast balance sheet. Various assumptions, including pricing strategies, volume and mix of new business, expected changes in the level of interest rates and economic developments, are made when forecasting the balance sheet and interest rates. Sensitivity to a 1% parallel move in interest rates is shown in the table on the following page.

Income of trading units and value-at-risk in 2002

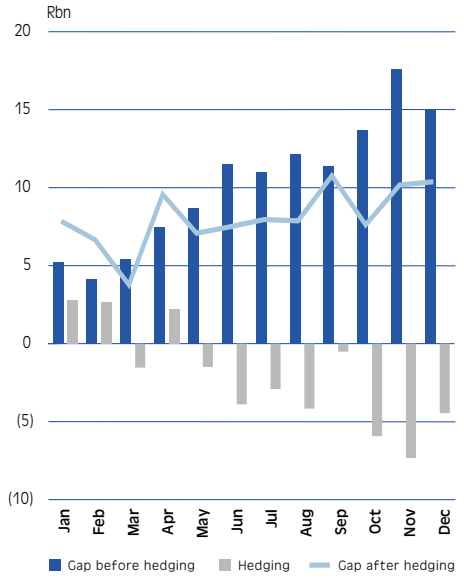


Sensitivity to a 1% parallel move in interest rates over a 12-month period for Domestic Banking, assuming no management intervention		
	2002	2001
1% change in rates as a percentage of net interest income	2,5%	2,9%

In contrast to scenario analysis, which is forward looking in its measurement of risk, repricing gap analysis is used in the measurement of interest rate risk at a point in time.

Domestic Banking's three-month cumulative repricing gap for the financial year is shown below. All assets, liabilities and derivative instruments are placed 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 applicable, concerning their most likely repricing behaviour. These assumptions are periodically reviewed and changed where necessary.

Three month cumulative repricing gap for Domestic Banking (2002)



As can be noted in the repricing analysis on the following page, there was a significant increase in deposits during the year due to liquidity constraints faced by small banks. These funds were reinvested in liquid instruments with repricing characteristics of between one and six months. Asset sensitivity therefore increased in the call to six-month areas. Increases in term funding accounted for the decreases in the greater than six-months areas.

Market risk from investments

An equity committee approves investments in listed and unlisted entities within an approved limit framework. Market risks from investments are managed in accordance with their purpose and strategic benefit rather than purely on market considerations. Periodic reviews and reassessments are undertaken.

Liquidity risk

Liquidity risk management

Liquidity risk is the risk that the group has insufficient funds or marketable assets available to fulfil its future cash flow obligations on time.

Sources of liquidity risk

The nature of banking, investment and trading activities results in continuous exposure to liquidity risks in respect of both on- and off-balance sheet activities. Liquidity obligations arise from:

- requirements to repay deposits;
- requirements to provide committed funds; and
- requirements to make other repayments such as cash flows in respect of off-balance sheet instruments, interest payments and other expenses.

Approach to managing liquidity risk

The South African small bank crisis in early 2002 placed liquidity risk and its management in the industry spotlight. Sound liquidity management is crucial in protecting the bank's capital, maintaining market confidence and ensuring future growth.

Monitoring of liquidity flows and funding is reviewed by the relevant ALCO on an ongoing basis.

Repricing analysis of assets, liabilities and shareholders' funds as at 31 December (Rm)

Banking operations in South Africa Repricing maturity period	Call-3 months Rm	4-6 months Rm	7-12 months Rm	Over 12 months Rm	Non-rate sensitive Rm	Total Rm
			2002			
Total assets	159 275	5 664	2 476	13 103	32 256	212 774
Total liabilities and shareholders' funds	148 780	6 563	3 707	7 566	46 158	212 774
Interest rate sensitivity gap	10 495	(899)	(1 231)	5 537	(13 902)	–
Cumulative interest rate sensitivity gap	10 495	9 596	8 365	13 902	–	–
			2001			
Total assets	142 312	1 007	2 278	11 698	22 701	179 996
Total liabilities and shareholders' funds	134 949	5 628	2 134	3 830	33 455	179 996
Interest rate sensitivity gap	7 363	(4 621)	144	7 868	(10 754)	–
Cumulative interest rate sensitivity gap	7 363	2 742	2 886	10 754	–	–

Fundamental elements in managing liquidity

Several elements are regarded as fundamental in the management of liquidity. These include the maintenance of minimum levels of marketable and liquid assets; effective cash flow management; implementation of long-term funding strategies; diversification of funding; and adequate contingency plans.

Liquid and marketable assets

The bank uses various liquid and marketable assets and repurchase and reverse repurchase agreements in managing its short-term liquidity. The optimal management of the liquid asset portfolio through the use of derivatives has contributed to enhanced yields and improved interest rate risk management.

With the high degree of uncertainty regarding the South African economy at the beginning of 2002, corporate depositors preferred to keep their cash in short-term rather than invest in medium or longer-termed instruments. This uncertainty increased following the liquidity constraints faced by second tier banks and resulted in the bank becoming a recipient of much of these inflows. The Reserve Bank used various instruments, including debentures, reverse repurchase agreements and dollar swaps, to drain the excess liquidity from the market and the bank was an active participant in these transactions.

Cash flow management and long-term funding strategies

In retaining and generating adequate funding, the bank has implemented cash flow management strategies where limits have been set on the maximum net outflow of funds for specified periods. In addition, the bank is committed to maintaining and increasing core deposits and improving the long-term maturity profile of the deposit portfolio. The ratio of long-term funding to total funding in Domestic Banking increased from 9,4% in December 2001 to 11,3% in December 2002. Derivative instruments are used, where possible, to reduce the cost of longer-dated funding.

International Operations' liquidity risk is mitigated by the use of third party term finance. As at the date of this report, Standard Bank London had deployed in its business US$220 million of five-year funding and US$190 million of three-year funding, raised through the syndicated loan market. In addition, liquidity was assisted by US$150 million of third party term subordinated debt, which also qualifies as regulatory capital, of which US$50 million was raised subsequent to December 2002.

Diversity of funding

Funding diversification and the constant monitoring of depositor concentrations are other key elements of liquidity management. Diversification is achieved by variation of the counterparty, instrument and term.

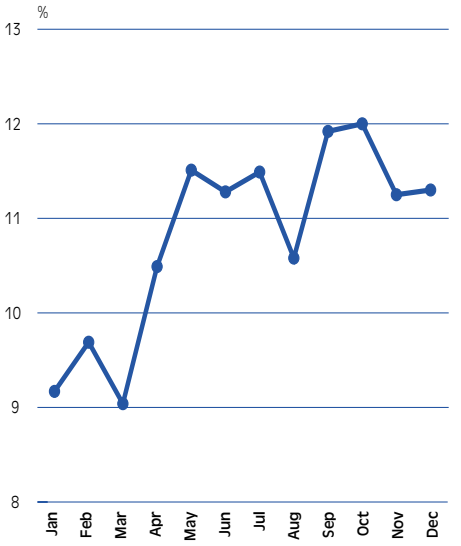
International Operations' deposit base continues to demonstrate considerable diversity and strength, particularly by virtue of the retail deposits taken through the Standard Bank Offshore Group and the deposit base in Standard Bank Asia. International Operations have also made much greater use of the repurchase agreements market, both as a funding source and as a placement alternative for surplus short-term liquidity.

Contingency plans

The liquidity framework also incorporates contingency planning and the identification of alternative sources of funding so as to ensure that commitments can be met in the event of general market disruption or adverse economic conditions.

The monitoring of liquidity risk is facilitated by the adoption of a series of limits that are in line with guidelines issued by the Financial Services Authority of the United Kingdom. The bank has adopted these guidelines as its internal limits for exposures. If a limit is exceeded, management is responsible for immediately reducing exposure to a level within the limit.

Long-term deposits as a percentage of total deposits for Domestic Banking (2002)



Compliance risk

Compliance risk management

Compliance risk is the risk of non-compliance with any statutory requirements of central or local government, including regulations imposed by the South African Reserve Bank, the Bank Supervision Department, the Financial Services Board and the various exchanges.

Approach to managing compliance risk

The Group Compliance Policy, which was approved by the Group Audit Committee and the board, contains standards for compliance risk management. While this policy applies to the group as a whole, business units adopt the compliance standards in a manner appropriate to their circumstances. A comprehensive compliance-reporting framework has been implemented in order to facilitate the necessary communication within the group.

The group manages compliance risk through a combination of key activities, notably training, monitoring and services. The group subscribes to the compliance risk management requirements of King II. The Group Compliance function, together with support from other compliance personnel, pursues a

policy of active engagement with various industry bodies and initiatives. This includes active involvement in the development of draft legislation and industry guidelines.

Recent regulatory developments have resulted in an increased focus on compliance risk management. Expectations as to what an effective compliance function can do to support the achievement of business objectives have been raised. There is an increasing focus on aspects of reputational risk management as it relates to statutory, regulatory or supervisory compliance and an emphasis on compliance with the spirit of the law.

Current and emerging regulatory developments that will receive particular focus in the year ahead are: credit compliance; financial advisory and intermediary services; money laundering control; occupational health and safety; and terrorist financing.

Operational risk

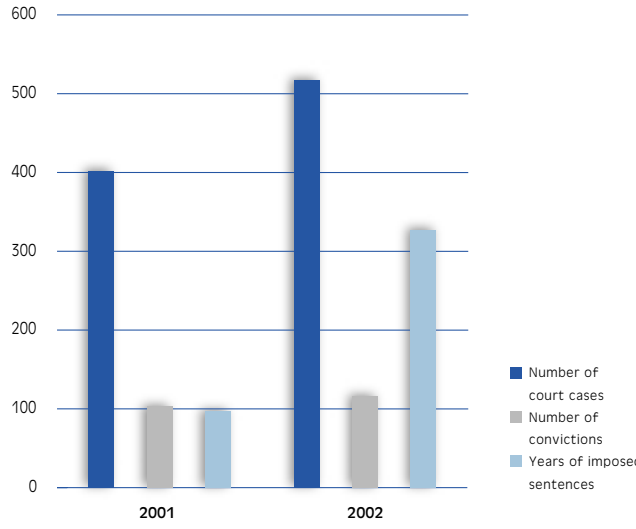
Operational risk management

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events.

The primary risk factors are defined as:

- people risk – the inability to recruit, train and retain the correct mix of skilled staff, unauthorised staff activities and misdeeds;
- process risk – the failure of established controls and procedures, inefficient or faulty processing, the inability to detect and report unauthorised transactions and inadequate recording and reporting;
- systems risk – results from system malfunction or unavailability, security breaches and inadequate systems investment, development, implementation, support and capacity; and
- external risk – the risk arising from third parties, outsourcing, external systems failure, criminal activities and catastrophes.

Bank driven prosecutions



Legal risk is considered to be a component of operational risk and is defined as the risk that transactions or agreements with clients or counterparties may not be legally enforceable.

Sources of operational risk

The sources of operational risk are people, processes, systems and external events and emanate from all business units in the group.

Operational losses

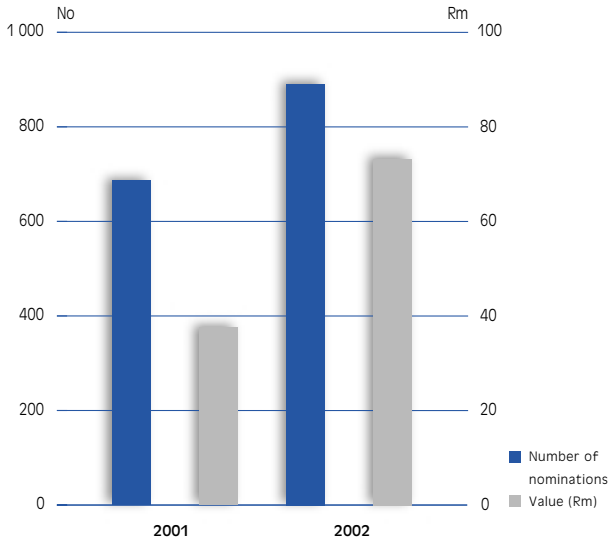
Over the past two years, there has been a reduction in the amount of irrecoverable losses. Continual refinements made in the current year include the implementation of a loss event database and a tracking system.

Financial crime

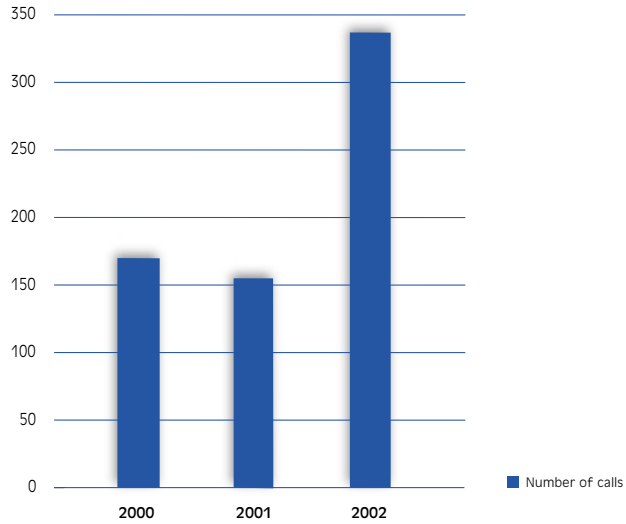
Financial institutions increasingly find themselves the target of organised crime syndicates and opportunistic fraudsters. Incidents of commercial crime, fraud and money laundering increased markedly during the year.

To counter this, the bank has sound corporate governance structures in place which support the group's policy of zero tolerance of all forms of criminal activity. These structures include a Forensic Services component that has as its mandate the responsibility of independently and objectively

Fraud-check programme nominations



Fraud hotline calls – 0800 11 3443



managing criminal activity against the group. This is achieved through synergies with other risk management functions and is supported by business management processes.

The group remains supportive of all crime combating initiatives. Our alliances with key industry participants and government agencies, both locally and internationally, are yielding positive results. New legislation, including obligations on business to know their customers, is likely to further reduce the incidence of crime. Key to our future focus on crime prevention mechanisms is the use of new technology and best industry practices.

During the year, business units focused on improving internal controls and on fraud awareness programmes. These measures were successful and led to a decrease in the value of staff defalcations.

The group's zero tolerance policy towards dishonesty extends to criminal prosecutions. During the past year, the bank secured a number of successful prosecutions for fraudulent activity, with combined imposed jail sentences of 327 years.

The substantial growth of 117% in the number of fraud hotline calls during 2002 is indicative of the increased awareness of this facility and the willingness of staff to blow the whistle on crime and dishonesty.

A lucky draw programme, which provides an opportunity for nominated employees to receive cash prizes, was designed as an additional incentive to encourage staff to take ownership of risk management and participate in detecting and preventing fraud. Introduced in December 1999, participation in the programme has increased steadily. The past year saw nomination numbers increase by 30% and the value of frauds frustrated rise by 95%.

Business continuity management

The group's philosophy is to develop business continuity processes that meet best practice standards. After carefully reviewing current operations, all policies and procedures have been revised with greater emphasis on plan testing and reviews, which are part of the plan maintenance cycle.

A group-wide simulation in 2002, which involved executive management as well as members of the board, has led to the development of a programme of work to ensure a heightened resolve in the group's methodology and practices. The programme of work has identified a

number of sub-projects that will enhance the group's ability to respond to emergencies and catastrophes. Allied to this will be the resumption of critical business in abnormal situations, while restoration of the normal business environment is taking place. Focus is on achieving full business recovery as soon as possible.

Greater involvement at business unit level ensures that the group is well equipped to manage disruptions and that effective communication structures are in place to handle major crises.

Information risk management

Information risk is the risk of breaches to the confidentiality or integrity of information or from the unavailability of information when required.

The current group structure comprises decentralised risk management functions, which include local information security coordinators, supported by the Group Information Security Office within Group Risk. The structure provides an efficient framework to manage information risk and respond to new legislation.

The reporting structures for Information Risk Management and Business Continuity Management have been amended during the current year to streamline governance and ensure synergy between common resources.

With the prevalence of computer viruses and prolific use of the Internet and email, it is important that staff are aware of the risks of using these media as well as the policies governing such use. To this end, an awareness programme has been established.

Focus will remain on compliance with legislation such as the Promotion of Access to Information Act and the Electronic Communications and Transactions Act, and the relevance of international directives such as the EU Privacy Directive and the UK Data Protection Act.

Money laundering

Money laundering refers in general to any act that changes or disguises the criminal nature or the location of the proceeds of a crime. The aim of money laundering is to provide an apparently legitimate cover for criminally derived funds.

The group supports the objectives of global efforts to combat money laundering and terrorist financing, including the internationally accepted standards issued by the Financial Action Task Force. As a result, business relationships or transactions will be declined or terminated where there appears to be a risk of products or services being utilised for the purposes of money laundering.

The Group Money Laundering Office supports the board, the executive and staff in promoting a pervasive money laundering control culture throughout the group. This includes the development and maintenance of an effective risk governance structure, as it relates to money laundering control, and the coordination of the overall money laundering control system.

In line with the decentralised approach to risk management, the responsibility for complying with group policies and related legislation lies with line management. Within each country in which the group operates and each business unit within Domestic Banking, the Money Laundering Control Officer is responsible for implementing policies and procedures and for monitoring compliance.

Money laundering control measures are well established in our international operations. With the introduction of the Financial Intelligence Centre Act in South Africa, considerable focus has been placed on Domestic Banking to ensure a state of readiness. It is envisaged that the provisions of the Act, with the exception of threshold reporting, will be fully effective by June 2003. In addition to anti-money laundering initiatives, the prevention and detection of terrorist financing is also receiving attention.

As a result of a joint initiative between the Compliance Institute of South Africa and the Banking Council, BANKSETA (an industry education authority) has

developed and funded training material which will be utilised by Domestic Banking in ensuring that all bank employees are trained in money laundering control matters.

Environmental risk

Environmental risk is a measure of the potential threats to the environment that the group's activities may pose. It encompasses both the probability that events will cause or lead to degradation and the magnitude of the degradation.

Financial institutions impact their environment directly through their internal operations, but also indirectly through credit extension and project financing. These aspects have received increasing focus worldwide following the World Summit on Sustainable Development. More information on the group's approach to identifying and managing environmental risk can be found in the sustainability report on page 211.

Approach to managing operational risk

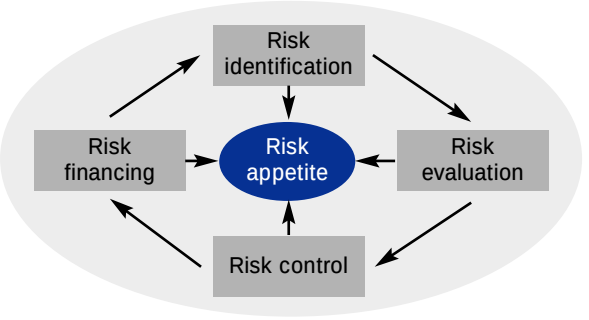
Management framework

A risk management framework has been developed to ensure that there is a consistent and effective approach to managing operational risk across the group. The framework comprises four elements:

- process – the overall process for operational risk management as shown opposite;
- structure – the organisational structures in place to manage operational risk, the committees involved and the communication network;
- environment – a culture of managing operational risk at all levels of the organisation; and
- strategy – the overall tone and approach for managing operational risk which include the strategic short, medium and long-term objectives.

Responsibility and accountability for operational risk management rests with the heads of business units, who are best equipped to use their experience and insight to manage the risks in a timely manner.

Operational risk management process



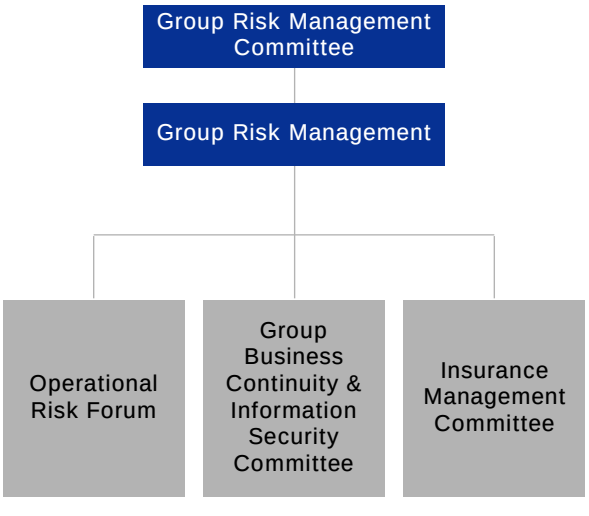
The decentralised risk functions apply the process to identify, evaluate and monitor operational risks and propose new and improved controls. They also review internal and external audit recommendations and ensure implementation.

Several tools are critical to the risk management process to ensure the early identification of potential operational risk exposures. These include a loss event database, key risk indicators and control and risk self-assessments. During the year, significant progress was made on improving the loss event database and key risk indicators.

The group regularly reviews its insurance strategy to ensure appropriate cover. During the past year, claims were settled by means of either external or internal funding programmes. The overall cost of the funding programmes has increased significantly as a result of the hardening in the international and local insurance markets, following the World Trade Center disaster in September 2001.

Operational risk is managed within a defined governance structure, which is supported by mandates detailing roles and responsibilities and delegated authorities which are aligned with the group's overall risk management policy. The coordination and reporting of operational risk is achieved through the following structure:

- Operational Risk Forum – to strategically position operational risk within the group in line with the group's operating strategies and policies;
- Group Business Continuity and Information Security Committee – to develop strategies and standards for business continuity management and information security and ensure their consistent application across the group; and
- Insurance Management Committee – to oversee the management of the group's insurance programme.



Reputational risk

Reputational risk is the risk of damaging the group's image, which could impair its ability to retain and generate business. The risk may arise through the inappropriate management of the risks set out above.

The group has developed an open and robust communication culture which helps to ensure that all issues are raised timeously and are dealt with appropriately.

Insurance related risks

Responsibility for risk management

Liberty Group's risk management processes are designed to control and monitor risk throughout the group. The executive management committee and various specialist management committees are tasked with integrating the management of risk into the day-to-day activities of Liberty.

A group risk committee under the chairmanship of an independent non-executive director, reporting directly to the Liberty Group board, was established during the year. The aim of the risk management function is the continuous development, communication and oversight of the processes for identifying, evaluating and managing the significant risks faced by the group.

As risk management continues to evolve both locally and globally, Liberty Group's processes and structures are constantly reviewed. A reciprocal relationship is also maintained with the bank's risk division.

A description of the risks to which Liberty Group is exposed is included in its annual report. The more significant of these risks, which are unique to the business of life insurance, are described below.

Investment risk

Investment risk management

Investment risk is the risk that the investment returns on policyholders' assets will not be sufficient to cover contractual investment performance guarantees and reasonable policyholders' benefit expectations.

The most significant portion of Liberty's insurance business comprises market linked business, with policyholders' benefits directly linked to the performance of the underlying assets.

Approach to managing investment risk

The source of risk surrounding policyholders' assets is based on the contracts entered into and the preferences expressed by policyholders. Within these parameters, investments are managed with the aim of maximising policyholders' returns while limiting risk to acceptable levels within the framework of statutory requirements.

Continuous monitoring takes place to ensure that appropriate assets are held where the liabilities are dependent upon the performance of specific portfolios of assets and that a suitable match of assets exists for all other liabilities. For guaranteed immediate annuity business, it is Liberty's policy to fully match policyholders' liabilities with appropriate assets.

Underwriting risk

Underwriting risk management

Underwriting risk is the risk that the actual exposure to mortality, disability and medical risks in respect of policyholders' benefits will exceed prudent expectations of future exposure.

Approach to managing underwriting risk

The more significant procedures in place to manage underwriting risk are as described below.

The statutory actuary reports annually on the actuarial soundness of the premium rates in use and the profitability of the business taking into consideration the reasonable benefit expectations of policyholders. All new premium rate tables are approved and authorised by the statutory actuary prior to being issued. Regular investigations into mortality and morbidity experiences are conducted. Catastrophe insurance, excluding cover for war and riots, is in place for single event disasters.

All applications for risk cover in excess of specified limits are reviewed by experienced underwriters and evaluated against established standards. Specific testing for HIV is carried out in all cases where the applications for risk cover exceed set limits.

All risk related liabilities in excess of specified monetary or impairment limits are reinsured.

Claims risk

Claims risk management

Claims risk is the risk that Liberty will incur excessive mortality and morbidity losses on any group of policies.

Approach to managing claims risk

The legitimacy of claims is verified by internal financial and operating controls that are designed to contain and monitor claims risk. Procedures used to control and manage underwriting risk, which are outlined above, are also applicable to claims risk.

Financial review

Simon Ridley, 47
Group Finance Director
B Com (Natal) CA (SA)
AMP (Oxford)
Appointed 2002

This report expands on the financial results and should be read in conjunction with the annual financial statements for Standard Bank Group commencing on page 97.

Overview of financial results

Against the backdrop of extended recessionary economic conditions worldwide, Standard Bank Group completed another successful year, growing headline earnings by 19% to R5 263 million. The diversity of the group's sources of income again provided a foundation for solid results, with the strongest performance in 2002 from banking businesses on the African continent. The group's South African banking operations performed well on both retail and wholesale fronts, while strong growth occurred elsewhere in Africa assisted by good performance from recent acquisitions. Looking abroad, international credit markets deteriorated to levels not seen for many years. The group's international operations are active in both credit origination and trading and were impacted by reduced new business opportunities and the need to substantially increase provisioning levels. The effect of weak equity markets was most noticeable in the group's life insurance and asset management operations.

The domestic banking environment was characterised by a competitive banking sector, increasing interest rates and a volatile rand exchange rate. Domestic inflation peaked at 14,5% and the prime interest rate increased by four percentage points following a significant weakening in the rand in late 2001. The current financial year was further marked by a liquidity crisis in the smaller domestic banks in the first half of the year, which resulted in some systemic risk followed by consolidation within the banking sector. Amid these uncertain market conditions, Domestic Banking performed strongly and benefited from a slight improvement in margins and from trading opportunities created by the volatile markets. Improved credit quality in these operations led to a reduction in credit provisioning ratios and improved provision coverage, despite the rising interest rate environment.

Key factors impacting the results

Translation reserve

The rand's volatility in 2001 and 2002 has had a material effect on the group's income statement and balance sheet. For income statement purposes, foreign earnings and expenses are included at the average exchange rate for the year and, for 2002, this average rate against sterling was 27% lower than in 2001. This decrease in the average exchange rate was in sharp contrast to the closing rate for the year used in the translation of balance sheet items, that for 2002 was 21% higher than at the previous year end. The overall effect of these differing rates on the translation of foreign amounts into rands has been to increase income statement items and reduce balance sheet items.

The higher closing exchange rate for the year resulted in a decrease of R3,3 billion in the currency translation reserve. This has been charged directly to reserves in accordance with the group's accounting policy.

Retirement funding contribution

The group resumed its provision for retirement funding contributions in 2002 resulting in an increase in staff costs of R150 million. A surplus in the pension fund was utilised to fund contributions during 2000 and 2001. Whilst the further utilisation of the surplus is uncertain following the enactment of the Pension Funds Second Amendment Act, the group is confident that past contribution holidays were taken in accordance with the principles embodied in the Act.

Acquisitions

The group's headline earnings increased by R86 million (before funding costs) from the inclusion of earnings for a full year from entities acquired, these being Uganda Commercial Bank, Jardine Fleming Bank and Commercial Bank of Malawi.

Impact of markets

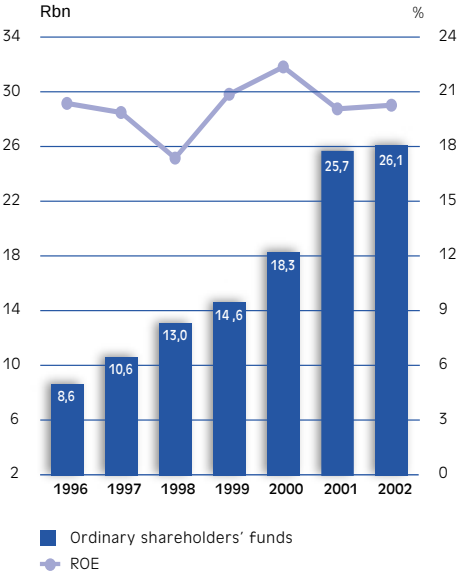
Weak international credit markets in both developed and emerging markets necessitated increases in provision levels. Weak local and international equity markets resulted in a reduction in the life fund operating surplus and in the investment surplus attributed to shareholders of the group's long-term insurance interest, Liberty Group. Domestic conditions in capital and foreign exchange markets were volatile which presented opportunities for the group's domestic trading businesses to source significant increases in client transaction volumes.

Performance against objectives

Standard Bank Group sets financial objectives based on estimates of future market conditions and projected performance. Given the challenging global economic environment, not all the group's targets were achieved. However, no shortfall against a target was either material or of concern.

ROE: The group performed well with a ROE of 20,3% compared to the target of 20%. High ROEs achieved in Business Banking, 35%, Retail Banking, 32%, and SCMB, 28%, contributed significantly to this performance. The ROE compares favourably with the group's internally calculated cost of equity of approximately 18%.

Return on average equity



Headline earnings: An increase of 10 percentage points above domestic CPIX was set as the objective. Due to the weakening of the rand towards the end of 2001, the average CPIX for 2002 increased markedly to 10,1% from 6,6% in 2001. This resulted in a growth target of 20,1%, slightly higher than the actual growth achieved of 19,1%.

ROA: Banking operations achieved a ROA of 1,6% against the target of 1,8%. As the group's activities broaden into the delivery of a comprehensive range of financial services and into other markets, this ratio is becoming a less important performance indicator at a group level and will therefore be discontinued as an objective.

Cost-to-income ratio: A ratio of 57,3% was achieved compared to the target of 57%. The cost-to-income ratio came under pressure due to increased expansion activities and low growth in the group's international operations.

Provision for credit losses: The group managed to contain the charge for credit losses to 1,18% of loans and advances, compared to the 1% set as an objective, despite high interest rates domestically. The variance can be attributed to increased provisions in International Operations.

The medium-term financial objectives are specified on page 11.

Income statement analysis

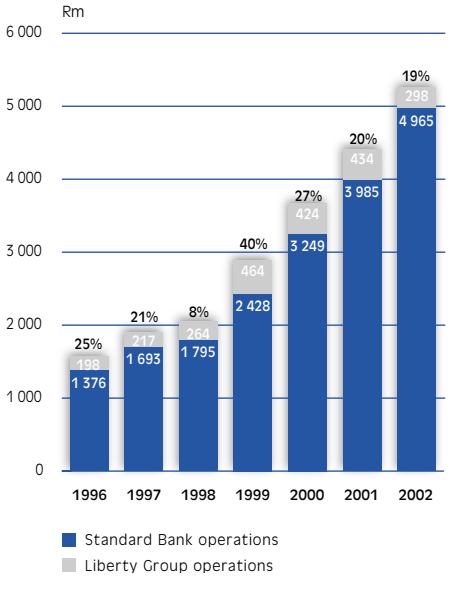
Net interest income (NII)

	2002	2001
Growth in NII	29%	13%
Net interest margin	3,26%	3,31%

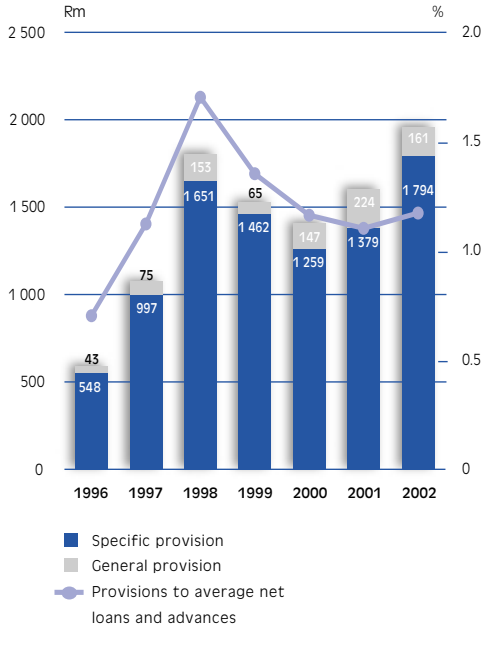
The margin decreased by 5 basis points mainly due to a change in the mix of average assets as net interest income grew by a slightly lower rate than the average asset growth of 31%. A higher proportion of total average assets consisted of International Operations' assets at lower margins. The proportion of lower risk, low-margin assets increased as a consequence of the severe deterioration in credit risk markets.

Domestically interest margins increased from 3,78% to 3,90% as a result of a positive endowment impact

Headline earnings



Provision for credit losses



following an increase in the prime rate, coupled with good growth in high margin retail lending products and a greater than expected increase in branch deposits.

Provision for credit losses

	2002	2001
Growth in provision charge	22%	14%
Credit loss ratio	1,18%	1,11%
Balance sheet provision as a % of net loans and advances	2,04%	2,30%
Gross NPLs (Rm)	4 808	5 085
Net coverage ratio	184%	174%

Despite a 400 basis point increase in the domestic prime rate during 2002, the group managed to contain the charge for credit losses. The specific credit loss ratio improved in Domestic Banking and Stanbic Africa from 1,02% and 0,82% in 2001, to 0,94% and 0,44% respectively following improvements in credit quality and collections. International Operations' specific provision for credit losses as a percentage of loans and advances increased from 0,51% to 1,65% as a result of the weaker international credit markets. Gross non-performing loans reduced as a percentage of average loans and advances from 3,5% to 2,9%, or by R277 million in absolute terms, and the net coverage ratio increased, reflecting the improvement in credit quality.

The income statement charge for general credit provisions reduced by R63 million, 28%, mainly due to a marginal decline and change in the mix of banking assets. The general debt provision in the balance sheet of R1 553 million exceeds the regulatory requirements by R217 million.

Non-interest revenue (NIR)

	2002	2001
Growth in NIR	25%	23%
NIR as a % of total income	52%	53%

Non-interest revenue continues to contribute more than half of the revenues of the group. Acquired operations in Africa and Asia contributed R235 million or 2% to non-interest revenue.

Fee and commission income grew by 24% due to a combination of an increase in transaction volumes, new fees introduced and repricing initiatives particularly in electronic banking and card-based products.

Trading income reflected strong growth of 42%. Improved client volumes and increased spreads due to the volatility of the rand assisted growth in foreign exchange trading income. Satisfactory growth was also achieved in domestic trading in precious metal commodities, interest rate and equity derivatives. Internationally, capital and debt trading had a good year.

Operating expenses

	2002	2001
Growth in Domestic Banking	18%	7%
Growth in International and Africa	51%	29%
Growth in total operating expenses	27%	15%
Cost-to-income ratio	57,3%	57,4%

The increase in operating expenses reflects the impact of a weaker average exchange rate, acquisitions by Stanbic Africa and the expansion of International Operations. Operating expenses were higher in Domestic Banking, driven mostly by staff cost growth that included a provision made for the resumption of retirement funding contributions and increases in front line staff to improve service levels. An objective of the group is to increase the proportion of remuneration variable according to performance. This strategy has necessitated an increase in bonus and value sharing provisions across all levels in Domestic Banking. Higher technology costs were incurred as the group continues to upgrade both IT applications and infrastructural capability across all businesses.

Though improved, the cost-to-income ratio came under pressure due to geographic expansion and low revenue growth in International Operations. A notable improvement in this ratio, from 55,9% to 53,4%, was achieved in the domestic banking operations and resulted from strong revenue growth. This compares favourably with the ratios of Standard Bank's domestic peers.

Income from associates

Income from associates grew by R47 million following an increase in the number of equity accounted investment banking interests.

Equity income was generated as follows:

	2002 Rm	2001 Rm
Domestic operations	58	8
African operations	38	41
	96	49

Goodwill

The goodwill charge increased by R86 million as a result of a full year's amortisation of acquisitions in Asia and Africa.

Taxation

	2002	2001
Effective tax rate	33,5%	30,8%
Income tax rate	28,2%	25,3%
Indirect tax rate	5,3%	5,5%

The effective tax rate increased as a result of a higher level of provisions for general tax risks, together with adjustments relating to prior period items. Indirect taxes increased in absolute terms by 21% following a reduction in the VAT recovery rate.

Balance sheet

Group ratios

	2002	2001
Growth in total banking assets	(1%)	46%
Growth in loans and advances	5%	28%
Growth in ordinary shareholders' funds	1%	40%
Net asset value per share (cents)	1 957	1 939

Domestic Banking

	2002	2001
Growth in total assets	10%	24%
Growth in loans and advances	13%	12%
Growth in deposits	14%	19%

Banking assets reflected a small reduction due to the impact of the stronger rand on assets consolidated from foreign operations. Loans and advances in International Operations increased by 7% in sterling terms, but reduced by 15% in rand terms. Stanbic Africa's growth was restricted to 7% in rand terms. Growth in 2001 was assisted by the effect of a 54% weakening in the rand exchange rate against sterling on assets consolidated from International Operations.

Included in the domestic loan growth of 13%, was growth in retail advances of 18%. Growth in quality retail lending business capable of generating sustainable annuity income was targeted, particularly in the following key domestic market segments:

- home loans up 21% (market share up from 18,6% to 20,3%);
- card 17% higher (market share up from 20,9% to 24,9%); and
- instalment finance up 16% (market share up from 20,9% to 21,8%).

External brokers played a significant part in growing the home loans and instalment finance books during the year. Costs associated with these services have become significant to the group and for 2002 have accordingly been capitalised and are being written off over the expected period of the loan. As such, these are now included in the cost of the customer advance, effectively reducing the margin earned over the period of the loan. The net amount of deferred costs at 31 December 2002 was R113 million.

Given the high interest rate environment and a possible increase in corporate defaults, a cautious approach to wholesale lending was adopted together with a stricter application of minimum hurdle rates for acceptance of new business. Accordingly, growth rates in SCMB and Business Banking were generally subdued, apart from certain large project finance deals concluded in the second half of the year.

Deposit balances maintained good growth and were assisted by depositors responding to the higher domestic interest rates and seeking the stability of the larger banks following the liquidity problems experienced by smaller domestic banks.

Shareholders' funds

Ordinary shareholders' funds reported a marginal increase to R26,1 billion with strong growth in retained income mainly offset by the decrease for the year in the currency translation reserve.

Liberty Group

Liberty experienced a challenging year with the extended weak investment market conditions reducing the amount of operating surplus in the life fund. This had a significant effect on the headline earnings included in Standard Bank Group's results, which, at R298 million, were 31% lower than the previous year.

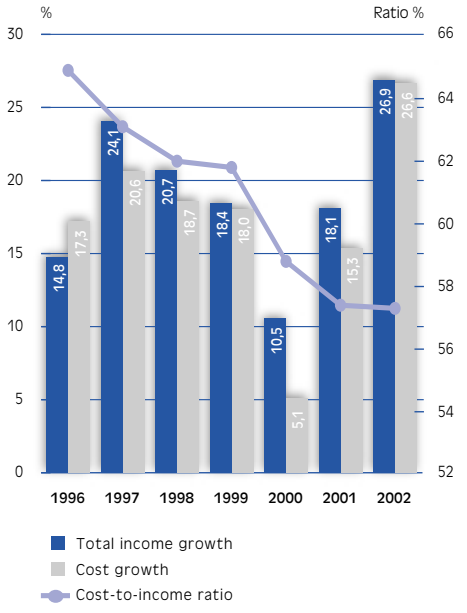
Operationally, Liberty Group is performing well with all key indicators, apart from investment returns, reflecting improvements. Indexed new business premiums increased by 24% and the value of new business was 33% higher. Expenses were well controlled with the average acquisition and renewal cost per policy decreasing by 1,3% and 1,6% respectively. Embedded value per share increased by 2% indicating that the effect of the poor investment markets have been offset by the strong operational performance. Cash inflows from insurance operations increased by 54%, providing a good indication of the financial strength of the insurance group. Liberty Group's dividends were unchanged for the year.

Dividends

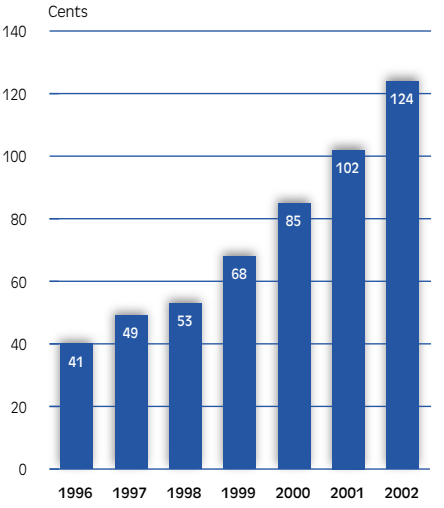
	2002	2001
Growth in dividends per share	22%	20%
Dividend cover	3,2	3,3
Dividend yield	4,1%	3,3%

As the group is well capitalised and in some areas has surplus capital, it is planned that the dividend cover will gradually be reduced to a cover of 3,0 times, at which stage it will be reassessed. Consequently, dividend growth over the medium-term will be higher than earnings growth. The current year's cover has decreased to 3,2 times from 3,3 times in 2001.
A final dividend of 90 cents per share (2001: 74 cents) has been declared to shareholders, bringing the total dividend for the year to 124 cents per share (2001: 102 cents), an increase of 22%.

Cost-to-income ratio



Dividends per share



Accounting policies

Basis of preparation

The financial statements have been prepared under the historical cost basis, as modified by the revaluation of certain trading and insurance assets and liabilities. The accounting policies comply in all material respects with South African Statements of Generally Accepted Accounting Practice as well as the South African Companies Act of 1973.

Change in accounting policy

The accounting policies are consistent with those applied in 2001 except for the adoption of the new accounting statement on investment properties (AC 135). In terms of this statement, certain defined owner-occupied properties can no longer be treated as investment properties and are now depreciated under the provisions of the statement dealing with property, plant and equipment (AC 123). This change has been applied retrospectively and comparative amounts for 2001 have been restated. The impact of this change is detailed in note 30 to the annual financial statements. The restatement did not materially impact the reported earnings and financial performance ratios of the group.

Implementation of AC 133

The 2003 year sees the introduction of AC 133, a new accounting standard on financial instruments, the South African equivalent of IAS 39. AC 133 covers all financial assets and liabilities. This includes loans, debtors, derivatives, equities and debt securities. It does not include fixed assets such as property, plant and equipment, nor does it include investments in subsidiaries and associates. The standard requires certain financial instruments to be marked to market in the balance sheet, taking unrealised gains or losses either to equity or through the income statement, depending on the classification of the instrument.

There are effectively four categories into which financial assets need to be placed: those “originated by the enterprise” (such as bank loans); those “held-to-maturity” (such as government bonds); those “available-for-sale” (such as strategic equities) and those “held at fair value” (such as trading portfolios and the remaining financial assets not covered in the three earlier categories). There is some initial discretion as to the adoption of these categories, which then remain committed choices. For example, to use the “held-to-maturity” category means accepting severe restrictions on the ability to dispose of investments before maturity, effectively preventing active management of a portfolio. The “available-for-sale” category allows an election for changes in market value to go directly to reserves and not through the income statement until realised. A South African circular on headline earnings excludes these items previously accounted through reserves from headline earnings. Financial liabilities are either classified as “trading” or “other”, with trading liabilities being fair valued through the income statement.

The banking operations in the group typically enter into internal transactions to hedge exposures with the group’s central treasury. These exposures are pooled with external client transactions and then mostly hedged into the market. Due to the strict rules of AC 133, these transactions do not qualify for hedge accounting. Hedge accounting achieves a similar income statement effect to the current methods of accrual accounting but is subject to strict rules. From 1 January 2003, hedge documentation has been put in place in all instances where the group intends to apply hedge accounting.

Another focus area is credit provisioning. The statement prescribes a discounted cash flow methodology to determine the recoverable amount of a doubtful loan. The discounting effect calculated will be charged to credit losses upfront and then released through interest income in future periods.

The principal differences in 2002 and 2003 results will be that the new statement prescribes fair value accounting and exceptions to this rule are tightly controlled, while the previous practice permitted selective use of fair value accounting. The group’s investment securities will be particularly affected and will now be carried at fair value.

The group has converted its accounting systems to comply with the new standard. It is planned that further insight into and explanations of the results under AC 133 will be provided in future financial reporting.

Share-based payments

A recent exposure draft dealing with the accounting for share-based payments (ED 160, the South African equivalent of the international exposure draft ED 2) requires the recognition of an expense equal to the fair value of options granted to employees. The fair value will be expensed over the vesting period based on the services received from these employees. Comments on the exposure draft are currently being considered and the statement is expected to become effective in the 2004 financial year. It is likely to be applicable to all options granted after 7 November 2002 that have not vested on the effective date of the statement.

During the 2002 year, the group granted 16 million options which, based on the Black-Scholes model, had an estimated fair value of R123 million which would have been expensed over a vesting period of three to five years based on the requirements of ED 160. The cumulative impact over the vesting period of options granted in the current year on headline earnings per share would have been 9 cents per share assuming the applicability of the exposure draft.

Compliance with IFRS

The group intends to comply with International Financial Reporting Standards (IFRS) from 2004. The recently issued exposure draft ED 158 (the South African equivalent of the international exposure draft ED 1) provides transitional provisions for first-time adopters of these statements. It is not expected that any material adjustments will be required on adoption of IFRS.

Capital management

The group's capital base provides the foundation for lending products, trading transactions and other activities. Managing the group's capital requires a balance between the ability to provide competitive returns to shareholders and maintaining prudent capital ratios that support business growth.

Allocation of capital to the businesses and appropriate return measures are key components of a drive towards improving operational performance and optimising capital utilisation.

Regulatory capital

The group is subject to regulation and supervision by various South African and international regulators.

The banking entities in the group are required to meet minimum capital requirements of regulators in the countries in which they operate. These regulations are generally based on the guidelines developed by the Bank for International Settlement. In addition to the requirements of the host country regulators, all banking operations are required to comply with the capital adequacy requirements of the South African Reserve Bank.

The capital adequacy ratio, which reflects the capital strength of an entity compared to the minimum regulatory requirement, is calculated as a percentage by dividing the qualifying capital by risk-weighted assets.

- Qualifying capital for purposes of this measurement is split into three tiers. Tier I (primary capital) represents the more permanent forms of capital, for instance share capital and share premium. Tier II (secondary capital) has various different components, including medium-term to long-term debt capital. Tier III (tertiary capital) represents short dated debt instruments to support a bank's trading activities. The various components of capital are detailed on the opposite page.

Capital adequacy – Regulatory capital and risk-weighted assets

	Rand Rm	US dollar UK pound Rm	Other Rm	2002 Rm	Change %	2001 Rm
Primary capital						
Ordinary share capital	133			133	1	132
Share premium	2 141			2 141	5	2 047
Reserves	13 321	9 161	1 298	23 780	1	23 506
Employment of capital	15 595	9 161	1 298	26 054	1	25 685
Minority interest	172		156	328		114
Less impairments	(488)	(112)	(113)	(713)		(617)
	15 279	9 049	1 341	25 669	2	25 182
Secondary capital						
Preference share capital	8			8		8
Bonds	4 700	857	197	5 754	(2)	5 899
General debt provision	776	348	79	1 203	5	1 142
Revaluation reserve	68			68	(15)	80
	5 552	1 205	276	7 033	(1)	7 129
Tertiary capital	1 000			1 000		–
Total capital	21 831	10 254	1 617	33 702	4	32 311
Risk-weighted assets						
Non-trading assets						
On-balance sheet				169 501	–	168 868
Off-balance sheet				14 491	5	13 742
Total non-trading assets				183 992	1	182 610
Trading activity notional assets				51 055	14	44 880
Total risk-weighted assets				235 047	3	227 490
Group primary capital to risk-weighted assets (%)				10,9		11,1
Group total capital to risk-weighted assets (%)				14,3		14,2
Group banking capital to risk-weighted assets (%)				13,8		13,5
Aggregate regulatory capital requirement (%)				10,6		10,7

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

The use of non-equity forms of regulatory capital plays an important part in the capital management process of the group's banking activities. In the past year, conditions were favourable for the issue of debt capital in the South African market and, consequently, R1 billion of debt capital was issued during the course of the year in the form of tertiary capital. The nature and maturity of tertiary capital more closely matches the trading assets it supports.

The optimum balance between primary, secondary and tertiary capital will remain a focus in 2003. The South African Reserve Bank has indicated that the required ratio of primary capital to risk-weighted assets will be increased from 5% to not more than 7,5% in the near future.

The group's insurance operations are based in South Africa and are regulated by the Financial Services Board. The capital requirement is calculated by the statutory actuary in terms of guidance notes issued by the Actuarial Society of South Africa.

Capital adequacy ratios

The group capital adequacy ratio reflected a slight increase from 14,2% in the previous year to 14,3%.

The change primarily resulted from the issue of R1 billion tertiary capital and good earnings growth of 19%, offset by an increase in risk-weighted assets as a result of lending growth. Of the group ratio of 14,3%, 13,8% relates to banking operations and 0,5% to the group's share of regulatory surplus capital in Liberty. Liberty is well capitalised with a capital adequacy multiple of 3,0 times (2001: 3,5 times) the minimum requirement.

The group maintains capital buffers in excess of minimum regulatory requirements. Controlled buffers are part of the prudent management of the group's business as it supports the strategic plans for business growth while, at the same time, satisfying the expectations of banking regulators, depositors and rating agencies.

Apart from capital held against counterparty risk in domestic trading activities, fluctuations in the value of the rand do not have a significant impact on group capital adequacy ratios. Changes in the rand value of the capital balances held offshore are substantially offset by changes in the value of risk-weighted assets held in those operations.

Economic capital

The objective of the group's economic capital allocation process is to lay the foundation for a sound capital management methodology and it is run as a joint process between the risk and finance divisions. An important element is the quantification of the risks undertaken by individual business units as economic capital is believed to be a more complete and dynamic indicator of risk than either regulatory capital or invested (book) capital.

The group's economic capital allocation process forms the basis for risk adjusted performance measures that are increasingly being used to assess the financial performance of divisions based on market related cost of capital thresholds. Weighted cost of capital estimates are calculated quarterly for all the markets where the group operates, including African and other emerging market countries.

The New Basel Capital Accord

In June 1999, the Basel Committee on Banking Supervision released a proposal to replace the 1988 Capital Accord with a more risk-sensitive framework.

It is expected that the final version of the new capital accord (Basel II) will be published in 2003 for implementation in 2007. The revision focuses mainly

Analysis of risk-weighted assets

	2002 Unweighted assets Rm	2002 Risk-weighted assets Rm	2001 Unweighted assets Rm	2001 Risk-weighted assets Rm
On-balance sheet assets				
Domestic Banking	211 917	122 423	191 876	119 338
International Operations	80 005	24 893	100 631	31 411
Stanbic Africa	20 693	10 805	19 519	9 655
STANLIB and centralised funding after group eliminations	(8 678)	2 810	(5 830)	1 290
Liberty Group	85 761	8 570	89 038	7 174
	389 698	169 501	395 234	168 868
Off-balance sheet assets				
Domestic Banking		11 804		11 049
International Operations		1 947		1 832
Stanbic Africa		740		861
		14 491		13 742
Trading notional assets				
Domestic Banking		29 710		22 858
International Operations		21 345		22 022
		51 055		44 880
Total risk-weighted assets		235 047		227 490

on improvements in the quantification of credit and operational risks and aims to incentivise banks to improve their risk management processes through lower capital requirements.

The group participated in the third Quantitative Impact Study (QIS 3) conducted by the Basel Committee. The study collected information regarding credit and operational risks from some 300 banks on a worldwide basis in order to assess the impact of the Basel II proposals.

The study served to confirm that the group is responding appropriately to address areas where further development is required to comply with the Basel II proposals. A number of projects are in progress to address these issues. Progress is monitored regularly through a high level steering committee.

Capital adequacy of banking subsidiaries

	2002				2001		
	Primary capital %	Secondary capital %	Tertiary capital %	Total capital %	Primary capital %	Secondary capital %	Total capital %
South Africa							
The Standard Bank of South Africa	7,2	3,5	0,6	11,3	7,1	3,6	10,7
Stanbic Africa							
Standard Bank Namibia	8,4	5,2	–	13,6	9,8	5,8	15,6
Stanbic Swaziland	7,8	2,3	–	10,1	8,8	3,3	12,1
Standard Bank Lesotho	7,8	0,8	–	8,6	24,4	–	24,4
Lesotho Bank (1999)	24,6	0,4	–	25,0	25,5	0,4	25,9
Stanbic Bank Zimbabwe	9,6	4,8	–	14,4	10,4	3,7	14,1
Stanbic Bank Zambia	23,1	0,1	–	23,2	24,2	0,4	24,6
Stanbic Bank Kenya	12,3	–	–	12,3	13,5	1,3	14,8
Stanbic Bank Botswana	10,2	5,8	–	16,0	12,4	11,4	23,8
Stanbic Bank Congo s.a.r.l.*	–	–	–	–	–	–	–
Stanbic Bank Uganda	20,1	1,6	–	21,7	24,0	2,7	26,7
Stanbic Bank Tanzania	14,8	–	–	14,8	21,5	–	21,5
Stanbic Bank Ghana	6,2	–	–	6,2	12,0	–	12,0
Stanbic Bank Nigeria	31,5	–	–	31,5	20,4	–	20,4
Stanbic Bank Mauritius	29,7	0,3	–	30,0	116,6	–	116,6
Stanbic Bank Malawi	18,3	5,2	–	23,5	18,1	4,6	22,7
International Operations							
Standard International Holdings, incorporating	9,7	7,0	–	16,7	9,1	7,3	16,4
– Standard Bank London							
– Standard London Asia							
– Standard Bank Asia							
– Standard New York							
– Standard Merchant Bank Asia							
Standard Bank Jersey	10,5	2,9	–	13,4	11,1	3,0	14,1
Standard Bank Isle of Man	9,3	4,4	–	13,7	7,0	7,2	14,2
Standard Bank Group	10,9	3,0	0,4	14,3	11,1	3,1	14,2

The schedule details the capital to risk-weighted asset ratios of the principal banking subsidiaries and the consolidated capital adequacy ratios of the group as at 31 December. These have been determined in accordance with the host country regulatory requirements, inclusive of current year income retentions.

* Due to the uncertain socio-political situation in the Democratic Republic of Congo, regulatory capital has not yet been directly invested

Standard Bank participates in the South African Reserve Bank's Accord Implementation Forum steering committee and sub-committees. The Forum has been established to promote the implementation of the standards prescribed by the Basel Capital Accord in a manner that promotes a sound banking and financial system.

Areas of focus in the year ahead

The group's finance function is constantly reviewing relevant external developments and trends. It further embraces opportunities to improve the quality and relevancy of information provided to stakeholders. The following objectives and initiatives are prioritised for 2003:

- the group will be implementing the accounting statement Financial Instruments: Recognition and Measurement (AC 133);
- as discussed under capital management in this report, the methodology to determine economic capital allocations to all divisions in the group is currently subject to an in-depth review. An improved allocation basis arising from this review will provide the foundation for increasingly rigorous use of risk adjusted performance measures to evaluate financial performance of business units;
- the group's preparation for the new Basel Capital Accord will continue as a joint process between the group's risk and finance divisions;
- SAP, an enterprise-wide financial system, was implemented in the domestic operations in 2001. The rollout to international and selected African business units will continue in 2003; and
- the integration of the group's international and domestic operations will result in segmental reporting by geographic area becoming less relevant. Accordingly, a product based reporting structure will be developed and implemented over the next year.

The group's financial objectives are set out on page 11. The current global political and economic trading conditions are uncertain but the group's key financial focus remains the creation of shareholder wealth on a sustainable basis.

Seven-year review

Consolidated balance sheet

	2002 US$m	2002 UK£m	2002 €m	CAGR* %	2002 Rm
Assets					
Standard Bank operations	35 423	21 993	33 733	17	303 937
Cash and short-term funds	5 286	3 282	5 034	24	45 356
Investment and trading securities	5 079	3 153	4 837	41	43 580
Loans and advances	19 857	12 328	18 910	11	170 377
Other assets	4 752	2 950	4 524	32	40 766
Interest in associates	32	20	31		276
Goodwill	44	28	42		381
Intangible assets	34	21	32		290
Property and equipment	339	211	323	1	2 911
Liberty Group operations**	9 996	6 206	9 520	8	85 761
Current assets	438	272	417		3 754
Investments	9 498	5 897	9 045	8	81 491
Goodwill	18	11	18		158
Intangible assets	4	3	4		36
Equipment and furniture	38	23	36		322
Total assets	45 419	28 199	43 253	22	389 698
Equity and liabilities					
Total capital and reserves	3 038	1 886	2 893	20	26 062
Minority interest	699	434	666		5 998
Liabilities	41 682	25 879	39 694	21	357 638
Standard Bank operations	32 628	20 258	31 072	17	279 959
Deposit and current accounts	27 938	17 346	26 605	15	239 715
Other liabilities and provisions	3 903	2 423	3 717	28	33 490
Bonds	787	489	750	43	6 754
Liberty Group operations**	9 054	5 621	8 622	9	77 679
Life funds	8 590	5 333	8 180	9	73 700
Long-term liabilities	227	141	216	8	1 947
Other liabilities	237	147	226		2 032
Total equity and liabilities	45 419	28 199	43 253	22	389 698

* CAGR refers to compound annual growth rate based on rand amounts for the period 1996 to 2002 (Liberty Group operations – 1999 to 2002)

** Liberty Group became a subsidiary with effect from 1 January 1999

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

	2001 Rm	2000 Rm	1999 Rm	1998 Rm	1997 Rm	1996 Rm
Assets						
Standard Bank operations	306 196	209 337	185 087	160 713	140 261	120 148
Cash and short-term funds	42 186	30 932	32 010	23 795	17 939	12 320
Investment and trading securities	45 722	16 541	12 952	6 448	5 859	5 630
Loans and advances	162 002	127 057	113 161	111 388	100 155	90 039
Other assets	52 647	31 783	24 122	13 701	11 453	7 718
Interest in associates	187	100	65	2 733	2 253	1 751
Goodwill	403	–	–	–	–	–
Intangible assets	311	216	–	–	–	–
Property and equipment	2 738	2 708	2 777	2 648	2 602	2 690
Liberty Group operations**	89 038	75 643	68 866			
Current assets	2 979	3 694	3 694			
Investments	85 531	71 476	64 877			
Goodwill	113	123	–			
Intangible assets	62	49	7			
Equipment and furniture	353	301	288			
Total assets	395 234	284 980	253 953	160 713	140 261	120 148
Equity and liabilities						
Total capital and reserves	25 693	18 300	14 584	13 050	10 607	8 651
Minority interest	5 973	6 816	6 495	59	54	68
Liabilities	363 568	259 864	232 874	147 604	129 600	111 429
Standard Bank operations	282 694	193 644	173 034	147 604	129 600	111 429
Deposit and current accounts	237 006	168 845	155 536	135 660	119 050	102 988
Other liabilities and provisions	39 789	21 342	17 463	11 750	9 930	7 650
Bonds	5 899	3 457	35	194	620	791
Liberty Group operations**	80 874	66 220	59 840			
Life funds	75 918	62 138	56 184			
Long-term liabilities	2 874	1 828	1 566			
Other liabilities	2 082	2 254	2 090			
Total equity and liabilities	395 234	284 980	253 953	160 713	140 261	120 148

Seven-year review continued

Consolidated income statement

	2002 US$m	2002 UK£m	2002 €m	CAGR* %	2002 Rm
Standard Bank operations					
Net interest income before provision for credit losses	1 228	762	1 169	16	10 533
Provision for credit losses	228	141	217	22	1 955
Net interest income	1 000	621	952	15	8 578
Non-interest revenue	1 333	827	1 269	24	11 435
Total income	2 333	1 448	2 221	19	20 013
Operating expenses	1 467	911	1 397	17	12 587
Operating profit	866	537	824	24	7 426
Income from associates	11	7	11		96
Goodwill amortisation/exceptional items	(18)	(11)	(17)		(151)
Income before taxation	859	533	818	22	7 371
Taxation	284	176	270	24	2 435
Income after taxation	575	357	548	21	4 936
Attributable to outside and preference shareholders	14	9	14		122
Standard Bank income attributable to ordinary shareholders	561	348	534	21	4 814
Liberty Group operations**					
Income before taxation	158	98	150		1 355
Taxation	42	26	39		359
Income after taxation	116	72	111		996
Attributable to outside and preference shareholders	82	51	78		702
Net income before investment (deficit)/surplus	34	21	33		294
Net income from continuing operations	34	21	33		298
Net income from unbundled operations	–	–	–		–
Exceptional items	–	–	–		(4)
Investment (deficit)/surplus	(13)	(7)	(12)		(111)
Liberty Group income attributable to ordinary shareholders	21	14	21		183
Group income attributable to ordinary shareholders	582	362	555	22	4 997
Headline earnings	613	381	584	22	5 263

* CAGR refers to compound annual growth rate based on rand amounts for the period 1996 to 2002

** Liberty Group became a subsidiary with effect from 1 January 1999

	2001 Rm	2000 Rm	1999 Rm	1998 Rm	1997 Rm	1996 Rm
Standard Bank operations						
Net interest income before provision for credit losses	8 177	7 229	6 761	5 972	5 095	4 297
Provision for credit losses	1 603	1 406	1 527	1 804	1 072	591
Net interest income	6 574	5 823	5 234	4 168	4 023	3 706
Non-interest revenue	9 135	7 430	6 500	5 225	4 181	3 180
Total income	15 709	13 253	11 734	9 393	8 204	6 886
Operating expenses	9 940	8 618	8 198	6 946	5 854	4 853
Operating profit	5 769	4 635	3 536	2 447	2 350	2 033
Income from associates	49	16	10	295	246	222
Goodwill amortisation/exceptional items	(65)	(37)	(13)	(17)	93	(27)
Income before taxation	5 753	4 614	3 533	2 725	2 689	2 228
Taxation	1 756	1 334	1 049	665	683	676
Income after taxation	3 997	3 280	2 484	2 060	2 006	1 552
Attributable to outside and preference shareholders	77	68	31	8	3	5
Standard Bank income attributable to ordinary shareholders	3 920	3 212	2 453	2 052	2 003	1 547
Liberty Group operations**						
Income before taxation	2 114	1 873	2 431			
Taxation	980	457	849			
Income after taxation	1 134	1 416	1 582			
Attributable to outside and preference shareholders	816	994	1 118			
Net income before investment (deficit)/surplus	318	422	464			
Net income from continuing operations	420	365	412			
Net income from unbundled operations	14	59	52			
Exceptional items	(116)	(2)	–			
Investment (deficit)/surplus	287	(235)	173			
Liberty Group income attributable to ordinary shareholders	605	187	637			
Group income attributable to ordinary shareholders	4 525	3 399	3 090	2 052	2 003	1 547
Headline earnings	4 419	3 673	2 892	2 059	1 910	1 574

Seven-year review continued

Statistics, returns and capital adequacy

	CAGR* %	2002	2001	2000	1999	1998	1997	1996
Standard Bank Group								
Share statistics								
Number of ordinary shares in issue (thousands)								
– weighted average		1 328 192	1 318 696	1 295 841	1 277 018	1 158 005	1 160 450	1 159 520
– end of period		1 331 078	1 324 938	1 309 179	1 279 313	1 158 693	1 161 533	1 161 439
Dividend cover (times)		3,2	3,3	3,3	3,3	3,4	3,3	3,3
Dividend yield (%)		4,1	3,3	2,8	2,7	2,9	2,3	2,2
Earnings yield (%)		13,1	10,7	9,3	8,9	9,9	7,7	7,4
Price earnings ratio (times)		7,6	9,3	10,8	11,3	10,1	13,0	13,6
Price to adjusted book ratio (times)		1,4	1,5	1,9	1,8	1,4	1,8	1,8
Share price (cents) – High		3 810	3 605	3 120	2 650	3 290	2 320	1 950
– Low		2 595	2 600	2 000	1 590	1 035	1 780	1 550
– Closing	9	3 015	3 120	3 050	2 555	1 800	2 140	1 840
Number of shares traded (thousands)		673 703	511 549	434 756	401 884	222 159	116 960	54 800
Turnover in shares traded (%)		50,6	38,6	33,2	31,4	19,2	10,1	4,7
Market capitalisation (Rm)	11	40 132	41 338	39 930	32 686	20 856	24 857	21 370
Share statistics per ordinary share (cents)								
Earnings	19	376,2	343,1	262,3	242,0	177,2	172,6	133,4
Headline earnings	20	396,3	335,1	283,4	226,5	177,8	164,6	135,7
Dividends	20	124,0	102,0	85,0	68,0	53,0	49,3	40,7
Net asset value	17	1 957	1 939	1 397	1 139	1 126	913	744
Net asset value – adjusted for increases in market value	13	2 163	2 138	1 619	1 413	1 252	1 200	1 027
Selected returns (%)								
Return on equity		20,3	20,1	22,4	20,9	17,4	19,9	20,4
Return on assets		1,3	1,3	1,4	1,4	1,4	1,5	1,4
Ordinary shareholders' funds adjusted for the increase in market value over the carrying value of Liberty Group, investments and property (Rm)	16	28 795	28 330	21 194	18 071	14 503	13 939	11 931

* CAGR refers to compound annual growth rate based on rand amounts for the period 1996 to 2002

	CAGR* %	2002	2001	2000	1999	1998	1997	1996
Standard Bank operations**								
Selected returns and ratios								
Headline earnings (Rm)	24	4 965	3 985	3 249	2 428	1 795	1 693	1 376
Return on equity (%)		21,2	19,9	22,1	20,7	18,4	21,4	21,3
Return on assets (%)		1,6	1,5	1,6	1,4	1,2	1,3	1,3
Average ordinary shareholders' funds to average total assets (%)		7,7	7,8	7,5	6,8	6,6	6,2	6,0
Net interest margin (%)		3,26	3,31	3,77	3,94	4,02	3,97	3,99
Non-interest income to total income (%)		52,1	52,8	50,7	49,0	46,7	45,1	42,5
Cost-to-income ratio (%)		57,3	57,4	58,8	61,8	62,0	63,1	64,9
Credit loss ratio (%)		1,18	1,11	1,17	1,36	1,71	1,13	0,71
Effective tax rate (%)		33,5	30,8	29,0	31,5	27,4	28,0	33,7
Headline earnings per employee (rand)		143 443	120 444	107 175	74 394	56 503	52 718	42 047
Number of employees at year-end		34 613	33 086	30 315	32 637	31 768	32 114	32 725
Capital adequacy								
Risk-weighted assets (Rm)	16	235 047	227 490	164 800	144 946	125 407	110 233	97 685
Primary capital (Rm)	20	25 669	25 182	18 330	14 647	13 101	10 653	8 711
Total capital (Rm)	20	33 702	32 311	23 153	17 124	14 488	13 120	11 548
Primary capital to risk-weighted assets (%)		10,9	11,1	11,1	10,1	10,5	9,7	8,9
Total capital to risk-weighted assets (%)		14,3	14,2	14,0	11,8	11,6	11,9	11,8
Market indicators at 31 December								
Prime overdraft rate (%)		17,00	13,00	14,50	15,50	23,00	19,25	20,25
JSE All Share Index – closing	8	9 277	10 457	8 164	8 357	5 016	5 466	5 996
JSE Banks Index – closing	6	12 035	12 812	13 697	12 482	9 778	12 050	8 308
Exchange rates at 31 December								
US$	11	8,58	12,00	7,57	6,16	5,89	4,87	4,69
UK£	10	13,82	17,45	11,30	9,92	9,63	7,99	7,98
Euro		9,01	10,68	7,10	6,17	n/a	n/a	n/a

* CAGR refers to compound annual growth rate based on rand amounts for the period 1996 to 2002

** Standard Bank Group excluding Liberty Group

Financial definitions

Standard Bank Group

Earnings per share (cents)	Earnings attributable to ordinary shareholders divided by the weighted average number of ordinary shares in issue.
Headline earnings (Rm)	Earnings attributable to ordinary shareholders excluding goodwill amortisation, capital profits and losses, and investment revaluation surpluses and deficits.
Headline earnings per share (cents)	Headline earnings divided by the weighted average number of ordinary shares in issue.
Dividend cover (times)	Headline earnings per share divided by ordinary dividends per share.
Dividend yield (%)	Dividends per share as a percentage of the closing share price.
Earnings yield (%)	Headline earnings per share as a percentage of the closing share price.
Price earnings ratio (times)	Closing share price divided by headline earnings per share.
Return on equity (%)	Headline earnings as a percentage of average ordinary shareholders' funds.
Return on assets (%)	Headline earnings as a percentage of average total assets.
Net asset value per share (cents)	Ordinary shareholders' funds divided by the number of ordinary shares in issue at year-end.

Standard Bank operations

Return on equity (%)	Headline earnings excluding income from Liberty Group, as a percentage of average ordinary shareholders' funds after deducting capital relating to Liberty Group.
Return on assets (%)	Headline earnings excluding income from Liberty Group, as a percentage of average total assets after deducting Liberty Group assets.
Net interest margin (%)	Net interest income as a percentage of monthly average total assets.
Credit loss ratio (%)	Provision for credit losses per the income statement as a percentage of average net loans and advances.
Cost-to-income ratio (%)	Operating expenses as a percentage of total income before deducting the provision for credit losses.
Effective tax rate (%)	The income statement tax charge as a percentage of income before tax excluding income from associates.

Exchange rates

Rand/US dollar	Average for the year	R10,50 (2001: R8,61)
	Year-end	R8,58 (2001: R12,00)
Rand/UK pound	Average for the year	R15,74 (2001: R12,39)
	Year-end	R13,82 (2001: R17,45)

Report of the independent auditors

To the members of Standard Bank Group Limited

We have audited the annual financial statements and group annual financial statements set out on pages 101 to 171 for the year ended 31 December 2002. These financial statements are the responsibility of the company's directors. Our responsibility is to express an opinion on these financial statements based on our audit.

Scope

We conducted our audit in accordance with statements of South African Auditing Standards. Those standards require that we plan and perform the audit to obtain reasonable assurance that the financial statements are free of material misstatement.

An audit includes:

- examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements;
- assessing the accounting principles used and significant estimates made by management; and
- evaluating the overall financial statement presentation.

We believe that our audit provides a reasonable basis for our opinion.

Audit opinion

In our opinion, the financial statements fairly present, in all material respects, the financial position of the company and the group at 31 December 2002 and the results of their operations and cash flows for the year then ended in accordance with South African Statements of Generally Accepted Accounting Practice and in the manner required by the Companies Act in South Africa.

PricewaterhouseCoopers Inc.
Registered Accountants and Auditors
Chartered Accountants (SA)

KPMG Inc.
Registered Accountants and Auditors
Chartered Accountants (SA)

Johannesburg
4 March 2003

Directors' responsibility for financial reporting

In accordance with Companies Act requirements, the directors are responsible for the preparation of the annual financial statements which conform with South African Statements of Generally Accepted Accounting Practice and which fairly present the state of affairs of the company and the group as at the end of the financial year, and the net income and cash flows for that period.

It is the responsibility of the independent auditors to report on the fair presentation of the financial statements.

The directors are ultimately responsible for the internal controls. Management enables the directors to meet these responsibilities. Standards and systems of internal control are designed and implemented by management to provide reasonable assurance as to the integrity and reliability of the financial statements and to adequately safeguard, verify and maintain accountability for group assets. Appropriate accounting policies, supported by reasonable and prudent judgements and estimates, are applied on a consistent and going concern basis. Systems and controls include the proper delegation of responsibilities within a clearly defined framework, effective accounting procedures and adequate segregation of duties.

Systems and controls are monitored throughout the group. Greater detail of such, including the operation of the internal audit function, is provided in the Corporate governance and Risk management sections of the report on pages 42 and 56 respectively.

Based on the information and explanations given by management and the internal and external auditors, the directors are of the opinion that the accounting controls are adequate and that the financial records may be relied upon for preparing the financial statements and maintaining accountability for the group's assets and liabilities. Nothing has come to the attention of the directors to indicate that any breakdown in the functioning of these controls, resulting in material loss to the group, has occurred during the year and up to the date of this report. The directors have a reasonable expectation that the company and the group have adequate resources to continue in operational existence for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the financial statements.

The financial statements which appear on pages 101 to 171, were approved by the Board of Directors on 4 March 2003 and signed on its behalf by

D E Cooper
Chairman

J H Maree
Chief Executive

Group Secretary's certification

Compliance with Companies Act 61 of 1973

In terms of the Companies Act 61 of 1973 (the Act), and for the year ended 31 December 2002, I certify that Standard Bank Group Limited has lodged all returns required by the Act with the Registrar of Companies and that all such returns are true, correct and up to date.

L Wulfsohn
Group Secretary

Directors' report

for the year ended 31 December 2002

Principal activities

Standard Bank Group Limited is the holding company for the interests of the Standard Bank Group.

The name of the company was changed from Standard Bank Investment Corporation Limited to Standard Bank Group Limited on 3 June 2002.

Group results

A general review of the business and operations of major subsidiaries is given in the 2002 Group review and business unit reviews commencing on pages 12 and 20 respectively.

A financial commentary on the results of the Standard Bank Group for the year is given on pages 77 to 89.

Property and equipment

There was no change in the nature of the property and equipment of the group or in the policy regarding their use during the year.

Share capital and bonds

During the year, 6 140 300 ordinary shares were issued in terms of the Group Share Incentive Scheme.

On 28 June 2002, The Standard Bank of South Africa Limited (SBSA) issued R1 billion subordinated, unsecured bonds qualifying as tertiary capital, due 15 February 2005. The bonds pay a fixed semi-annual coupon of 12,5%. Payment of interest and repayment of principal in respect of the bonds is subject to certain conditions set by the Registrar of Banks to ensure minimum capital adequacy.

Directors' interest in shares

At the date of this report, the directors held, directly and indirectly, interests in the company's ordinary issued share capital as reflected in the table on page 103.

Elisabeth Bradley, in her capacity as trustee of a testamentary trust, has an indirect non-beneficial interest in 47 000 6,5% preference shares issued by the company.

The company has not been informed of any material changes in these holdings at the date of this report.

Group Share Incentive Scheme

Information on options granted to executive directors under the Group Share Incentive Scheme is given in the remuneration review on page 52.

Details of options granted to all employees under the Group Share Incentive Scheme are given in Annexure C on page 171.

Shareholder analysis

The analysis of ordinary shareholders is given on page 187.

Shareholders at the close of the financial year, holding beneficial interests in excess of 5% of the issued share capital, determined in accordance with Share Transactions Totally Electronic Limited (STRATE) disclosures and investigations conducted on our behalf, were as follows:

	% held
Old Mutual Group	20,2
Public Investment Commissioner	12,3
Sanlam Group	5,4

Distribution to ordinary shareholders

Interim

On 13 August 2002, an interim dividend of 34,0 cents (2001: 28,0 cents) was declared to shareholders recorded at the close of business on 20 September 2002 and paid on 23 September 2002.

Final

On 4 March 2003, a final dividend of 90,0 cents (2002: 74,0 cents) per share was declared to shareholders recorded at the close of business on 11 April 2003 to be paid on 14 April 2003.

Preference dividends

Interim

On 13 August 2002, an interim dividend of 3,25 cents (2001: 3,25 cents) per share was declared to shareholders recorded at the close of business on 20 September 2002 and paid on 23 September 2002.

Final

On 4 March 2003, a final dividend of 3,25 cents (2002: 3,25 cents) per share was declared to shareholders recorded at the close of business on 11 April 2003 to be paid on 14 April 2003.

Directors' report continued

Directorate

The directorate is listed on page 226.

The following changes in directorate have taken place since the last annual report:

Standard Bank Group Limited

Resignations		Date
R J Khoza	as director	29 November 2002
P C Prinsloo	as director	31 December 2002

The Standard Bank of South Africa Limited

Appointment		
P C Prinsloo	as director	14 May 2002

Resignations		
R J Khoza	as director	29 November 2002
P C Prinsloo	as director	31 December 2002

Standard Bank London Limited

Appointments		
J H Maree	as chairman	2 August 2002
W J Dorson	as director	20 February 2003
T G Wheeler	as director	20 February 2003

Resignations		
E A G Mackay	as director and chairman	2 August 2002
P C Prinsloo	as director	31 December 2002

Liberty Group Limited

Resignations		
R J Khoza	as director	29 November 2002
M A Bloom	as director	28 February 2003

Group Secretary and registered office

The Group Secretary is Loren Wulfsohn. The address of the Group Secretary is that of the registered office as stated on page 228.

Restructuring and acquisitions during the year

Standard Bank Group and Liberty Group launched a joint wealth management company, STANLIB, on 26 February 2002. The asset management, unit trusts, linked products and investment marketing businesses of the two operations were merged. Standard Bank Group effectively holds 65% of the combined operations of STANLIB.

On 1 January 2002, the group acquired an 80% interest in Uganda Commercial Bank Limited. On 1 May 2002, the group merged its 100% interest in Stanbic Bank Uganda Limited and its 80% interest in Uganda Commercial Bank Limited. As a result of this merger, the group now owns a 90% interest in Stanbic Bank Uganda Limited.

Standard Bank Group Limited acquired a 100% interest in Ulusal Yatirim Menkul Değerler A.S. on 10 January 2002 in order to grow the group's capital markets activities in Turkey.

Management by third parties

None of the businesses of the company or its subsidiaries has, during the financial year, been managed by a third party or a company in which a director held an interest.

Subsidiaries and associates

The interests in subsidiary and associated companies, where considered material in light of the group's financial position and results, are set out in Annexure A on page 164, and Annexure B on page 169 respectively.

Special resolutions during the year

Group companies passed the following resolutions during the year for the purposes indicated:

Name changes:

- Standard Bank Group Limited – from Standard Bank Investment Corporation Limited;
- STANLIB Multi-Manager Limited – from Lodestone Investments Limited;
- Mogale's Gate Limited – from Mohales Gate Limited; and
- Standard Infrastructure Fund Managers (Africa) Limited – from Infrastructure Finance Managers (Africa) Limited.

Amendments to Articles of Association:

- Standard Bank Group Limited – authority to repurchase the company's securities and permit electronic communication with shareholders;
- The Standard Bank of South Africa Limited and Standard Bank Financial Services Holdings (Proprietary) Limited – authority to reduce the issued share capital and make payments to shareholders;
- SCMB Securities (Proprietary) Limited, Stanbic Bank Nigeria Limited and STANLIB Multi-Manager Limited – replace Articles of Association in their entirety;
- Standard Bank Asia Limited – allow for the issue of certificates of deposit;
- Stanbic Africa Holdings Limited – authorise the redemption of preference shares;
- Standard International Finance Limited – increase the authorised capital and vary the rights pertaining to ordinary shares;

- Standard Distribuidora De Tituios E Valores Mobiliaries Limitada – increase the authorised capital of the company and accommodate the change of the company's status from a limited liability company to a joint stock company;
- Banco Standard de Investimentos SA, Standard Infrastructure Fund Managers (Africa) Limited, Stanbic Bank Zimbabwe Limited, Stanbic Finance Zimbabwe Limited, Stanbic Bank Nigeria Limited – increase the authorised capital of the companies;
- Stanbic Bank Uganda Limited – increase the authorised capital of the company and authorise the acquisition of 80% of Uganda Commercial Bank Limited; and
- Standard Forfaiting Asia Private Limited – enable the company to be voluntarily wound-up.

Contracts

No contracts in which the directors and officers of the company had an interest and that significantly affected the affairs or business of the company or any of its subsidiaries were entered into during the year.

Insurance

The group protects itself against frauds and losses, computer crime and professional indemnity by carrying R30 million for its own account, whereafter the risks are fully insured up to R1,45 billion.

Events subsequent to balance sheet date

There is no material fact or circumstance that has occurred between the balance sheet date and the date of this report.

Directors' interest in ordinary shares

Director	Beneficial		Non-beneficial	
	2002	2001	2002	2001
R C Andersen	4 946	4 946	–	–
D D B Band	11 921	11 921	–	–
E Bradley	364 174	207 981	369 000	279 000
D E Cooper	–	–	14 330	12 330
D A Hawton	12 960	12 960	–	–
E A G Mackay	–	–	–	–
S J Macozoma	–	–	–	–
J H Maree	223 100	168 100	–	–
R P Menell	–	–	–	–
R A Plumbridge	102 029	102 029	–	–
P C Prinsloo	399 743	317 743	–	–
M J D Ruck	108 609	53 609	–	–
C L Stals	–	–	–	–
C B Strauss	123 052	123 052	–	–
E P Theron	15 000	15 000	–	–
Total	1 365 534	1 017 341	383 330	291 330

Balance sheet

at 31 December 2002

	Note	Group 2002 Rm	2001 Rm
Assets			
Standard Bank operations		303 937	306 196
Cash and short-term funds	2	45 356	42 186
Investment and trading securities	3	43 580	45 722
Loans and advances	4	170 377	162 002
Other assets	6	40 766	52 647
Interest in associates	7	276	187
Goodwill	8	381	403
Intangible assets	9	290	311
Property and equipment	10	2 911	2 738
Liberty Group operations		85 761	89 038
Current assets	11	3 754	2 979
Investments	12	81 491	85 531
Goodwill	13	158	113
Intangible assets	14	36	62
Equipment and furniture	15	322	353
Total assets		389 698	395 234
Equity and liabilities			
Capital and reserves		26 062	25 693
Share capital	16	141	140
Share premium	17	2 141	2 047
Reserves		23 780	23 506
Minority interest		5 998	5 973
Liabilities		357 638	363 568
Standard Bank operations		279 959	282 694
Deposit and current accounts	18	239 715	237 006
Other liabilities and provisions	19	33 490	39 789
Bonds	20	6 754	5 899
Liberty Group operations		77 679	80 874
Life funds	21	73 700	75 918
Long-term liabilities	22	1 947	2 874
Other liabilities	23	2 032	2 082
Total equity and liabilities		389 698	395 234
Ordinary shareholders' funds			
Adjusted for the increase in market value over the carrying value of Liberty Group, investments and property		28 795	28 330

Income statement

for the year ended 31 December 2002

	Note	Group 2002 Rm	2001 Rm
Standard Bank operations			
Interest income	25.1	31 230	24 368
Interest expense	25.2	20 697	16 191
Net interest income before provision for credit losses		10 533	8 177
Provision for credit losses	25.3	1 955	1 603
Net interest income		8 578	6 574
Non-interest revenue	25.4	11 435	9 135
Total income		20 013	15 709
Operating expenses		12 587	9 940
Staff costs	25.5	6 934	5 347
Other operating expenses	25.6	5 653	4 593
Operating profit		7 426	5 769
Income from associates	7	96	49
Goodwill amortisation	8.2	(151)	(65)
Income before taxation		7 371	5 753
Taxation	28.1	2 435	1 756
Income after taxation		4 936	3 997
Attributable to outside and preference shareholders		122	77
Standard Bank income attributable to ordinary shareholders		4 814	3 920
Liberty Group operations			
Operating profit		1 369	2 438
Exceptional items	26.1	(14)	(324)
Income before taxation		1 355	2 114
Taxation	28.2	359	980
Income after taxation	26.1	996	1 134
Attributable to outside and preference shareholders		702	816
Net income before investment (deficit)/surplus		294	318
Net income from continuing operations		298	420
Net income from unbundled operations		–	14
Exceptional items		(4)	(116)
Investment (deficit)/surplus		(111)	287
Liberty Group income attributable to ordinary shareholders		183	605
Group income attributable to ordinary shareholders		4 997	4 525
Earnings per share (cents)	27.3	376,2	343,1
Fully diluted earnings per share (cents)	27.3	371,2	337,9
Headline earnings per share (cents)	27.3	396,3	335,1
Fully diluted headline earnings per share (cents)	27.3	391,0	329,9
Dividends per share (cents)	27.2	124,0	102,0

Cash flow statement

for the year ended 31 December 2002

	Note	Group 2002 Rm	2001 Rm
Operating activities			
Cash receipts from customers	29.2	61 237	50 310
Cash paid to customers, employees and suppliers	29.3	(47 495)	(40 052)
Dividends received	29.4	1 847	1 689
Cash flows from operating activities	29.1	15 589	11 947
Changes in operating funds			
Decrease/(increase) in income-earning assets	29.5	4 664	(81 900)
(Decrease)/increase in deposits and other liabilities and provisions	29.6	(4 687)	70 723
Cash flows used in operating funds		(23)	(11 177)
Taxation paid	29.7	(3 627)	(2 341)
Investing activities			
Capital expenditure on – property		(84)	(116)
– equipment, furniture and vehicles		(1 543)	(1 033)
Proceeds from sale of – property		119	55
– equipment, furniture and vehicles		218	130
Increase in amount invested by insurance operations		(3 561)	(67)
Investment in subsidiaries	29.8	(393)	(1 362)
Investment in associates	7	(135)	(50)
Net cash used in investing activities		(5 379)	(2 443)
Financing activities			
Proceeds from issue of share capital to shareholders		95	71
Proceeds from issue of share capital to minorities		44	27
Increase in bonds		855	2 442
Dividends paid	29.9	(2 076)	(3 398)
Net cash flows used in financing activities		(1 082)	(858)
Effects of exchange rate changes on cash and short-term funds		(3 311)	4 291
Net increase/(decrease) in cash and short-term funds		2 167	(581)
Cash and short-term funds at beginning of the year		42 902	32 178
Cash balances of subsidiaries acquired	29.8	561	11 305
Cash and short-term funds at end of the year		45 630	42 902

Statement of changes in shareholders' funds

for the year ended 31 December 2002

	Note	Share capital and premium Rm	Translation reserve Rm	Revaluation reserve Rm	Retained earnings Rm	Total Rm
Balance at 1 January 2001 as previously reported		1 787	1 581	2 020	12 912	18 300
Change in accounting policy	30.1				(334)	(334)
Restated balance at 1 January 2001		1 787	1 581	2 020	12 578	17 966
Group income					4 525	4 525
Group income as previously reported					4 544	4 544
Change in accounting policy	30.2				(19)	(19)
Dividends paid	27.2				(1 196)	(1 196)
Translation gains			4 037			4 037
Issue of share capital and share premium		462				462
Elimination of treasury shares		(62)				(62)
Investment surplus transferred to revaluation reserve				330	(330)	–
Capital deficit				(39)		(39)
Transfer of revaluation and other reserves				(2)	2	–
Liberty Group capital reduction				(975)	975	–
Balance at 31 December 2001		2 187	5 618	1 334	16 554	25 693
Balance at 1 January 2002		2 187	5 618	1 334	16 554	25 693
Group income					4 997	4 997
Dividends paid	27.2				(1 433)	(1 433)
Translation reversal			(3 271)			(3 271)
Issue of share capital and share premium		95				95
Investment deficit transferred to revaluation reserve				(111)	111	–
Capital deficit				(19)		(19)
Transfer of revaluation and other reserves				(4)	4	–
Balance at 31 December 2002		2 282	2 347	1 200	20 233	26 062

Accounting policies

for the year ended 31 December 2002

The principal accounting policies adopted in the preparation of these financial statements are set out below.

The accounting policies are consistent with those adopted in the previous year, except for changes made as a result of the adoption of the new accounting statement on Investment Properties (AC 135). Also refer to accounting policy 18 – Property and equipment and note 30 to the financial statements, detailing the change in accounting policy.

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

1 Basis of preparation

The consolidated financial statements are prepared in accordance with, and comply with, South African Statements of Generally Accepted Accounting Practice, the South African Companies Act of 1973 and the Long-term Insurance Act of 1998. The consolidated financial statements are prepared in accordance with the going concern principle under the historical cost basis as modified by the revaluation of certain trading and insurance assets and liabilities. All monetary figures appearing in the financial statements, unless otherwise indicated, are stated in rand millions.

2 Basis of consolidation

The financial statements of subsidiaries are consolidated from the date on which effective control is acquired by the group, up to the date that such effective control is disposed of. For this purpose, subsidiaries are companies over which the group, directly or indirectly, has the power to exercise voting control either at equity or board level.

Special purpose entities are consolidated when the substance of the relationship between the bank and the special purpose entity indicates that the bank effectively controls the special purpose entity.

Subsidiaries are excluded from consolidation when control is intended to be temporary due to the subsidiary being acquired and held exclusively with a view to its subsequent disposal in the near future. These subsidiaries are treated as investments as described in accounting policy 10.

All inter-company transactions, balances and unrealised surpluses and deficits within banking and insurance operations are eliminated on consolidation.

Where necessary, accounting policies of subsidiaries have been changed to ensure consistency with the policies adopted by the group.

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

3 Translation of financial statements in foreign currencies

Foreign entities

Foreign entities are operations of which the activities are not an integral part of those of the reporting enterprise.

Assets and liabilities of foreign entities are translated into South African rands at year-end exchange rates. Capital and reserves are translated at historical rates. Goodwill on the balance sheets of foreign entities is treated as an asset of the foreign entity and translated at closing rates. Income statement items are translated at the average exchange rates for the year.

Translation differences arising from foreign entities are taken directly to reserves. On disposal of foreign entities, such translation differences are recognised in the income statement as part of the profit or loss on disposal.

All foreign operations have been accounted for as foreign entities in Standard Bank operations as their activities are not an integral part of the reporting enterprise.

Integrated foreign operations

Integrated foreign operations are operations of which the activities are an integral part of those of the reporting enterprise. Non-monetary assets and liabilities of these operations are translated into South African rands at rates of exchange ruling at the transaction date. Monetary assets and liabilities of these operations are translated into South African rands at rates of exchange ruling at the balance sheet date. Income and expenditure of integrated foreign operations are translated into South African

rands at the average rate of exchange during the year. Translation differences arising from the translation of integrated foreign operations are included in the income statement, in the year in which the difference arises, as investment surpluses or deficits and are shown as attributable to shareholders' or policyholders' funds as appropriate. Integrated foreign operations exist only in Liberty Group operations.

4 Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the group's share of the net assets of the subsidiary, associate or joint venture at the date of acquisition.

Goodwill arising on the acquisition of subsidiaries, associates or joint ventures occurring on or after 1 January 2000 is reported in the balance sheet and is amortised using the straight-line method over its estimated useful life, not exceeding 20 years.

Goodwill is carried at cost less any accumulated amortisation. The carrying amount of goodwill is reviewed annually and written down for impairment where considered necessary.

5 Associates and joint ventures

An associate is a company, not being a subsidiary, in which a long-term investment is held and over whose policies the group is able to exercise significant influence.

These investments are accounted for by means of the equity method. Equity accounting involves recognising the group's share of the associate's profit or loss for the year in the income statement. This method is applied from the date on which the enterprise became an associate, up to the date on which it ceases to be an associate. Where an investment is acquired and held exclusively with a view to its disposal in the near future, it is not accounted for under the equity method. These investments are accounted for on the basis set out in accounting policy 10.

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

The group's interests in jointly controlled entities are accounted for using the equity method.

Interests in associates and jointly controlled entities 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 the unamortised portion of goodwill on post 1 January 2000 acquisitions.

Inter-company profits and losses are eliminated in determining the group's share of equity accounted profits.

6 Provision for credit losses

Advances and other assets are stated after the deduction of provisions for credit losses.

Specific provisions, covering identified doubtful debts, are based on periodic evaluations of advances and take account of past loss experience, economic conditions and changes in the nature and level of risk exposure.

Retail loans and advances are considered non-performing when amounts are due and unpaid for three months and in corporate and business banking on a case by case analysis based on breaches of key loan conditions.

The amounts required to finance the assessed level of provision for credit losses and any subsequent reversals thereof or recoveries of amounts previously written off are charged to the income statement. Interest on advances is accrued to income until such time as reasonable doubt exists regarding recovery, thereafter such further interest is not included in income. Advances are written off using the specific provision for credit losses once all reasonable attempts at collection have been made and there is no realistic prospect of recovering outstanding amounts.

Property in possession is included in advances and is shown at the lower of cost and net realisable value.

General provisions cover losses which, although not specifically identified, may be present in any portfolio of bank advances.

7 Other provisions

Provisions are recognised when the group has a present legal or constructive obligation as a result of

Accounting policies continued

past events and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate of the amount of the obligation can be made.

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

8 Provision for leave pay

Employee benefits in the form of annual leave entitlements are provided for when they accrue to employees as a result of services rendered.

9 Cash and short-term funds

Cash and short-term funds comprise coin and bank notes, balances with central banks, balances with other banks, negotiable certificates of deposit, treasury bills and other money market instruments.

10 Investment and trading securities (excluding interest in subsidiaries, associates and joint ventures)

Standard Bank operations

Securities are held for investment, trading or hedging purposes.

Dated securities held for investment are stated at cost, adjusted for the amortisation of premiums or discounts using the effective interest rate method over the periods to maturity. The amortisation of premiums or discounts is included in interest on investment securities. Dated securities held for trading are reflected at fair value. Undated securities held for investment are carried at cost, or estimated net worth where impairment may have occurred. Undated securities held for trading are carried at fair value.

Fair value represents quoted market value in the case of listed securities, the Public Investment Commissioner's valuation in the case of dated unlisted securities and directors' valuation in the case of other unlisted securities. Movements in the fair value of securities held for trading are included in the income statement.

Securities used as a hedge are accounted for on the same basis as the hedged items.

Liberty Group operations

Marketable securities include government, municipal and utility stocks, debentures, listed shares, unit trusts and derivatives. Marketable securities are reflected at market value. Market value is calculated by reference to regulated exchange quoted ruling prices (repurchase prices for unit trusts) at the close of business on the last trading day on or before the balance sheet date.

Other investments, which include mortgages, loans, deposits, money market securities and unlisted shares, are valued at fair value using appropriate models.

11 Convertible bonds

Convertible bonds are valued at cost net of amortised bond issue expenses. The expenses incurred are amortised over the period of the bonds. The fair value of the liability component, at initial recognition, is calculated using a market interest rate for an equivalent non-convertible bond. The residual amount, representing the value of the equity component, is included in shareholders' equity in revaluation and other reserves.

12 Derivative financial instruments

Standard Bank operations

Derivative financial instruments held for trading purposes, including foreign exchange contracts, interest rate futures, forward rate agreements, currency and interest rate swaps, and currency and interest rate options (both written and purchased) are reflected at fair value.

Fair values are obtained from quoted market prices, discounted cash flow models and option pricing models as appropriate.

Gains and losses on derivative instruments held for trading are included in the income statement. Gains and losses on derivative financial instruments used for hedging purposes are deferred and recognised in the income statement on the same basis as the related hedged items. Gains and losses on derivative financial instruments held for banking purposes are recognised in the income statement on an accrual basis.

Liberty Group operations

Derivatives are marked to market. “Over-the-counter” options are valued at fair value using appropriate models.

Gains and losses arising from a change in value and on disposal are included in the income statement as investment surpluses or deficits and are shown as attributable to shareholders’ or policyholders’ funds as appropriate.

13 Repurchase and resale agreements and lending of securities

Securities sold subject to linked repurchase agreements are retained in the financial statements as trading or investment securities and valued in terms of accounting policy 10. The liability to the counterparty is included under “Deposit and current accounts”.

Assets purchased under agreements to resell are recorded as loans granted against security and included under “Loans and advances” to other banks or customers as appropriate.

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

Securities lent to counterparties are retained in the financial statements. 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.

14 Assets leased to customers and instalment sale contracts – lessor accounting

Lease and instalment sale contracts are regarded as financing transactions and rentals and instalments receivable, less unearned finance charges, are included in “Loans and advances” on the balance sheet.

Finance charges earned are computed at the effective rates of interest inherent in the contracts and are brought to income in proportion to balances outstanding under each contract. These balances are adjusted where appropriate to reflect the benefits of cash flow resulting from accelerated taxation allowances. The benefits arising from investment allowances on assets leased to customers are brought to account as income on the same basis.

15 Lessee accounting

Leases where the group assumes substantially all the benefits and risks of ownership, are classified as finance leases. Finance leases are capitalised at the present value of the lease payments.

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

16 Revenue and expenditure

Revenues described below represent the most appropriate equivalent of turnover.

Standard Bank operations

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

Net interest income

Interest income and expenses are recognised in the income statement for all interest-bearing instruments on an accrual basis using the effective yield method. Interest income is suspended when the collection of loans becomes doubtful. Such interest is excluded from income until received. Dividends received on lending activities are included in interest income.

External expenses incurred directly as a result of bringing margin-yielding assets onto balance sheet are amortised through interest income over the life of the asset.

Non-interest revenue

Non-interest revenue includes dividends from investments, fees and commissions from banking, insurance and related transactions, net revenue from exchange and securities dealing and net gains on the sale of investment banking assets. Dividends are

Accounting policies continued

recognised in the period in which right to receipt is established. Fees and commissions are recognised when the related service is performed.

Liberty Group operations

Revenue is derived substantially from the business of insurance and related activities and comprises premium, investment and other income.

Premium income

Premiums, other than in respect of the Lifestyle series of policies and group schemes, are recognised in the income statement when due. Premiums receivable in respect of group schemes are recognised when there is reasonable assurance of collection in terms of the policy contract. Premiums in respect of the Lifestyle series of policies are recognised in the income statement on a receipts basis. Premium income is shown net of reinsurance.

Investment income

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

Claims and policyholder benefits

Provision is made in the life funds for the estimated cost of claims outstanding at the end of the year, including those incurred but not reported at that date.

Outstanding claims and benefit payments are stated net of reinsurance.

Commissions

Commissions, comprising commissions on new insurance policies and renewal commissions, as well as expenses related to them including bonuses payable and the group's contribution to agents' pension and medical aid funds, are shown net of reinsurance commission received.

Commissions relating to unearned premiums are deferred and accounted for in the same period in which those premiums are accounted for.

New business costs

New business costs are recognised in the income statement when incurred and their recovery is provided for in the calculation of actuarial liabilities in accordance with Generally Accepted Actuarial Standards.

17 Life funds

Liberty Group's statutory actuary calculates, in accordance with prevailing legislation and Generally Accepted Actuarial Standards in South Africa, the group's liabilities under unmatured policies annually at the balance sheet date. The transfers to and from life funds reflected in the income statement represents the increase or decrease in actuarial liabilities, including provisions for policyholders' bonuses, net adjustments to policyholders' bonus stabilisation reserves, and net adjustments to margins held within the life funds. The life funds include deferred tax on unrealised capital gains in respect of policyholder investments. Deferred tax liabilities are not discounted.

18 Property and equipment

Investment properties are held to earn rentals and for capital appreciation, whereas owner-occupied properties are held for use in the supply of services or for administrative purposes, or in the case of Liberty Group operations, including earning rentals or capital appreciation for the benefit of policyholders.

Equipment, furniture, vehicles and other tangible assets are stated at cost less accumulated depreciation and are depreciated on the straight-line basis over the estimated useful lives of the assets. The carrying value of assets is reviewed regularly to assess whether there is any indication of impairment and where the carrying amounts of assets are greater than their recoverable amounts, the assets are written down to these recoverable amounts. Depreciation and impairment losses are included in the income statement.

Maintenance and repairs which neither materially add to the value of assets nor appreciably prolong their useful lives are charged against income. Surpluses and deficits on disposals of assets are included in the income statement.

Standard Bank operations

Freehold buildings, including investment properties, are accounted for in terms of the cost method and are depreciated on the straight-line basis over the estimated useful lives of the assets, not exceeding 40 years. This is not consistent with prior years. Previously, owner-occupied properties were not depreciated. This accounting policy has changed to comply with AC 135, Investment Properties. The freehold land portion is not depreciated.

Leasehold buildings are depreciated over the period of the lease or over such lesser period as is considered appropriate.

The estimated useful lives of tangible assets are as follows:

Property	–	not exceeding 40 years
Computer equipment	–	5 years
Motor vehicles	–	5 years
Office equipment	–	5 to 8 years
Furniture and fittings	–	5 to 13 years
Capitalised leased assets	–	over the shorter of the lease term or its useful life.

Liberty Group operations

Completed properties are reflected at a valuation based on open-market fair value at balance sheet date, which is determined annually by independent registered professional valuators and are not subject to depreciation. The open-market fair value is based on the open market net rentals for each property. For owner-occupied properties, depreciation is eliminated against the gross carrying amount of the assets. Properties under development are reflected at cost.

Unrealised surpluses or deficits arising on the valuation of completed properties and realised surpluses or deficits on disposal of properties are included in the income statement as investment surpluses or deficits and are shown as attributable to policyholders' or shareholders' funds as appropriate.

The expected useful lives of other tangible assets are as follows:

Office furniture	–	not exceeding 10 years
Computer equipment	–	not exceeding 5 years.

19 Intangible assets

Generally, costs associated with developing computer software programs are recognised as an expense as incurred. However, strategic information technology development costs that are clearly associated with an identifiable and unique system which will be controlled by the group and has a probable benefit exceeding one year, are recognised as intangible assets.

Computer software development costs recognised as assets are amortised on the straight-line basis at rates appropriate to the expected useful lives of the assets, not exceeding 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 permanently impaired.

20 Taxation

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

Deferred income tax and deferred capital gains tax are provided for on the comprehensive basis, using the balance sheet liability method, for all temporary differences arising between the tax bases of assets and liabilities and their carrying values for financial reporting purposes, using tax rates enacted at the balance sheet date.

Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the unused tax losses can be utilised.

Accounting policies continued

Indirect taxes, including non-recoverable VAT, RSC levies, skills development levies and other duties for banking operations, are included in the taxation charge in the income statement.

21 Foreign currency transactions and balances

Foreign currency transactions are accounted for at the exchange rates prevailing at the date of the transactions. Gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement. Such balances are translated at year-end exchange rates.

22 Equity

Preference shares

Preference shares in issue, which carry a mandatory coupon and are non-redeemable, are classified as equity.

Share issue costs

Allotment duty is deducted from share premium. All other share issue costs are expensed immediately.

Dividends on ordinary shares

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

23 Pensions and other post-retirement benefits

Standard Bank operations

Standard Bank operates a number of defined contribution plans based on a percentage of pensionable earnings, the assets of which are generally held in separate trustee-administered funds. Contributions to these plans are charged to the income statement.

The Standard Bank Group Retirement Fund is a defined contribution fund, with a defined benefit guarantee for employees who were members of the fund at 31 December 1994. A statutory actuarial valuation (including a valuation of the defined benefit guarantee) is performed every three years using the projected unit credit method. Interim valuations are also performed annually at the balance sheet date. A specific liability has been recognised within the fund to provide for guaranteed benefits which may arise under the defined benefit rules of the scheme. Any shortfall arising within the fund as a result of the defined benefit guarantee would be accounted for as a liability of the group in the year in which it arises.

Standard Bank provides post-retirement health care benefits to its retirees who went on retirement before 1 March 2000. The entitlement to post-retirement health care benefits is based on the employee remaining in service up to retirement age. The expected costs of these benefits are accrued over the period of employment, using the projected unit credit method. Valuations of these obligations are carried out by independent qualified actuaries. Unrecognised actuarial gains or losses are accounted for over the remaining working life of active employees.

Liberty Group operations

Liberty Group operates a funded defined benefit pension scheme as well as defined contribution pension and provident schemes. With effect from 1 March 2001 the majority of employees accepted an offer to convert their retirement plans from defined benefit to defined contribution. Employees joining after 1 March 2001 automatically become members of the defined contribution schemes.

The Pension Funds Act, 1956, governs the defined benefit pension scheme, now closed to new employees from 1 March 2001. Employer companies contribute the total cost of benefits provided taking account of the recommendation of the actuaries. Statutory actuarial valuations are required every three years using the projected unit credit method. Interim valuations are also performed annually at the balance sheet date. Current service costs to the defined benefit plan are recognised as expenses in the current year. Past service costs, experience adjustments and the effect of changes in actuarial assumptions are recognised as expenses or income in the current year to the extent that they relate to retired employees. For active employees, these items are recognised as expenses or income systematically over the expected remaining service period of employees.

Both employer companies and employees fund the defined contribution schemes. Contributions are charged to the income statement when incurred.

Liberty Group operates an unfunded post-retirement medical aid scheme for employees who joined the group prior to 1 July 1998. Medical aid costs are included in the income statement within management expenses in the period during which the employees render services to the group. For past service of employees the group recognises and provides for the actuarially determined present value of post-retirement medical aid employer contributions on an accrual basis using the projected unit credit method.

24 Equity participation plans

Share options are granted to eligible employees. No compensation cost is recognised as the options are granted at market value on the date of the grant. Proceeds received are credited to share capital (par value) and the surplus net of any transaction costs to share premium.

25 Acceptances

Acceptances comprise undertakings by the group to pay bills of exchange drawn on customers. The group expects most acceptances to be settled simultaneously with the reimbursement from customers. Acceptances are accounted for and disclosed as liabilities with corresponding contra-assets, within other liabilities and other assets respectively.

26 Segment reporting

A segment is a distinguishable component of the group engaged in providing products or services within a particular economic environment, which is subject to risks and rewards that are different from those of other segments.

Banking segments, with a majority of income earned from external customers and whose total income, operating profit or total assets are 10% or more of the segments in total, are reported separately.

27 Comparative figures

Where necessary, comparative figures have been reclassified to conform with changes in presentation in the current year and the change in accounting policy.

Following the formation of STANLIB, certain entities previously included in Liberty Group operations are now reported in Standard Bank operations. Comparatives relating to these entities have been reclassified accordingly.

Notes to the annual financial statements

for the year ended 31 December 2002

1 Segment reporting

2002	Domestic Banking					
	Retail Banking	Wholesale Banking			Central services	Total
		SCMB	Business Banking	Property Finance		
	Rm	Rm	Rm	Rm	Rm	Rm
Net interest income before provision for credit losses	5 187	1 148	1 356	195	60	7 946
Provision for credit losses	847	212	277	58	22	1 416
Net interest income	4 340	936	1 079	137	38	6 530
Non-interest revenue	4 563	2 420	554	238	(5)	7 770
Staff costs	2 052	803	236	58	1 181	4 330
Other operating expenses	4 010	967	455	67	(1 438)	4 061
Operating profit	2 841	1 586	942	250	290	5 909
Income from associates	24	36	–	–	–	60
Goodwill amortisation	–	–	–	–	(26)	(26)
Income before taxation						
– Standard Bank operations	2 865	1 622	942	250	264	5 943
– Liberty Group operations						
Taxation	1 069	305	307	84	228	1 993
Income after taxation	1 796	1 317	635	166	36	3 950
Attributable to outside and preference shareholders	–	16	–	–	–	16
Investment deficit	–	–	–	–	–	–
Income attributable to ordinary shareholders	1 796	1 301	635	166	36	3 934
Headline earnings	1 796	1 301	635	166	62	3 960
Headline return on equity (%)	31,7	28,0	35,2	28,5	–	31,2
Cost-to-income ratio (%)	62,2	49,6	36,2	28,9	–	53,4
Net interest margin (%)	7,53	1,10	7,59	2,39	–	3,90
Credit loss ratio (%)	1,24	0,56	1,51	0,76	–	1,06
Total assets (excluding inter-segmental balances)	76 612	101 731	19 175	9 871	4 528	211 917
Interest in associates	11	125	–	–	–	136
Total liabilities	71 107	97 099	17 499	9 148	4 148	199 001
Average equity	5 657	4 639	1 802	582	–	12 680
Capital expenditure	291	79	18	6	719	1 113
Depreciation charge	138	44	6	28	334	550
Number of employees	16 104	2 414	1 749	256	6 638	27 161

International Operations	Stanbic Africa	STANLIB	Centralised funding	Standard Bank operations	Liberty Group	Standard Bank Group
Rm	Rm	Rm	Rm	Rm	Rm	Rm
1 244	1 321	53	(31)	10 533		10 533
487	58	–	(6)	1 955		1 955
757	1 263	53	(25)	8 578		8 578
2 264	923	509	(31)	11 435		11 435
1 687	674	232	11	6 934		6 934
819	690	212	(129)	5 653		5 653
515	822	118	62	7 426		7 426
–	38	–	(2)	96		96
(35)	(26)	–	(64)	(151)		(151)
480	834	118	(4)	7 371		7 371
					1 355	1 355
86	305	23	28	2 435	359	2 794
394	529	95	(32)	4 936	996	5 932
–	73	33	–	122	702	824
–	–	–	–	–	(111)	(111)
394	456	62	(32)	4 814	183	4 997
429	482	62	32	4 965	298	5 263
6,3	27,4	23,9	1,6	21,2	–	20,3
71,4	60,8	79,0	–	57,3	–	57,3
1,19	6,18	4,46	–	3,26	–	–
1,60	0,68	–	–	1,18	–	–
80 005	20 693	1 573	(10 251)	303 937	85 761	389 698
–	91	1	48	276	–	276
75 622	18 945	1 173	(14 782)	279 959	77 679	357 638
6 810	1 760	259	1 944	23 453	2 417	25 870
90	102	78	–	1 383	220	1 603
88	117	17	–	772	133	905
1 267	5 470	715	–	34 613	3 282	37 895

Notes to the annual financial statements continued

1 Segment reporting

2001	Domestic Banking					
	Retail Banking	Wholesale Banking			Central services	Total
		SCMB	Business Banking	Property Finance		
	Rm	Rm	Rm	Rm	Rm	Rm
Net interest income before provision for credit losses	4 345	975	1 082	162	(182)	6 382
Provision for credit losses	736	195	270	38	93	1 332
Net interest income	3 609	780	812	124	(275)	5 050
Non-interest revenue	3 871	1 788	454	140	62	6 315
Staff costs	1 713	619	199	47	1 018	3 596
Other operating expenses	3 589	840	400	34	(1 361)	3 502
Operating profit	2 178	1 109	667	183	130	4 267
Income from associates	8	–	–	–	–	8
Goodwill amortisation	–	–	–	–	(23)	(23)
Income before taxation						
– Standard Bank operations	2 186	1 109	667	183	107	4 252
– Liberty Group operations						
Taxation	745	151	206	57	142	1 301
Income after taxation	1 441	958	461	126	(35)	2 951
Attributable to outside and preference shareholders	–	3	–	–	–	3
Investment surplus	–	–	–	–	–	–
Income attributable to ordinary shareholders	1 441	955	461	126	(35)	2 948
Headline earnings	1 441	955	461	126	(12)	2 971
Headline return on equity (%)	26,9	26,8	30,4	22,3	–	27,0
Cost-to-income ratio (%)	64,5	52,8	39,0	26,8	–	55,9
Net interest margin (%)	7,13	1,16	6,68	2,46	–	3,78
Credit loss ratio (%)	1,27	0,55	1,53	0,61	–	1,12
Total assets (excluding inter-segmental balances)	64 871	97 861	18 265	8 190	2 689	191 876
Interest in associates	13	–	–	–	–	13
Total liabilities	59 155	93 232	16 486	7 146	4 030	180 049
Average equity	5 348	3 558	1 516	566	–	10 988
Capital expenditure	256	80	6	5	338	685
Depreciation charge	109	35	6	20	195	365
Number of employees	15 628	2 477	1 695	249	6 608	26 657

International Operations	Stanbic Africa	STANLIB	Centralised funding	Standard Bank operations	Liberty Group	Standard Bank Group
Rm	Rm	Rm	Rm	Rm	Rm	Rm
862	887	36	10	8 177		8 177
185	87	–	(1)	1 603		1 603
677	800	36	11	6 574		6 574
1 824	565	498	(67)	9 135		9 135
1 154	415	185	(3)	5 347		5 347
560	432	144	(45)	4 593		4 593
787	518	205	(8)	5 769		5 769
–	41	–	–	49		49
(22)	(6)	–	(14)	(65)		(65)
765	553	205	(22)	5 753		5 753
					2 114	2 114
139	217	67	32	1 756	980	2 736
626	336	138	(54)	3 997	1 134	5 131
–	17	56	1	77	816	893
–	–	–	–	–	287	287
626	319	82	(55)	3 920	605	4 525
648	325	82	(41)	3 985	434	4 419
10,9	21,4	54,7	(2,9)	19,9	–	20,1
63,8	58,3	61,6	–	57,4	–	57,4
1,27	5,89	4,35	–	3,31	–	–
0,81	1,22	–	–	1,11	–	–
100 631	19 519	804	(6 634)	306 196	89 038	395 234
–	124	–	50	187	–	187
95 440	17 494	501	(10 790)	282 694	80 874	363 568
5 938	1 517	150	1 430	20 023	1 966	21 989
101	123	28	–	937	325	1 262
62	79	11	–	517	133	650
1 159	4 547	723	–	33 086	3 364	36 450

Notes to the annual financial statements continued

1 Segment reporting continued

The principal business units in the group are as follows:

Business unit	Scope of operations
Domestic Banking	Represents mainly banking operations in South Africa and consists of:
Retail Banking	Banking, investment, insurance and other financial services to individual customers, the agricultural sector and small and medium sized enterprises.
Wholesale Banking	Banking services to corporate and commercial clients provided by:
– SCMB	Corporate, commercial and investment banking services to corporate clients in South Africa, foreign banks and international counterparties.
– Business Banking	Financial services to medium sized businesses.
– Property Finance	Property development, financing and advisory services.
Central services	Support functions to business units and divisional eliminations.
International Operations	International investment banking headquartered in London and related banking services in Asia, Europe and the Americas, and offshore banking services in Isle of Man, Jersey and Mauritius.
Stanbic Africa	Commercial, retail and investment banking services in Botswana, Democratic Republic of Congo, Ghana, Ivory Coast, Kenya, Lesotho, Madagascar, Malawi, Mauritius, Mozambique, Namibia, Nigeria, Swaziland, Tanzania, Uganda, Zambia and Zimbabwe.
STANLIB	Management of institutional and retail funds and investment portfolios and provision and marketing of a wide range of financial products to mainly retail clients.
Centralised funding	Consolidation unit housing group investments, central costs and group eliminations.
Liberty Group	Investment and risk products designed to cater for personal and corporate investment, life insurance, disability, health insurance and retirement needs.

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

	Group	
	2002 Rm	2001 Rm
Standard Bank operations		
2 Cash and short-term funds		
Coin and bank notes	5 582	3 920
Balances with central banks	21 512	11 313
Balances with other banks	5 894	9 759
Negotiable certificates of deposit	4 410	6 073
Treasury bills	7 958	11 121
	45 356	42 186

	Group Carrying value 2002 Rm	Group Valuation 2002 Rm	Group Carrying value 2001 Rm	Group Valuation 2001 Rm
3 Investment and trading securities				
3.1 Summary				
Group analysis				
Listed				
– Securities of, or guaranteed by, the South African Government	13 435	13 790	10 765	11 119
– Other	22 622	22 565	24 581	24 555
Unlisted	7 907	7 700	10 461	10 520
	43 964	44 055	45 807	46 194
Provision for credit risk inherent in dated investment securities (note 5)	(384)	–	(85)	–
	43 580	44 055	45 722	46 194
Investment securities				
– Listed	15 127	15 425	18 119	18 457
– Unlisted	3 906	3 699	5 456	5 511
Trading securities				
– Listed	20 930	20 930	17 227	17 217
– Unlisted	4 001	4 001	5 005	5 009
	43 964	44 055	45 807	46 194
Dated securities	37 795	37 815	42 031	42 334
Undated securities	6 169	6 240	3 776	3 860
	43 964	44 055	45 807	46 194
Maturity analysis				
The maturities represent periods to redemption of the investments recorded.				
– Redeemable on demand	2 816		2 668	
– Maturing within 1 month	1 522		1 032	
– Maturing after 1 month but within 6 months	4 089		2 794	
– Maturing after 6 months but within 12 months	2 777		1 592	
– Maturing after 12 months	32 760		37 721	
	43 964		45 807	

3.2 Redemption value

Dated investment and trading securities had a redemption value at 31 December 2002 of R41 884 million (2001: R44 397 million).

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

Notes to the annual financial statements continued

4 Loans and advances

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

	Group	
	2002 Rm	2001 Rm
4.1 Loans and advances net of provision for credit losses		
Loans and advances to banks		
– Loans and overdrafts	5 695	3 274
– Loans granted under resale agreements	1 635	2 475
Loans and advances to customers		
– Loans and overdrafts	74 729	80 708
– Card debtors	4 392	3 743
– Mortgage advances	58 714	48 802
– Instalment sale and finance leases	24 904	21 365
– Preference shares and debentures	592	1 235
– Trade, other bills and bankers' acceptances	3 103	3 721
	173 764	165 323
Provision for credit losses (note 5)	(3 387)	(3 321)
	170 377	162 002
Maturity analysis		
The maturity analysis is based on the remaining periods from year-end to contractual maturity.		
– Redeemable on demand	27 846	29 212
– Maturing within 1 month	11 291	16 599
– Maturing after 1 month but within 6 months	19 813	22 969
– Maturing after 6 months but within 12 months	16 581	14 472
– Maturing after 12 months	98 233	82 071
	173 764	165 323

	Group	
	2002 Rm	2001 Rm
Segmental analysis – industry		
Agriculture	4 294	4 432
Construction	1 447	1 805
Electricity	3 945	2 322
Finance	39 387	38 503
Individuals	67 051	57 891
Manufacturing	14 799	15 615
Mining	5 938	7 785
Other services	24 147	23 706
Transport	9 238	7 154
Wholesale	3 518	6 110
	173 764	165 323

Segmental analysis – geographic area

The following table sets out the distribution of the group's gross loans and advances by geographic area where the loans are recorded, before deduction of specific and general credit loss provisions. The geographic spread of loans and advances within the various regions of South Africa closely follows the demographic and economic activities within the country.

	Group		Group	
	2002 %	2002 Rm	2001 %	2001 Rm
South Africa	72	124 268	69	113 064
Africa	5	9 088	5	8 585
International	23	40 408	26	43 674
	100	173 764	100	165 323

Details of segments are provided in note 1 on page 120.

4.2	Unearned finance charges deducted from instalment sale and leasing accounts (accounting policy 14)	7 258	4 546

Notes to the annual financial statements continued

	Group 2002 Rm	2001 Rm
5 Provision for credit losses		
Balance at beginning of the year	3 406	3 474
Movements for the year		
– Credit losses written off	(1 314)	(2 141)
– Credit losses recovered and provisions reversed	181	233
– Exchange and other movements	(457)	237
– Provision for the year per income statement	1 955	1 603
Balance at end of the year	3 771	3 406
Comprising:		
Loans and advances		
Specific provisions	1 834	1 830
General provisions	1 553	1 491
	3 387	3 321
Credit risk inherent in investment and trading securities		
Specific provisions	384	85
	384	85
Balance at end of the year	3 771	3 406
Segmental analysis of specific provisions for loans and advances by industry		
Agriculture	150	61
Construction	23	6
Electricity	5	17
Finance	358	264
Individuals	406	415
Manufacturing	100	421
Mining	86	122
Other services	549	385
Transport	33	28
Wholesale	124	111
	1 834	1 830

	Group 2002 Rm	2001 Rm
6 Other assets		
Trading account assets	31 614	41 172
Items in the course of collection	704	800
Accrued interest	2 377	2 371
Current tax assets	215	1 235
Deferred tax [1]	245	87
Acceptances outstanding	156	315
Other debtors	5 455	6 667
	40 766	52 647

[1] Refer to note 19 on page 135.

Trading account assets are carried at fair value.

7 Interest in associates		
Carrying value at beginning of the year	187	100
Movements for the year		
– Share of profit	96	49
– Net additions	135	50
– Share of direct reserve movements	(72)	36
– Goodwill amortised (note 8.2)	(46)	(14)
– Distribution of profit	(24)	(34)
Net carrying value at end of the year	276	187
Cost of investments	273	138
Share of reserves	63	63
Goodwill amortised	(60)	(14)
	276	187
Valuation		
Unlisted investments	276	187
	276	187

Goodwill on acquisition of associates of R117 million (2001: R75 million) is being amortised over 5 years.

Associates and interests therein are listed in Annexure B on page 169.

Notes to the annual financial statements continued

	Group 2002 Rm	Group 2001 Rm
8 Goodwill		
8.1 Goodwill on subsidiaries		
Cost at beginning of the year	464	–
Acquisitions	122	363
At acquisition fair value adjustments	16	–
Exchange movements	(70)	101
Cost at end of the year	532	464
Accumulated amortisation at beginning of the year	(61)	–
Goodwill amortised	(105)	(51)
Exchange movements	15	(10)
Accumulated amortisation at end of the year	(151)	(61)
Balance at end of the year	381	403

	2002 Gross goodwill Rm	2002 Amortisation period	2002 Net goodwill Rm	2001 Net goodwill Rm
Goodwill comprises:				
Melville Douglas Investment Management (Proprietary) Limited	112	5 years	74	109
Jardine Fleming Bank Limited	94	5 years	66	108
Protea Chemicals (Proprietary) Limited	128	5 years	81	106
Commercial Bank of Malawi Limited	83	5 years	58	80
Uganda Commercial Bank Limited	22	5 years	18	–
Yatirim Menkul Kiymetler A.S.	2	5 years	2	–
STANLIB Limited	91	10 years	82	–
	532		381	403

	Group 2002 Rm	Group 2001 Rm
8.2 Goodwill amortisation		
Goodwill amortisation on subsidiaries	(105)	(51)
Goodwill amortisation on associates (note 7)	(46)	(14)
Total goodwill amortisation per the income statement	(151)	(65)

	Group 2002 Rm	2001 Rm
9 Intangible assets		
Computer software – internally generated		
Cost at beginning of the year	394	252
Additions	90	127
Exchange movements	(50)	15
Cost at end of the year	434	394
Accumulated amortisation at beginning of the year	(83)	(36)
Amortisation	(84)	(43)
Exchange movements	23	(4)
Accumulated amortisation at end of the year	(144)	(83)
Net carrying amount at end of the year	290	311

	2002 Cost Rm	2002 Accumulated depreciation Rm	2002 Net book value Rm	2001 Cost Rm	2001 Accumulated depreciation Rm	2001 Net book value Rm
10 Property and equipment						
10.1 Summary						
Property						
– Freehold	986	335	651	1 104	353	751
– Leasehold	240	88	152	296	85	211
	1 226	423	803	1 400	438	962
Equipment						
– Computer equipment	2 369	1 164	1 205	1 956	825	1 131
– Motor vehicles	554	205	349	274	102	172
– Office equipment	213	93	120	167	75	92
– Furniture and fittings	832	405	427	705	332	373
– Capitalised leased assets	8	1	7	11	3	8
	3 976	1 868	2 108	3 113	1 337	1 776
Total	5 202	2 291	2 911	4 513	1 775	2 738

Notes to the annual financial statements continued

	2001 Net book value Rm	Additions Rm	Disposals Rm	Depreciation Rm	Exchange movements Rm	2002 Net book value Rm
10.2 Movement						
Property						
– Freehold	751	46	(63)	(24)	(59)	651
– Leasehold	211	52	(13)	(29)	(69)	152
	962	98	(76)	(53)	(128)	803
Equipment						
– Computer equipment	1 131	570	(51)	(415)	(30)	1 205
– Motor vehicles	172	488	(182)	(120)	(9)	349
– Office equipment	92	61	(4)	(27)	(2)	120
– Furniture and fittings	373	148	(7)	(72)	(15)	427
– Capitalised leased assets	8	1	–	(1)	(1)	7
	1 776	1 268	(244)	(635)	(57)	2 108
Total	2 738	1 366	(320)	(688)	(185)	2 911

	2000 Net book value Rm	Additions Rm	Disposals Rm	Depreciation Rm	Exchange movements Rm	2001 Net book value Rm
Property						
– Freehold	718	34	(4)	(19)	22	751
– Leasehold	142	82	(7)	(21)	15	211
	860	116	(11)	(40)	37	962
Equipment						
– Computer equipment	968	549	(98)	(314)	26	1 131
– Motor vehicles	142	92	(25)	(46)	9	172
– Office equipment	71	41	(2)	(19)	1	92
– Furniture and fittings	333	110	(30)	(52)	12	373
– Capitalised leased assets	2	9	–	(3)	–	8
	1 516	801	(155)	(434)	48	1 776
Total	2 376	917	(166)	(474)	85	2 738

10.3 Valuation

The open-market value of freehold property, based on valuations undertaken during 2001 by valuers registered under the Valuers Act 1982, was estimated at R1 145 million (2001: R1 243 million). Registers of property are available for inspection by members, or their authorised agents, at the registered offices of the company and its subsidiaries. Valuation was generally in terms of the investment method whereby net income is capitalised having regard to tenancy, location and the physical nature of the property.

	Group 2002 Rm	2001 Rm
Liberty Group operations		
11 Current assets		
Net outstanding premiums, accrued investment income and other debtors	3 480	2 263
Cash and short-term funds	274	716
	3 754	2 979

12 Investments

12.1 Summary

Marketable securities		
Marketable securities comprise:		
Government, municipal and utility stocks (note 12.2)	9 432	9 503
Debentures (note 12.2)	4 257	2 841
Listed shares	38 481	43 046
Unit trusts	10 408	12 330
	62 578	67 720
Other investments		
Other investments comprise:		
Investment properties (note 12.3)	8 977	8 562
Owner-occupied properties (note 12.4)	625	633
Unlisted equities	1 558	1 087
Mortgages and loans	1 985	1 826
Deposits and money market securities	5 263	5 703
Reinsurance policies	505	–
	18 913	17 811
Total	81 491	85 531

The aggregate redemption values of government, municipal and utility stocks, debentures, mortgages and loans are in excess of their book values.

Details of listed and unlisted investments and investment properties are recorded in registers which may be inspected by members, or their duly authorised agents, at Liberty Group's registered office.

12.2 Maturity analysis of government, municipal and utility stocks and debentures

Maturing within 1 year	178	256
Maturing after 1 year but within 5 years	3 783	3 172
Maturing after 5 years but within 10 years	4 790	2 996
Maturing after 10 years	4 938	5 920
	13 689	12 344

Notes to the annual financial statements continued

	Group 2002 Rm	2001 Rm
Liberty Group operations continued		
12.3 Investment properties		
Completed properties		
Open-market value at beginning of the year	8 557	8 124
Capitalised subsequent expenditure	16	96
Disposals	(56)	(142)
Reclassifications	2	–
Revaluations	356	479
Transfers to properties under development	(3)	–
Open-market value at end of the year	8 872	8 557
Properties under development		
Cost at beginning of the year	5	–
Additions	97	5
Acquisitions	8	–
Capitalised subsequent expenditure	89	5
Transfers from completed properties	3	–
Cost at end of the year	105	5
Total	8 977	8 562
At the end of the year, investment properties comprised:		
Office buildings	1 489	1 570
Shopping malls	6 055	5 804
Hotels	1 045	940
Other	388	248
	8 977	8 562
12.4 Owner-occupied properties		
Open-market value at beginning of the year	633	647
Revaluations	(6)	(14)
Reclassifications	(2)	–
Open-market value at end of the year	625	633
Carrying amount that would have been included in the financial statements had owner-occupied properties been carried at cost less depreciation	121	134

Investment and owner-occupied properties were independently valued as at 31 December 2002 by a valuer who is an associate member of the South African Council of Valuers and a member of the Royal Institute of Chartered Surveyors.

Liberty Group operations continued

13 Goodwill

	Group 2002 Rm	2001 Rm
Cost at beginning of the year	135	130
Additions	67	5
Disposals	(16)	–
Cost at end of the year	186	135
Accumulated amortisation at beginning of the year	(22)	(7)
Disposals	8	–
Amortisation	(14)	(15)
Goodwill amortised per the income statement	(4)	(5)
Attributable to minority interests	(10)	(10)
Accumulated amortisation at end of the year	(28)	(22)
Net carrying amount at end of the year	158	113

	2002 Gross goodwill Rm	2002 Amortisation period	2002 Net goodwill Rm	2001 Net goodwill Rm
Goodwill comprises:				
Liberty Ermitage Jersey Limited	119	10 years	92	104
Hightree Financial Services Limited	67	10 years	66	–
Liberty Specialised Investments (Proprietary) Limited	–	–	–	4
Simeka Financial Services (Proprietary) Limited	–	–	–	5
	186		158	113

14 Intangible assets

	Group 2002 Rm	2001 Rm
Computer software – internally generated		
Cost at beginning of the year	118	66
Additions	16	52
Cost at end of the year	134	118
Accumulated amortisation at beginning of the year	(56)	(17)
Amortisation	(29)	(27)
Impairment losses recognised	(13)	(12)
Accumulated amortisation at end of the year	(98)	(56)
Net carrying amount at end of the year	36	62

Notes to the annual financial statements continued

	2002 Cost Rm	2002 Accumulated depreciation Rm	2002 Net book value Rm	2001 Cost Rm	2001 Accumulated depreciation Rm	2001 Net book value Rm
Liberty Group operations continued						
15 Equipment and furniture						
15.1 Summary						
Office furniture, computer equipment and other tangible assets	929	607	322	882	529	353
	929	607	322	882	529	353

	2001 Net book value Rm	Additions Rm	Exchange movements Rm	Disposals Rm	Depreciation Rm	2002 Net book value Rm
15.2 Movement						
Office furniture, computer equipment and other tangible assets	353	91	2	(20)	(104)	322
	353	91	2	(20)	(104)	322

	2000 Net book value Rm	Additions Rm	Exchange movements Rm	Disposals Rm	Depreciation Rm	2001 Net book value Rm
Office furniture, computer equipment and other tangible assets	299	172	2	(14)	(106)	353
	299	172	2	(14)	(106)	353

Computer equipment and office furniture represent 89% (2001: 89%) of the total net book value.

	Group 2002 Rm	Group 2001 Rm
Standard Bank Group		
16 Share capital		
16.1 Authorised		
1 750 000 000 (2001: 1 750 000 000) ordinary shares of 10 cents each	175	175
8 000 000 (2001: 8 000 000) 6,5% first cumulative preference shares of R1 each	8	8
	183	183

	Group 2002 Rm	Group 2001 Rm
16.2 Issued		
1 331 078 467 (2001: 1 324 938 167) ordinary shares of 10 cents each	133	132
8 000 000 (2001: 8 000 000) 6,5% first cumulative preference shares of R1 each	8	8
	141	140

The number of options available to be granted under the terms of the Group Share Incentive Scheme as at the end of the year was 56 265 176 (2001: 61 634 449).

During the year, 6 140 300 (2001: 4 922 200) ordinary shares were issued to persons who exercised their options under the Group Share Incentive Scheme. Additional options over 16 041 800 (2001: 15 805 200) ordinary shares were granted during the year in terms of the scheme and 3 918 197 (2001: 1 671 566) options were surrendered.

The Group Share Incentive Scheme reconciliation is given in Annexure C on page 171.

16.3 Unissued shares		
285 813 686 (2001: 292 568 016) ordinary shares of 10 cents each are under the general authority of the directors which authority expires at the annual general meeting to be held on 19 May 2003.	29	30
133 107 847 (2001: 132 493 817) ordinary shares of 10 cents each are reserved to meet the requirements of the Group Share Incentive Scheme in terms of the authority vested in the directors by members' resolution dated 21 May 2002.	13	13
	42	43

16.4 Interest of directors in the capital of the company

The directors' interests are listed on pages 52 and 103.

Number of shares as at 31 December		
Beneficial ordinary	1 365 534	1 503 332
Options	5 714 418	3 829 218

16.5 Group Share Incentive Scheme

Information on options granted to employees and executive directors is given in Annexure C on page 171.

Notes to the annual financial statements continued

	Group 2002 Rm	Group 2001 Rm
17 Share premium – ordinary shares		
A premium of R94 million (2001: R461 million) was raised on the allotment and issue during the year of 6 140 300 ordinary shares (2001: 17 814 246 ordinary shares)	2 141	3 094
Cancellation of treasury shares	–	(1 047)
	2 141	2 047
18 Deposit and current accounts		
Deposit products include cheque accounts, savings accounts, call and notice deposits, fixed deposits and negotiable certificates of deposit. The maturity analysis below is based on the remaining periods from year-end to contractual maturity. The repricing maturities analysis for banking operations in South Africa for December 2002 is disclosed on page 69.		
Deposits and loans from banks	23 949	38 063
– Deposits from banks and central banks	17 109	31 777
– Deposits from banks under repurchase agreements	6 840	6 286
Customers' current accounts	71 381	67 991
Customers' savings accounts	19 049	16 986
Other deposits and loan accounts	113 634	97 843
Negotiable certificates of deposit	8 714	13 094
Customer deposits received under repurchase agreements	2 988	3 029
	239 715	237 006
Maturity analysis		
– Repayable on demand	114 186	112 674
– Maturing within 1 month	56 025	67 312
– Maturing after 1 month but within 6 months	43 240	31 170
– Maturing after 6 months but within 12 months	9 854	11 767
– Maturing after 12 months	16 410	14 083
	239 715	237 006

Segmental analysis – geographic area

The following table sets out the distribution of the group's deposit and current accounts by geographic area. The geographic spread of deposit and current accounts within the various regions of South Africa closely follows the demographic and economic activities within the country.

	Group		Group	
	2002 %	2002 Rm	2001 %	2001 Rm
South Africa	65	156 718	58	137 319
Africa	7	16 481	6	15 223
International	28	66 516	36	84 464
	100	239 715	100	237 006

Details of segments are provided in note 1 on page 120.

	Group	
	2002 Rm	2001 Rm
19 Other liabilities and provisions		
19.1 Summary		
Trading account liabilities	17 917	20 529
Items in the course of transmission	1 238	2 073
Accrued interest	5 768	4 684
Current tax liabilities	299	435
Deferred tax (note 19.2)	2 116	3 369
Provision for post-retirement medical aid contributions (note 19.4)	347	329
Acceptances outstanding	156	315
Other liabilities and provisions	5 649	8 055
	33 490	39 789

Trading account liabilities are carried at fair value.

19.2 Deferred tax analysis		
Accrued interest receivable	171	105
Assessed losses	(96)	(498)
Assets on lease	433	400
Depreciation	184	165
Derivatives	1 135	2 860
Provision for credit losses	(330)	(262)
Post-retirement medical aid contributions	(102)	(98)
Other differences	476	610
Deferred tax closing balance	1 871	3 282
Deferred tax liability	2 116	3 369
Deferred tax asset	(245)	(87)

Notes to the annual financial statements continued

	Group 2002 Rm	Group 2001 Rm
19.3 Deferred tax reconciliation		
Deferred tax opening balance	3 282	2 286
Various categories of (reversing)/originating temporary differences for the year:	(1 411)	996
Accrued interest	66	21
Assessed losses	402	(498)
Assets on lease	33	(59)
Depreciation	19	25
Derivatives	(1 725)	1 229
Provision for credit losses	(68)	5
Post-retirement medical aid contributions	(4)	(7)
Other differences	(134)	280
Deferred tax closing balance	1 871	3 282

19.4 Provision for post-retirement medical aid contributions		
Balance at beginning of the year	329	304
Provision raised	18	25
Balance at end of the year	347	329

Details on post-retirement medical benefits are provided in note 35 on page 157.

20 Bonds

Unsecured, subordinated, redeemable		
Qualifying as secondary capital in terms of applicable banking legislation:	5 754	5 899
Redeemable in 2010 [1]	1 200	1 200
Redeemable in 2010 [2]	1 500	1 500
Redeemable in 2010 [3]	857	998
Redeemable in 2011 [4]	150	150
Redeemable in 2013 [5]	47	51
Redeemable in 2013 [6]	2 000	2 000
Qualifying as tertiary capital in terms of applicable banking legislation:	1 000	–
Redeemable in 2005 [7]	1 000	–
	6 754	5 899

(1) 15,5% bonds issued in rands and paying a fixed semi-annual coupon. The bonds carry an option to be called at their nominal amount on 1 June 2005 or on any interest payment date thereafter. After this option date, the coupon switches to floating at the Johannesburg interbank agreed rate plus 260 basis points, until maturity on 1 June 2010.

(2) 13,75% bonds issued in rands and paying a fixed semi-annual coupon. The bonds carry an option to be called at their nominal amount on 2 December 2005 or on any interest payment date thereafter. After this option date, the coupon switches to floating at the Johannesburg interbank agreed rate plus 217 basis points, until maturity on 2 December 2010.

(3) Bonds issued in US dollars (US$100 million) and paying interest at a floating rate equal to the aggregate of 3% per annum and the offered rate for three-month US dollar deposits in the London interbank market. The bonds carry an option to be called at their nominal amount on 25 November 2005 or on any interest payment date thereafter. After this option date, the coupon switches to the aggregate of 3,5% per annum and the offered rate for three-month US dollar deposits in the London interbank market, until maturity on 24 November 2010.

(4) 12% bonds issued in Namibian dollars (N$150 million) and paying a fixed semi-annual coupon. The bonds carry an option to be called at their nominal amount on 20 November 2006 or on any interest payment date thereafter. After this option date, the coupon switches to the bid yield rate for the Republic of Namibia GC10 12% Bond plus 280 basis points, until maturity on 20 November 2011.

(5) Bonds issued in Botswana Pula (BP30 million) and paying interest at a floating rate equal to 125 basis points over three-month Botswana Certificates. The bonds convert into preference shares in the event that Stanbic Bank Botswana eliminates its net worth. After 12 December 2008, the coupon switches to 200 basis points over three-month Botswana Certificates, until maturity on 12 December 2013.

(6) 11,25% bonds issued in rands and paying a fixed semi-annual coupon. The bonds carry an option to be called at their nominal amount on 31 October 2008 or on any interest payment date thereafter. After this option date, the coupon switches to floating at the average mid-market yield rate per annum for three-month ZAR deposits plus 209 basis points, until maturity on 31 October 2013.

(7) 12,5% bonds issued in rands and paying a fixed semi-annual coupon. The due date for payment of any principal or interest in respect of the bonds may be deferred if so requested by the Registrar of Banks, subject to any conditions as may be prescribed by the Registrar of Banks. The bonds are redeemable on 15 February 2005.

	Group	
	2002 Rm	2001 Rm
Liberty Group operations		
21 Life funds		
Actuarial liabilities at end of the year	73 596	75 562
Balance at beginning of the year	75 562	62 138
Transfers (to)/from income statement	(1 966)	13 424
Deferred capital gains tax	104	356
Life funds at end of the year	73 700	75 918

Notes to the annual financial statements continued

	Group 2002 Rm	2001 Rm
Liberty Group operations continued		
22 Long-term liabilities		
Convertible bonds		
6,5% Liblife International B.V. 2004		
Nominal value (US$239,5 million (2001: US$251,6 million))	2 061	3 053
Unamortised bond issue costs	(11)	(26)
Total convertible bonds	2 050	3 027
Liability component	1 947	2 874
Equity component	103	153

Convertible bonds comprise:
US$239,5 million (R2,1 billion) (2001: US$251,6 million (R3,0 billion)) 6,5% convertible bonds issued by Liblife International B.V. in July 1994. The bonds are convertible by the holders into ordinary shares of Liberty Group Limited on the basis of 484 (2001: 484) shares for every US$5 000 of bonds, which is equivalent to US$10,33 (2001: US$10,33) per Liberty Group Limited ordinary share. Unless previously purchased and cancelled, or converted, the bonds will be redeemed on 30 September 2004.

23 Other liabilities		
23.1 Summary		
Outstanding claims, policyholders' benefits and other liabilities	1 467	1 292
Provisions	52	118
Current tax liabilities	249	410
Deferred tax (note 23.2)	121	126
Shareholders for dividends	–	1
Retirement benefit obligation (note 35)	143	135
	2 032	2 082
23.2 Deferred tax reconciliation		
Deferred tax opening balance	126	(58)
Net temporary differences	(5)	184
Deferred tax closing balance	121	126

	Group 2002 Rm	2001 Rm
Liberty Group operations continued		
Comprising:		
Deferred tax liability	225	490
Net prepaid commission accruals	20	17
Depreciation	4	4
Unrealised gains on shareholders' investments	97	113
Unrealised gains on policyholders' investments	104	356
Deferred tax liability included in the life funds	(104)	(356)
Deferred tax asset	–	(8)
Assessed losses	–	(5)
Leave pay provisions	–	(3)
	121	126

Standard Bank Group

24 Contingent liabilities and capital commitments

24.1 Contingent liabilities

Letters of credit	4 369	5 449
Guarantees	21 112	19 199
	25 481	24 648

24.2 Capital commitments

Contracted capital expenditure	467	84
Capital expenditure authorised but not yet contracted	167	38
	634	122

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

Notes to the annual financial statements continued

	Group 2002 Rm	2001 Rm
24.3 Operating lease commitments		
The future minimum payments under non-cancellable operating leases are as follows:		
Land and buildings		
Within 1 year	106	121
From 1 to 5 years	535	537
More than 5 years	942	868
	1 583	1 526
Equipment		
Within 1 year	7	8
From 1 to 5 years	93	52
	100	60

Standard Bank operations

25 Supplementary income statement information

25.1 Interest income		
Interest on loans and advances and short-term funds	27 063	21 118
Interest on investment securities	3 587	2 735
Dividends on undated investment securities and preference shares	580	515
	31 230	24 368

Dated securities are held in connection with normal banking business and income derived therefrom is included above in interest on loans and advances and interest on investment securities. Dividends on undated investment securities and preference shares as shown above arose as follows:

Listed equities	2	5
Unlisted equities	578	510
	580	515

	Group 2002 Rm	Group 2001 Rm
25.2 Interest expense		
Current accounts	484	355
Savings and deposit accounts	3 524	3 608
Market bid accounts	9 884	7 106
Foreign finance creditors	335	490
Bonds	1 020	743
Other interest-bearing liabilities	5 450	3 889
	20 697	16 191
25.3 Provision for credit losses		
Specific	1 794	1 379
General	161	224
	1 955	1 603
25.4 Non-interest revenue		
Fees and commission revenue	7 094	5 724
– Point of representation	2 662	2 360
– Electronic banking	524	381
– Knowledge based fees and commission	737	450
– Card based commission	765	638
– Other	2 406	1 895
Trading revenue	3 244	2 279
– Commodities	591	528
– Forex	1 337	963
– Debt securities	1 033	620
– Equities	56	57
– Other	227	111
Other revenue	1 097	1 132
– Banking and other	613	639
– Insurance	484	493
	11 435	9 135
25.5 Staff costs		
Salaries and allowances	6 542	5 176
Contribution to retirement benefit costs	294	141
Depreciation on fringe benefit motor vehicles	98	30
	6 934	5 347

Notes to the annual financial statements continued

	Group 2002 Rm	2001 Rm
25.6 Other operating expenses		
Premises	530	421
Depreciation	590	444
Property		
– Freehold	24	19
– Leasehold	29	21
Equipment		
– Computer equipment	415	314
– Motor vehicles	22	16
– Office equipment	27	19
– Furniture and fittings	72	52
– Capitalised leased assets	1	3
Amortisation – intangible assets	84	43
Auditors' remuneration	63	57
– Audit fees		
Current year	42	32
Prior year	1	2
– Fees for other services	20	23
Professional fees	453	411
– Managerial	19	30
– Technical and other	434	381
Operating lease charges	433	369
– Properties	407	347
– Equipment	26	22
(Profit)/loss on sale of fixed assets	(17)	23
Other expenses	3 517	2 825
	5 653	4 593

Depreciation on fringe benefit motor vehicles is disclosed in note 25.5 as part of staff costs.

Liberty Group operations

26 Supplementary income statement information

26.1 Income after tax

Income after tax is arrived at as follows:

	Group 2002 Rm	Group 2001 Rm
Life fund operating surplus	889	1 320
Net premium income	16 415	14 122
Dividend, interest and net rental income attributable to life funds	3 590	3 300
Investment (deficits)/surpluses attributable to life funds	(6 085)	11 841
Claims and policyholders' benefits	(11 914)	(11 192)
Commissions	(1 559)	(1 229)
Management expenses	(1 303)	(1 193)
Tax	(221)	(905)
Life funds transfers	1 966	(13 424)
Revenue earnings attributable to shareholders' funds	203	181
Operating income from financial services activities	337	298
Dividend, interest and rental income	398	311
Management expenses	(393)	(353)
Tax	(139)	(75)
Preference dividend in subsidiary	(82)	(43)
Exceptional items	(14)	(324)
Goodwill	(14)	(16)
Secondary tax on companies relating to capital reduction	–	(308)
Income after taxation	996	1 134

Notes to the annual financial statements continued

	Group 2002 Rm	2001 Rm
Liberty Group operations continued		
26.2 Management expenses		
Management expenses include the following:		
Administration fees	–	1
Auditors' remuneration	9	8
– Current year audit fees	7	5
– Fees for other services	2	3
Amortisation – intangible assets	29	27
Depreciation	104	106
– Furniture and fittings	15	11
– Computer equipment	75	80
– Other	14	15
Consultancy fees	34	45
– Actuarial	1	–
– Other	33	45
Defined pension fund contributions	9	17
Defined provident fund contributions	52	40
Impairment losses	13	12
Loss on disposal of fixed assets	–	1
Operating lease charges	30	17
Other related South African taxes	223	187
– Financial services levy	8	6
– Non-recoverable value added tax	160	128
– Regional services council levies	18	21
– Stamp duty	37	32

	Company 2002 Rm	2001 Rm
Standard Bank Group		
27 Supplementary income statement information		
27.1 Emoluments of Standard Bank Group directors		
Executive directors		
Emoluments of directors in respect of services rendered:		
As directors of Standard Bank Group	–	–
While directors of Standard Bank Group		
– as directors of subsidiary companies	41	25
– otherwise in connection with the affairs of Standard Bank Group or its subsidiaries	4	–
Non-executive directors		
Emoluments of directors in respect of services rendered:		
As directors of Standard Bank Group	3	5
While directors of Standard Bank Group		
– as directors of subsidiary companies	3	3
– otherwise in connection with the affairs of Standard Bank Group or its subsidiaries	2	2
Pensions of past directors	1	1
	54	36

Details of directors' emoluments are given on page 53.

	Group 2002 Rm	2001 Rm
27.2 Dividends		
Ordinary		
2001 final No. 65 of 74 cents per share (2000: 63 cents per share), paid on 15 April 2002 to shareholders registered on 12 April 2002	981	887
Interim No. 66 of 34 cents per share (2001: 28 cents per share), paid on 23 September 2002 to shareholders registered on 20 September 2002	452	399
	1 433	1 286
Dividends received on treasury shares held in a subsidiary	–	(90)
	1 433	1 196

A final dividend No. 67 of 90 cents per share was declared to shareholders registered on 11 April 2003.

Preference

6,5% first cumulative preference shares
No. 66 of 3,25 cents per share paid on 23 September 2002 to shareholders registered on 20 September 2002
No. 67 of 3,25 cents per share payable on 14 April 2003 to shareholders registered on 11 April 2003

Notes to the annual financial statements continued

	Group 2002 Rm	Group 2001 Rm
27.3 Earnings per share		
The calculations of earnings and headline earnings per share and fully diluted earnings and fully diluted headline earnings per share are as follows:		
Earnings	4 997	4 525
Headline earnings	5 263	4 419
Weighted average ordinary shares in issue (number of shares)	1 328 192 411	1 318 696 288
Earnings per share (cents)	376,2	343,1
Headline earnings per share (cents)	396,3	335,1
Weighted average ordinary shares in issue (number of shares)	1 328 192 411	1 318 696 288
Dilution from shares eligible for issue in terms of the Group Share Incentive Scheme – 28,5% (2001: 36,4%) of in-the-money share options outstanding (number of shares)	17 965 253	20 599 118
Average fair value of one ordinary share during the year (R)	31,00	31,35
Value of shares traded for the year (R'000)	20 886 559	16 038 000
Number of shares traded for the year ('000)	673 703	511 549
Average exercise price for shares under option (R)	22,17	19,93
Total exercise value of outstanding in-the-money share options (R'000)	1 398 497	1 126 968
Total number of in-the-money share options outstanding ('000)	63 072	56 548
Fully diluted weighted average ordinary shares in issue (number of shares)	1 346 157 664	1 339 295 406
Fully diluted earnings per share (cents)	371,2	337,9
Fully diluted headline earnings per share (cents)	391,0	329,9
27.4 Headline earnings		
Group income attributable to ordinary shareholders	4 997	4 525
Standard Bank income adjusted for goodwill amortised	151	65
Liberty Group income adjusted for:	4	116
– Secondary tax on companies relating to capital reduction	–	111
– Goodwill amortised on subsidiaries acquired	4	5
Investment deficit/(surplus)	111	(287)
Headline earnings	5 263	4 419

	Group 2002 Rm	Group 2001 Rm
28 Taxation		
28.1 Standard Bank operations		
Current year		
Tax on income	1 821	1 326
South African normal tax	2 764	187
South African deferred tax	(1 497)	800
Foreign normal and withholding tax	468	258
Foreign deferred tax	86	81
Transaction and other taxes	382	315
Secondary tax on companies	–	6
Regional services council levies	65	58
Value added tax	297	210
Duties	11	14
Skills development levy (net of recoveries)	9	27
Payments to trusts	24	–
Prior years	208	115
South African normal tax	86	–
South African deferred tax	122	115
Taxation per income statement	2 435	1 756

South African tax rate reconciliation (%)		
The tax charge for the year as a percentage of operating profit before tax:	33	31
Deduct: Regional services council levies and stamp duties	1	1
Value added tax	4	4
Duties, STC and skills development levy	–	1
Tax relating to prior years	3	2
Net tax charge	25	23
The charge for the year has been reduced/(increased) as a consequence of:		
Dividends received	4	6
Other non-taxable income	3	2
Other permanent differences	(2)	(1)
Standard rate of South African tax	30	30

Future tax relief

The group has estimated tax losses of R190 million (2001: R1 883 million) which are available for set-off against future taxable income, of which R104 million (2001: R1 659 million) has been applied to reduce the deferred tax balance.

Secondary tax on companies

The group has accumulated STC credits of R1 230 million (2001: R1 588 million) which have arisen as a result of dividends received and receivable exceeding dividends paid and provided for. The tax effect of these has not been raised as an asset.

Notes to the annual financial statements continued

	Group 2002 Rm	2001 Rm
28.2 Liberty Group operations		
Normal tax	329	399
Current year	404	408
Prior year	(86)	(77)
Deferred tax	11	68
South African capital gains tax	(224)	378
Current year	28	21
Deferred tax	(252)	357
Other related South African taxes	251	201
Retirement fund tax	156	169
Secondary tax on companies	95	32
Foreign tax – current year normal tax	3	2
Taxation per income statement	359	980
Capital gains tax attributable to shareholders' investment (deficits)/surpluses	9	143
Attributable to Standard Bank	3	43
Attributable to minorities	6	100
Secondary tax on companies relating to capital reduction	–	308
Attributable to Standard Bank	–	111
Attributable to minorities	–	197
Total taxation	368	1 431
Taxation per the income statement comprises:		
Tax attributable to life insurance operations	221	905
Tax attributable to shareholders' funds	138	75
Taxation per income statement	359	980

The Liberty Group has estimated tax losses of R227 million (2001: R158 million) which are available for set-off against future taxable income.

	Group 2002 Rm	Group 2001 Rm
29 Cash flow statement		
29.1 Reconciliation of operating profit to cash flows from operating activities		
Operating profit	8 795	8 207
Adjusted for:		
Depreciation – property and equipment	792	580
Depreciation – Liberty Group appurtenances	52	30
Provision for post-retirement medical aid contributions	18	25
Provision for credit losses	1 955	1 603
(Profit)/loss on sale of fixed assets	(17)	24
Amortisation of bond issue costs	9	8
Amortisation of fixed interest securities	(260)	(195)
Amortisation of intangible assets	113	70
Impairment losses	13	12
Life fund transfers	(1 966)	13 424
Investment deficits/(surpluses) attributable to life funds	6 085	(11 841)
Cash flows from operating activities	15 589	11 947
29.2 Cash receipts from customers		
Interest income	30 650	23 853
Fees and commission income	7 094	5 724
Trading and other income	23 493	20 733
	61 237	50 310
29.3 Cash paid to customers, employees and suppliers		
Interest expense	(20 697)	(16 191)
Total operating expenses	(26 798)	(23 861)
	(47 495)	(40 052)
29.4 Dividends received		
Dividends from investment securities and preference shares	1 847	1 689
	1 847	1 689

Notes to the annual financial statements continued

	Group 2002 Rm	2001 Rm
29.5 Decrease/(increase) in income-earning assets		
Investment and trading securities	3 950	(27 435)
Loans and advances	(10 182)	(34 714)
Other assets	10 896	(19 751)
	4 664	(81 900)
29.6 (Decrease)/increase in deposits and other liabilities and provisions		
Customers' current, savings and other deposits, and deposits and loans from banks	4 273	45 047
Deposits received under repurchase agreements	513	2 773
Negotiable certificates of deposit	(4 380)	6 587
Other liabilities and provisions	(5 093)	16 316
	(4 687)	70 723
29.7 Taxation paid		
Amounts paid/(unpaid) at beginning of the year	263	(246)
Income statement charge	(4 093)	(2 189)
Capital gains tax included in life fund	(252)	357
Amounts unpaid/(paid) at end of the year	455	(263)
	(3 627)	(2 341)
29.8 Investment in subsidiaries		
Cost of acquisition of subsidiaries	(399)	(1 271)
Effects of exchange rate changes	6	(91)
	(393)	(1 362)

	Group 2002 Rm	Group 2001 Rm
Comprising:		
Cash and short-term funds	(561)	(11 305)
Investment and trading securities	(1 808)	(1 722)
Loans and advances	(148)	(2 111)
Other assets	(289)	(473)
Property and equipment	(73)	(107)
Total assets acquired	(2 879)	(15 718)
Deposit and current accounts	2 303	13 754
Other liabilities and provisions	269	998
	(307)	(966)
Minority shareholders' interests	30	58
Net assets acquired	(277)	(908)
Goodwill	(122)	(363)
Cash consideration	(399)	(1 271)
Effects of exchange rate changes	6	(91)
	(393)	(1 362)

29.9 Dividends paid

Amounts unpaid at beginning of the year	(1)	(1)
Dividends to ordinary shareholders	(1 433)	(1 196)
Dividends to minority shareholders in subsidiaries	(642)	(2 531)
Capitalisation share award	–	329
Amounts unpaid at end of the year	–	1
	(2 076)	(3 398)

30 Change in accounting policy

The effect of the change in accounting policy on reserves is as follows:

30.1 Restatement to the opening balance of reserves

Impact of adopting AC 135 (investment properties)	(353)	(334)
	(353)	(334)

Notes to the annual financial statements continued

	Group 2002 Rm	2001 Rm
30.2 Effect on income		
Impact of adopting AC 135 (investment properties)	(24)	(19)
	(24)	(19)

31 Third party funds under management

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

Asset management	60 027	66 279
Fund management	171 489	174 612
	231 516	240 891
Geographical area		
Africa (including STANLIB)	175 946	181 557
International	55 570	59 334
	231 516	240 891

32 Derivative financial instruments

32.1 Fair values

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

32.2 Use and measurement of derivative instruments

Derivative financial instruments are entered into for trading, customer facilitation and hedging purposes. Trading derivatives are reflected on-balance sheet at fair value and these fair values are reflected in the table alongside. The fair values of hedging derivatives are off-balance sheet and gains and losses on derivatives used for hedging are recognised in line with the underlying items which are being hedged.

32.3 Notional principal

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, it should be used only as a means of assessing the group's participation in derivative contracts.

	2002				2001
	Notional principal Rm	Gross positive fair value Rm	Gross negative fair value Rm	Net position Rm	Net position Rm
32.4 Derivative trading positions					
Foreign exchange contracts	561 504	33 138	(33 084)	54	(4 095)
Forward exchange contracts	504 533	29 680	(30 277)	(597)	(4 561)
Foreign exchange futures	13 716	369	(401)	(32)	–
Foreign exchange options	43 255	3 089	(2 406)	683	466
Interest rate contracts	2 977 632	44 887	(43 846)	1 041	(1 385)
Forward rate agreements	924 446	1 370	(1 179)	191	38
Caps and floors	36 421	103	(92)	11	10
Swaps	1 467 285	37 683	(38 008)	(325)	(2 533)
Swaptions	8 013	15	(53)	(38)	11
Bond options	3 785	50	(31)	19	118
Bonds	537 682	5 666	(4 483)	1 183	971
Commodity contracts	280 620	8 646	(5 366)	3 280	9 697
Commodity futures	76	2	–	2	3
Commodity forwards	28 728	3 995	(1 144)	2 851	10 236
Commodity options	251 816	4 649	(4 222)	427	(542)
Credit derivatives	31 634	399	(528)	(129)	66
Credit default swaps	23 547	132	(185)	(53)	(14)
Credit linked notes	3 516	16	(8)	8	5
Total return swaps	4 571	251	(335)	(84)	75
Equity derivatives	399 647	6 543	(5 578)	965	141
Options	381 806	6 258	(5 403)	855	116
Index options	496	82	(82)	–	–
Forwards	138	22	–	22	68
Futures	15 939	73	(73)	–	–
Other	–	13	(20)	(7)	(43)
Swaps	1 268	95	–	95	–
	4 251 037	93 613	(88 402)	5 211	4 424

Notes to the annual financial statements continued

	2002					
	Rand Rm	UK£ Rm	US$ Rm	Euro Rm	Other Rm	Total Rm
33 Currency risk						
On-balance sheet assets						
Standard Bank operations	173 096	9 094	86 084	12 091	23 572	303 937
Cash and short-term funds	16 718	1 265	20 421	300	6 652	45 356
Investment and trading securities	17 120	504	13 307	6 294	6 355	43 580
Loans and advances	127 027	2 778	27 907	4 175	8 490	170 377
Other assets	9 388	4 259	24 387	1 322	1 410	40 766
Interest in associates	185	–	–	–	91	276
Goodwill	196	167	–	–	18	381
Intangible assets	231	–	–	–	59	290
Property and equipment	2 231	121	62	–	497	2 911
Liberty Group operations (1)	83 297	339	2 115	10	–	85 761
Total assets	256 393	9 433	88 199	12 101	23 572	389 698
On-balance sheet liabilities						
Standard Bank operations	184 062	13 075	51 532	7 168	24 122	279 959
Deposit and current accounts	160 430	8 980	45 747	6 982	17 576	239 715
Other liabilities and provisions	17 932	4 095	4 928	186	6 349	33 490
Bonds	5 700	–	857	–	197	6 754
Liberty Group operations (1)	75 721	–	1 958	–	–	77 679
Total liabilities	259 783	13 075	53 490	7 168	24 122	357 638
Net assets including minority interest	(3 390)	(3 642)	34 709	4 933	(550)	32 060
Net off-balance sheet currency position	24 571	9 961	(30 954)	(4 608)	898	(132)
Net open foreign currency position	21 181	6 319	3 755	325	348	31 928

	2001					
	Rand Rm	UK£ Rm	US$ Rm	Euro Rm	Other Rm	Total Rm
Net open foreign currency position	19 112	6 760	5 420	(481)	1 192	32 003

(1) Only the exposure of shareholders' assets and liabilities is reflected in foreign currencies.

34 Related party transactions

34.1 Associates

During the year, the company and its subsidiaries, in the ordinary course of business, entered into various non-material transactions with associates. These transactions occurred under terms that are no more favourable than those arranged with third parties. Details of interests in and income from associates are disclosed in note 7 and Annexure B.

34.2 Subsidiaries

Details of interests in subsidiaries are disclosed in note 36 and Annexure A. Transactions between subsidiaries are conducted in the ordinary course of business at arm's length.

All intercompany transactions, balances and unrealised surpluses and deficits within banking and insurance operations are eliminated on consolidation.

Transactions between Standard Bank operations and Liberty Group are summarised as follows:

Bancassurance

In terms of the joint venture agreement with Liberty Group Limited and Charter Life Insurance Company Limited, Standard Bank Group accrued R105 million (2001: R55 million) in respect of simple products profits and complex products embedded value. The amounts accrued are expected to realise in future periods with R82 million (2001: R43 million) to be received in the coming year. In addition, fees and commission income were earned by Standard Bank operations in respect of bancassurance activities.

Banking arrangements

At 31 December 2002, Liberty Group held cash and cash equivalents of R259 million (2001: R485 million) as well as term deposits and money market securities to the value of R358 million (2001: R257 million) with Standard Bank. These deposits were made in the normal course of business at prevailing market rates. No unrealised profits or losses existed at year-end between Standard Bank operations and Liberty Group.

Notes to the annual financial statements continued

34.3 Directors

Details relating to directors' emoluments and shareholdings in the company are disclosed in the Corporate governance statement and the Directors' report on pages 53 and 103 respectively.

34.4 Shareholders

The principal shareholders of the company are detailed in the Directors' report on page 101.

35 Pensions and other post-retirement benefits

Standard Bank operations

Retirement fund

Membership of the principal fund, the Standard Bank Group Retirement Fund (SBGRF) exceeds 95% of Standard Bank operations' permanent staff in South Africa. The fund, one of the largest in South Africa, is a self-administered defined contribution fund governed by the Pension Funds Act, 1956. Employees who were members of the fund on 31 December 1994 have guaranteed benefits available under the rules of the defined benefit fund. New members from 1 January 1995 participate only in the benefits of the defined contribution fund. The fund is subject to statutory financial review by actuaries at an interval of not more than three years. The most recent valuation at 31 December 2000 confirmed that the fund was financially sound. Member elected trustees represent 50% of the trustee board.

During the year, a provision for retirement funding contributions of R150 million (2001: nil) was raised.

Account has not been taken of any potential surplus at 31 December 2002 as the apportionment of the surplus is still to be approved by the Registrar of Pension Funds in terms of the Pension Fund Second Amendment Act, 39 of 2001.

The majority of employees in South Africa who are not members of the SBGRF are members of two other funds designed for their occupational groups. Employees in territories beyond South African jurisdiction are members of either defined contribution or defined benefit plans governed by legislation in their respective countries. Defined benefit plans are fully funded.

Post-retirement healthcare benefits

The bank provides the following post-retirement healthcare benefits to its employees:

Active employees at 1 March 2000

A post-retirement healthcare benefit fund provides eligible employees, who were employed in South Africa on 1 March 2000, with a lump sum benefit on retirement enabling them to purchase an annuity to be applied towards their post-retirement healthcare costs. This benefit is pre-funded in a provident fund. Any shortfall in the payment to be made by these employees towards their healthcare costs subsequent to retirement is not the responsibility of the bank. The last actuarial valuation was performed on 1 March 2001 and reflected an excess in the fund. This excess was not accounted for as an asset by the bank as the approval from the Financial Services Board to transfer the excess to an employer reserve is still outstanding.

Retired employees at 1 March 2000

The company operates a post-retirement healthcare benefit scheme that covers all employees who went on retirement before 1 March 2000. The liability is unfunded and is valued every year using the projected unit credit method. The latest full actuarial valuation was performed on 31 December 2002.

A net liability of R347 million (2001: R329 million) has been recognised in the balance sheet as follows:

	Group	
	2002 Rm	2001 Rm
Included in other liabilities and provisions:		
Present value of unfunded obligations	395	343
Unrecognised actuarial losses	(48)	(14)
	347	329

The principal actuarial assumptions used for accounting purposes were:

Discount rate (%)	12,0
Medical inflation (%)	9,5
Return on investments (%)	12,0

Notes to the annual financial statements continued

Liberty Group operations

Pension fund

The defined benefit pension scheme, closed to new employees from 1 March 2001, is governed by the Pension Funds Act, 1956. With effect from 1 March 2001, the majority of employees accepted an offer to convert their retirement plans from defined benefit to defined contribution. Employees joining after 1 March 2001 automatically become members of the defined contribution scheme.

The following information relates to the defined benefit pension fund remaining after the above conversion.

In the opinion of the Liberty Group pension fund valuator, after the most recent statutory actuarial valuation as at 31 December 2002, the plan was financially sound.

The actuarial present value of funded obligations as at 31 December 2002 was R472 million (2001: R406 million). The value of plan assets at 31 December 2002 was R800 million (2001: R894 million).

The principal assumptions on which the valuation of the retirement fund was based were:

Retirement age	63 years for executives, 65 years otherwise
Anticipated after-tax return on investments (%)	13,0
Future salary increases (%)	10,0 (excluding increases on promotion)

Account has not been taken of any potential surplus at 31 December 2002 as the apportionment of the surplus is still to be approved by the Registrar of Pension Funds in terms of the Pension Fund Second Amendment Act, 39 of 2001.

The medical aid scheme

The group operates an unfunded post-retirement medical aid scheme for employees who joined the group prior to 1 July 1998. Medical aid costs are included in management expenses in the period during which the employees render services to the group.

For past service, Liberty Group recognises and provides for the actuarially determined present value of post-retirement medical aid employer contributions on an accrual basis using the projected unit credit method.

A net liability of R143 million (2001: R135 million) has been recognised in the balance sheet in respect of the scheme and no unrecognised actuarial losses existed at 31 December 2002.

The principal actuarial assumptions used for accounting purposes were:

Discount rate (%)	13,0
Medical inflation (%)	11,0
Return on investments (%)	13,0

Standard Bank Group Limited – Company annual financial statements

Balance Sheet

at 31 December 2002

	Note	Company 2002 Rm	2001 Rm
Assets			
Current tax assets		176	176
Other assets		14	17
Interest in subsidiaries	36	12 446	9 772
Interest in associates	37	110	64
Total assets		12 746	10 029
Equity and liabilities			
Capital and reserves		12 728	10 019
Share capital	16	141	140
Share premium	17	2 141	2 047
Reserves		10 446	7 832
Liabilities			
Other liabilities and provisions		18	10
Total equity and liabilities		12 746	10 029

Income statement

for the year ended 31 December 2002

	Note	Company 2002 Rm	2001 Rm
Dividends from subsidiaries		3 623	5 356
Interest income		5	5
Total income		3 628	5 361
Interest expense		6	–
Net income		3 622	5 361
Operating expenses		4	3
Operating profit		3 618	5 358
Exceptional items	38	466	–
Income before taxation		4 084	5 358
Taxation	39	37	54
Income attributable to ordinary shareholders		4 047	5 304

Standard Bank Group Limited – Company annual financial statements continued

Cash flow statement

for the year ended 31 December 2002

	Note	Company 2002 Rm	2001 Rm
Interest income		5	5
Interest and other expenses		(10)	(3)
Dividends received		3 623	5 356
Cash flows from operating activities	40.1	3 618	5 358
Decrease in other assets	40.2	3	125
Increase in other liabilities and provisions	40.3	8	–
Cash flows from operating funds		11	125
Taxation paid	40.4	(37)	(230)
Interest in subsidiaries	40.5	(2 208)	(4 392)
Interest in associates	37	(46)	(37)
Net cash used in investing activities		(2 254)	(4 429)
Proceeds from issue of share capital		95	71
Dividends paid	40.6	(1 433)	(895)
Net cash flows used in financing activities		(1 338)	(824)
Net increase in cash and short-term funds		–	–
Cash and short-term funds at beginning of the year		–	–
Cash and short-term funds at end of the year		–	–

Statement of changes in shareholders' funds

for the year ended 31 December 2002

	Note	Share capital and premium Rm	Revaluation reserve Rm	Retained earnings Rm	Total Rm
Balance at 1 January 2001		2 782	3 100	581	6 463
Income attributable to ordinary shareholders				5 304	5 304
Dividends paid	27.2			(1 286)	(1 286)
Issue of share capital and share premium		462			462
Cancellation of treasury shares		(1 057)		133	(924)
Balance at 31 December 2001		2 187	3 100	4 732	10 019
Balance at 1 January 2002		2 187	3 100	4 732	10 019
Income attributable to ordinary shareholders				4 047	4 047
Dividends paid	27.2			(1 433)	(1 433)
Issue of share capital and share premium		95			95
Balance at 31 December 2002		2 282	3 100	7 346	12 728

Notes to the annual financial statements

for the year ended 31 December 2002

	Company 2002 Rm	Company 2001 Rm
36 Interest in subsidiaries		
Shares at cost	12 326	10 705
Indebtedness to the company	573	721
	12 899	11 426
Indebtedness by the company	(453)	(1 654)
	12 446	9 772

Subsidiaries and investments and loans therein are listed in Annexure A on page 164.

37 Interest in associates		
Carrying value at beginning of the year	64	27
Net additions	46	37
Carrying value at end of the year	110	64
Valuation		
Unlisted investments	110	64
	110	64
38 Exceptional items		
Profit on sale of Standard Bank Unit Trusts Limited	463	–
Deregistration of Rabenk Investments (Proprietary) Limited	3	–
	466	–
39 Taxation		
Current year		
Tax on income	36	44
South African normal tax	20	32
Foreign and withholding taxes	16	12
Transaction and other taxes	1	10
Regional services council levies	–	8
Value added tax	1	2
	37	54

Standard Bank Group Limited – Company annual financial statements continued

Notes to the annual financial statements continued

	Company 2002 Rm	2001 Rm
South African tax rate reconciliation		
The tax charge for the year as a percentage of operating profit before tax:	1	1
The charge for the year has been reduced/(increased) as a consequence of:		
– Dividends received	26	30
– Other non-taxable income	3	–
– Other permanent differences	–	(1)
Standard rate of South African tax (%)	30	30

Secondary tax on companies

The company has accumulated STC credits of R998 million (2001: R872 million) which have arisen as a result of dividends received and receivable exceeding dividends paid and provided for. The tax effect of these has not been recognised as an asset.

40 Cash flow statement

40.1 Reconciliation of operating profit to cash flows from operating activities

Income before taxation	4 084	5 358
Adjusted for:		
– Profit on sale of investments	(463)	–
– Deregistration of subsidiaries	(3)	–
Cash flows from operating activities	3 618	5 358

40.2 Decrease in other assets

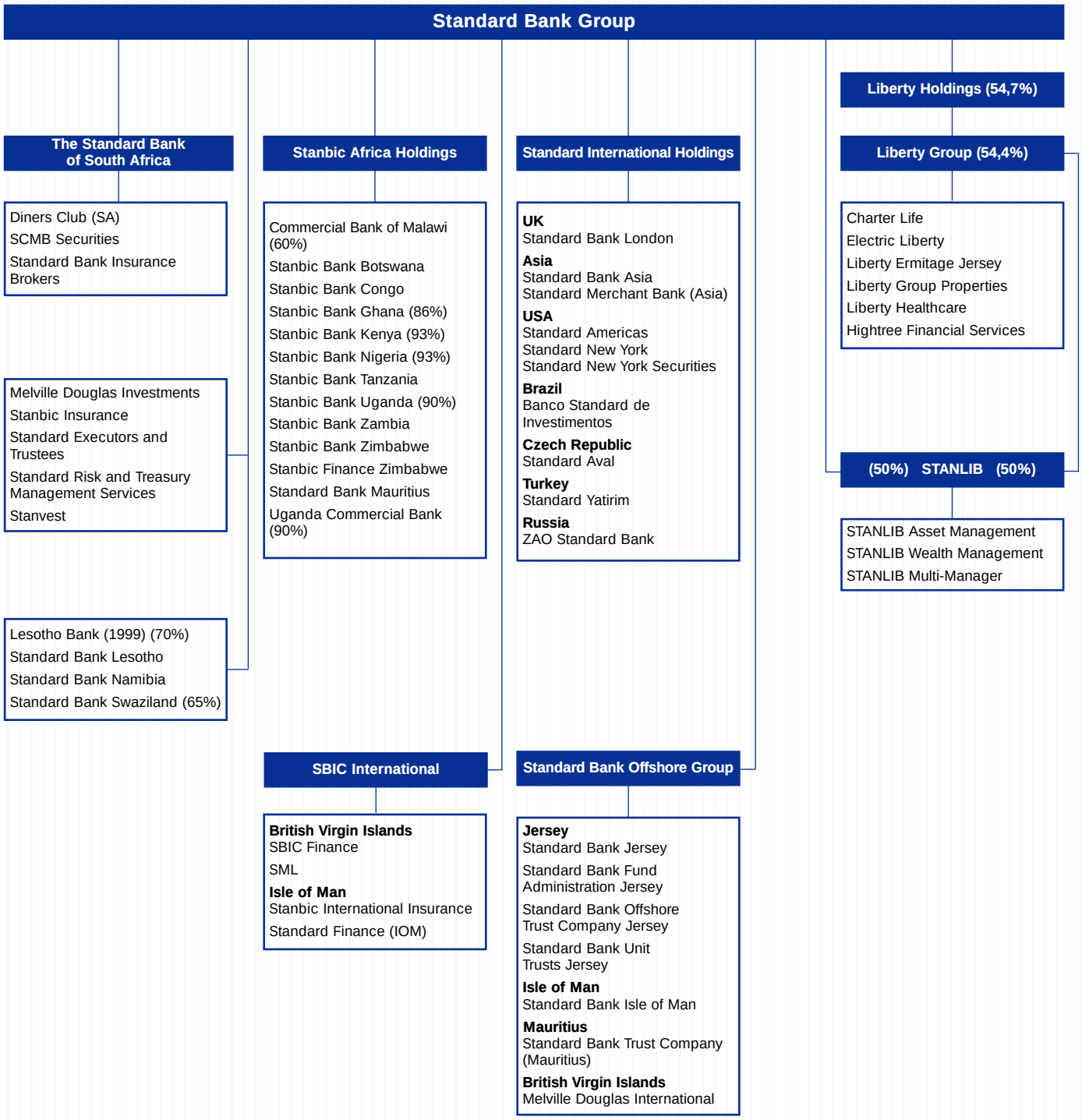
Loans and advances	–	141
Other assets	3	(16)
	3	125

40.3 Increase in other liabilities and provisions

Other liabilities and provisions	8	–
	8	–

	Company 2002 Rm	2001 Rm
40.4 Taxation paid		
Amounts paid at beginning of the year	176	–
Income statement charge	(37)	(54)
Amounts paid at end of the year	(176)	(176)
	(37)	(230)
40.5 Interest in subsidiaries		
Cost of acquisition of subsidiaries net of disposal	(1 155)	(3 129)
Movement in net indebtedness	(1 053)	(1 263)
	(2 208)	(4 392)
40.6 Dividends paid		
Amounts unpaid at beginning of the year	–	–
Dividends to ordinary shareholders	(1 433)	(1 286)
Capitalisation share award	–	391
Amounts unpaid at end of the year	–	–
	(1 433)	(895)

Annexure A – subsidiaries



Notes: This diagram depicts principal subsidiaries only.
The holding in subsidiaries is 100% unless otherwise indicated.

	Nature of operation	Issued capital Rm	Effective holding 2002 %	Effective holding 2001 %	Book value of shares 2002 Rm	Book value of shares 2001 Rm	Net indebtedness 2002 Rm	Net indebtedness 2001 Rm
Standard Bank will ensure that, except in the case of political risk, its banking subsidiaries, and its principal non-banking subsidiaries denoted by #, are able to meet their contractual liabilities.								
Banking subsidiaries								
The Standard Bank of South Africa Limited	Commercial bank	60	100	100	5 014	4 804	312	(1 039)
Banco Standard de Investimentos S.A. (Brazil) *	Investment bank	**	100	100				
Commercial Bank of Malawi Limited (Malawi) *	Commercial bank	13	60	60				
Standard Bank Lesotho Limited (Lesotho)	Commercial bank	17	100	100	13	13	–	–
Standard Bank Namibia Limited (Namibia)	Commercial bank	2	100	100	9	9	81	119
Standard Bank Swaziland Limited (Swaziland)	Commercial bank	9	65	65	56	56	13	11
Standard Bank London Limited (United Kingdom) *	Merchant bank	1 160	100	100				
Standard London (Asia) Limited (Hong Kong) *	Deposit taking company	78	100	100				
Standard Bank Asia Limited (Hong Kong) *	Merchant bank	587	100	100				
Standard Bank Jersey Limited (Jersey) *	Merchant bank	25	100	100				
Standard Bank Isle of Man Limited (Isle of Man) *	Merchant bank	25	100	100				
Standard Bank Channel Islands Limited (Jersey) *	Merchant bank	19	100	100				
Stanbic Bank Botswana Limited (Botswana) *	Commercial bank	31	100	100				
Stanbic Bank Kenya Limited (Kenya) *	Commercial bank	66	93	93				
Stanbic Bank Nigeria Limited (Nigeria) *	Merchant bank	29	93	90				
Stanbic Bank Tanzania Limited (Tanzania) *	Commercial bank	13	100	100				
Stanbic Bank Uganda Limited (Uganda) *	Commercial bank	17	90	100				
Stanbic Bank Congo s.a.r.l. (D R Congo) *	Commercial bank	**	100	100				
Stanbic Bank Zambia Limited (Zambia) *	Commercial bank	21	100	100				
Stanbic Bank Zimbabwe Limited (Zimbabwe) *	Commercial bank	55	100	100				
Stanbic Finance Zimbabwe Limited (Zimbabwe) *	Finance company	10	100	100				

Annexure A – subsidiaries continued

	Nature of operation	Issued capital Rm	Effective holding 2002 %	Effective holding 2001 %	Book value of shares 2002 Rm	Book value of shares 2001 Rm	Net indebtedness 2002 Rm	Net indebtedness 2001 Rm
Stanbic Bank Ghana Limited (Ghana) *	Merchant bank	32	86	91				
Lesotho Bank (1999) Limited (Lesotho) *	Commercial bank	35	70	70				
Standard Bank Mauritius Offshore Banking Unit (Mauritius) *	Commercial bank	226	100	100				
Standard Merchant Bank (Asia) Limited (Singapore) *	Merchant bank	78	100	100				
Uganda Commercial Bank Limited (Uganda) *	Commercial bank	9	90	–				
ZAO Standard Bank (Russia) *	Investment bank	**	100	–				
Non-banking subsidiaries								
STANLIB Limited	Wealth and asset management	**	65	–	910	–		
Standard Bank Insurance Brokers (Pty) Limited * #	Insurance broking	**	100	100				
Liberty Holdings Limited †	Insurance holding company	14	55	55	2 304	2 304		
Liberty Group Limited * †	Insurance company	27	30	30				
Melville Douglas Investment Management (Pty) Limited #	Portfolio management	**	100	100	53	53		
Lodestone Holdings (Pty) Limited * #	Life insurance/ fund management	20	65	65	–	10		
Stanvest (Pty) Limited *	Investment holding company	1	100	100				
Standard Finance (Isle of Man) Limited (Isle of Man) * #	Finance company	**	100	100				
Standard Bank Bond Investments Limited * #	Participation mortgage bond finance	**	100	100				
Stanbic Insurance Limited #	Short-term insurance	15	100	100	30	30		
SCMB Securities (Pty) Limited * #	Stockbrokers	**	100	100				
Diners Club (S.A.) (Pty) Limited * #	Travel and entertainment card	**	100	100				
Standard Executors and Trustees Limited * #	Trust company	**	100	100				
Standard Risk and Treasury Management Services (Pty) Ltd * #	Risk and treasury management services	**	100	100				
Stanbic International Insurance Limited (Isle of Man) *	Insurance company	1	100	100				
Stanbic Africa Holdings Limited (United Kingdom)	Investment holding company	66	100	100	118	118		
Standard Yatirim Menkul Kiymetler (Turkey) * #	Broker/ dealer	74	100	100				

	Nature of operation	Issued capital Rm	Effective holding 2002 %	Effective holding 2001 %	Book value of shares 2002 Rm	Book value of shares 2001 Rm	Net indebtedness 2002 Rm	Net indebtedness 2001 Rm
Standard International Holdings S.A. (Luxembourg) #	Investment holding company	72	100	100	99	99		
SBIC International Limited (British Virgin Islands)	Investment holding company	**	100	100	3 630	3 118	1	1
SBIC Investments S.A. (Luxembourg) * #	Investment holding company	287	100	100				
Standard Bank Offshore Group Limited (Jersey)	Investment holding company	17	100	100	49	49		
Standard New York, Inc (USA) * #	Investment holding company	**	100	100				
Standard New York Securities, Inc (USA) * #	Securities broker/ dealer	**	100	100				
Standard Americas, Inc (USA) * #	Trading company	**	100	100				
Standard Bank Asset Management Jersey Holdings Limited (Jersey) *	Investment holding company	**	100	100				
Standard Bank Manx Holdings Limited (Isle of Man) *	Investment holding company	1	100	100				
SML Limited (British Virgin Islands) *	Investment holding company	**	100	100				
Standard Bank London Holdings Limited (United Kingdom) *	Investment holding company	672	100	100				
Standard London (Asia) Sendirian Berhad (Malaysia)*	Introducing broker	1	100	100				
Standard Commodities (Asia) Limited (Hong Kong) *	Commodities trading	**	100	100				
Standard Resources Limited (United Kingdom) *	Services company	**	100	100				
Standard Aval s.r.o. (Czech Republic) *	Trade and other finance	**	100	100				
SBIC Finance Limited (British Virgin Islands) *	Project finance	**	100	100				
Standard Forfaiting Asia (Pte) Limited (Singapore) *	Forfaiting company	**	100	100				
SMT Limited (British Virgin Islands) *	Investment company	**	100	100				
Standard Fund Management S.A. (United Kingdom) * #	Fund management	**	100	100				
Standard Bank Trust Company (Jersey) Limited (Jersey) * #	Trust company	**	100	100				
Standard Bank Trust Company (Mauritius) Limited (Mauritius) * #	Trust company	**	100	100				
Standard Bank Asset Management Jersey Limited (Jersey) * #	Asset management	**	100	100				
Standard Bank Fund Administration Jersey Limited (Jersey) * #	Fund administration	**	100	100				
Standard Bank Offshore Trust Company Limited (Jersey) * #	Trust company	2	100	100				

Annexure A – subsidiaries continued

	Nature of operation	Issued capital Rm	Effective holding 2002 %	Effective holding 2001 %	Book value of shares 2002 Rm	Book value of shares 2001 Rm	Net indebtedness 2002 Rm	Net indebtedness 2001 Rm
Standard Bank Offshore Services Limited (Jersey) *	Services company	**	100	100				
Standard Bank Stockbrokers (C.I.) Limited (Jersey) * #	Stockbrokers	**	100	100				
Standard Bank Services Limited (Isle of Man) *	Services company	**	100	100				
Standard Bank Trust Company (Isle of Man) Limited (Isle of Man) * #	Trust company	1	100	100				
Standard Bank Stockbrokers (Isle of Man) Limited (Isle of Man) * #	Stockbrokers	3	100	100				
Miscellaneous	Finance companies		100	100	41	42	(287)	(25)
Total interest in subsidiaries					12 326	10 705	120	(933)

The issued share capital of foreign subsidiaries has been stated in the above table at their rand equivalents at the rates of exchange ruling on the dates of provision of capital. Detailed information is not given in respect of subsidiaries which are not material to the financial position of the group, including those acquired through realisation of securities held by banking companies.

* Held indirectly
** Issued share capital less than R1 million.
† Listed on the JSE.

Annexure B – associates and joint venture

Associates	Thomas Cook Rand Travellers Cheques Limited		Banco Standard Totta de Moçambique s.a.r.l (Mozambique)		South African Home Loans (Pty) Ltd	
Nature of business	Travellers cheques		Banking		Finance	
Year-end	December		December		February	
Date to which equity accounted	31 December 2002		31 December 2002		31 December 2002	
	2002	2001	2002	2001	2002	2001
Effective holding	49%	49%	41%	41%	49%	41%
	Rm	Rm	Rm	Rm	Rm	Rm
Carrying value	2	2	91	124	51	51
Directors' valuation	2	2	91	124	51	51
Balance sheet						
Non-current assets	–	–	373	408	2 393	1 327
Current assets	14	14	2 115	2 213	150	121
Non-current liabilities	(34)	(29)	(136)	(218)	(47)	(8)
Current liabilities	–	–	(2 128)	(2 099)	(2 447)	(1 406)
Income statement						
Attributable income	–	–	38	41	(2)	–
Loans to associates	–	–	–	–	350	127

Associates	JR163 Investments (Pty) Ltd		Other		Total associates	
Nature of business	Pharmaceuticals and photographic equipment		Various			
Year-end	April		Various			
Date to which equity accounted	31 December 2002		31 December 2002			
	2002	2001	2002	2001	2002	2001
Effective holding	30%	–	Various	Various	Various	Various
	Rm	Rm	Rm	Rm	Rm	Rm
Carrying value	72	–	60	10	276	187
Directors' valuation	72	–	60	10	276	187
Balance sheet						
Non-current assets	205	–	186	10	3 157	1 745
Current assets	611	–	336	3	3 226	2 351
Non-current liabilities	(356)	–	(140)	(3)	(713)	(258)
Current liabilities	(135)	–	(142)	(17)	(4 852)	(3 522)
Income statement						
Attributable income	24	–	12	–	72	41
Loans to associates	9	–	2	1	361	128

Annexure B – associates and joint venture continued

Joint venture	African Bank		Total joint venture	
Nature of business	Banking			
Year-end	September			
Date to which equity accounted	31 December 2002			
	2002	2001	2002	2001
Effective holding	50%	50%		
	Rm	Rm	Rm	Rm
Carrying value	–	–	–	–
Directors' valuation	–	–	–	–
Balance sheet				
Non-current assets	256	154	256	154
Current assets	10	14	10	14
Non-current liabilities	(9)	(5)	(9)	(5)
Current liabilities	(193)	(149)	(193)	(149)
Income statement				
Attributable income	24	8	24	8
Loans to joint venture	90	71	90	71

Annexure C – group share incentive scheme

	Number	
	2002	2001
Group Share Incentive Scheme reconciliation		
Options outstanding at beginning of the year	70 859 368	61 647 934
Granted	16 041 800	15 805 200
Exercised	(6 140 300)	(4 922 200)
Lapsed	(3 918 197)	(1 671 566)
Options outstanding at end of the year	76 842 671	70 859 368

The following options granted to employees, including executive directors, had not been exercised at 31 December 2002:

Number of ordinary shares	Option price range (cents)	Weighted average price (cents)	Option expiry period
926 200	835 – 1 350	982	Year to 31 December 2003
1 005 800	1 080 – 1 715	1 206	Year to 31 December 2004
1 554 700	1 250 – 2 500	1 363	Year to 31 December 2005
2 339 700	1 710 – 3 190	1 782	Year to 31 December 2006
3 997 000	1 830 – 3 200	2 085	Year to 31 December 2007
18 176 561	1 350 – 2 640	1 966	Year to 31 December 2008
8 064 400	1 715 – 2 640	1 832	Year to 31 December 2009
11 162 910	2 205 – 2 950	2 539	Year to 31 December 2010
14 257 100	2 770 – 3 590	3 185	Year to 31 December 2011
15 358 300	2 725 – 3 620	2 793	Year to 31 December 2012
76 842 671			

Abridged financial statements

of principal banking subsidiary

	The Standard Bank of South Africa Limited 31 December 2002 Rm	2001 Rm
Balance sheet		
Cash and short-term funds	31 083	23 855
Investment and trading securities	15 799	15 396
Loans and advances	125 075	110 710
Other assets	17 253	21 436
Interest in subsidiaries, fellow subsidiaries and associates	18 968	13 387
Intangible assets	226	225
Property and equipment	2 136	1 924
Total assets	210 540	186 933
Share capital	60	59
Share premium	5 145	4 936
Reserves	6 539	6 067
Total capital and reserves	11 744	11 062
Deposit and current accounts	172 728	150 635
Other liabilities and provisions	13 727	14 060
Bonds	5 700	4 700
Group undertakings	6 641	6 476
Total liabilities	198 796	175 871
Total equity and liabilities	210 540	186 933
Income statement		
Interest income	26 249	19 403
Interest expense	18 332	13 196
Net interest income before provision for credit losses	7 917	6 207
Provision for credit losses	1 359	1 330
Net interest income	6 558	4 877
Non-interest revenue	7 006	5 745
Total income	13 564	10 622
Operating expenses	8 233	6 979
Operating profit	5 331	3 643
Income received from fellow subsidiaries and associates	36	61
Exceptional items	256	–
Operating profit before taxation	5 623	3 704
Taxation	1 806	1 214
Income after taxation	3 817	2 490

Average balance sheet and interest rates

The table sets out daily average balances for the assets, liabilities and equity of Domestic Banking for the year indicated. For interest-earning assets and interest-bearing liabilities, the table reflects the amount of interest earned or paid and the average rate of interest. In this table, average balances are calculated on daily balances and the interest rate represents interest income or expense as a percentage of the corresponding average balance.

Domestic Banking	Year ended 31 December					
	2002			2001		
	Average balance Rm	Interest Rm	Average rate %	Average balance Rm	Interest Rm	Average rate %
Assets						
Short-term funds	32 122	2 796	8,7	21 075	1 403	6,7
Investments	18 855	2 080	11,0	11 042	777	7,0
Advances and other lending:						
– Overdrafts	9 699	1 596	16,5	9 885	1 469	14,9
– Mortgages	48 483	7 108	14,7	40 609	4 892	12,0
– Other [1]	60 530	9 203	15,2	48 045	8 955	18,6
Foreign currency lending	11 179	419	3,7	9 041	819	9,1
Total interest-earning assets	180 868	23 202	12,8	139 697	18 315	13,1
Interest in group companies	50			283		
Overdue and doubtful advances [2]	1 284			3 415		
Property and equipment	2 484			1 996		
Other non-earning assets [3]	19 282			23 548		
Total assets	203 968	23 202	11,4	168 939	18 315	10,8
Liabilities						
Demand deposits	17 806	231	1,3	14 867	203	1,4
Savings deposits	47 408	4 265	9,0	39 793	2 987	7,5
Negotiated rate deposits	74 474	8 705	11,7	57 491	6 325	11,0
Foreign currency deposits	15 900	324	2,0	20 378	1 181	5,8
Bonds	5 213	678	13,0	3 247	430	13,2
Other deposits	11 135	1 053	9,5	10 428	807	7,7
Total interest-bearing liabilities	171 936	15 256	8,9	146 204	11 933	8,2
Other non-interest bearing liabilities	19 573			12 314		
Shareholders' funds	12 459			10 421		
Total liabilities and shareholders' funds	203 968	15 256	7,5	168 939	11 933	7,0
Net interest income and margin on average assets		7 946	3,9		6 382	3,8

(1) Other lending includes cash management, staff home loans, call loans, medium-term advances, credit card balances, instalment credits, assets on lease, preference shares, Stannic advances and other earning advances.

(2) Overdue and doubtful advances are net of interest in suspense and specific provision for credit losses but before general provision for credit losses.

(3) Other non-earning assets include remittances in transit, accrued interest and general debtors.

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R A G Leith *Chief Executive*

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P Nyandoro *Managing Director*

Stanbic Finance Zimbabwe Limited
Stanbic Chambers

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N T Simpson *Group Managing Director*

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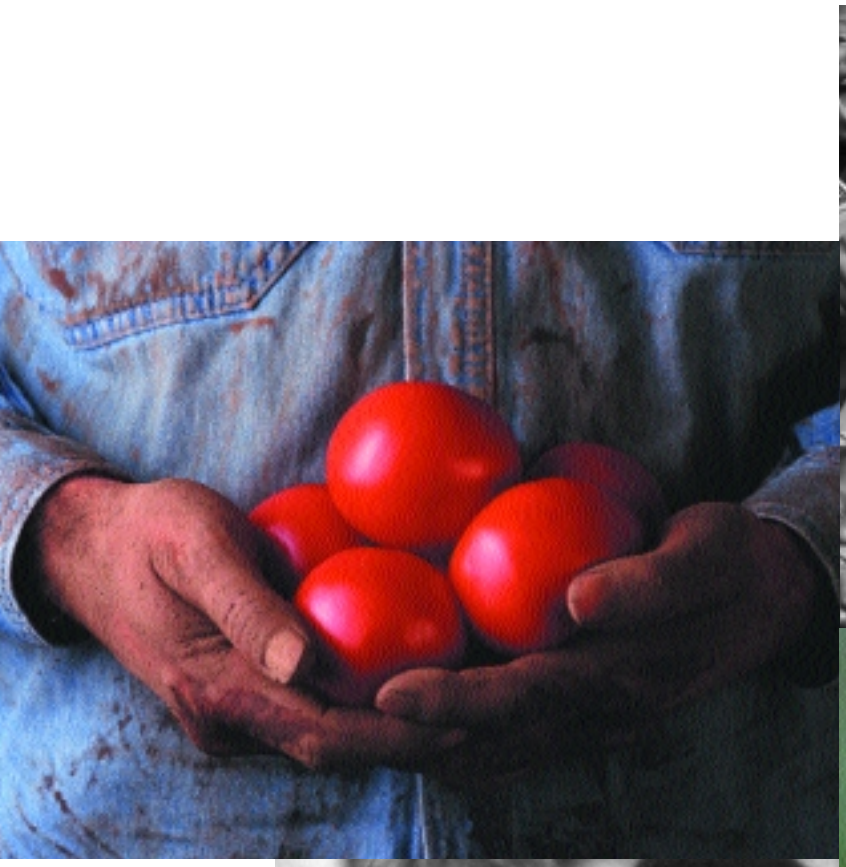
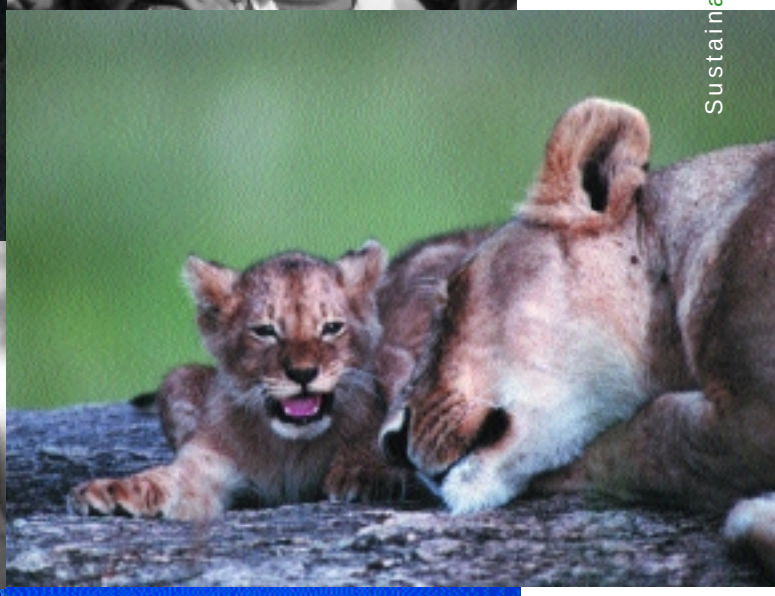
R Natho *Director*

The Standard Bank Foundation supports a wide variety of corporate social investment endeavours with particular emphasis on projects in the areas of education and community development.





Commitment

This report represents a commitment by the Standard Bank Group to sustainable development and to comprehensive reporting thereon to all stakeholders

This report for the 2002 year, is mainly focused on operations in South Africa and will be expanded over the years ahead to include the group's operations throughout the world.

The format of the report follows the Guidelines released by the Global Reporting Initiative (GRI) which is a joint initiative of the United States non-governmental organisation, Coalition for Environmentally Responsible Economies, and the United Nations Environment Programme. The Guidelines have been issued for voluntary use by organisations for reporting on the economic, environmental and social dimensions of their activities, products and services. The aim of the Guidelines is to assist reporting organisations and their stakeholders in articulating and understanding their contribution to sustainable development.

The GRI recognises that a globally accepted reporting framework is a long-term endeavour and that it is probably only at the beginning of an evolutionary reporting process – by comparison, financial reporting is well over half a century old and is still evolving amid increasing public scrutiny.

This report is a first attempt by Standard Bank at complying with the GRI's Guidelines and represents a commitment to sustainable development and to comprehensive reporting thereon to all stakeholders. An external commentary by an accredited independent agency as to our performance as responsible corporate citizens has not yet been commissioned.

Queries in relation to this report should be addressed to the group's Investor Relations department. Contact details are provided on page 185.

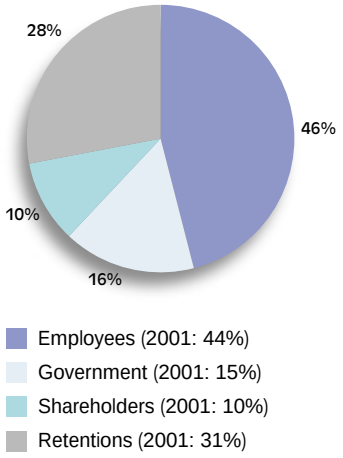
Group value added statement

for the year ended 31 December 2002

	2002 Rm	%	2001 Rm	%
Value added				
Interest, commissions and other revenues	42 944		34 157	
Interest paid to depositors and cost of other services	27 635		21 903	
Wealth created	15 309		12 254	
Distribution of wealth				
Employees				
Salaries, wages and other benefits	6 934	46	5 347	44
Government*	2 484	16	1 788	15
Shareholders	1 555	10	1 273	10
Dividends paid to shareholders	1 433		1 196	
Earnings attributable to outside and preference shareholders	122		77	
Retentions to support future business growth	4 336	28	3 846	31
Retained surplus	3 564		3 329	
Depreciation	772		517	
Wealth distributed	15 309	100	12 254	100
* Central and local governments				
Local and foreign income taxes	3 318		451	
South African deferred tax	(1 375)		915	
Foreign deferred tax	86		81	
Regional services levies	65		58	
Rates and taxes paid to local authorities	49		32	
Value added tax	297		210	
Duties	11		14	
Skills development levy	9		27	
Payments to trusts	24		–	
	2 484		1 788	

Value added is the wealth created by the group from providing banking and other financial services. The group's effective share in Liberty Group has been included in interest, commissions and other revenues.

Distribution of wealth created by the group (%)



As the statement illustrates, the group is a material contributor in a financial sense to various stakeholders. Of the total wealth created of R15,3 billion in 2002:

- R6,9 billion, 46%, was distributed to employees as remuneration and benefits;
- R2,5 billion, 16%, was the allocation to central and local governments in the form of direct and indirect taxes, including changes in deferred taxation assets and liabilities;
- R4,3 billion, 28%, was retained for investment in the business in order to ensure its profitable continuation into the future; and
- R1,6 billion, 10%, was distributed to shareholders as dividends in the year.

Introduction by the Chairman

Derek Cooper, 62
Chairman
Standard Bank Group
CA (SA)
Appointed 1993

There is a global move to the triple bottom line, which embraces the economic, environmental and social aspects of a company's activities.

Standard Bank is responsible to its shareholders for maximising the return on their investment. It is the custodian of depositors' wealth and must ensure that it invests their money wisely and profitably. The directors of the bank have strict fiduciary duties to carry out.

As part of a dynamic process, business today – including banks – has moved away from focusing solely on the single bottom line. There is a global move to the triple bottom line, which embraces the economic, environmental and social aspects of a company's activities. The second report of the King Commission into corporate governance explains this development:

"The economic aspect involves the well-known financial issues as well as the non-financial ones relevant to that company's business. The environmental aspects include the effect on the environment of the products or services produced by the company. The social aspects embrace values, ethics and the reciprocal relationships with stakeholders other than just the shareowners."

Bankers are fond of saying that "banks touch the lives of everyone" and "banks are a part of everyday life". The truth is that there are still millions of South Africans who have not been touched by banks and the services they can provide.

They are the disadvantaged, the very poor, living on the whole in rural areas where poverty is endemic, or in urban squatter settlements. Their needs are great: housing, employment and education – in every one of these areas, banks can and must play a role.

Our democratically elected government has made great strides in its efforts to reverse the economic neglect of previous decades. But government cannot achieve its aims without help. It needs partners.

Standard Bank cares about the communities it serves. One of our strategic goals is to extend basic banking products to the low-income market. Another is to improve the mechanisms through which we can lend money to those who earn relatively little in order to buy their own homes. We've had some successes in these areas.

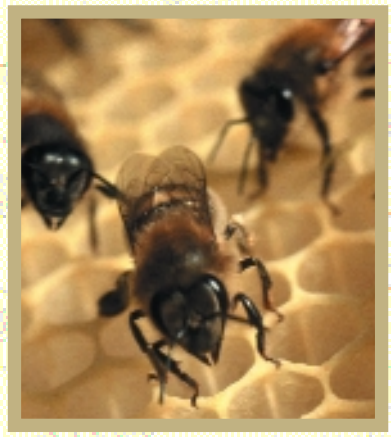
Our caring extends throughout the bank. Right across the entire staff complement, from top management to junior clerk, Standard Bank people are helping to build the nation, to make South Africa a better place. From multi-billion rand infrastructural developments to a few rands collected by branch employees for a sick pensioner, all form an integral part of our journey of wanting to be a good corporate citizen.

It is generally accepted by companies, particularly multi-nationals, that demonstrating concern creates an atmosphere of trust and a better understanding of corporate objectives. In our view, concern is not enough. One can be concerned about an issue, such as the HIV/Aids pandemic, and not really care. Caring about the broader community is what matters.

We at Standard Bank, show our caring by contributing. For many years, the group has engaged in a substantial social investment programme encompassing a wide range of good causes including education, rural development, black empowerment, the arts, sport, our cultural heritage and HIV/Aids. It is the group's policy to spend not less than one percent of domestic after tax earnings on social issues. The Standard Bank Foundation, established in 1985, together with the Public Affairs department, are the main conduits for allocating and disbursing funds. An illustration of the extent of their work is the fact that over the past three years, more than R50 million has been contributed to over 1 000 community and social development programmes.

The international movement towards good corporate citizenship and social responsibility is relatively young. There is still a powerful body of investors which demands that companies stick to the principle of the dominant bottom line – this is not our view. In the society in which we operate as a company and live as individuals, we need to understand that caring about social and environmental issues is essential. To do this successfully, we need to grasp and embrace the meaning of Ubunthu – that you can be respected only because of your cordial co-existence with others.

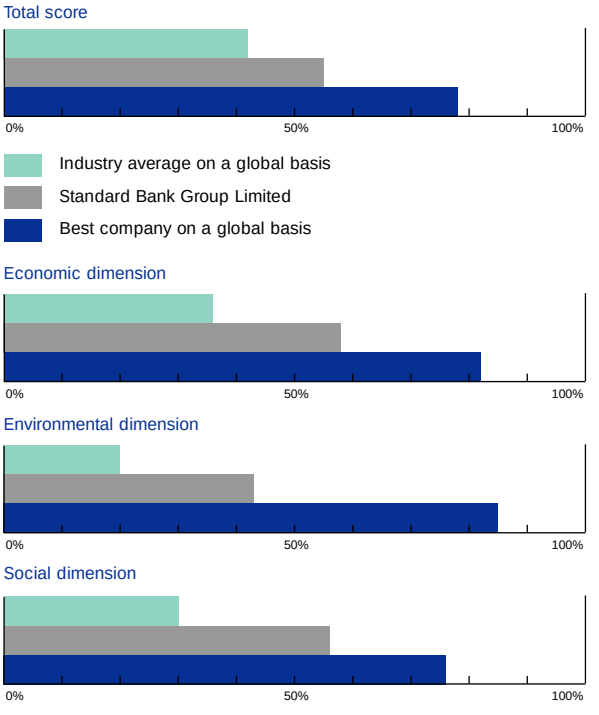
Derek Cooper
Chairman
4 March 2003



External recognition

The bank's efforts towards sustainable social, economic and environmental development have gained recognition from a number of creditable external agencies.

Sustainability scores (DJSI 2003)



Dow Jones Sustainability World Index (DJSI World) 2003

The Dow Jones index provides a benchmark for financial products based on the concept of corporate sustainability. Sustainability driven companies are thought to create superior long-term shareholder value by focusing strategies and management effort on harnessing the market's potential for sustainable products, while simultaneously avoiding and reducing related costs and risks.

Standard Bank has been included in this index for the third successive year. The bank is the only African financial institution and one of only three South African companies included in the index. As can be seen from the graphs, the bank's performance exceeded the international industry average in all three aspects of sustainability.

Edward Nathan and Friedland Sustainability Index

Standard Bank was placed sixth out of the 42 largest companies, and the first financial institution, in this, the first South African sustainability index which rates companies on how they are integrating the balance between society, the environment and the economy into their businesses. The index is intended as a guide to offshore and local investment funds that give weight to sustainable development criteria when selecting shares.

Corporate Footprint survey

Standard Bank was independently ranked second out of 55 companies quoted on the JSE Securities Exchange in the areas of corporate governance, social responsibility and environmental management. The survey was conducted by Corporate Footprint for Frater's Earth Equity Fund.

In addition, Standard Bank is the only domestic bank with membership of the Business Council for Sustainable Development of South Africa. The Council is a forum for businesses concerned about deteriorating environmental conditions, who wish to contribute their skills and insight in developing and sharing relevant ideas and strategies.

Shareholders

Shareholders are entitled to a fair return after all other stakeholders have been settled.

Kim Howard, 34
Director
Investor Relations
B Com (Wits) CA (SA)
Appointed 2001

Shareholders contribute the long-term operating capital which, together with borrowings, provide the financial resources necessary for the group to operate and invest for future growth. Ordinary shareholders assume the responsibility of ownership and are entitled to a fair return on their investment after all other stakeholders – employees, suppliers, providers of credit and governments – have been settled.

Governance

In recognition of the responsibility to our shareholders and their assumption of investment risk, Standard Bank operates an open governance process in which we not only meet our legal obligations but also subscribe to the best practices in corporate governance. Considerable attention is paid to the governance process so as to ensure that it is operating both effectively and efficiently throughout the group's many businesses. Governance and the governance process are comprehensively dealt with in the governance section of the annual report commencing on page 42.

Communication

The group's investor relations team, based in Johannesburg, is involved in proactively communicating the group's strategies and financial performance to shareholders and other stakeholders. The team places emphasis on timeous, relevant and honest communication to the investor community. Workshops, results presentations, roadshows to local and international investors, one-on-one meetings and external presentations by senior management are some of the ways in which contacts are maintained with the financial community.

Increasing use is also made of the group's corporate website – www.standardbank.co.za – in communicating with shareholders. A considerable amount of information is available on the website under the investor relations section, including:

- financial results presentations;
- the annual report;
- media releases; and
- credit ratings.

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Credit ratings

The latest credit ratings for Standard Bank Group Limited and its principal subsidiary, The Standard Bank of South Africa Limited, are detailed below.

Fitch Ratings (August 2002)

Standard Bank Group Limited

Individual	B/C
Support	5
National	
Short-term senior	F1+ (zaf)

The Standard Bank of South Africa Limited

Individual	B/C
Support	2
Foreign currency	
Short-term senior	F3
Long-term senior	BBB-*
Outlook	Positive
Local currency	
Long-term senior	BBB+
National	
Short-term senior	F1+ (zaf)
Long-term senior	AA (zaf)

* Capped by the RSA Sovereign rating

Moody's Investors Service (July 2002, public information)

The Standard Bank of South Africa Limited

Bank financial strength rating	C+
Long-term bank deposit rating	Baa2*
Short-term bank deposit rating	Prime-2*
Outlook	Stable

* Capped by the RSA Sovereign rating

Standard & Poor's (January 2003, public information)

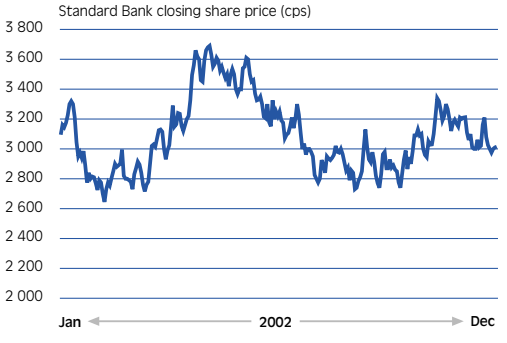
The Standard Bank of South Africa Limited

Local currency	BBBpi
Counterparty credit – local currency	BBBpi

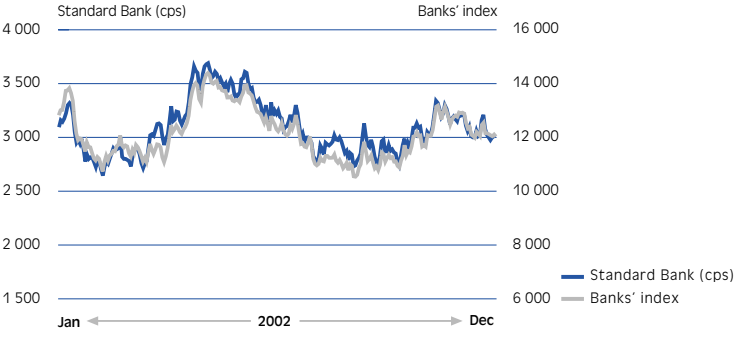
RSA Sovereign ratings

	Foreign currency	Local currency
Fitch Ratings	BBB-	BBB+
Moody's Investors Service	Baa2	A2
Standard & Poor's	BBB-	A-

Standard Bank Group – share price volatility



Standard Bank Group – share price relative to the Banks' Index



Analysis of ordinary shareholders as at 31 December 2002

	Number of shares (million)	% holding
Ten largest shareholders		
Old Mutual Group	268,8	20,2
Public Investment Commissioner	163,9	12,3
Sanlam Group	72,6	5,4
Liberty Group*	64,9	4,9
Transnet Pension Fund	44,8	3,4
Investment Solutions	31,9	2,4
Standard Bank Group Retirement Fund	21,1	1,6
Metlife	18,3	1,4
Momentum Life Assurance (SA)	13,5	1,0
Engineering Industries Pension Fund	13,3	1,0
	713,1	53,6

* Policyholders' funds

	Number of shares (million)	% holding
Spread of ordinary shareholders		
Public*	873,3	65,6
Non-public	457,8	34,4
– Directors of Standard Bank and of subsidiaries	3,0	0,2
– Old Mutual Group	268,8	20,2
– Public Investment Commissioner	163,9	12,3
– Standard Bank and Liberty Group retirement funds and Standard Bank incentive schemes	21,6	1,6
– Associates	0,5	0,1
	1 331,1	100,0

	Number of shares (000)	% holding
Spread of 6,5% preference shareholders		
Public*	7 953	99,4
Non-public	47	0,6
	8 000	100,0

* As per JSE Listings Requirements

Share and bond codes

JSE Securities Exchange	SBK (ordinary shares)
JSE Securities Exchange	SBKP (6,5% cumulative preference shares)
I-Net Bridge	SBK
Bloomberg	SBK.SJ
Reuters	SBKJ.J
ISIN	ZAE000038873 (ordinary shares)
ISIN	ZAE000038881 (6,5% cumulative preference shares)
Subordinated debt ISIN codes	SBK1: ZAG000016569 SBK2: ZAG000017955 SBK3: ZAG000018086 SBK4: ZAG000019597

JSE Securities Exchange South Africa – share statistics

	2002	2001
Share price (cents)		
– high for the year	3 810	3 605
– low for the year	2 595	2 600
– 31 December	3 015	3 120
Shares traded		
– number of shares (000)	673 703	511 549
– value of shares (Rm)	20 887	16 038
– turnover in shares traded (%)	50,6	38,6

For more information go to:
www.standardbank.co.za

Customers

Peter Wharton-Hood, 37
Managing Director
Retail Banking
B Com (Hons) (Wits) CA (SA)
Appointed 2001

Service is different – that's how you retain and grow your business.

Retail Banking MD, Peter Wharton-Hood, explains: "You can dream up the most innovative product imaginable and launch it. Within days, your competitors can bounce back with a similar product. There is little opportunity to gain a significant edge. But service is different – that's how you retain and grow your business. Through loyal, satisfied customers."

Standard Bank's success as a commercial enterprise for over 140 years rests primarily on its relationship of trust with its customers and on continuously trying to better meet their needs. The group faces able competitors in every aspect of its business and any failure to deliver on its service commitment will inevitably lead to a loss of custom and a decline in market share. The realities of the market place and the importance of service delivery are critical non-negotiable components of our attitude towards customers. The by-line "Simpler. Better. Faster." encapsulates our motivation and efforts to serve our customers.

Organisational structure

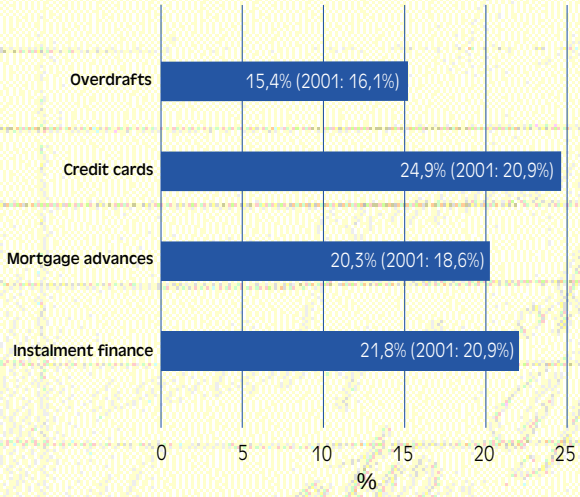
The group comprises the overall holding company, Standard Bank Group Limited, and The Standard Bank of South Africa Limited (SBSA), Stanbic Africa operations, International Operations and an effective 30% investment in Liberty Group. Based in South Africa, the group has operations in 17 other African countries, and niche investment and offshore banking operations in 21 countries outside Africa including the major financial centres of Europe, the United States and Asia and many emerging markets. While international expansion continues, the group remains firmly rooted in its African origins.

The broad physical network in South Africa includes over 600 points of representation and in excess of 2 900 ATMs strategically positioned for ease of access. Information on the performance and strategies of each business unit is provided in the reviews commencing on page 20.

Market share

The graph below shows the market shares for certain of SBSA's core products as at December 2002.

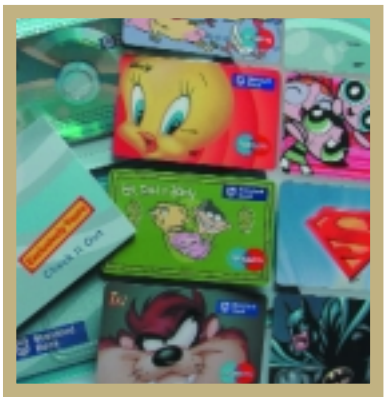
SBSA market share



Products

The bank provides a broad range of financially based products and services across its many divisions, to customers ranging from the largest multi-national corporation to individual households. Rather than attempting to portray the full universe of available products, the focus below is on products and services accessible to the under-banked mass market in South Africa, which represents a challenge to all banks from a service and viability perspective.

SBSA is committed to bringing appropriate and needed financial services to all sectors of the population. The mass market has specific banking needs that are being partly met by existing products pioneered by SBSA in 1994 with the opening of the first E Bank Centre, and increasingly by rapidly evolving new products. This market has substantial potential and figures prominently in the bank's future strategies.



The primary products available to mass market customers are as follows:

- *E Plan account*

  The E Plan account is the core personal product offering around which many other products are linked. The account was specifically designed to meet the needs of low-income customers and has the following main features:

  - full ATM functionality including deposits, withdrawals, third party payments, electronic funds transfers and automated cheque issuing;
  - an embedded but separate “savings purse”;
  - a linked “stop card” for use in the case of theft or loss of the E Plan card;
  - a debit card function linked to the worldwide Maestro application; and
  - embedded personal life insurance cover.

  There are approximately 2,5 million E Plan accounts at present with more than six million cash withdrawals on average each month. The success and continued appeal of the product is evident in the steady rate of new account openings each month.

- *Society scheme*

  This is a savings scheme targeted at groups of people who join together in a savings initiative. There are approximately 76 000 such accounts at present.

- *FuneralPlan*

  This product provides funds to cover funeral expenses in the event of the death of the principal or nominated family members. Sales from inception in 2000 to date have exceeded 476 000 policies. A further refinement to be introduced in 2003, will allow the principal member to nominate a beneficiary to receive a monthly grant for a specified period.

- *Loans*

  In 1999, as a result of the introduction of governing legislation, it became feasible for the bank to enter the micro-lending industry, albeit in a cautious and controlled way. A joint venture with the recognised market leader, African Bank Investment Limited (Abil), enabled micro-loans to be offered to E Plan customers through the medium of their E Plan account.

Product improvement – electronic banking

Work is continuing on enhancing customer convenience and access to banking services, as well as on the security of the different channels. Improvements effected in 2002 to the electronic banking channel, that currently serves in excess of 230 000 customers, included the following:

- a lower cost Internet access service available through WorldOnline;
- introduction of an email service for bank statements and mobile banking functions on cellphones; and

- top-up of cellphone airtime through the ATM and call centre networks to allow for more convenient replenishment direct from customers' accounts.

The current year will see further improvements to electronic banking with:

- site modifications to enhance usability for visually impaired customers; and
- reduced cost access for teenage customers.

Standard Bank brand

Standard Bank has an approach to branding in which the core values of the group are identified with and represented by the brand. These identified core brand values are:

- leadership;
- innovation;
- trust;
- presenting a human face; and
- being a truly South African company, but with a global presence.

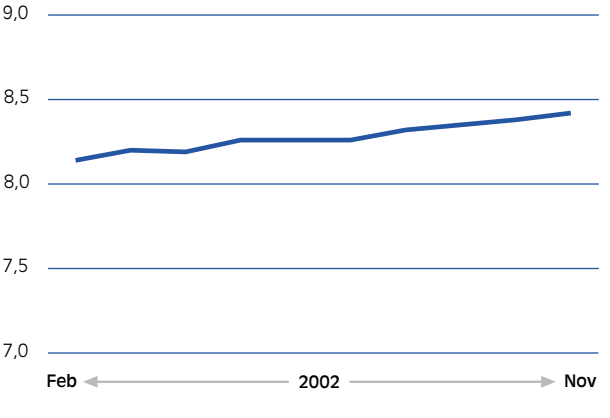
The bank's marketing and corporate social investment (CSI) activities attempt to reflect these values. In 2002, Standard Bank was again the country's leading bank brand according to the annual Markinor-Sunday Times Top Brands survey. In terms of this survey, some 3 500 consumers ranked the Standard Bank brand highest in the three attributes making up the relationship score in the banking sector, i.e. awareness, trust and confidence, and loyalty and commitment.

Customer service

Customer surveys are conducted regularly and are regarded as indispensable for measuring and improving service to customers. In this regard:

- the bank itself undertakes a monthly attitude survey of some 5 000 customers;
- through the auspices of an independent research company, Markinor, the bank engages in a comparison of service levels amongst the country's four major retail banks. This survey, called The Customer Evaluation of Bank Service (CEBS), has indicated steady improvement in SBSA's rating and culminated in the highest rating ever recorded by the bank in the October 2002 survey result; and
- another independent survey, undertaken by Research Surveys, based on face-to-face interviews with over 2 000 customers, placed Standard Bank in second place as regards overall customer satisfaction.

Standard Bank CEBS ratings (out of 10,0)



These surveys are an important aid to improved customer service and the results are carefully considered. Wherever possible, in response to customer comment, action is taken to remedy a situation regarded as less than satisfactory.

An innovation introduced in 2001 and expanded on in 2002, appropriately named “Adopt an Area”, has seen executive directors of SBSA taking responsibility for one or more of the bank’s branch areas and spending time in branches interacting with staff and customers.

The benefits of this in identifying at first hand and in rectifying service difficulties experienced at branch level, and in aligning service priorities, have been considerable. The campaign is now firmly entrenched in SBSA and will be further extended in 2003 as part of the process of service improvement.

A Code of Banking Practice has been adopted by all banks in South Africa. Standard Bank has undertaken to apply the underlying values embodied in the Code and, to this end, is committed to providing a professional and friendly service to all customers in a manner that is transparent and fair. Staff members are trained in the application of the Code, and the existence of the Code and our commitment to it have been brought to the attention of customers. The Compliance department monitors procedures and practices against the Code and assesses effectiveness.

In addition to the Code, the Office of the Banking Adjudicator deals with unresolved complaints between customers and their banks. Standard Bank has accepted the jurisdiction of the Adjudicator to make binding rulings based on law, where applicable, and recommendations based on the Code. We further accept that a refusal on our part to abide by a recommendation will leave the Adjudicator free to publish the recommendation together with our stance thereon. To date, Standard Bank has accepted all recommendations and rulings by the Adjudicator.

Privacy of information

As an integral part of their activities, banks accumulate sensitive information regarding customers and their personal affairs. SBSA, like other banks in the country, has always been subject to the common law principle of banker-client confidentiality. In addition to this, SBSA subscribes to the Code of Banking Practice that requires banks to treat all customer personal information as private and confidential. The bank’s Reference Guide, an internal document that governs the conduct and duties of bank employees, further emphasises the importance of customer privacy and details the procedures that must be closely observed in matters regarding confidential information.

Requests for information are strictly dealt with in accordance with the provisions of the Promotion of Access to Information Act. SBSA is currently reviewing systems and procedures in order to ensure compliance with the recently promulgated Electronic Communications and Transactions Act.

Awards

The group does not actively seek recognition for its abilities and achievements but is appreciative of any awards as they are indicative of competence and good customer service. Some of the awards in 2002 included:

- one of three South African companies to receive a Crystal Crown Award at the annual Birmingham International Festival in the USA for "corporate excellence and social responsibility to the people of South Africa". The award focuses on the interdependence between the arts and the business community;
- an award for the best corporate governance of any South African company in a poll conducted by the UK-based Investor Relations magazine of members of the local Investment Analysts' Society. Members were asked to vote on various aspects of reporting to and communications with the investor community;
- voted South Africa's best bank in the annual Euromoney awards. The accompanying comment ranked Standard Bank as a strong all-round banking institution, emphasising in particular, Retail Banking's branch network, and wholesale banking where SCMB was regarded as the clear investment and corporate banking leader;
- voted the best bank in South Africa by the New York based magazine, Global Finance, in its annual selection of the world's best banks;
- voted the bank the majority of banks in South Africa respect most highly in the annual survey by PricewaterhouseCoopers. The survey placed Standard Bank as the winner in seven out of eighteen categories;
- named as a top 10 South African company for 2001-2002 by the Johannesburg Chamber of Commerce and Industry; and
- awarded third place in the 2002 Excellence in Financial Reporting survey conducted by Ernst & Young.

Employees

Sipho Ngidi, 47
Director
Group Human Resources
B Admin (Zululand) B Com (Hons) (Natal)
Appointed 2001

People make the difference. It's people that have made Standard Bank the highly regarded bank that it is today.

The bank continually aims to be the employer of choice for the talent it wishes to attract and retain, with line management accountable for people management and supported by a dedicated and effective human resources function.

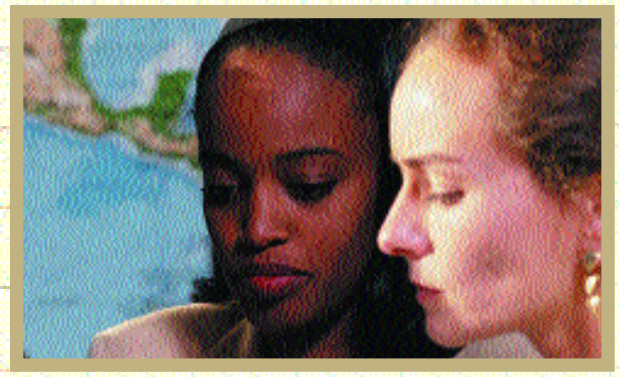
Human resources model

We have thoroughly reviewed the focus and structure of the human resources function, with the view to positioning it as a strategic partner to line whilst accommodating administrative work in a shared-services unit. Our planned installation of the SAP HR integrated system in 2003 will enable processing cost reductions and, in due course, will provide management and employees with self service functionality.

The Strategic People Forum, comprising top management and human resource executives, illustrates the strategic partnering role. The Forum meets monthly to discuss strategic people issues and to plan the way forward on implementation. It serves to align the priorities of the human resources function with key business needs.

Leadership

The development and maintenance of a strong leadership capability is a priority. A specific leadership profile has been designed to meet the challenges of the business and to ensure that everyone knows what we expect from our leaders. This profile guides the development of leaders and a portfolio of leadership development programmes has been designed to facilitate this. The programmes are experiential in nature and heavily focused on action learning. They provide practical, hands-on learning that can be immediately applied in



the workplace. Our current flagship programme, Wings, which is aimed at preparing promising managers for promotion to executive management, has received international recognition for its design and developmental impact. A highlight of the 2002 programme was the exploration and evaluation, on site, of banking in China.

Talent management

A continuous supply of top-class leaders requires close management of the talent pipeline. In this respect, comprehensive talent reviews are undertaken throughout the bank on a quarterly basis. The most promising employees receive regular individual scrutiny from the top management team. Facilitating this process, is an electronic database providing up-to-date talent information that has recently been recognised as an international best practice by the Corporate Leadership Council in the United Kingdom. Talent reviews are integrated with the leadership development programme portfolio thereby ensuring that the leaders of tomorrow are developed to their full potential.

In striving to become an employer of choice, the bank offers the following development programmes to graduates and staff members:

- TOPP Programme (Training accountants Outside Public Practice);
- SCMB Graduate Development Programme; and
- Retail Graduate Development Programme.

During the latter part of the year, we entered into an agreement with the Kellogg Foundation and the University of the Witwatersrand (Wits) to provide workplace learning for Kellogg bursary students. The first intake of nearly 50 students has been inducted and a number of challenging projects identified for the coming year.

Performance and reward

We continue to improve our performance management and reward skills, with line managers taking full accountability for this task. Core to the management of performance, is a robust ranking system similar to the “Vitality Curve” employed by General Electric. We have employed this system for the last three years and have become increasingly adept at its use. The ranking system serves to develop a steep reward curve that ensures that high rewards are distributed to the very best performers.

The bank has a recognition agreement with one union, the South African Society of Bank Officials (SASBO), an affiliate of the Congress of South African Trade Unions. The agreement provides for a consultative forum with meetings quarterly and more often if needed.

Any changes to remuneration or benefits falling within the ambit of the Collective Agreement are negotiated with SASBO.

Skills development

Competent staff are critical to our performance, especially in regard to customer service which is a business imperative. Our steadily improving customer service rating bears testimony to the effectiveness of the training undertaken, particularly in Retail Banking. Our investment in skills development has seen us reclaim the maximum grant money available from the banking sector's Education and Training Authority (BANKSETA). In 2002, this amounted to R21,6 million.

Our continued participation in BANKSETA and in other skills development bodies has enabled us to contribute to their efficient and effective functioning. Experience gained in sector collaboration has been extended to non-competitive training matters, with the development of compliance and money laundering training programmes examples of this.

Transformation

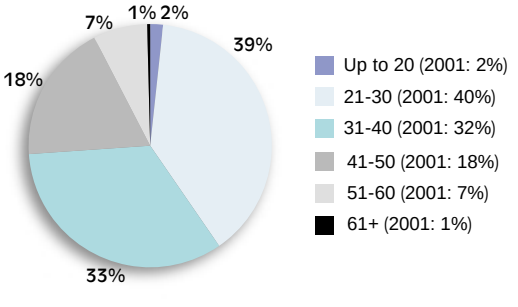
Says Sipho Ngidi, the group's Human Resources Director: "First of all we want talent and we believe that talent exists in all races. In order to be in business tomorrow we need to be a reflection of society and be able to accommodate the rapid changes taking place in our country".

Transformation is one of Standard Bank's strategic focuses. It has established a board Transformation Committee headed by Joint Deputy Chairman, Saki Macozoma. The adoption and implementation of an Employment Equity (EE) programme goes beyond legislative compliance and is viewed as a business imperative. Standard Bank recognises its responsibility to equalise opportunities for all designated groups – in terms of the Employment Equity Act – who have been socially, economically and educationally disadvantaged. The group's EE report is submitted to the Department of Labour on a regular basis as required by legislation.

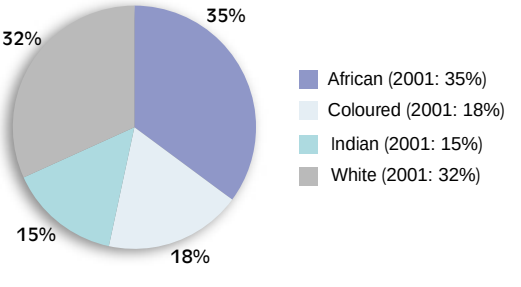
Standard Bank of South Africa's transformation objectives are:

- to increase the number of employees from designated groups across all occupational categories, with emphasis on managerial levels, through the process of setting annual departmental targets for line managers. All business units have executives responsible for EE target levels; and
- to monitor progress monthly and to audit employment policies and practices for any discriminatory or other barriers to progress.

Headcount by age groups (SBSA)



Appointments by ethnic group (SBSA)



In support of these objectives, representative Employment Equity Forums have been established throughout the bank and meet regularly to monitor progress on EE.

Health and safety

Standard Bank is committed to providing for the health and safety of its employees by acting in compliance with all applicable legislation, in particular the Occupational Health and Safety Act (Act 85 of 1993), as well as with regulatory and supervisory requirements. Injuries in South Africa in 2002 totalled 209 (0 fatalities) with 108 of these categorised as work-time-lost injuries.

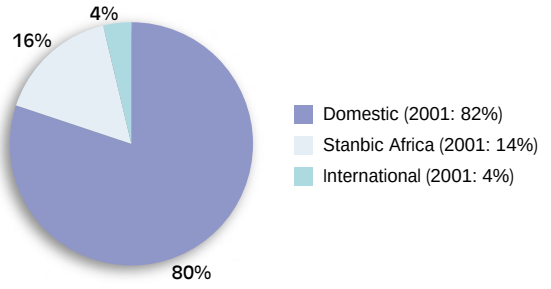
Our objectives in regard to employee health and safety are:

- to achieve a high standard of environmental care and provide a healthy and safe workplace for employees, contractors and other relevant persons;
- to ensure a proper organisational structure to manage health and safety issues and legal compliance, whereby management takes responsibility for the health and safety of those working for the bank and for sound environmental management;
- to conduct hazard identification and risk assessments regarding safety, health and the environmental impact of projects or programmes, as well as periodic audits and reviews to ensure compliance; and
- to establish competence and awareness regarding health and safety matters through effective training and communication.

Employee well-being

Standard Bank cares for its people and recognises that individuals occasionally need help in balancing the demands and challenges they face in life from both a physical and an emotional viewpoint.

Headcount



To this end, the bank has appointed an external agency, the Independent Counselling and Advisory Service (ICAS), to provide a comprehensive service to all staff members and their immediate families. The service was phased in across the bank during the year and has been extremely well received.

The services offered by ICAS range from emotional support on a variety of issues (trauma, relationships, stress, health including HIV/Aids) to a consultancy service that gives managers access to professional assistance and coaching, and exposure to “best practice” on all people issues.

HIV/Aids

The high prevalence of HIV/Aids in South Africa has made it critical for every organisation to develop a relevant, meaningful and ongoing response to the challenges of this pandemic. The best planned corporate HIV/Aids initiatives often fail because they lack a proper “context” within which they can be sustained. In recognition of this, one of the initial steps taken by the bank was to approve and publish a policy on “Managing Life-threatening Diseases”, which includes HIV/Aids. This now provides clear and unambiguous direction on managing issues around HIV/Aids.

Breakdown by band and race (%) (SBSA)

Band	2002 AIC	2002 W	2001 AIC	2001 W
Executive management	14,7	85,3	12,8	87,2
Senior management	16,4	83,6	13,7	86,3
Middle management	20,0	80,0	15,8	84,2
Junior management	34,9	65,1	29,0	71,0
Total management	27,7	72,3	23,1	76,9
Supervisory	53,4	46,6	49,4	50,6
Clerical	73,4	26,6	70,9	29,1
Service	90,7	9,3	89,8	10,2
Total non-managerial	64,2	35,8	61,8	38,2
Total	56,4	43,6	54,5	45,5

Breakdown by band, race and gender (%) (SBSA)

2002	Male		Female	
Band	AIC	W	AIC	W
Executive management	12,9	77,8	1,8	7,5
Senior management	13,2	68,8	3,2	14,8
Middle management	14,0	55,4	6,0	24,6
Junior management	18,5	33,9	16,4	31,2
Total management	16,4	45,9	11,3	26,4
Supervisory	15,1	10,0	38,3	36,6
Clerical	22,8	4,7	50,6	21,9
Service	72,4	8,8	18,3	0,5
Total non-managerial	20,0	7,3	44,2	28,5
Total	19,3	15,0	37,1	28,6
2001	Male		Female	
Band	AIC	W	AIC	W
Executive management	12,3	81,6	0,5	5,6
Senior management	10,8	71,8	2,9	14,5
Middle management	11,8	60,8	4,0	23,4
Junior management	15,9	38,3	13,1	32,7
Total management	14,1	49,9	9,0	27,0
Supervisory	13,9	11,3	35,5	39,3
Clerical	21,5	4,8	49,4	24,3
Service	70,8	10,0	19,0	0,2
Total non-managerial	19,4	7,8	42,4	30,4
Total	18,4	15,8	36,1	29,7

AIC : African, Indian and Coloured staff members

W : White staff members

Understanding employees' knowledge of HIV/Aids is critical to the development of any communications initiative. In conjunction with the Health Consortium at the University of the Witwatersrand, focus group discussions were held with staff members in several provinces. Broadly representative, these groups provided data on their understanding of HIV/Aids, their expectations of the bank as an employer and what they regarded as essential aspects of the bank's response to the pandemic. To add qualitative data to the analysis, questionnaires were distributed to staff not taking part in the discussion groups.

Concurrently the bank has modelled the potential HIV/Aids impact on staff over the next 10 years. This has provided a guide to the likely prevalence of the disease as well as to mortality and morbidity rates. The actual experience of HIV/Aids within the bank community is being closely monitored and compared with these projections. The outcome to date has been very much in line with that of other financial organisations, with HIV prevalence among staff estimated to be significantly lower than that of the general population.

The bank has trained more than 400 "champions" throughout the country to provide staff members with basic information about transmission, positive lifestyle choices and how to access the ICAS employee well-being programme for support. These staff "champions" arrange HIV/Aids workshops, facilitate discussions on HIV/Aids issues and screen a specially commissioned video by satirist Pieter Dirk-Uys. Adding humour to the mix has been very successful in enabling the serious messages about HIV/Aids to reach a receptive audience. The momentum established by these workshops is being maintained by on-going publications in the bank's internal media.

The role of Bankmed, the bank's medical aid, is also highlighted during these staff workshops.

"We believe that Bankmed offers the best managed disease programme in the country for staff who are infected by HIV," says Sipho Ngidi. "It provides for counselling and guidance as well as anti-retroviral treatment – if required – for members and their dependants. Bankmed also provides cover and treatment for rape victims and for the prevention of mother to child transmission of the virus."

SBSA also analyses available customer information on HIV/Aids in order to project the likely impact on our business. These studies are constantly updated and refined, with the outputs incorporated into the bank's strategic planning as part of the process of managing business risk.

Code of business ethics

The group has in place a code of business ethics that was developed and refined over time through a series of workshops that involved staff from a variety of departments throughout the bank. The code is intended as a set of principles that provides guidance where there are no categoric rules and prompts behaviour in accordance with the group's values and the expectations of stakeholders. The core values agreed upon in the code have been further interpreted as to their relevance to each category of stakeholder. The code is applicable to all employees.

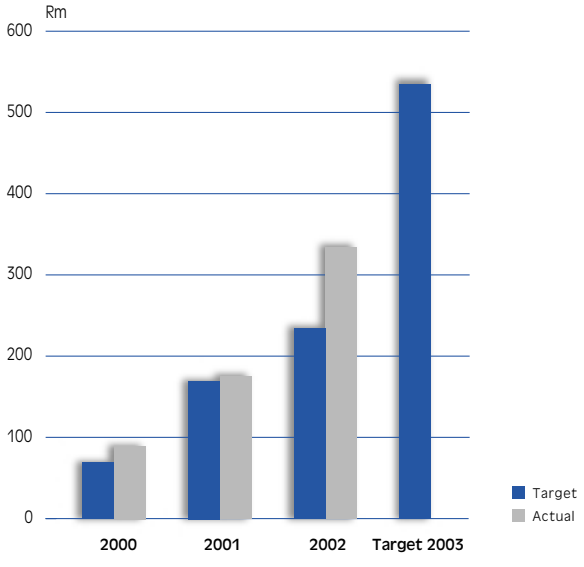
GETTING TO KNOW YOU

In November 2002, the bank launched a "Getting to Know You" campaign aimed at encouraging staff from across the bank to get to know each other with the objectives of improving communication and working relationships within the group. The campaign included a huge artwork at head office and more modestly sized replicas in branches across the country. Funds were raised from staff members for the privilege of exhibiting their creativity as part of the artwork, with the proceeds going to charity. By the conclusion of the campaign, just short of R500 000 had been raised and donated to charities supporting children living with HIV/Aids.

Suppliers

By successfully implementing supplier transformation, we believe we will benefit by improving the bank's effectiveness and credibility in the South African business arena.

Spend with black suppliers



Supplier transformation

The pressure on Corporate South Africa to do business with black suppliers is high, particularly since the introduction of the Preferential Procurement Policy Bill in 2000. This legislation is applicable to state enterprises that are required to scrutinise profiles and practices of businesses in order to ensure compliance with the provisions of the bill. In addition, the Department of Trade and Industry has recently released its "Strategy for Broad-Based Black Economic Empowerment". New legislation, dedicated agencies and state-supported funding designed to ensure the furtherance of empowerment initiatives, are expected to find general acceptance in the year ahead.

The group's policies – Supplier Transformation and Procurement from Small and Medium Enterprises – state that it will "actively facilitate the creation, support and development of black suppliers (BS) through maximising the purchasing of goods and services from BS". The directive adds, however, that this must be done without compromising on quality or service.

The bank's spend with black suppliers has grown steadily over the past three years and now accounts for approximately 25% of the discretionary procurement spend, compared with 5% three years ago. The overall goal for 2002 of a spend of R235 million with black suppliers was exceeded, with R334 million achieved, and the group is on track to reach its targeted spend of R800 million by 2005.

In addition to introducing measures to ensure that black suppliers are given an opportunity to tender and quote, the bank attempts to influence first-tier suppliers in their adoption of second-tier suppliers in fulfilling contracts for the bank.

Apart from compliance with legislation dealing with black empowerment, the bank's view is that supplier transformation makes sound business sense. It contributes to the economic development of communities and, at the same time, contributes towards a stable society and a vibrant economy.

Government, regulatory agencies and public affairs

Ricky Naidoo, 39
Director
Public Sector Banking and Social Strategy
N. Dip: Journalism (Natal)
Appointed 2002

Governments and their various regulatory agencies are key stakeholders in the group's different businesses.

The group believes that an open, democratic and market-friendly environment offers the best prospects for the social upliftment of all South Africans. The group is committed, therefore, not only to the promotion of economic development, but also to the strengthening of civil society and democracy through its support of non-governmental organisations that monitor government practice.

The group does not make direct financial contributions to political parties or engage in party political activities.

Public Affairs division

This division has the task of protecting and preserving the group's image, position in the marketplace and operating environment. The areas of focus for the 2002 year included the following:

- capacity building – enhancing the financial management skills of lawmakers and officials in national, provincial and local government;
- public interest projects – providing financial and material support for initiatives that promote partnerships between government and civil society (e.g. African Union, New Plan for Africa Development (NEPAD) and African Renaissance);
- service excellence – promoting service delivery in the public sector through the implementation of a programme focused on service excellence. The Premier's Service Excellence Awards, as the programme has been called, has been implemented throughout the country in partnership with provincial governments. The bank has committed R3,5 million per annum to this project for the three years to 2005; and
- business training – in recognition of the employment creation capabilities of the SME sector, broad business training and mentorships have been established for this sector.

Stakeholder relations

The Public Affairs division maintains regular contact with many stakeholders, including political leaders and decision-makers at all levels of government, organised labour, non-governmental organisations and the media. The division runs a regular series of forums on key issues at which members of staff are addressed by and are able to interrogate decision-makers. Regular economic briefings are also held for financial editors and journalists.

The bank supports a wide range of business organisations, including Business Against Crime, the SA Institute of International Affairs, the SA Foundation, the National Business Initiative, SA Chamber of Business, the National African Chamber of Commerce, the Black Management Forum, the National Economic Development and Labour Council (Nedlac) and the World Economic Forum.

Compliance

The bank's Compliance department assists staff members in complying with statutory, regulatory and supervisory requirements, including those of the South African Reserve Bank, the Code of Banking Practice and the Financial Services Board. Additional information on the compliance function is available on page 70.

Black economic empowerment

South Africa's history has led to the exclusion of the majority of the population from the mainstream of economic development and entitlement. This imbalance is being addressed as an imperative by government. Standard Bank has and will continue to play a role in assisting to facilitate change in the area of black economic empowerment.

The historic hurdles to transformation can be grouped into three main categories:

- access to opportunities;
- access to capital; and
- limited capacity.

In focusing mainly on access to capital, as was the initial blueprint, the early economic models for transformation were driven by the desire to redistribute wealth by financing the purchase of equity. This model was spectacularly successful in a few instances, but contained certain inherent weaknesses that raised the risk profile of the transformation structures and led to relatively high financing costs.

In response to this weakness, SCMB's Project Finance department developed alternative structures able to further transformation initiatives at a more acceptable cost. These structures facilitate the acquisition of shares through reducing the equity requirement rather than financing the purchase of equity with debt. SCMB has had considerable success in applying elements of this structure to a variety of transformation initiatives and infrastructure projects.

Emerging Africa Infrastructure Fund

The bank led the consortium to manage this US$305 million Fund and has itself committed R700 million to the Fund. The Fund will finance commercially viable private sector infrastructure projects in sub-Saharan Africa, with the social objectives of poverty relief and economic growth that match the environmental and infrastructural objectives of NEPAD. The Fund is mainly focused on projects in:

- power generation, transmission and distribution;
- telecommunications;
- transportation; and
- water supply, treatment and purification, and distribution.

SCMB has in place a team dedicated to the above infrastructural developments and concluded a number of relevant financing transactions in 2002.

Society and the community

The bank's approach to social investment was revisited in 2002 with the objectives of placing a greater emphasis on strategic investment, the closer alignment of social strategy with national development priorities, and the coordination of social investment activities with the mainstream of the bank's business imperatives.

The Standard Bank Foundation implements the group's social strategies. Social investment spending is concentrated in defined areas in order to make the greatest impact. The areas of focus are periodically reviewed so as to accommodate changes in the socio-economic needs of the country.

Standard Bank recognises its obligation, as one of South Africa's leading corporations, to contribute to the broader economic goals of education improvement, poverty relief, health and general social upliftment. We do this through the Standard Bank Foundation.

Corporate social investment (CSI)

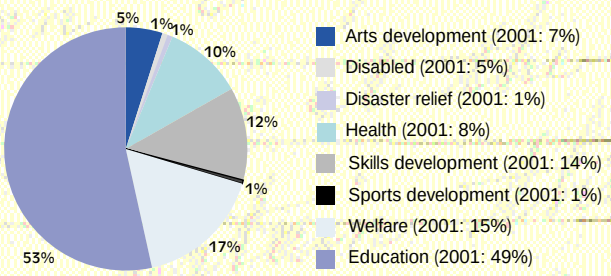
The allocation of CSI spends for the past two years (R12,2 million and R11,6 million respectively) are shown in the chart below.

The Foundation supports a wide variety of CSI endeavours with particular emphasis on projects in the areas of education and community development.

Education

Funding is spread across many educational institutions including almost all tertiary institutions, Adult Based Educational Training, secondary and primary schools and Early Childhood Development (ECD) projects.

CSI spend allocation



The Foundation focuses specifically on projects that promote financial literacy, mathematics, science and technology as well as teacher upgrading and skills development programmes. Its flagship project is the development of a financial literacy programme that has been incorporated into the curricula of secondary schools countrywide. Other major projects included funding the University of the Western Cape's chairs in economics and finance, the provision of mobile science and reading laboratories in secondary schools, bursaries for mathematics and science students and the Robben Island Museum Education Programme.

Community development

Funding in this category is wide ranging and covers health, welfare, HIV/Aids, disability, poverty alleviation, skills development, housing, cultural heritage, arts development and disaster relief.

Projects focused on the needs of women and children are given priority. Standard Bank supports the campaign, South Africa United in Fighting Violence against Women and Children. The objectives of this campaign are to increase awareness of the plight of women and children confronted by violence and to raise funds for organisations providing related social or welfare support in the criminal justice, social development and health sectors. In addition to the support given to this campaign, the Foundation donated approximately R750 000 in 2002 to 33 other organisations providing support to vulnerable women and children.

Origins of mankind

The bank sponsors the Palaeo-Anthropological Scientific Trust (PAST) for the ongoing study of human origins and evolution in southern Africa. PAST, founded in 1994, has close links with Witwatersrand University's Palaeo-Anthropology Research Unit, which has led research into human origins for more than 30 years. In 1998 the bank pledged R2,5 million to PAST over five years. The bank has also donated 100 hectares of property in the Magaliesberg to establish the Cradle of Humankind World Heritage Site and for the construction of an interpretation facility.

Arts

Standard Bank has been the title sponsor of the National Arts Festival in Grahamstown for the past 18 years until 2001. For the 2002 Festival, the bank restructured its support to that of a senior sponsor in conjunction with the Eastern Cape Provincial Government. The annual Standard Bank Young Artist Awards form an integral part of the Festival programme.

The bank's own collection of African art, built up over many years and now consisting of more than 5 000 pieces, has made an important contribution

to the work and appreciation of South African painters and sculptors. The Standard Bank Art Gallery in Johannesburg, holds regular exhibitions and in 2002 exhibited the works of the Spanish surrealist painter, Joan Miró. A signal event in the history of the gallery was the exhibition in 2000 of the works of Marc Chagall, the Russian-born French painter, that attracted a record number of visitors.

The Standard Bank Joy of Jazz festivals attract thousands of jazz lovers and provide an opportunity for both established and up-and-coming musicians. Standard Bank's jazz circuit is currently the largest employer of artists in South Africa. The bank also sponsors the National Youth Jazz Orchestra, the Johannesburg Philharmonic Orchestra as well as various music development programmes including the Alexandra Music Project and Buskaid.

Sport

Cricket – Standard Bank and cricket go hand in glove, and have done so for half a decade.

The bank assumed sponsorship of One-Day Cricket in South Africa in 1996. It was considered an appropriate way of reaching the bank's target market, of creating awareness of the bank and its products and helping to build a more "human face" for the bank. Standard Bank's commitment to cricket has meant the injection of substantial funds into communities, including:

- a donation of R3,5 million in equipment to previously disadvantaged cricket clubs;
- the installation of 85 scoreboards in poor areas;
- proceeds from the sale of 90 000 cricket balls sold at One-Day internationals given to Development Cricket; and
- a minibus supplied to each of the provincial cricket unions.

In addition, all royalties earned from replica cricket merchandise sold at One-Day games go to the Cricket Development Fund.

The Legacy Programme

In partnership with the United Cricket Board (UCB), Standard Bank, Castle Lager and the Department of Trade and Industry launched the 2003 Cricket Legacy Programme. Over three years, R25 million will be spent on building and upgrading 50 ovals throughout the country. The UCB will manage the Programme in association with the provincial cricket unions. Scoreboards and cricket equipment are supplied to disadvantaged schools and clubs. Cricket equipment is also provided to disadvantaged schools as recommended by the UCB's development department through the regional unions.

Branch involvement

The bank's sponsorship of cricket provides an outstanding opportunity for marketing and customer relations exercises by retail branches. Branches are also involved in the annual Standard Bank cricket weeks for schools and universities, which have been supported by the bank for over five years at an annual cost of R750 000.

Cricket World Cup

Standard Bank was one of the main sponsors of the 2003 Cricket World Cup held in southern Africa in February and March 2003. This event, with its considerable international and local appeal, provided a unique opportunity for reinforcement of brand awareness involving both customers and staff members.

During the tournament, the bank announced a special contribution of R2 million for cricket development to be shared between all the African teams competing in the World Cup (Kenya, Namibia, South Africa and Zimbabwe). This amount is in addition to the R6,2 million contributed as part of the Legacy Programme.

A recent independent sponsorship tracking survey indicated that:

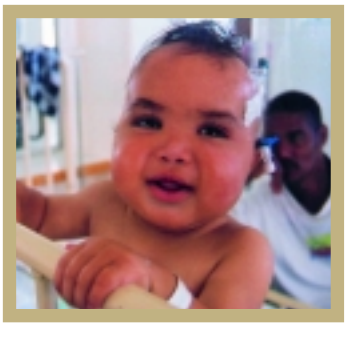
- Standard Bank's sponsorship of cricket enjoys the highest prompted awareness of all sports among white respondents and the second highest overall in the black community;
- Standard Bank outperforms all other banking competitors in both black and white markets in terms of the awareness of any sport sponsored by a bank; and
- the awareness in metropolitan black communities is now on a par with white respondents.

2002 Project snapshots

The bank is involved in many needy and deserving community projects. Some of these are described below:

Excellence

This project provides mobile physics and chemistry laboratories for secondary schools in rural areas. Workbooks, training for teachers and an evaluation of progress are included in the programme.
A partnership has also been established between local schools and universities. Standard Bank currently supports three centres of Excellence located in KwaZulu-Natal, Eastern Cape and the Western Cape.



The total contribution by the bank to this project is R450 000 over two years.

Orphans of Aids Trust

The Trust was established to provide for the needs of children orphaned by Aids in KwaZulu-Natal. The Trust is a partnership between government and business, supported by the European Union Consular Corps and the Independent Newspapers Group. Standard Bank serves as a member of the Trust and has committed R500 000 over three years.

Ethembeni Education and Training Trust

The Trust provides training and skills development to disabled school leavers from the Ethembeni School for the Blind and Physically Disabled, as well as for disabled members of the community. In addition to building, bricklaying, plumbing, electrical wiring and carpentry, the school also has a Permaculture Farming Project. Standard Bank has provided support for six years, with a total contribution over this period of R350 000.

Institute for the Deaf

The mission of the Institute is to promote the teaching of and interest in South African sign language at all teaching levels by empowering students, teachers and parents by way of in-service and distance training. The bank has contributed R150 000 to the Institute over the past five years.

Professional Music Performance and Technology (PROMPT)

PROMPT provides music training and performing arts courses for community youth from formerly disadvantaged communities. Performers aged between 15 and 25, are given the opportunity of attending courses at the Athlone Technical College in Cape Town. The aim of the project is to further the development of original South African music and the creation of employment opportunities within the popular music industry. Standard Bank has contributed R790 000 to PROMPT over the past three years.

Red Cross Children's Hospital

Standard Bank staff raised R600 000 for the Red Cross Children's Hospital in 2001 towards the building of an outpatients' and emergency services' wing. This hospital is the only children's hospital in South Africa.

In addition to the amount raised by staff, the Standard Bank Foundation has contributed R380 000 to the hospital over the past five years.

Community IT Foundation

This Foundation was initiated by Community IT Holdings in 2001 with the aim of realising the political and social imperative of bridging the digital divide prevalent in South Africa. The Foundation provides fully equipped computer laboratories at community centres and schools with a concentration in disadvantaged communities in the Western Cape. The bank contributed R180 000 to the Foundation in 2002.

Delta Environmental Centre

The Centre is based in Delta Park, Johannesburg.

Its purpose is the provision of environmental education and it conducts outreach programmes in aspects of environmental awareness and sustainability. Teachers and pupils visit the Centre and participate in various programmes aimed at creating environmental awareness. Standard Bank has contributed R150 000 to the Centre over the past six years.

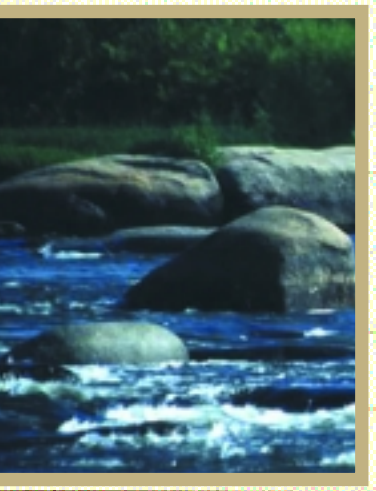
National Youth Choir Course

The Course is held annually on the campus of the Drakensberg Boys Choir School and attracts chorists from all over South Africa. Participants are between the ages of 16 and 26 years and must have sung in a choir for at least 12 months. The aim of the Course is to bring the attendees together for an intensive nine-day period, during which they develop and enhance their skills in choral singing. The National Youth Choir is selected from the participants each year. The bank has contributed R55 000 over two years towards bursaries for students who cannot afford to attend the annual Course.

Some of the other projects that the bank is involved with include the following:

- Johannesburg Child Welfare: R240 000 over four years;
- Star Schools: R1,3 million over seven years;
- Mathematics Centre for Professional Teachers: R280 000 over seven years;
- The Star Seaside Fund: R175 000 over three years;
- World Wide Fund for Nature: R240 000 over four years; and
- Nelson Mandela Children's Fund: R900 000 over six years.

The environment

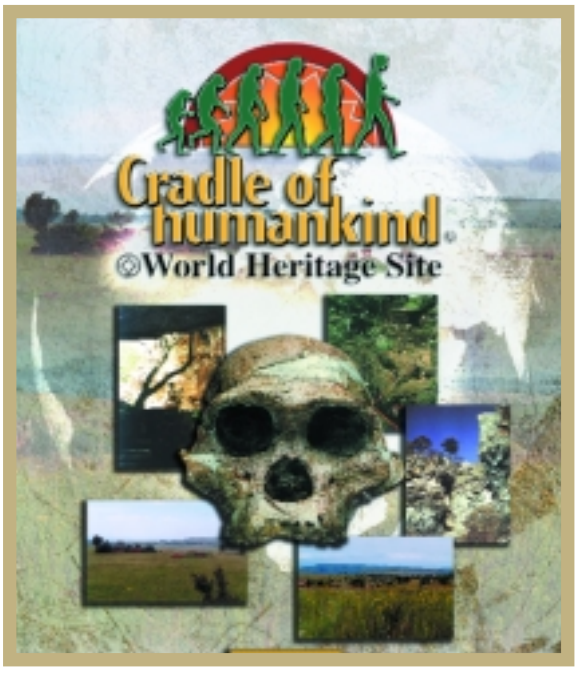


The bank has established an Environmental Steering Committee to deal with environmental risk.

Financial institutions such as Standard Bank, do not directly face critical environmental issues as do, for example, large chemical plants, fossil-fuel burning industrial complexes or mining operations. However, Standard Bank recognises that environmental risk may arise indirectly from the environmental impact of the actions of its clients and business partners or from investments. As a consequence, the bank has established an Environmental Steering Committee to deal with environmental risk across all aspects of operations. Working groups ensure the involvement of business unit representatives in the decision-making process, particularly in lending and financing functions. The group's Environmental Risk Policy guides these activities.

Environmental review

The divisions of the bank most exposed to environmental issues have all completed an environmental audit of their lending books. A set of credit guidelines for environmental assessment in lending has been developed and is currently being tested as a follow-up to the audits completed by the business units. In terms of these credit criteria, a new determinant in the process is how a client regards the environment. Says Paul Smith, Director, Group Risk: "The environmental aspects are intended as an early warning indicator for the bank, since environmental risk could in some cases affect the ability of a customer to repay loans".



johannesburg world summit 2002

people, planet and prosperity

SCMB Project Finance requires projects to be economically, socially and environmentally sustainable. This process is part of a worldwide movement, led by the World Bank that will not consider tenders for projects without the prior involvement of an environmental consultant. As investment in Africa grows, environmental and social risk assessments will become an indispensable requirement for project approval and funding.

World Summit on Sustainable Development 2002

Standard Bank was the official banking partner and one of the first national corporate partners to the World Summit. The Summit presented a unique opportunity to associate with a prestigious United Nation's event and demonstrate the group's commitment to sustainable development.

In addition to providing comprehensive banking facilities to delegates and visitors to the Summit, the bank undertook other activities, including:

Tensile 1 exhibition

The sustainable development initiatives of the bank were showcased in the main exhibition tent, together with a display of fossils from the Cradle of Humankind sites and daily talks on palaeo-anthropology by Dr. Lee Berger from Wits.

Cradle of Humankind tours

The bank sponsored jointly conducted tours by Wits and PAST. The groups departed daily from the Ubuntu Village and the tours included the Cradle of Humankind sites as well as the so-called “Wits treasures” which include the Taung Child, the Diaz Cross, the Mandela papers and Sol Plaatjie’s diaries.

Direct environmental impacts

The bank is committed to effectively managing the direct environmental impacts associated with its operations, which encompass property and facilities, energy, waste and pollution, and procurement, with compliance with legislation a minimum requirement. It is acknowledged that much remains to be done in this area and we plan to consistently improve our data gathering and performance abilities over time.

Initiatives underway include:

- paper recycling in conjunction with national paper manufacturers;
- the refilling of printer cartridges in terms of an agreement with Hewlett Packard and their recycling to the benefit of certain welfare organisations; and
- tracking information on water and energy usage as part of the bank’s involvement in Eskom’s demand side management programme.

Training

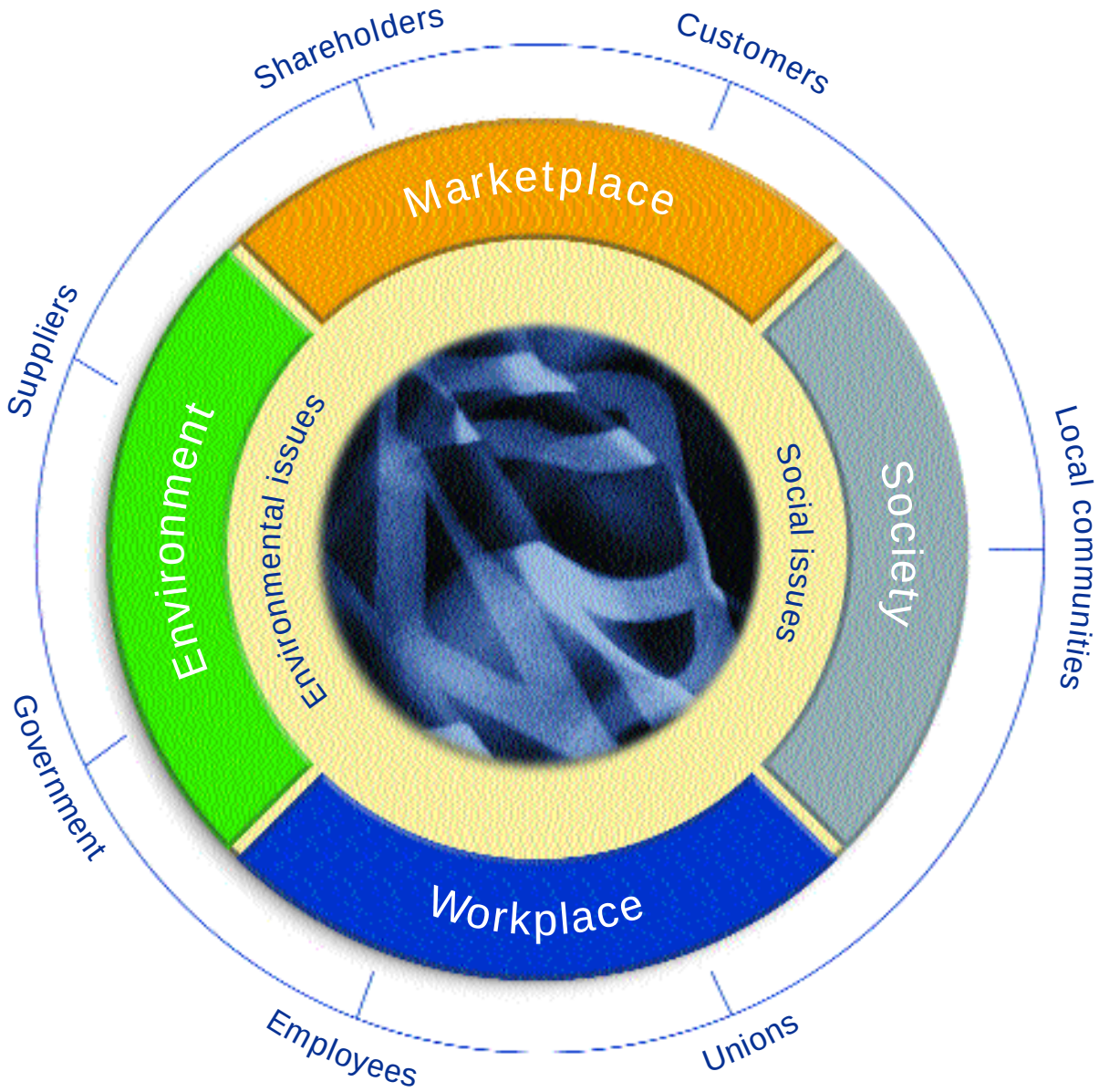
Training and awareness initiatives on environmental issues are in place throughout the bank. Questions, problems or suggestions in this regard are forwarded to Group Risk or the compliance representative. An environmental risk website has been established on the group’s intranet site. Eleven external and 14 internal training presentations were held during the year.

Environmental awareness is also emphasised in various internal magazines, as well as in risk and social reports. The bank sponsors environmental education in Teacher magazine in conjunction with the World Wildlife Fund. It also sponsored a series of programmes on Enviroworld Corporate Care community radio.

Committee memberships

The bank is a member of the steering committee of the United Nations Environment Programme (UNEP) African Task Force that in turn is part of the UNEP finance initiative. This initiative is aimed at increasing the awareness of sustainability issues and developing industry guidelines within Africa. Standard Bank hosted the initial annual meeting of the African Task Force in December 2002 and is also represented on the Committee for Global Reporting Initiative launched in South Africa in November 2002.

Sustainability framework






GRI content index

An increasing number of companies are including in their social report the indicators recommended by the Global Reporting Initiative. To assist in improving comparability, listed below are the page numbers in this annual report where GRI indicators can be found.

GRI indicator	Topic	Page	Description
1	Vision and strategy	12, 182	2002 Group review/Introduction by Chairman
2.1 – 2.8	Organisational profile	20, 116	Business unit reviews/Segment report
2.9	List of stakeholders	214	Framework
2.10	Contact details	185, 228	Shareholder information/Contact details
2.11	Reporting period		Year ended 31 December 2002
2.12	Date of most recent previous report		Not relevant – first Sustainability report
2.13	Scope/boundaries	180	Domestic operations in the main
2.14	Significant changes in size, structure, ownership, products/services	20, 101	Business unit reviews/Directors' report
2.15	Basis for reporting	108, 215	Accounting policies/GRI content index
2.16	Restatements of information	108	Accounting policies
2.17	Decision not to apply GRI principles	215	GRI content index
2.18	Criteria/definitions	96	Only financial definitions provided
2.19	Significant changes in measurement methods		Not relevant – first Sustainability report
2.20 – 2.21	Independent assurance		Not commissioned
2.22	Information availability	185	Investor relations and website
3.1 – 3.5	Governance	42	Corporate governance report
3.6	Organisational structure and key individuals responsible for oversight, implementation and audit of economic, environmental, social and related policies	56, 211	Risk management report/Environment
3.7	Code of conduct	200	Code of business ethics
3.8	Mechanisms for shareholders to provide recommendations for direction to the Board of Directors	221	Not formalised – shareholders encouraged to attend AGM
3.9 – 3.12	Stakeholder engagement	185, 202	Shareholders/Public affairs
3.13	Precautionary principle		Awaiting approval
3.14	Economic, environmental and social charters and initiatives	202	Government, regulatory agencies and public affairs
3.15	Industry and business association membership	202	
3.16	Policies for supply chain management	201	Suppliers – policies however not yet formalised
3.17	Approach to managing indirect impacts of activities	211	Environment
3.18	Decisions regarding location or changes in operations	12, 101, 174	2002 Group review/Directors' report/ International representation
3.19	Programmes and procedures relating to social, economic and environmental performance	177-218	Sustainability report
3.20	Certification status		Not certified

Performance indicators	Topic	Page	Description
	Economic performance indicators		
EC1	Net sales	105	Income statement
EC2	Geographic breakdown of markets	116	Segment report
EC3	Cost of all goods and services purchased	181	Value added statement
EC4	Percentage of contracts paid in accordance with agreed terms		Not measured
EC5	Total employee remuneration	105, 181	Income statement/Value added statement
EC6	Interest and dividends	105	Income statement
EC7	Increase in retained earnings	107	Statement of changes in shareholders' funds
EC8	Total taxes paid	105, 181	Income statement/Value added statement
EC9	Subsidies received	196	Skills development levy
EC10	Donations to community and civil society	204	Society and the community
	Environmental performance indicators		
EN1	Total materials use		Not available but direct impact of group's activities not significant in all instances
EN2	Percentage of materials used that are recycled material wastes from external sources		
EN3	Direct energy use		
EN4	Indirect energy use		
EN5	Total water use		
EN6	Land leased, owned or managed in biodiversity rich habitats		
EN7	Description of the major impacts on biodiversity associated with the organisation's activities and/or products in terrestrial, freshwater, and marine environments		
EN8	Greenhouse gas emissions		
EN9	Ozone depleting substances emissions		
EN10	Significant air emissions by type		
EN11	Total amount of waste by type and destination		
EN12	Significant discharges to water by type		
EN13	Significant spills of chemicals, oils and fuels		
EN14	Significant environmental impacts of principal products and services		
EN15	Percentage of weight/volume of products sold that are reclaimed by the reporting organisation after use		
EN16	Incidents/fines for non-compliance with International conventions or local legislation		Not significant

Performance indicators	Topic	Page	Description
	Social performance indicators		
	Labour practices		
LA1	Breakdown of workforce	196-198	Employees
LA2	Employment creation and average turnover		Not disclosed
LA3	Union representation		
LA4	Changes in the reporting organisation's operation – consultation with employees	195	Employees
LA5	Occupational accidents and diseases		Health and safety – information on absentee rates not yet available
LA6	Health and safety committees	197	
LA7	Injury, lost days and absentee rates		
LA8	HIV/Aids policies/programmes	197	Employees
LA9	Average hours of training per annum		Information not yet available
LA10	Transformation policies and procedures	196	Employees
LA11	Composition of senior management and corporate governance bodies	42, 198	Corporate governance/Employees
	Human rights		
HR1	Policies, guidelines, corporate structures and procedures to deal with all aspects of human rights		Human rights recognised and observed and embedded in South Africa's Constitution. No evidence of transgressions but group's policies not yet formally codified
HR2	Evidence of consideration of human rights impacts as part of investment and procurement decisions, including selection of suppliers and contractors		
HR3	Policies and procedures to evaluate and address human rights performance in supply chain		
HR6	Policy excluding child labour		
HR7	Description of policy to prevent forced and compulsory labour		
HR4	Global policies and procedures/programmes preventing all forms of discrimination	196	Employees
HR5	Description of freedom of association	194	Employees

Performance indicators	Topic	Page	Description
	Social performance indicators		
	Society		
SO1	Description of policies to manage impacts on communities	204	Society and the community
SO2	Policy/procedures for addressing bribery and corruption	71	Risk management
SO3	Policy/procedures for managing political lobbying and contributions	202	Government, regulatory agencies and public affairs
SO4	Awards received for social, environmental and ethical performance	184, 193	External recognition/Customers
	Product responsibility		
PR1	Policy for preserving customer health and safety		Limited relevance
PR2	Product information and labelling policy/procedures		Product information provided to customers
PR3	Consumer privacy	192	Customers

Chairman's letter to shareholders

Dear Shareholder

The annual general meeting of Standard Bank Group Limited will be held in the H P de Villiers Auditorium, Standard Bank Centre, 6 Simmonds Street, Johannesburg on Monday, 19 May 2003 at 14h30. This letter explains the business to be conducted at the meeting.

The annual report for the year ended 31 December 2002 will also be available on the website at www.standardbank.co.za.

Explanatory note on resolutions

Resolution 1:
Receive and adopt the annual financial statements for the financial year ended 31 December 2002 – This is ordinary business and there are no special items to bring to the attention of shareholders.

Resolution 2.1:
Approve directors' remuneration for 2002 – The fees have been paid to the directors and this is ratification by you of those payments.

Resolution 2.2:
Approve non-executive directors' fees for 2003 – In resolutions 2.2.1 to 2.2.10, in line with King II, you are asked to approve the fees for the non-executive directors for 2003. The fees are considered by the Remuneration Committee to be in line with market trends and have been approved by the board.

Resolutions 3.1 to 3.4:
Elect directors – Reappoint those directors who retire by rotation in terms of the Articles of Association and offer themselves for re-election. Abridged curriculum vitae are included in the notice.

Resolution 4.1:
Group Share Incentive Scheme ("Scheme") – Control of shares. This resolution provides the directors with the ability to allot and issue shares for the practical functioning of the Scheme.

Resolution 4.2:
Control of unissued shares – This resolution provides the directors with the ability to allot and issue shares, other than those required for the Scheme, during the course of the year, but limited in the aggregate to ten percent of the shares in issue at 31 December 2002.

Resolutions 5.1 and 5.2:
The proposed amendments to the Scheme will change the definition of "employee" to enable employees in the full time employment of any of the group's associates to participate in the Scheme.

Special resolution 6.1:
This is a renewal of the authority given by shareholders at the previous AGM and will allow the repurchase of the company's securities by the company or any subsidiary during the course of the year.

Special resolution 6.2:
This resolution, to amend the Articles of Association, will enable the directors to appoint specialists, who are not board members, to board committees.

Attendance at annual general meeting

Details as to the time and venue of the AGM appear at the top of this letter. I encourage you to attend and vote your shares at the AGM. If you are not able to attend, I would urge you to complete the proxy form in accordance with the instructions and return it to the address indicated.

If you have dematerialised your shares on STRATE, you must submit your proxy or voting instructions to your CSDP or broker. You will need to contact them regarding their particular cut-off time for votes to be lodged with us. If you wish to attend the meeting, you will have to approach your CSDP or broker to provide you with the necessary authority in terms of the agreement that you have entered into with them.

I look forward to welcoming you at the AGM.

Derek Cooper
Chairman
4 March 2003

Notice to members

Notice is hereby given that the 34th annual general meeting of Standard Bank Group Limited ("Standard Bank Group" or "the Company") will be held in the H P de Villiers Auditorium, Standard Bank Centre, 6 Simmonds Street, Johannesburg on Monday, 19 May 2003 at 14h30, for the following business:

Ordinary resolutions:

1 To receive and adopt the annual financial statements for the year ended 31 December 2002, including the reports of the directors and auditors.

2 To approve:

2.1 the remuneration of the directors for 2002 as reflected in note 27.1 to the annual financial statements;

2.2 the proposed fees payable to the non-executive directors for 2003:

2.2.1 Chairman of Standard Bank Group* – R1 859 000 per annum;

2.2.2 Deputy Chairman of Standard Bank Group – R200 000 per annum;

2.2.3 Director of Standard Bank Group – R70 000 per annum;

2.2.4 Group Credit Committee
Member – R7 500 per meeting;

2.2.5 Group Governance and Nominations Committee
Member – R15 000 per annum;

2.2.6 Group Risk Management Committee
Chairman – R80 000 per annum
Member – R40 000 per annum;

2.2.7 Group Remuneration Committee
Chairman – R70 000 per annum
Member – R35 000 per annum;

2.2.8 Transformation Committee
Chairman – R60 000 per annum
Member – R30 000 per annum;

2.2.9 Group Audit Committee
Chairman – R120 000 per annum
Member – R60 000 per annum;

2.2.10 Ad hoc meeting attendance** – R7 500 per meeting.

3 To elect directors in place of those retiring in accordance with the provisions of the Company's Articles of Association. Messrs D E Cooper, R A Plumbridge, C B Strauss, R P Menell and E P Theron retire by rotation and are eligible for re-election. All, except Mr E P Theron who retires at the conclusion of this meeting, offer themselves for re-election.

All of these directors are independent as defined in the King Committee Report on Corporate Governance. Details of these directors are as follows:

3.1 Derek Cooper
Age: 62
Appointed: 1993
Educational qualifications: CA (SA)
Directorships: Standard Bank Group (Chairman), Liberty Holdings (Chairman), Liberty Group (Chairman), Reunert (Chairman).
Member: Group Credit Committee (Chairman), Africa Credit Committee, Group Risk Management Committee, Group Remuneration Committee, Governance and Nominations Committee (Chairman), Transformation Committee.

3.2 Robin Plumbridge
Age: 67
Appointed: 1980
Educational qualifications: MA (Oxford) LLD (hc) (Rhodes)
Directorships: Former Chairman Gold Fields of South Africa, Newmont Mining Corporation (Audit Committee Chairman).
Member: Group Risk Management Committee (Chairman), Group Audit Committee (Chairman).

3.3 Conrad Strauss
Age: 67
Appointed: 1984
Educational qualifications: BA PhD (Rhodes) MS (Cornell) AMP (Harvard) FIBSA DEcon (hc) (Rhodes) DSc (hc) (Pretoria)
Directorships: Former Chairman Standard Bank Group, Sasol, Afrox.

* Standard Bank Group Chairman's fee includes the board and all committee memberships but does not include fees for Liberty Holdings Ltd, Liberty Group Ltd or Standard Bank London Ltd. The Chairman is currently also chairman of the Governance and Nominations Committee, Group Credit Committee and a member of the Group Remuneration, Transformation and Group Risk Management Committees.

** Fee per meeting for attendance by non-executive director or person acting in an alternate capacity (not a member of the committee). This same fee is applicable to all committees where attendance is on an ad hoc or alternate capacity.

3.4 Rick Menell
Age: 47
Appointed: 1997
Educational qualifications: BA (Honours) MA (Cambridge) M Sc (Stanford)
Directorships: Anglovaal Mining (Executive Chairman), Telkom SA, SA Tourism (Chairman), Mutual and Federal, Assmang, Avgold, Village Main Reef, Chambishi Metals, National Business Initiative, Business Trust.
Member: Group Risk Committee, Group Remuneration Committee.

4 To consider and if deemed fit, to pass, with or without modification the following resolutions as ordinary resolutions:

4.1 "Resolved that all the ordinary shares required for the purpose of carrying out the terms of the Standard Bank Group Share Incentive Scheme ("the Scheme"), other than those which have specifically been appropriated for the Scheme in terms of ordinary resolutions duly passed at previous annual general meetings of the Company, be hereby specifically placed under the control of the directors, who be and are hereby authorised to allot and issue those shares in terms of the Scheme."

4.2 "Resolved that the unissued ordinary shares of the Company (other than those specifically identified in ordinary resolution number 4.1) be placed under the control of the directors, who be and are hereby authorised to allot and issue those shares on any such terms and conditions as they deem fit, subject to the aggregate number of ordinary shares able to be allotted and issued in terms of this resolution being limited to ten percent of the number of ordinary shares in issue as at 31 December 2002."

5 Group Share Incentive Scheme

The purpose of this ordinary resolution is to amend the Company's Group Share Incentive Scheme ("the Scheme") to expand the definition of "employee". The definition will now be extended to employees in the full time employment of associates of the group.

To consider and if deemed fit, to pass, with or without modification, the following resolutions as ordinary resolutions:

5.1 "Resolved that Clause 1.5 of the Scheme be amended by inserting "and associates" after "subsidiaries". The definition will read as follows:

"employee"– Anyone (including a director holding salaried employment or an office in the company) employed on a full time basis by the company or any of its subsidiaries and associates and for purposes of the Incentive Scheme this shall include a family trust, a family company and the trustees for the time being of any Employee Benefit Trust."

5.2 The above amendment to the Scheme necessitates the making of a number of consequential amendments that do not require the authority of the Company in general meeting. As a result of this, the reference to clause numbers in clause 6.3 will need to be amended and this requires the approval of shareholders.

"Resolved that Clause 6.3 of the scheme be amended by deleting '1.5' and replacing it with '1.9'".

Copies of the Scheme incorporating these amendments and other consequential amendments are available for inspection at the Company's registered office during normal business hours up to the date of the annual general meeting and will also be made available at the annual general meeting for perusal by shareholders.

Special resolutions

6 To consider and if deemed fit, to pass, with or without modification, the following resolutions as special resolutions:

6.1 Special resolution number 1

The directors of the Company intend, if the circumstances are appropriate, to implement a repurchase of the Company's securities as permitted in terms of the Companies Act 61 of 1973, as amended ("the Companies Act") and the Listings Requirements of the JSE Securities Exchange South Africa ("Listings Requirements") either by the Company or one of its subsidiaries. The reason for and effect of special resolution number 1 is to generally approve, in terms of Section 85(2) of the Companies Act, the acquisition by the Company and, in terms of Section 89 of the Act, the acquisition by a subsidiary of the Company, of ordinary shares issued by it subject to the Listings Requirements. The directors of the Company are of the opinion that, taking into consideration the maximum number of securities that could be repurchased:

– the Company and the group would be in a position to repay its debts in the ordinary course of business for a period of 12 months after the date of the notice of this annual general meeting ("next year");

Notice to members continued

- the assets of the Company and the group, fairly valued in accordance with Generally Accepted Accounting Practice, would be in excess of the liabilities of the Company and the group for the next year;
- the ordinary capital and reserves of the Company and the group for the next year will be adequate; and
- the working capital of the Company and the group will be adequate for the next year's operations.

"Resolved as a special resolution that the Company approves, as a general approval in terms of Section 85(2) of the Companies Act 1973 ("the Act"), the acquisition by the Company and, in terms of Section 89 of the Act, the acquisition by any subsidiary of the Company, from time to time, of such number of ordinary shares issued by the Company and at such price or prices and on such other terms and conditions as the directors may from time to time determine, subject to the following requirements of the Act and the Listings Requirements of the JSE Securities Exchange South Africa:

- the authority shall be valid only until the next annual general meeting of the Company or 15 months from the date on which this resolution is passed, whichever is the earlier;
- any such acquisition will be implemented on the JSE Securities Exchange South Africa;
- the authority is limited to the purchase of a maximum of 20% of the Company's issued ordinary share capital at the time the authority is granted;
- acquisitions must not be made at a price more than 10% above the weighted average of the market value for the issued ordinary shares of the Company for the five business days immediately preceding the date of the acquisition;
- in the case of an acquisition by a subsidiary of the Company, the authority shall be valid –
  - only if the subsidiary is authorised by its Articles of Association;
  - the shareholders of the subsidiary have passed a special resolution authorising the acquisition; and
  - the number of shares to be acquired is less than 10% in the aggregate of the number of issued shares of the Company."

6.2 Special resolution number 2

The purpose of this resolution is to amend the Articles of Association of the Company to allow the directors to delegate any of their powers to a committee or committees consisting of such member or members of their body, and also such other persons who have the requisite expertise but are not directors.

"Resolved as follows:

6.2.1 that article 106 of the Company's Articles of Association be amended by adding the words "or such other persons who have the requisite expertise" after the words "consisting of such member or members of their body", so that article 106 of the Company's Articles of Association will read as follows:

Article 106

The directors may delegate any of their powers to a committee or committees consisting of such member or members of their body or such other persons who have the requisite expertise as they think fit and appoint the chairman thereof. Any committee so formed shall, in the exercise of the powers so delegated, conform to any rules issued by the directors from time to time.

6.2.2 that Article 108 of the Company's Articles of Association be amended by –

- deleting the word "director" in the first line of Article 108 and replacing it with the word "person";
- deleting the words "as a director" where they appear after the words "he may be entitled" in the third line of Article 108; and
- deleting the word "director" where it appears after the words "provided that no" in the fourth line of Article 108 and replacing it with the word "person";

so that Article 108 of the Company's Articles of Association will read as follows:

Article 108

Any person who serves on any committee or who devotes special attention to the business of the Company in such capacity may be paid such extra remuneration, in addition to any other remuneration to which he may be entitled, by way of salary or otherwise as the directors may determine provided that no person shall be entitled to vote in respect of his own remuneration."

Standard Bank Group shareholders holding certificated shares and shareholders of the Company who have dematerialised their shares and have elected own-name registration in the sub-register maintained by a CSDP, may attend, speak and vote at the annual general meeting or may appoint one or more proxies (who need not be shareholders of the Company) to attend, speak and vote at the annual general meeting on behalf of such shareholder. A proxy form is attached to this notice of annual general meeting. Duly completed proxy forms must be returned to the transfer secretaries of Standard Bank Group or the registered office of the company to the addresses set out below, by not later than 14h30 on Friday, 16 May 2003.

Standard Bank Group shareholders who have dematerialised their shares through a CSDP or broker and who have not elected own-name registration in the sub-register maintained by a CSDP and who wish to attend the annual general meeting, should instruct their CSDP or broker to issue them with the necessary authority to attend, or if they do not wish to attend the annual general meeting, they may provide their CSDP or broker with their voting instructions in terms of the custody agreement entered into between such shareholders and their CSDP or broker.

By order of the board
L Wulfsohn, Group Secretary
4 March 2003

Registered office:

9th Floor
Standard Bank Centre
5 Simmonds Street
Johannesburg, 2001
(P O Box 7725, Johannesburg, 2000)
Fax No. +27 11 636 4207

Transfer secretaries in South Africa:

Computershare Investor Services Ltd
11th Floor, 70 Marshall Street
Johannesburg, 2001
(P O Box 1053, Johannesburg, 2000)
Fax No. +27 11 370 5390

Transfer secretaries in Namibia:

Transfer Secretaries (Pty) Ltd
Shop 12, Kaiserkrone Centre
Post Street Mall
Windhoek, 9000
(P O Box 2401, Windhoek)
Fax No. +264 61 248 531

Directorate

Standard Bank Group Limited

D E Cooper
Chairman

E A G Mackay
Joint Deputy Chairman

S J Macozoma
Joint Deputy Chairman

J H Maree*
Chief Executive

M J D Ruck*
Deputy Chief Executive

R C Andersen*

D D B Band

E Bradley

D A Hawton

R P Menell

R A Plumbridge

C L Stals

C B Strauss

E P Theron

L Wulfsohn
Group Secretary

The Standard Bank of South Africa Limited

D E Cooper
Chairman

E A G Mackay
Joint Deputy Chairman

S J Macozoma
Joint Deputy Chairman

J H Maree*
Chief Executive

M J D Ruck*
Deputy Chief Executive

R C Andersen*

D D B Band

E Bradley

D A Hawton

R P Menell

R A Plumbridge

C L Stals

C B Strauss

E P Theron

Standard Bank London Limited

J H Maree
Chairman

R A G Leith*#
Chief Executive

M J Botha*#

D P H Burgess#

D E Cooper

W J Dorson*^

D Feld*^

I G Gibson*#

N J Holden*#

B J Kruger**

J M K Pearson*#

R M Mansell-Jones#

M J D Ruck

C J Sheridan#

T R Smeeton#

B A Ursell#

T G Wheeler*#

M J Wilde*#

Liberty Holdings Limited

D E Cooper
Chairman

R C Andersen*

D A Hawton

W S MacFarlane

J H Maree

M Rapp#

A Romanis#

M J Shaw

Liberty Group Limited

D E Cooper
Chairman

R C Andersen*
Deputy Chairman and Group Chief Executive

H I Appelbaum*

M J Jackson*

D S Nohr*

D A Hawton

W S MacFarlane

J H Maree

M Rapp#

A Romanis#

M J Shaw

* Executive director
** Alternate to M J D Ruck
\# British
^ American

Shareholders' diary

2002 financial year

Annual general meeting	19 May 2003 at 14h30

2003 financial year

Financial year-end	31 December

Reports

Interim results announcement and declaration of interim dividend	August 2003
Year-end results announcement and declaration of final dividend	March 2004
Publication of annual report	April 2004

Dividend payments

Ordinary shares:	
Interim	September 2003
Final	April 2004
6,5% cumulative preference shares:	
Six months ending 30 June 2003	September 2003
Six months ending 31 December 2003	April 2004
Annual general meeting	May 2004

Contact details

Registered address

9th Floor
Standard Bank Centre
5 Simmonds Street
Johannesburg, 2001

P O Box 7725
Johannesburg, 2000

Contact numbers

Telephone: +27 11 636 7811
Fax: +27 11 636 4207
email: InvestorRelations@sbic.co.za

Group Finance Director

Simon Ridley
Telephone: +27 11 636 3756
email: SRidley@sbic.co.za

Group Secretary

Loren Wulfsohn
Telephone: +27 11 636 5119
email: LWulfsohn@sbic.co.za

Director, Investor Relations

Kim Howard
Telephone: +27 11 636 7811
email: KHoward@sbic.co.za

Ordinary share codes

JSE Securities Exchange South Africa
Share code: SBK
ISIN code: ZAE000038873

Namibian Stock Exchange
Share code: STB
ISIN code: ZAE000014858

SBSA 301004 4/03

Proxy form

Standard Bank Group

Standard Bank Group Limited

(Registration number 1969/017128/06)
("the Company")

For use only by Standard Bank Group Limited shareholders holding share certificates and shareholders who have dematerialised their share certificates and who have elected own-name registration through a Central Securities Depository Participant ("CSDP") or broker, at the annual general meeting of the Company to be held at 14h30 on Monday, 19 May 2003.

Shareholders of the Company who have dematerialised their share certificates through a CSDP or broker and who have not elected own-name registration in the sub-register maintained by a CSDP, must not complete this form of proxy but must instruct their CSDP or broker to issue them with the necessary authority to attend the annual general meeting, or if they do not wish to attend, they may provide their CSDP or broker with their voting instructions in terms of the custody agreement entered into between them and their CSDP or broker.

I/We _____ (Name in block letters)

of _____ (Address in block letters)

being a shareholder(s) and the holder(s) of ordinary shares of 10 cents each and entitled to vote hereby appoint: (see note 1):

1 _____ or, failing him/her

2 _____ or, failing him/her

3 the Chairman of the annual general meeting,

as my/our proxy to vote for me/us and on my/our behalf at the annual general meeting of shareholders, to be held at 14h30 on Monday, 19 May 2003, in the H P de Villiers Auditorium, Standard Bank Centre, 6 Simmonds Street, Johannesburg, and at any adjournment thereof as follows:

	Number of votes		
Ordinary resolution to:	For*	Against*	Abstain*
1 Adopt annual financial statements			
2 Remuneration 2.1 Approve directors' remuneration (2002)			
2.2. Approve non-executive directors' fees (2003): 2.2.1 Standard Bank Group Chairman			
2.2.2 Standard Bank Group Deputy Chairman			
2.2.3 Standard Bank Group Director			
2.2.4 Group Credit Committee			
2.2.5 Group Governance and Nominations Committee			
2.2.6 Group Risk Management Committee			
2.2.7 Group Remuneration Committee			
2.2.8 Transformation Committee			
2.2.9 Group Audit Committee			
2.2.10 Ad hoc meeting attendance			
3 To elect directors: 3.1 Derek Cooper			
3.2 Robin Plumbridge			
3.3 Conrad Strauss			
3.4 Rick Menell			
4 Shares 4.1 Place shares for Group Share Incentive Scheme ("Scheme") under control of directors			
4.2 Place unissued shares under control of directors subject to limit on allotment and issue of 10% in aggregate			
5 Group Share Incentive Scheme 5.1 Amend Scheme definition of employee			
5.2 Amend Scheme numbering of clause			
Special resolution to:			
6.1 Give general authority until the next annual general meeting for the Company or subsidiaries to repurchase the company's shares			
6.2 Amend the Articles of Association to allow appointment of non-board members to board committees			

** Insert a cross or tick or number of votes. If no options are marked, the proxy can vote as he/she deems fit.*

Signed at _____ on _____ 2003

Signature _____

Assisted by (where applicable) (State capacity and full name)_____

Please provide contact details: Tel: (_____) _____

Fax: (_____) _____

email: _____

A shareholder entitled to attend and vote at the above-mentioned annual general meeting can appoint a proxy to attend, vote and speak in his/her stead. A proxy need not be a shareholder of the company.

Please read the notes below.

Notes

1. A shareholder may insert the name of a proxy or the names of two alternative proxies of his/her choice in the space provided. The person whose name stands first on the proxy form and who is present at the annual general meeting will be entitled to act as proxy to the exclusion of those whose names follow.
2. To be effective, completed proxy forms must be lodged with the transfer secretaries, Computershare Investor Services Ltd, 11th Floor, 70 Marshall Street, Johannesburg (P O Box 1053, Johannesburg, 2000) or fax number +27 11 370 5390 in South Africa; or Transfer Secretaries (Pty) Limited, Shop 12, Kaiserkrone Centre, Post Street Mall, Windhoek (P O Box 2401, Windhoek) or fax number +264 61 248 531 in Namibia; or lodged at the registered office of the company, 9th Floor, Standard Bank Centre, 5 Simmonds Street, Johannesburg (P O Box 7725, Johannesburg, 2000) or fax number +27 11 636 4207, to reach them by not later than 14h30 on Friday, 16 May 2003.
3. The completion and lodging of this proxy form will not preclude the relevant ordinary shareholder from attending the annual general meeting and speaking and voting in person thereat instead of the proxy.
4. The Chairman of the annual general meeting may reject or accept any proxy form which is completed and/or received other than in compliance with these notes.
5. The signatories must initial any alteration to this proxy form, other than a deletion of alternatives.
6. Documentary evidence establishing the authority of a person signing this proxy form in a representative capacity must be attached to this proxy form unless previously recorded by the Company.
7. Where there are joint holders of ordinary shares:
   (a) any one holder may sign the proxy form; and
   (b) the vote of the senior ordinary shareholder (for that purpose seniority will be determined by the order in which the names of the ordinary shareholders who tender a vote (whether in person or by proxy) appear in the Company's register) will be accepted to the exclusion of the vote(s) of the other joint shareholders.
8. All beneficial owners of ordinary shares who have dematerialised their shares through a CSDP or broker, other than those shareholders who have elected to dematerialise their shares in "own-name" registrations, must provide their CSDP or broker with their voting instructions. Voting instructions must reach the CSDP or broker in sufficient time to allow the CSDP or broker to advise the company or its transfer secretaries of this instruction by not later than 14h30 on Friday, 16 May 2003. We recommend that you contact your CSDP or broker to ascertain their deadline date for submission.

   If you have dematerialised your shares and wish to attend the meeting in person, you may do so by requesting your CSDP or broker to issue you with a letter of representation in terms of the custody agreement entered into with your CSDP or broker. Letters of representation must be lodged with the Company's transfer secretaries or at the registered office of the Company by not later than 14h30 on Friday, 16 May 2003. We recommend that you contact your CSDP or broker to ascertain their deadline date for submission.

   Shareholders who hold certificated shares and shareholders who have dematerialised their shares in "own-name" registrations, must lodge their completed proxy forms with the Company's transfer secretaries or at the registered office of the Company by not later than 14h30 on Friday, 16 May 2003.