blueprint for growth

annual financial statements
for the year ended 31 December 2002

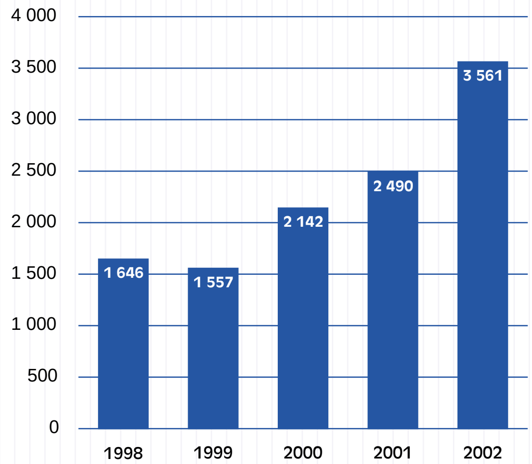
Standard Bank of South Africa

Contents

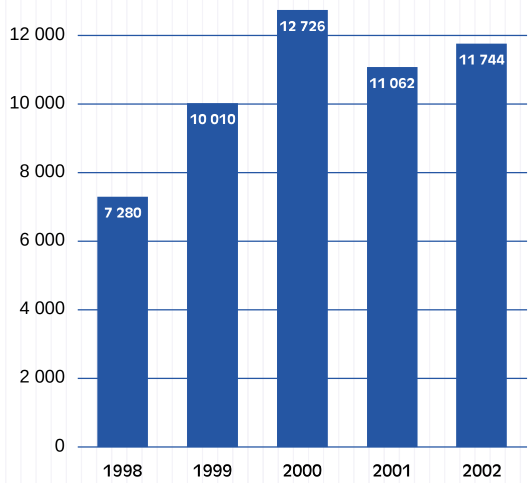
Financial highlights

	2002 Rm	2001 Rm	% change	2002 US$ equivalent $m
Income statement				
Operating profit	5 331	3 643	46	622
Headline earnings	3 561	2 490	43	415
Income attributable to ordinary shareholder	3 817	2 490	53	445
Balance sheet				
Ordinary shareholder's funds	11 744	11 062	6	1 369
Total assets	210 540	186 933	13	24 546
Loans and advances	125 075	110 710	13	14 582
Financial performance				
Return on equity (%)	31,2	20,9		
Share statistics per ordinary share (cents)				
Headline earnings	6 054	4 384	38	706
Earnings	6 490	4 384	48	757
Dividends	7 684	6 963	10	896
Net asset value	19 600	18 820	4	2 285
Capital adequacy				
Total risk-weighted assets	159 320	151 469	5	18 574
Primary capital	11 414	10 756	6	1 331
Total capital	17 991	16 243	11	2 097
Primary capital to risk-weighted assets (%)	7,2	7,1		
Total capital to risk-weighted assets (%)	11,3	10,7		

Headline earnings (Rm)



Ordinary shareholder’s funds (Rm)



Risk management overview, capital adequacy and corporate governance

Risk management overview

The cornerstone of effective risk management is a strong risk management culture. To ensure this, the risk management process is built on three elements:

- comprehensive risk governance designed to ensure that the company 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.

The Standard Bank of South Africa Limited (SBSA) has developed and implemented comprehensive risk management policies and processes to identify, control and monitor risk throughout the bank. The Standard Bank Group (SBG) risk management processes are followed by SBSA and are set out in further detail in the SBG annual report.

Risk management and oversight begins with the SBG Board of Directors, which determines the level of risk that the bank is willing to take in pursuit of growth and maximising opportunities for the group. The board has delegated its role to a number of committees, which focus on various aspects. Group Risk constantly ensures that the appropriate refinements and best practice developments are introduced into the risk management processes in the company.

The major risks to which the company is exposed are detailed below.

Credit risk is the risk of loss arising from counterparty default. Credit risk management is governed by SBSA's overall credit policy guidelines as recommended by the Group Credit Committee and ultimately approved by the SBG Board of Directors. Decentralised risk functions which report to the African Credit Committee, a sub-committee of the Group Credit Committee, are responsible for the implementation of these guidelines, which cover compliance with prescribed sanctioning authority levels, avoidance of a high concentration of credit risk and regular review of credit limits. Facilities to counterparties are governed by internal restrictions, calculated in relation to SBSA's capital, which limit large exposures. Credit review procedures are designed to identify potential problem areas early and to ensure that appropriate actions are initiated to regularise the situation and minimise the risk of loss.

Market risk is 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. Market risk is monitored by an independent market risk management unit that is accountable to the domestic Asset and Liability Management Committee and ultimately to the Group Risk Committee. Risk management techniques comprise value-at-risk, stress testing and sub-limits on tenor, concentration and notional value of positions within the bank.

Liquidity risk is the risk that the bank has insufficient funds or marketable assets available to fulfil its obligation to a counterparty. The monitoring of liquidity risk is achieved through a series of limits that are in line with guidelines issued by the Financial Services Authority of the United Kingdom. Liquidity flows and funding are reviewed by the domestic Asset and Liability Committee on an ongoing basis.

Operational risk is defined as the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. Operational risks are constantly reviewed by management, which is supported by decentralised risk functions and the Internal Audit division. Procedures and controls are updated to recognise new products and processes. Operational support in the form of computer back-up facilities and disaster recovery procedures is maintained.

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 and the various exchanges.

Reputational risk is the risk of damaging the company's image, which may impair its ability to retain and generate business.

Capital adequacy

Minimum requirements

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

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

Qualifying capital

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

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

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

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

The qualifying revaluation reserves comprise the following:

	2002 Rm	2001 Rm
Property and equipment	68	68

Risk-weighted assets

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

Capital adequacy ratio

The capital adequacy ratio improved from 10,7% in 2001 to 11,3% in 2002.

The major reason for the increase was the issue of R1 billion unsecured subordinated debt, partly offset by an increase in risk-weighted assets of 5,2%.

Corporate governance

SBG endeavours to promote high levels of corporate governance and to conduct its affairs in the best interests of all its stakeholders. The board has implemented where appropriate the recommendations of the King Committee's report on Corporate Governance in South Africa (King II). SBSA adheres to the corporate governance objectives and philosophies adopted by SBG. The governance framework of SBG is detailed in the SBG annual report.

Board of Directors

SBSA is headed by an effective board that both leads and controls the company. The board is committed to upholding high standards of corporate governance and subscribes to the principles of transparency, integrity and accountability. The board has the ultimate responsibility for the management and strategic direction of the company as well as the responsibility to ensure compliance with legislative and regulatory requirements and best practice. There is an appropriate mix of non-executive and executive directors on the board to provide balance.

The roles of chairman and chief executive remain separate and distinct. There are 14 directors on the board of whom three are executive and eleven are non-executive directors. The presence of a strong contingent of independent non-executive directors ensures that independent thought is brought to bear on decisions of the board.

The board meets regularly and in this way retains effective control over the company. During 2002, six board meetings were held. The information provided is sufficient to enable the board to give full consideration to issues tabled.

Risk management overview, capital adequacy and corporate governance (continued)

All directors have unlimited access to the advice and services of the company secretary, who assists in providing any information or documentation they may require to facilitate the discharge of their duties and responsibilities to the company. Directors may obtain independent professional advice at the company's expense. This enables the board and the directors to carry out their duties to the best of their abilities and the company is able to achieve maximum advantage from the mix of experience and skills of the board members.

The secretary keeps the board advised of all relevant changes in regulation and legislation. Where any new directors are appointed, their individual needs are assessed and an induction programme is designed to meet their requirements.

The Board of Directors has a written mandate setting out its terms of reference. Board performance against the mandate is assessed on an annual basis.

SBG's board has established various committees, which operate within limits of delegated authority as recorded in written mandates approved by the board. The committees assist in effectively discharging the board's responsibilities. The company, as part of SBG, utilises the risk management framework established through the various SBG board committees as set out in the risk management report.

Going concern

The company continues to adopt the going concern basis in preparing the financial statements. The directors have adequate reason to believe that the company has sufficient resources to continue operating as a going concern for the foreseeable future.

Financial definitions

Headline earnings (Rm)	Earnings attributable to ordinary shareholders excluding exceptional items relating to capital profits and losses.
Earnings per share (cents)	Earnings attributable to ordinary shareholders divided by the weighted average number of ordinary shares in issue.
Headline earnings per share (cents)	Headline earnings divided by the weighted average number of ordinary shares in issue.
Dividends per share (cents)	Total dividends declared per share relating to the year under review.
Net asset value per share (cents)	Ordinary shareholder's funds divided by the number of ordinary shares in issue at year-end.
Return on equity (%)	Headline earnings as a percentage of average ordinary shareholder's funds.
Return on total assets (%)	Headline earnings as a percentage of average total assets.
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.

Seven-year review

Balance sheet

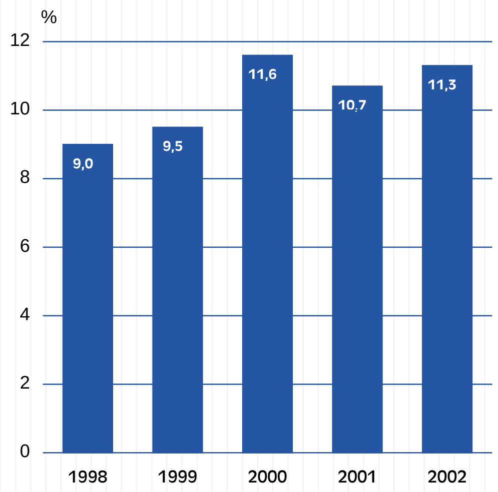
	CAGR* %	2002 Rm	2001 Rm	2000 Rm	1999 Rm	1998 Rm	1997 Rm	1996 Rm
Assets								
Cash and short-term funds	25	31 083	23 855	19 177	18 847	14 309	13 003	8 010
Investment and trading securities	29	15 799	15 396	7 059	5 406	4 474	3 308	3 354
Loans and advances and other assets	9	142 328	132 146	115 378	101 848	103 536	95 098	86 295
Interest in group companies and associates	28	18 968	13 387	11 304	14 682	7 531	4 686	4 398
Intangible assets		226	225	107	–	–	–	–
Property and equipment		2 136	1 924	2 204	2 220	2 185	2 281	2 354
Total assets	12	210 540	186 933	155 229	143 003	132 035	118 376	104 411
Equity and liabilities								
Total capital and reserves	17	11 744	11 062	12 726	10 010	7 280	5 238	4 474
Liabilities	12	198 796	175 871	142 503	132 993	124 755	113 138	99 937
Deposit and current accounts	11	172 728	150 635	125 283	122 554	113 002	103 601	91 783
Other liabilities and provisions	22	13 727	14 060	10 122	6 494	6 547	5 405	4 178
Liabilities to group companies	22	6 641	6 476	4 398	3 910	3 446	2 142	1 986
Bonds	19	5 700	4 700	2 700	35	1 760	1 990	1 990
Total equity and liabilities	12	210 540	186 933	155 229	143 003	132 035	118 376	104 411

* CAGR refers to compound annual growth rate for the period 1996 to 2002.

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

Strategic software development costs, reflected as intangible assets, have only been capitalised since 2000.

Total capital to risk-weighted assets

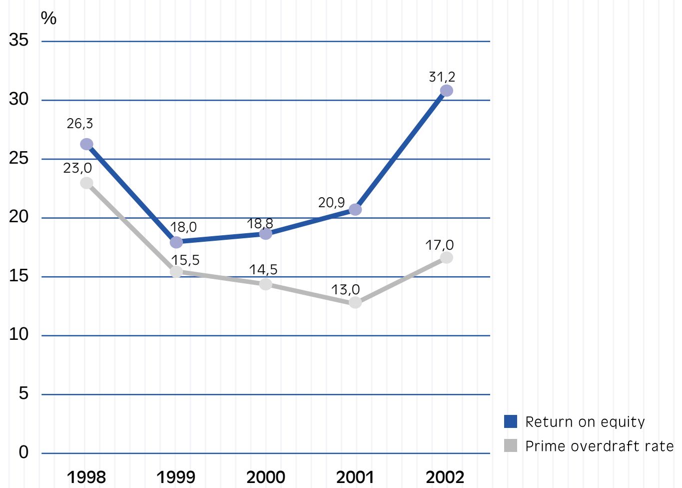


Income statement

	CAGR* %	2002 Rm	2001 Rm	2000 Rm	1999 Rm	1998 Rm	1997 Rm	1996 Rm
Interest income	11	26 249	19 403	17 050	18 662	19 632	16 601	14 119
Interest expense	10	18 332	13 196	11 333	13 447	14 723	12 514	10 537
Net interest income before provision for credit losses	14	7 917	6 207	5 717	5 215	4 909	4 087	3 582
Provision for credit losses	17	1 359	1 330	1 303	1 545	1 003	967	528
Net interest income	14	6 558	4 877	4 414	3 670	3 906	3 120	3 054
Non-interest revenue	20	7 006	5 745	4 763	4 548	3 639	2 960	2 296
Total income	17	13 564	10 622	9 177	8 218	7 545	6 080	5 350
Operating expenses	13	8 233	6 979	6 305	6 168	5 447	4 680	3 986
Operating profit	26	5 331	3 643	2 872	2 050	2 098	1 400	1 364
Income from associates		36	61	117	102	168	133	32
Exceptional items		256	–	768	(22)	(18)	46	(19)
Income before taxation	26	5 623	3 704	3 757	2 130	2 248	1 579	1 377
Taxation	23	1 806	1 214	847	553	610	464	533
Income attributable to ordinary shareholder	29	3 817	2 490	2 910	1 577	1 638	1 115	844

* CAGR refers to compound annual growth rate for the period 1996 to 2002.

Financial performance



Seven-year review (continued)

Statistics, returns and capital adequacy

	CAGR* %	2002	2001	2000	1999	1998	1997	1996
Share statistics								
Number of ordinary shares in issue (millions)								
– weighted average		59	57	56	53	52	52	52
– end of period		60	59	56	56	52	52	52
Headline earnings (Rm)	27	3 561	2 490	2 142	1 557	1 646	1 069	863
Share statistics per ordinary share (cents)								
Earnings	26	6 490	4 384	5 153	2 955	3 180	2 165	1 639
Headline earnings	24	6 054	4 384	3 793	2 918	3 195	2 076	1 676
Dividends declared	41	7 684	6 963	2 047	243	1 015	822	992
Net asset value	15	19 600	18 820	22 537	17 727	14 136	10 171	8 687
Selected returns								
Return on equity (%)		31,2	20,9	18,8	18,0	26,3	22,0	20,2
Return on total assets (%)		1,8	1,5	1,4	1,1	1,3	1,0	0,9
Average ordinary shareholder's funds to average total assets (%)		5,7	7,0	7,6	6,3	5,0	4,4	4,4
Cost-to-income ratio (%)		55,2	58,4	60,2	63,2	63,7	66,4	67,8
Effective tax rate (%)		32,3	33,3	23,3	27,3	29,3	32,1	39,6
Headline earnings per employee (rand)		135 989	98 186	85 179	58 045	62 896	38 630	31 004
Number of employees at year-end		26 186	25 360	25 147	26 824	26 170	27 673	27 835
Capital adequacy								
Risk-weighted assets (Rm)	12	159 320	151 469	121 094	110 905	103 108	91 771	81 056
Primary capital (Rm)	19	11 414	10 756	10 182	9 126	6 365	4 948	4 076
Total capital (Rm)	16	17 991	16 243	14 045	10 554	9 272	8 116	7 491
Primary capital to risk-weighted assets (%)		7,2	7,1	8,4	8,2	6,2	5,4	5,0
Total capital to risk-weighted assets (%)		11,3	10,7	11,6	9,5	9,0	8,8	9,2
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
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	10 456	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

* CAGR refers to compound annual growth rate for the period 1996 to 2002.

Report of the independent auditors

To the member of The Standard Bank of South Africa Limited

We have audited the annual financial statements set out on pages 11 to 48 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 at 31 December 2002 and the results of its 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.

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

KPMG Inc.

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 as at the end of the financial year, and the profit or loss 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 company assets. Appropriate accounting policies, supported by reasonable and prudent judgements and estimates, are applied on a consistent and going concern basis. These 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 company. Greater detail is provided in the risk management overview and corporate governance section on pages 2 to 4.

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 company'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 company, has occurred during the year and up to the date of this report. The directors have a reasonable expectation that the company has 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.

A directors' report and group financial statements have not been prepared as the company is a wholly owned subsidiary of the Standard Bank Group, a company incorporated in the Republic of South Africa.

The financial statements, which appear on pages 11 to 48, 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

Compliance with Companies Act 61, of 1973

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

Loren Wulfsohn
Secretary

Balance sheet

at 31 December 2002	Note	2002 Rm	2001 Rm
Assets			
Cash and short-term funds	2	31 083	23 855
Investment and trading securities	3	15 799	15 396
Loans and advances	4	125 075	110 710
Other assets	5	17 253	21 436
Interest in group companies and associates	6	18 968	13 387
Intangible assets	7	226	225
Property and equipment	8	2 136	1 924
Total assets		210 540	186 933
Equity and liabilities			
Capital and reserves		11 744	11 062
Share capital	9	60	59
Share premium	10	5 145	4 936
Reserves		6 539	6 067
Liabilities		198 796	175 871
Deposit and current accounts	11	172 728	150 635
Other liabilities and provisions	12	13 727	14 060
Liabilities to group companies	6	6 641	6 476
Bonds	13	5 700	4 700
Total equity and liabilities		210 540	186 933

Income statement

for the year ended 31 December 2002	Note	2002 Rm	2001 Rm
Interest income	16.1	26 249	19 403
Interest expense	16.2	18 332	13 196
Net interest income before provision for credit losses		7 917	6 207
Provision for credit losses	16.3	1 359	1 330
Net interest income		6 558	4 877
Non-interest revenue	16.4	7 006	5 745
Total income		13 564	10 622
Operating expenses		8 233	6 979
Staff costs	16.5	4 174	3 560
Other operating expenses	16.6	4 059	3 419
Operating profit		5 331	3 643
Income from associates and joint venture		36	61
Exceptional item	16.10	256	-
Income before taxation		5 623	3 704
Taxation	17	1 806	1 214
Income attributable to ordinary shareholders		3 817	2 490
Earnings per share (cents)	16.9	6 490	4 384
Headline earnings per share (cents)	16.9	6 054	4 384
Dividends per share (cents)	16.8	7 684	6 963

Cash flow statement

for the year ended 31 December 2002	Note	2002 Rm	2001 Rm
Operating activities			
Cash receipts from customers	18.2	32 773	24 666
Cash paid to customers, employees and suppliers	18.3	(25 926)	(19 797)
Dividends received	18.4	518	543
Cash flows from operating activities	18.1	7 365	5 412
Changes in operating funds			
Increase in income-earning assets	18.5	(18 418)	(29 894)
Increase in deposits, other liabilities and provisions	18.6	23 155	30 571
Cash flows from operating funds		4 737	677
Taxation paid	18.7	(2 273)	(526)
Investing activities			
Capital expenditure on			
– property		(2)	(6)
– equipment, furniture and vehicles		(975)	(490)
– intangible assets		(49)	(125)
Investment in associates and other investments		–	(11)
Proceeds from sales of			
– property		102	5
– equipment, furniture and vehicles		68	91
– associates and other investments		101	1 496
Net cash flows (used in)/from investing activities		(755)	960
Financing activities			
Proceeds from issue of share capital	18.8	499	998
Proceeds from issue of bonds		1 000	2 000
Dividends paid	18.9	(3 150)	(5 047)
Net cash flows from financing activities		(1 651)	(2 049)
Effects of exchange rate changes on cash and short-term funds		(195)	204
Net increase in cash and short-term funds		7 228	4 678
Cash and short-term funds at beginning of the year		23 855	19 177
Cash and short-term funds at end of the year		31 083	23 855

Statement of changes in shareholder's funds

for the year ended 31 December 2002	Note	Share capital Rm	Share premium Rm	Translation reserve Rm	Retained earnings Rm	Total Rm
Previously reported at 31 December 2000		56	3 941	79	8 650	12 726
Change in accounting policy	19.1				(309)	(309)
Balance at 1 January 2001		56	3 941	79	8 341	12 417
Income attributable to ordinary shareholder					2 490	2 490
Dividends paid	16.8				(5 047)	(5 047)
Currency translation differences				204		204
Issue of share capital and premium		3	997			1 000
Utilisation of share premium			(2)			(2)
Balance at 31 December 2001		59	4 936	283	5 784	11 062
Balance at 1 January 2002		59	4 936	283	5 784	11 062
Income attributable to ordinary shareholder					3 817	3 817
Dividends paid	16.8				(3 150)	(3 150)
Currency translation differences				(195)		(195)
Issue of share capital and premium		1	499			500
Utilisation of share premium			(290)			(290)
Balance at 31 December 2002		60	5 145	88	6 451	11 744

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 Property (AC 135). Also refer to accounting policy 13 – Property and equipment and note 19 to the financial statements, detailing the change in accounting policy.

1 Basis of preparation

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

2 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.

3 Other provisions

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

When the effect of discounting is material, provisions, 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.

4 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.

5 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.

6 Investment and trading securities (excluding interest in associates and joint ventures)

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.

Accounting policies continued

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.

7 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 company is able to exercise significant influence.

These investments are accounted for by means of the equity method. Equity accounting involves recognising the company'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 6.

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

The company'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 company'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 company's share of equity accounted profits.

8 Derivative financial instruments

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.

9 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 6. 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 the 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.

10 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.

11 Lessee accounting

Leases where the company 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.

12 Revenue

Revenues described below represent the most appropriate equivalent of turnover.

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

Net interest income

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

13 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.

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 an 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.

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.

14 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 company 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.

Accounting policies continued

15 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 the 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.

Indirect taxes, including non-recoverable VAT, RSC levies, skills development levies and other duties, are included in the taxation charge in the income statement.

16 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.

Translation differences arising on translation of foreign entities are taken directly to reserves.

17 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.

18 Pensions and other post-retirement benefits

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.

The company 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.

19 Acceptances

Acceptances comprise undertakings by the company to pay bills of exchange drawn on customers. The company 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.

20 Segment reporting

A segment is a distinguishable component of the company 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.

21 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.

Notes to the annual financial statements

1 Segment reporting

The principal business units in the company are as follows:

Business unit	Scope of operations
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.

Notes to the annual financial statements continued

1. Segment reporting continued

2002	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	5 167	1 003	1 356	238	153	7 917
Provision for credit losses	784	212	277	67	19	1 359
Net interest income	4 383	791	1 079	171	134	6 558
Non-interest revenue	3 860	2 056	554	110	426	7 006
Operating expenses	5 520	1 641	691	98	283	8 233
Operating profit	2 723	1 206	942	183	277	5 331
Income from associates	24	12	–	–	–	36
Exceptional items	44	212	–	–	–	256
Income before taxation	2 791	1 430	942	183	277	5 623
Taxation	1 032	220	307	60	187	1 806
Income attributable to ordinary shareholders	1 759	1 210	635	123	90	3 817
Headline earnings	1 715	998	635	123	90	3 561
Total assets (excluding inter-segmental balances)	75 328	101 268	19 175	8 875	5 894	210 540
Interest in associates	11	53	–	–	–	64
Total liabilities	70 216	97 068	17 518	8 254	5 740	198 796
Capital expenditure	274	75	17	6	654	1 026
Depreciation charge	141	34	8	22	420	625
Number of employees	16 613	2 429	1 749	256	5 139	26 186

2001	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	4 330	974	1 081	203	(381)	6 207
Provision for credit losses	716	195	270	34	115	1 330
Net interest income	3 614	779	811	169	(496)	4 877
Non-interest revenue	3 417	1 396	452	55	425	5 745
Operating expenses	4 993	1 362	599	68	(43)	6 979
Operating profit	2 038	813	664	156	(28)	3 643
Income from associates	8	–	–	–	53	61
Exceptional items	–	–	–	–	–	–
Income before taxation	2 046	813	664	156	25	3 704
Taxation	702	167	206	53	86	1 214
Income attributable to ordinary shareholders	1 344	646	458	103	(61)	2 490
Headline earnings	1 344	646	458	103	(61)	2 490
Total assets (excluding inter-segmental balances)	63 559	92 573	17 964	7 589	5 248	186 933
Interest in associates	13	–	–	–	–	13
Total liabilities	58 169	88 590	16 188	6 604	6 320	175 871
Capital expenditure	235	77	5	5	299	621
Depreciation charge	115	32	6	20	180	353
Number of employees	16 060	2 585	1 208	249	5 258	25 360

Notes to the annual financial statements continued

	2002 Rm	2001 Rm
2. Cash and short-term funds		
Coin and bank notes	2 822	2 816
Balances with central banks	20 464	10 394
Balances with other banks	2 026	6 187
Negotiable certificates of deposit	2 022	2 797
Treasury bills	3 749	1 661
	31 083	23 855

	Book Value 2002 Rm	Valuation 2002 Rm	Book Value 2001 Rm	Valuation 2001 Rm
3. Investment and trading securities				
3.1 Summary				
Listed				
– Securities of, or guaranteed by, the South African Government	12 662	12 987	11 042	11 398
– Other	2 465	2 496	3 366	3 325
Unlisted	672	668	988	997
	15 799	16 151	15 396	15 720
Investment securities				
– Listed	8 982	9 338	10 986	11 285
– Unlisted	672	668	771	780
Trading securities				
– Listed	6 145	6 145	3 422	3 438
– Unlisted	–	–	217	217
	15 799	16 151	15 396	15 720
Dated securities	14 312	14 633	14 152	14 503
Undated securities	1 487	1 518	1 244	1 217
	15 799	16 151	15 396	15 720

	Book Value 2002 Rm	Book Value 2001 Rm
Maturity analysis		
The maturities represent periods to redemption of the investments recorded.		
– Redeemable on demand	840	945
– Maturing within one month	–	–
– Maturing after one month but within six months	1 322	2
– Maturing after six months but within 12 months	173	–
– Maturing after 12 months	13 464	14 449
	15 799	15 396

3.2 Redemption value

Dated investment and trading securities have a redemption value of R14 501 million (2001: R15 333 million).

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

Notes to the annual financial statements continued

4. Loans and advances

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

	2002 Rm	2001 Rm
4.1 Loans and advances net of provision for credit losses		
Loans and overdrafts	43 852	42 969
Card debtors	3 651	2 937
Mortgage advances	56 885	46 875
Instalment sale and leasing accounts	22 720	19 170
Preference shares and debentures	368	804
Trade, other bills and bankers' acceptances	127	209
	127 603	112 964
Provision for credit losses (note 4.2)	(2 528)	(2 254)
	125 075	110 710
Maturity analysis		
The maturity analysis is based on the remaining periods to contractual maturity from year-end.		
– Redeemable on demand	19 773	20 008
– Maturing within one month	4 803	3 836
– Maturing after one month but within six months	12 303	10 709
– Maturing after six months but within 12 months	11 802	9 123
– Maturing after 12 months	78 922	69 288
	127 603	112 964
Segmental analysis – industry		
Agriculture	3 403	2 728
Construction	766	829
Electricity	3 280	1 935
Finance	24 638	22 864
Individuals	63 626	52 609
Manufacturing	8 737	8 692
Mining	1 924	1 962
Other services	14 607	10 993
Transport	3 978	6 275
Wholesale	2 644	4 077
	127 603	112 964

	2002 Rm	2001 Rm
4.2 Provision for credit losses		
Balance at beginning of the year	2 254	2 752
Movements for the year		
– Credit losses written off	(1 253)	(2 034)
– Credit losses recovered and provisions reversed	181	194
– Other movements	(13)	12
– Provision for the year per income statement	1 359	1 330
Balance at end of the year	2 528	2 254
Comprising:		
Specific provisions	1 386	1 245
General provisions	1 142	1 009
Balance at end of the year	2 528	2 254
Segmental analysis of specific provisions – industry		
Agriculture	115	9
Construction	22	–
Electricity	5	5
Finance	298	238
Individuals	403	413
Manufacturing	100	224
Mining	15	1
Other services	274	332
Transport	30	20
Wholesale	124	3
	1 386	1 245
4.3 Unearned finance charges deducted from instalment sale and leasing accounts (accounting policy 10)	6 730	4 319

Notes to the annual financial statements continued

	2002 Rm	2001 Rm
5 Other assets		
Trading account assets	13 224	17 531
Items in the course of collection	283	342
Accrued interest	1 016	1 042
Other debtors	2 730	2 473
Acceptances outstanding	–	48
	17 253	21 436

Trading account assets are carried at fair value.

6 Interest in group companies and associates

6.1 Interest in group companies and associates

	2002 Rm	2001 Rm
Holding company		
– Indebtedness to the company	62	1 479
Interest in subsidiaries	2 605	1 435
– Shares at cost	26	181
– Indebtedness to the company	2 579	1 254
Interest in fellow subsidiaries	16 237	10 460
– Shares at cost	1	1
– Indebtedness to the company	16 236	10 459
Interest in associates		
– Carrying value	64	13
	18 968	13 387

6.2 Liabilities to group companies

	2002 Rm	2001 Rm
Indebtedness by the company to:		
Holding company	476	543
Subsidiaries	2 155	2 471
Fellow subsidiaries	4 010	3 462
	6 641	6 476

7 Intangible assets

	2002 Rm	2001 Rm
Opening net book value	225	107
Additions	49	125
Amortisation	(48)	(7)
	226	225

	2002 Cost Rm	2002 Accumulated depreciation Rm	2002 Net book value Rm	2001 Cost Rm	2001 Accumulated depreciation Rm	2001 Net book value Rm
8 Property and equipment						
8.1 Summary						
Property						
– Freehold	807	304	503	906	326	580
– Leasehold	9	6	3	10	7	3
	816	310	506	916	333	583
Equipment						
– Computer equipment	1 728	718	1 010	1 493	582	911
– Motor vehicles	446	160	286	175	63	112
– Office equipment	99	37	62	81	36	45
– Furniture and fittings	567	295	272	540	267	273
	2 840	1 210	1 630	2 289	948	1 341
Total	3 656	1 520	2 136	3 205	1 281	1 924

	2002 Opening net book value Rm	Additions Rm	Disposals Rm	Depreciation Rm	2002 Closing net book value Rm
8.2 Movement					
Property					
– Freehold	580	2	(62)	(17)	503
– Leasehold	3	–	–	–	3
	583	2	(62)	(17)	506
Equipment					
– Computer equipment	911	445	(27)	(319)	1 010
– Motor vehicles	112	445	(91)	(180)	286
– Office equipment	45	28	(1)	(10)	62
– Furniture and fittings	273	57	(7)	(51)	272
	1 341	975	(126)	(560)	1 630
Total	1 924	977	(188)	(577)	2 136

Notes to the annual financial statements continued

	2001 Opening net book value Rm	Additions Rm	Disposals Rm	Depreciation Rm	2001 Closing net book value Rm
8.2 Movement (continued)					
Property					
– Freehold	596	5	(4)	(17)	580
– Leasehold	3	1	(1)	–	3
	599	6	(5)	(17)	583
Equipment					
– Computer equipment	855	384	(76)	(252)	911
– Motor vehicles	97	63	(15)	(33)	112
– Office equipment	42	12	(1)	(8)	45
– Furniture and fittings	302	31	(24)	(36)	273
	1 296	490	(116)	(329)	1 341
Total	1 895	496	(121)	(346)	1 924

8.3 Valuation

The open market value of freehold property, based on external valuations undertaken during 2001 by valuers registered under the Valuers Act 1982, was estimated at R909 million (2001: R1 011 million). Registers of property are available for inspection by members or their authorised agents at the registered offices of the company. 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.

	2002 Rm	2001 Rm
9 Share capital		
9.1 Authorised		
60 000 000 (2001: 60 000 000) ordinary shares of R1 each	60	60
9.2 Issued		
59 917 103 (2001: 58 777 424) ordinary shares of R1 each	60	59
During the year 1 139 679 (2001: 2 310 003) ordinary shares of R1 each were issued at a premium of R437,72 (2001: R431,90) per ordinary share		
9.3 Unissued shares		
82 897 (2001: 1 222 576) ordinary shares of R1 each are under the general authority of the directors, whose authority expires at the annual general meeting to be held on 16 May 2003.	–	1
10 Share premium		
Share premium on issue of shares	5 145	4 936
Following a resolution passed on 17 May 2002 by the sole member of the company, the share premium account was reduced by R289 million as a result of the unbundling of certain entities sold to STANLIB. The reduction was in terms of section 90 of the Companies Act, 1973.		
A share issue at a premium of R498 million (2001: R995 million), net of stamp duties of R1 million (2001: R2,5 million) was made on 18 December 2002.		

Notes to the annual financial statements continued

11 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.

	2002 Rm	2001 Rm
Deposits and loans from banks	10 815	21 381
– Deposits from banks and central banks	6 711	18 330
– Deposits from banks under repurchase agreements	4 104	3 051
Customers' current accounts	62 478	58 587
Customers' savings accounts	17 322	15 777
Other deposits and loan accounts	74 682	42 971
Negotiable certificates of deposit	7 431	11 919
	172 728	150 635
Maturity analysis		
– Repayable on demand	93 713	84 854
– Maturing within one month	24 808	28 202
– Maturing after one month but within six months	34 571	20 858
– Maturing after six months but within 12 months	7 550	6 152
– Maturing after 12 months	12 086	10 569
	172 728	150 635

	2002 Rm	2001 Rm

12 Other liabilities and provisions

12.1 Summary

	2002 Rm	2001 Rm
Trading account liabilities	2 697	3 495
Items in the course of transmission	331	215
Accrued interest	4 971	3 831
Deferred tax[1]	2 103	3 386
Other liabilities and provisions	3 560	3 085
Current tax liability	65	–
Acceptances outstanding	–	48
	13 727	14 060

Trading account liabilities are carried at fair value.

(1) Deferred taxation analysis	2002 Rm	2001 Rm
Accrued interest receivable	111	67
Assessed losses	–	(474)
Assets on lease	399	374
Provision for credit losses	(285)	(242)
Depreciation	180	132
Derivatives	1 135	2 861
Other differences	563	668
	2 103	3 386

(1) Deferred taxation reconciliation	2002 Rm	2001 Rm
Deferred taxation liability opening balance	3 386	2 247
Various categories of (reversing) and originating temporary differences for the current year	(1 283)	1 139
Accrued interest	44	(16)
Assessed losses	474	(474)
Assets on lease	25	(86)
Depreciation	48	(8)
Derivatives	(1 726)	1 230
Provision for credit losses	(43)	25
Other differences	(105)	468
Deferred taxation liability closing balance	2 103	3 386

Notes to the annual financial statements continued

	2002 Rm	2001 Rm
13 Bonds		
13.1 Unsecured, subordinated, redeemable		
Qualifying as secondary capital in terms of applicable banking legislation:	4 700	4 700
Redeemable in 2010 [1]	1 200	1 200
Redeemable in 2010 [2]	1 500	1 500
Redeemable in 2013 [3]	2 000	2 000
Qualifying as tertiary capital in terms of applicable banking legislation:		
Redeemable in 2005 [4]	1 000	–
Total bonds	5 700	4 700

(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 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 Johannesburg interbank agreed rate plus 217 basis points, until maturity on 2 December 2010.

(3) 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 any interest payment date thereafter. After this option date, the coupon switches to floating at average mid-market yield rate per annum for three month ZAR deposits plus 209 basis points, until maturity on 31 October 2013.

(4) 12,5% bonds issued in rands and paying a fixed semi-annual coupon. SBSA is entitled to defer the due date for payment of any principal or interest in respect of the bonds if the Registrar of Banks has requested or required SBSA to defer the due date for such payment and subject to such conditions as the Registrar of Banks may prescribe. The bonds are redeemable on 15 February 2005.

14 Contingent liabilities and capital commitments

14.1 Contingent liabilities

	2002 Rm	2001 Rm
Letters of credit	1 333	2 787
Guarantees	18 756	16 707
	20 089	19 494

	2002 Rm	2001 Rm
14.2 Capital commitments		
Contracted capital expenditure	118	20
Capital expenditure authorised but not contracted	50	–
	168	20

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

14.3 Operating lease commitments

The future minimum payments under non-cancellable operating leases are as follows:

	2002 Rm	2001 Rm
Land and buildings		
Within one year	62	79
From one to five years	290	354
More than five years	484	450
	836	883
Equipment		
Within one year	6	6
From one to five years	12	12
	18	18

15 Derivative instruments

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.

Use and measurement of derivative instruments

Derivative 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 on the following page. The fair value 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.

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 company's participation in derivative contracts.

Notes to the annual financial statements continued

Derivative trading positions	Notional principal 2002 Rm	Gross positive fair value 2002 Rm	Gross negative fair value 2002 Rm	Net position 2002 Rm	Net position 2001 Rm
Foreign exchange contracts	370 536	24 652	(25 027)	(375)	(4 528)
Forward exchange contracts	353 282	24 247	(24 691)	(444)	(4 698)
Foreign exchange futures	8 223	2	–	2	–
Foreign exchange options	9 031	403	(336)	67	170
Interest rate contracts	2 811 594	43 419	(42 613)	806	(1 861)
Forward rate agreements	804 860	943	(995)	(52)	38
Caps and floors	36 421	103	(92)	11	10
Swaps	1 421 661	36 657	(36 961)	(304)	(2 959)
Swaptions	7 185	–	(51)	(51)	(39)
Bond options	3 785	50	(31)	19	118
Bonds	537 682	5 666	(4 483)	1 183	971
Commodity contracts	44 062	4 617	(1 379)	3 238	9 439
Commodity futures	76	2	–	2	3
Commodity forwards	28 728	3 995	(1 144)	2 851	9 850
Commodity options	15 258	620	(235)	385	(414)
Credit derivatives	28 558	358	(376)	(18)	66
Credit default swaps	22 358	131	(152)	(21)	(14)
Credit linked notes	3 516	16	(8)	8	5
Total return swaps	2 684	211	(216)	(5)	75
Equity derivatives	398 379	6 448	(5 578)	870	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)
Total	3 653 129	79 494	(74 973)	4 521	3 257

	2002 Rm	2001 Rm

16 Supplementary income statement information

16.1 Interest income

	2002 Rm	2001 Rm
Interest and investment income	25 767	18 921
– Subsidiaries and fellow subsidiaries	1 225	938
– Other	24 542	17 983
Dividends	482	482
– Subsidiaries and fellow subsidiaries	122	152
– Other unlisted equities	360	330
	26 249	19 403

16.2 Interest expense

	2002 Rm	2001 Rm
Current accounts	322	289
Savings and deposit accounts	2 037	1 902
Market bid accounts	9 682	7 194
Foreign finance creditors	332	484
Bonds	1 014	743
Other interest-bearing liabilities	4 945	2 584
	18 332	13 196

16.3 Provision for credit losses

	2002 Rm	2001 Rm
Specific	1 201	1 200
General	158	130
	1 359	1 330

Notes to the annual financial statements continued

	2002 Rm	2001 Rm
16.4 Non-interest revenue		
Fees and commission revenue	5 135	4 385
– Point of representation	2 674	2 349
– Electronic banking	458	377
– Knowledge based fees and commission	119	159
– Card based commission	791	639
– Other	868	686
– Subsidiaries and fellow subsidiaries	225	175
Trading revenue	1 330	874
– Commodities	125	81
– Forex	941	633
– Debt securities	196	137
– Equities	32	2
– Other	36	21
Other revenue	541	486
– Banking and other	309	219
– Insurance	180	185
– Subsidiaries and fellow subsidiaries	52	82
	7 006	5 745

	2002 Rm	2001 Rm
16.5 Staff Costs		
Salaries and allowances	3 938	3 529
Contribution to retirement benefit costs	153	5
Depreciation on fringe benefit motor vehicles	83	26
	4 174	3 560

	2002 Rm	2001 Rm
16.6 Other operating expenses		
Premises	319	292
Depreciation	494	320
Property		
– Freehold	17	17
Equipment		
– Computer equipment	319	252
– Motor vehicles	97	7
– Office equipment	10	8
– Furniture and fittings	51	36
Amortisation – intangible assets	48	7
Auditors’ remuneration	24	24
Audit fees		
– Current year	14	10
– Prior year	2	1
Fees for other services	8	13
Professional fees		
Managerial and other	341	328
Operating lease charges	351	319
Property	329	299
Equipment	22	20
Loss on sale of fixed assets	14	25
Other expenses	2 468	2 104
	4 059	3 419

Depreciation on fringe benefit motor vehicles is disclosed in note 16.5 as part of staff costs.

Notes to the annual financial statements continued

	2002 Rm	2001 Rm
16.7 Directors' emoluments		
Executive directors		
Emoluments of directors in respect of services rendered:		
As directors of SBSA	15	14
While directors of SBSA		
– as directors of subsidiary companies	–	–
– otherwise in connection with the affairs of SBSA or its subsidiaries	2	–
Non-executive directors		
Emoluments of directors in respect of services rendered:		
As directors of SBSA	1	1
While directors of SBSA		
– as directors of subsidiary companies	–	–
– otherwise in connection with the affairs of SBSA or its subsidiaries	2	2
Pensions of past directors	1	1
	21	18

Directors do not have service contracts with extended terms of service or which provide for severence arrangements.

	2002 Rm	2001 Rm
16.8 Ordinary dividends		
Dividend 78 of 1870 cents per share paid on 3 May 2001 to shareholders registered on 28 February 2001		1 056
Dividend 79 of 1771 cents per share paid on 30 June 2001 to shareholders registered on 30 June 2001		1 000
Dividend 80 of 2640 cents per share paid on 14 September 2001 to shareholders registered on 14 September 2001		1 491
Dividend 81 of 1701 cents per share paid on 8 November 2001 to shareholders registered on 8 November 2001		1 000
Dividend 82 of 851 cents per share paid on 31 December 2001 to shareholders registered on 31 December 2001		500
Dividend in specie 83 of 492 cents per share paid on 31 March 2002 to shareholders registered on 31 March 2002	289	
Reduction in share premium (note 10)	(289)	
Dividend 84 of 1701 cents per share paid on 8 July 2002 to shareholders registered on 8 July 2002	1 000	
Dividend 85 of 2807 cents per share paid on 27 September 2002 to shareholders registered on 27 September 2002	1 650	
Dividend 86 of 851 cents per share paid on 17 December 2002 to shareholders registered on 11 December 2002	500	
	3 150	5 047

On 4 March 2003 the following dividends were declared:
Dividend 87 of 225 cents per share paid on 24 March 2003 to shareholders registered on 23 March 2003.
Dividend 88 of 775 cents per share paid on 25 March 2003 to shareholders registered on 24 March 2003.
Dividend 89 of 833 cents per share paid on 25 March 2003 to shareholders registered on 24 March 2003.

	2002 Rm	2001 Rm
16.9 Earnings per share		
The calculations of earnings and headline earnings per share are as follows:		
Earnings	3 817	2 490
Headline earnings (note 16.10)	3 561	2 490
Weighted average ordinary shares in issue (number of shares, thousands)	58 818	56 803
Earnings per share (cents)	6 490	4 384
Headline earnings per share (cents)	6 054	4 384
Reconciliation of weighted average number of ordinary shares (thousands)		
Shares in issue at beginning of the year	58 777	56 467
Effect of shares issued during the year	41	336
Weighted average number of shares at end of the year	58 818	56 803
16.10 Headline earnings		
Income attributable to ordinary shareholder	3 817	2 490
Adjusted for the following exceptional item:		
– Gain on disposal of business units (note 20)	(256)	–
Headline earnings	3 561	2 490

17 Taxation

	2002 Rm	2001 Rm
Current year		
Tax on income	1 267	838
South African normal tax	2 607	–
South African deferred tax	(1 342)	837
Foreign normal and withholding taxes	2	1
Transaction and other taxes	331	261
Regional services council levies	65	48
Value added tax	246	182
Duties	11	14
Skills development levy (net of recoveries)	9	17
	1 598	1 099
Prior years	208	115
South African normal tax	86	–
South African deferred tax	122	115
Taxation per income statement	1 806	1 214

Notes to the annual financial statements continued

	2002 Rm	2001 Rm
South African tax rate reconciliation		
The tax charge for the year as a percentage of income before tax:	32	33
Deduct: Regional services council levies and stamp duty	1	1
Value added tax	5	5
Duties, STC and skills development levy	–	1
Tax relating to prior years	4	3
Net tax charge	22	23
The charge for the year has been reduced as a consequence of:		
Non-taxable income	2	–
Dividends received	5	6
Other permanent differences	1	1
Standard rate of South African tax	30	30

Future taxation relief

The company has no taxation losses to be carried forward (2001: R1 580 million) that can be set-off against future taxable income.

Secondary taxation on companies

SBSA has accumulated STC credits of R231 million (2001: R1 035 million) which have arisen as a result of dividends received and receivable exceeding dividends paid and provided for. This has not been raised as an asset.

	2002 Rm	2001 Rm

18 Cash flow statement

18.1 Reconciliation of operating profit to cash flows from operating activities

	2002 Rm	2001 Rm
Income before tax	5 623	3 704
Adjusted for:		
– Depreciation	577	346
– Amortisation of intangible assets	48	7
– Provision for credit losses	1 359	1 330
– Loss on sale of fixed assets	14	25
– Exceptional item	(256)	–
Cash flows from operating activities	7 365	5 412

18.2 Cash receipts from customers

	2002 Rm	2001 Rm
Interest and investment income	25 767	18 921
Fees and commission income	5 135	4 385
Trading and other income	1 871	1 360
	32 773	24 666

18.3 Cash paid to customers, employees and suppliers

	2002 Rm	2001 Rm
Interest expense	18 332	13 196
Total operating expenses	7 594	6 601
	25 926	19 797

18.4 Dividends received

	2002 Rm	2001 Rm
Dividends from subsidiaries	122	152
Dividends from investment securities and preference shares	360	330
Dividends from associates	36	61
	518	543

Notes to the annual financial statements continued

	2002 Rm	2001 Rm
18.5 Increase in income-earning assets		
Investment and trading securities	(403)	(8 337)
Loans and advances	(15 725)	(10 516)
Other assets	3 395	(7 473)
Investment in group companies	(5 685)	(3 568)
	(18 418)	(29 894)
18.6 Increase in deposits and other liabilities and provisions		
Customers' current, savings and other deposits, and deposits and loans from banks	25 528	17 900
Deposits received under repurchase agreements	1 053	1 181
Negotiable certificates of deposit	(4 488)	6 271
Other liabilities and provisions	897	3 141
Liabilities to group companies	165	2 078
	23 155	30 571
18.7 Taxation paid		
Amounts prepaid at beginning of the year	688	424
Income statement charge	(3 026)	(262)
Amounts owing/(prepaid) at end of the year	65	(688)
	(2 273)	(526)
18.8 Issued share capital		
Ordinary share capital	1	3
Share premium	498	995
Proceeds from issue of share capital	499	998
18.9 Dividends paid		
Amounts unpaid at beginning of the year	–	–
Dividends to ordinary shareholder	(3 150)	(5 047)
Amounts unpaid at end of the year	–	–
	(3 150)	(5 047)

	2002 Rm	2001 Rm
18.10 Sale of business units		
The book value of the assets sold were as follows:		
Cash and short-term funds	2	
Loans and advances	1	
Other assets	50	
Investment in subsidiaries	3	
Property and equipment	4	
Other liabilities and provisions	(27)	
Net asset value	33	
Profit on sale	256	
Investment in restructured entity	(289)	
Cash purchase price paid	–	

19 Change in accounting policy

The effect of the change in accounting policy is as follows:

	2002 Rm	2001 Rm
19.1 Restatement to the opening balance of reserves		
Impact of adopting AC135 (Investment Property)	(326)	(309)
19.2 Effect on income		
Impact of adopting AC135 (Investment Property)	(17)	(17)

Notes to the annual financial statements continued

20 Sale of business units

Standard Bank and Liberty Group combined their asset management and wealth creation functions effective 1 January 2002 to form a new company, STANLIB. STANLIB is 50% controlled by the Standard Bank Group and 50% by Liberty Group. The following divisions and subsidiaries of SBSA were transferred to STANLIB:

– SCMB Asset Management;
– Standard Bank Unit Trusts;
– Standard Bank Linked Investment Services; and
– Standard Bank of South Africa's 50% stake in Lodestone Holdings.

Summarised balance sheet of the disposed entities:
(No balances existed at the end of 2002)

	2002 Rm	2001 Rm
Assets	–	60
Liabilities	–	(27)
Net assets sold	–	33

Summarised income statement of the disposed entities:
(No contributions were recognised from these entities in 2002)

	2002 Rm	2001 Rm
Interest income	–	40
Non-interest revenue	–	176
Operating expenses	–	(126)
Income tax	–	(15)
Profit after tax	–	75

An exceptional profit of R256 million was made on the sale of these operations.

21 Funds under management

During the year all investment management units were transferred to STANLIB.

22 Related party transactions

22.1 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 were no more favourable than those arranged with third parties.

22.2 Subsidiaries

Transactions with subsidiaries are conducted in the ordinary course of business at arms length.

22.3 Directors

Details relating to directors’ emoluments are disclosed in note 16.7.

Notes to the annual financial statements continued

23 Pensions and other post-retirement benefits

Retirement funds

Membership of the principal fund, the Standard Bank Group Retirement Fund (SBGRF) exceeds 95% of Standard Bank's 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 are 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 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 employed 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.

	2002 Rm	2001 Rm
Present value of unfunded obligations	366	318
Unrecognised actuarial losses	(48)	(14)
	318	304

The liability is carried by Standard Bank Group.

The principal actuarial assumptions used for accounting purposes were:

Discount rate (%)	12,00
Medical inflation (%)	9,50
Return on investments (%)	12,00

Annexure A – subsidiaries

Subsidaries	Nature of operation	Issued capital	Effective holding 2002	2001	Book value of shares 2002	2001	Net indebtedness 2002	2001
		Rm	%	%	Rm	Rm	Rm	Rm
Non-banking subsidiaries								
Diners Club (S.A.) (Pty) Limited	Travel and entertainment card	*	100	100	**	**	625	673
FHP Managers (Pty) Limited	Investment holding company	*	100	100	**	**	93	–
SCMB Securities (Pty) Limited	Stockbrokers	*	100	100	3	3	(392)	(1 482)
Standard Bank Bond Investments Limited	Participation mortgage bond finance	*	100	100	**	**	424	4
Standard Bank Financial Services Holdings (Pty) Limited	Long and short-term insurance broking	*	100	100	**	**	13	3
Standard Bank Insurance Brokers (Pty) Limited	Insurance broking	*	100	100	***	***	(42)	(44)
Standard Bank Unit Trusts Limited	Unit trust management	3	–	100	***	***	–	(166)
Miscellaneous	Finance companies		100	100	23	178	(297)	(205)
Total investment in subsidiaries					26	181	424	(1 217)

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

* Issued share capital less than R1 million.

** Book value of shares less than R1 million.

*** Held indirectly.

Annexure B – associates and joint venture

Associates	Thomas Cook Rand Travellers Cheques Limited		Other		Total associates	
Nature of business	Travellers cheques		Various			
Year-end	December		Various			
Date to which equity accounted	31 December 2002		31 December 2002			
	2002	2001	2002	2001	2002	2001
Effective holding	49%	49%	Various	Various	Various	Various
	Rm	Rm	Rm	Rm	Rm	Rm
Carrying value	2	2	62	11	64	13
Directors’ valuation	2	2	62	11	64	13
Balance sheet						
Non-current assets	–	–	186	10	186	10
Current assets	14	14	336	3	350	17
Non-current liabilities	(34)	(29)	(142)	(3)	(176)	(32)
Current liabilities	–	–	(142)	(17)	(142)	(17)
Income statement						
Attributable income	–	–	12	53	12	53
Loans to associates	–	–	2	1	2	1

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 associates	90	71	90	71

Directorate

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

Resigned 12 March 2002

A R Evans

A Z Farr

V E Hesse

W S MacFarlane

B J M Masekela

H K Mehta

M Rapp#

B S Rayner

A Romanis#

Resigned 29 November 2002

R J Khoza

Appointed 14 May 2002 and resigned 31 December 2002

P C Prinsloo

Secretary

L Wulfsohn

* Executive Director
\# British

The Standard Bank of South Africa Limited

(Reg No 1962/000738/06)

Holding company details:

Standard Bank Group Limited

(Incorporated in the Republic of South Africa)
(Registered bank controlling company)
(Reg No 1969/017128/06)

Registered office

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PO Box 7725, Johannesburg, 2000