Notes to the Accounts

1. Interest Receivable

	2002 $million	2001 $million
Balances at central banks	3	7
Treasury bills and other eligible bills	256	253
Loans and advances to banks	675	1,172
Loans and advances to customers	3,536	4,211
Profit on close out of interest rate swaps		
to hedge preference share dividends	57	–
Listed debt securities	447	377
Unlisted debt securities	314	399
	5,288	6,419

2. Interest Payable

	2002 $million	2001* $million
Deposits by banks	396	649
Customer accounts:		
Current and demand accounts	164	374
Savings deposits	106	131
Time deposits	1,131	1,783
Debt securities in issue	125	238
Subordinated loan capital:		
Wholly repayable within five years	14	24
Other	289	320
	2,225	3,519

*Comparative restated (see note 40).

3. Dealing Profits

	2002 $million	2001 $million
Income from foreign exchange dealing	319	374
Profits less losses on dealing securities	65	22
Other dealing profits	36	74
	420	470

4. Other Operating Income

	2002 $million	2001 $million
Other operating income includes:		
Profits less losses on disposal of investment securities	18	23
Dividend income	5	3

5. Administrative Expenses

	2002 $million	2001 $million
Staff costs:		
Wages and salaries	**951**	1,011
Social security costs	**26**	35
Other pension costs (note 6)	**73**	54
Other staff costs	**220**	141
	1,270	1,241
Premises and equipment expenses:		
Rental of premises	**142**	149
Other premises and equipment costs	**111**	118
Rental of computers and equipment	**16**	18
	269	285
Other expenses	**673**	735
Total administrative expenses	**2,212**	2,261

Other expenses includes $5.2 million (2001: $4.6 million) in respect of auditors' remuneration for the Group of which $0.4 million (2001: $0.4 million) relates to the Company. The auditors of the Company, KPMG Audit Plc and their associated firms, also received $9.3 million (2001: $6.0 million) in respect of non-audit services provided to the Group's UK subsidiaries, including regulatory reviews $2.3 million (2001: $1.2 million), capital raising activities $4.2 million (2001: $3.0 million), assistance relating to business acquisitions and disposals $0.5 million (2001: $0.5 million) and other assistance $2.3 million (2001: $1.3 million).

6. Retirement Benefits

The total charge for benefits under the Group's retirement benefit schemes was $73 million (2001: $54 million), of which $36 million (2001: $32 million) was for defined benefit pension schemes, $35 million (2001: $20 million) was for defined contribution pension schemes and $2 million (2001: $2 million) was for post-retirement benefits other than pensions. These have been assessed under the accounting standard, Statement of Standard Accounting Practice 24 – Retirement benefits (SSAP24).

The financial position of the Group's principal retirement benefit scheme, the Standard Chartered Pension Fund (the 'Fund') (a defined benefit scheme) is assessed in the light of the advice of an independent qualified actuary. The most recent actuarial assessment of the Fund for the purpose of funding was performed as at 31 December 2000 by T. Cunningham, Fellow of the Institute of Actuaries, of Lane, Clark and Peacock Actuaries, using the projected unit method. The assumptions having the most significant effect on the outcome of this valuation were:

Return from investments held for pensioners	4.5 per cent per annum
Return from investments held for non-pensioners before retirement, past service	7.0 per cent per annum
Return from investments held for non-pensioners before retirement, future service	8.0 per cent per annum
Return from investments held for non-pensioners after retirement	6.0 per cent per annum
General increase in salaries	5.0 per cent per annum
Increase in pensions:	
In deferment (where applicable)	2.5 per cent per annum
In payment* (pre April 1997 service)	2.5 per cent per annum
In payment (post April 1997 service)	2.5 per cent per annum

* Applies to discretionary increases and some guaranteed increases.

Applying these assumptions, at the valuation date the market value of the assets of the Fund ($1,233 million) was sufficient to cover 116 per cent of the benefits that had accrued to members (98 per cent including the allowance for discretionary benefit increases). The Group is paying additional contributions of $ 3.6 million per year over a period of ten years to ensure future discretionary increases are fully covered.

6. Retirement Benefits continued

Pension costs for the purpose of these accounts were assessed using the same method, but the assumptions were different in several respects. In particular, the return from investments held for non-pensioners was seven per cent per annum for service before 31 December 2002, eight per cent for non-pensioners for service from 31 December 2002 to retirement and six per cent per annum after retirement. The mortality table used for members who had not yet retired was reappraised.

Contributions payable to the Fund during 2002 were set at 17.1 per cent of pensionable salary for all United Kingdom (UK) and seconded staff and 31.7 per cent of pensionable salary for international staff and these are expected to remain stable over the next few years.

During 2002 payments of $16 million (2001: $11 million) were made to the Fund and the charge in these accounts for pension costs attributable to the Fund was $8 million (2001: $3 million). This was made up of a regular cost of $9 million (2001: $9 million) and a credit of $1 million (2001: credit of $6 million), being the annual cost of spreading the surplus using the straight-line method over a ten year period (2001: ten years). There were no material charges in respect of benefit improvements.

With effect from 1 July 1998 the Fund was closed to new entrants and all new employees are offered membership of a new, defined contribution scheme.

Charges to the profit and loss account in 2002 in respect of other UK pension schemes amounted to $9 million (2001: $7 million).

Overseas schemes

The actuarial positions of the Group's principal overseas defined benefit pension schemes have been assessed at various dates since 31 December 2000 by independent qualified actuaries. The total market value of the assets of the schemes at their respective assessment dates was $197 million, and the total actuarial value of these assets was sufficient to cover 90 per cent of the benefits that had accrued to members after allowing for expected future increases in earnings. Within this total, there were schemes which had deficits amounting to $23 million.

Contributions payable to the principal overseas scheme in 2002 ranged between five per cent and 15 per cent and these are expected to remain at these levels in the next few years.

The total charge to the profit and loss account in 2002 for all overseas schemes was $56 million (2001: $44 million), of which $28 million (2001: $29 million) was for defined benefit schemes, $26 million (2001: $13 million) was for defined contribution schemes and $2 million (2001: $2 million) was for post-retirement benefits other than pensions. The charge of $56 million comprises a regular cost of $57 million, and a credit of $1 million in respect of the spreading of other surpluses and deficits.

Provisions for liabilities and charges (note 33) includes $11 million (2001: $27 million) representing the excess of the accumulated amount charged against the Group's profits in 2002 and previous years in respect of pension costs compared with the contributions paid into the schemes concerned, together with $13 million (2001: $12 million) representing provisions for post-retirement benefits other than pensions.

Financial Reporting Standard 17 – Retirement Benefits

The disclosures required under the transitional arrangements within Financial Reporting Standard 17 – Retirement Benefits (FRS17) have been calculated by qualified independent actuaries based on the most recent full actuarial valuations updated to 31 December 2002. (The effective date of the full valuations range between 31 December 1999 and 31 December 2001.)

Separate figures are disclosed for the UK Fund and Overseas Schemes.

6. Retirement Benefits continued

The financial assumptions used at 31 December 2002 were:

	UK Fund 2002	UK Fund 2001	Overseas Pension Schemes[1] 2002	Overseas Pension Schemes[1] 2001	Post-Retirement Medical[2] 2002	Post-Retirement Medical[2] 2001
Price inflation	2.3%	2.50%	1.50%–3.50%	1.50%–3.50%	1.75%	2.00%
Salary increases	4.8%	5.00%	4.0%–7.00%	4.25%–7.00%	4.00%	4.25%
Pension increases	2.3%	2.50%	2.25%–3.00%	2.50%–3.00%	N/A	N/A
Discount rate	5.7%	6.00%	5.00%–12.00%	5.75%–12.00%	6.75%	7.25%
Post-retirement medical trend rate	N/A	N/A	N/A	N/A	10% in 2002 reducing by 1% increments to 5% in 2007	12% in 2001 reducing by 1% increments to 5% in 2008

[1] The range of assumptions shown are for Hong Kong, India, Jersey, Kenya and the United States, they do not include the assumptions used for Zimbabwe as they lie outside the range.
[2] These values only cover the Post-Retirement Medical Plan in the United States.

The assets and liabilities of the schemes, attributable to defined benefit members, at the year end were:

As at 31 December 2002	UK Fund Expected return on assets %	UK Fund Value $million	Overseas Pension Schemes Expected return on assets %	Overseas Pension Schemes Value $million	Post-Retirement Medical Expected return on assets %	Post-Retirement Medical Value $million
Equities	8.3	237	7.0–12.0	98	N/A	N/A
Bonds	4.5	855	5.25–12.0	83	N/A	N/A
Property	6.4	1	7.0–12.0	2	N/A	N/A
Others	4.6	35	1.75–12.0	5	N/A	N/A
Total market value of assets		1,128		188		N/A
Present value of the schemes' liabilities		(1,235)		(272)		(14)
Deficit recognised*		(107)		(84)		(14)
Related deferred tax asset		32		25		4
Net pension liability		(75)		(59)		(10)

As at 31 December 2001	UK Fund Expected return on assets %	UK Fund Value $million	Overseas Pension Schemes Expected return on assets %	Overseas Pension Schemes Value $million	Post-Retirement Medical Expected return on assets %	Post-Retirement Medical Value $million
Equities	9.0	289	7.0–12.0	135	N/A	N/A
Bonds	4.9	712	7.0–12.0	73	N/A	N/A
Property	7.0	1	7.0–12.0	2	N/A	N/A
Others	5.3	49	7.0–12.0	10	N/A	N/A
Total market value of assets		1,051		220		N/A
Present value of the schemes' liabilities		(1,044)		(273)		(13)
Surplus/(deficit) recognised*		7		(53)		(13)
Related deferred tax (liability)/asset		(2)		16		4
Net pension asset/(liability)		5		(37)		(9)

* No scheme contains a surplus that is non-recoverable.

6. Retirement Benefits continued

If the above amounts had been recognised in the accounts, the Group's net assets and profit and loss account reserve at the year-end would be as follows:

	2002 $million	2001* $million
Net assets excluding pension assets	7,327	7,538
Pension liability	(144)	(41)
Net assets including pension assets	7,183	7,497
Profit and loss account excluding pension asset	3,643	3,850
Pension liability	(144)	(41)
Profit and loss account	3,499	3,809

*Comparative restated (see note 40).

The pension expense for defined benefit schemes on the FRS17 basis was:

	UK Fund	Overseas pension and post retirement medical schemes	Total
	2002 $million	2002 $million	2002 $million
Current service cost	10	23	33
Past service cost	2	–	2
Loss on settlement and curtailments	1	7	8
Total charge to operating profit	13	30	43
Expected return on pension scheme assets	(65)	(17)	(82)
Interest on pension scheme liabilities	64	18	82
(Credit)/charge to investment income	(1)	1	–
Total charge to profit before deduction of tax	12	31	43
Loss on assets	63	36	99
Experience gain on liabilities	(14)	(15)	(29)
Loss on change of assumptions	71	13	84
Total loss recognised in statement of total recognised gains and losses before tax	120	34	154

Movement in the pension schemes' and post retirement medical surplus/(deficit) during the year comprise:

	UK Fund $million	Overseas and post-retirement medical pension schemes $million
Surplus/(deficit) at beginning of year	7	(66)
Contributions	16	39
Current service cost	(10)	(23)
Past service cost	(2)	–
Settlement/curtailment cost	(1)	(7)
Other finance income	1	(1)
Actuarial loss	(120)	(34)
Exchange rate adjustment	2	(6)
Deficit at the end of the year	(107)	(98)

6. Retirement Benefits continued

The history of experience gains and losses for the financial year is as follows:

	2002 $million
Loss on scheme assets:	
Amount ($ million)	99
% of scheme assets at end of year	7.52%
Experience gain on scheme liabilities:	
Amount ($ million)	(29)
% of scheme liabilities at end of year	1.91%
Total actuarial gain recognised in statement of total recognised gains and losses:	
Amount ($ million)	154
% of scheme liabilities at end of year	10.12%

7. Depreciation and Amortisation

	2002 $million	2001 $million
Goodwill	156	140
Premises	46	55
Equipment	143	129
	345	324

8. Directors and Officers

Directors' emoluments

Details of directors' pay and benefits and interests in shares are disclosed in the directors' remuneration report on pages 46 to 56.

Transactions with directors, officers and others

As at 31 December 2002, the total amounts to be disclosed under the Companies Act 1985 (the Act) and the Listing Rules of the Stock Exchange of Hong Kong about loans to directors and officers were as follows:

	2002		2001	
	Number	$000	Number	$000
Directors	3	9	3	17
Officers*	11	6,726	7	5,189

* For this disclosure, the term 'officers' means the company secretary and band 1 senior management.

There were no other transactions, arrangements or agreements outstanding for any director, connected person or officer of the Company which have to be disclosed under the Act, the rules of the UK Listing Authority or the Listing Rules of the Stock Exchange of Hong Kong.

9. Taxation

	2002 $million	2001 $million
Analysis of taxation charge in the period		
The charge for taxation based upon the profits for the period comprises:		
United Kingdom corporation tax at 30 per cent (2001: 30 per cent)		
Current tax on income for the year	266	207
Adjustments in respect of prior periods	17	(2)
Double taxation relief	(180)	(179)
Foreign tax:		
Current tax on income for the period	382	345
Adjustments in respect of prior periods	(56)	(15)
Total current tax	429	356
Deferred tax:		
Origination/reversal of timing differences	(42)	22
Tax on profits on ordinary activities	387	378

9. Taxation continued

Overseas taxation includes taxation on Hong Kong profits of $31 million (2001: $21 million) provided at a ratio of 16 per cent (2001: 16 per cent) on the profits assessable in Hong Kong.

The current taxation charge for the year is higher than the standard rate of corporation tax in the United Kingdom, 30 per cent. The differences are explained below:

	2002 $million	2001 $million
Current tax reconciliation:		
Profit on ordinary activities before taxation	1,262	1,089
Current tax at 30 per cent (2001: 30 per cent)	379	327
Effects of:		
Goodwill amortisation not deductible for tax purposes	46	41
Higher taxes on overseas earnings	55	24
Non allowable depreciation	9	11
Adjustments to tax charge in respect of previous periods	(39)	(17)
Other items	48	(30)
Gains covered by capital losses brought forward	(69)	–
Total current taxation charge	429	356

10. Dividends on Non-equity Preference Shares

	2002 $million	2001 $million
Non-cumulative irredeemable preference shares:		
7⅜ per cent preference shares of £1 each	11	11
8¼ per cent preference shares of £1 each	12	12
Non-cumulative redeemable preference shares:		
8.9 per cent preference shares of $5 each	85	45
	108	68

11. Dividends on Ordinary Equity Shares

	2002		2001	
	Cents per share	$million	Cents per share	$million
Interim	14.10	160	12.82	145
Final	32.90	385	29.10	329
	47.00	545	41.92	474

The 2002 final dividend of 32.9 cents per share will be paid in either sterling, Hong Kong dollars, or US dollars on 13 May 2003 to shareholders on the register of members on 28 February 2003. It is intended that shareholders will be able to elect to receive shares credited as fully paid instead of the final dividend (or part thereof). Details will be sent to shareholders on or around 17 March 2003.

12. Earnings per Ordinary Share

	2002			2001		
	Profit $million	Average number of shares ('000)	Amount per share	Profit $million	Average number of shares ('000)	Amount per share
Basic earnings per ordinary share						
Profit attributable to ordinary shareholders	736	1,135,664	57.6c	631	1,128,407	55.9c
Premium paid on repurchase of preference shares	(82)	–	–	–	–	–
Basic earnings per ordinary share	654	1,135,664	57.6c	631	1,128,407	55.9c
Effect of dilutive potential ordinary shares						
Convertible bonds	17	34,488		16	34,488	
Options	–	2,168		–	4,478	
Diluted earnings per ordinary share	671	1,172,320	57.2c	647	1,167,373	55.4c

Normalised earnings per ordinary share

The following table shows the calculation of normalised earnings per share, i.e. based on the Group's results excluding amortisation of goodwill, profits/losses of a capital nature and profits/losses on repurchase of share capital.

	2002 $million	2001 $million
Basic earnings per ordinary share, as above	654	631
Premium paid on repurchase of preference shares	82	–
Amortisation of goodwill	156	140
Profits less losses on disposal of investment securities	(18)	(23)
Amounts written off fixed asset investments	8	–
Impairment of tangible fixed assets	9	–
Profit on close-out of interest rate swap to hedge preference share dividends	(57)	–
Tax charge relating to profit on interest rate swap	17	–
Normalised earnings	851	748
Normalised earnings per ordinary share	74.9c	66.3c

Please refer to note 36 for details of the repurchase of preference shares.

13. Treasury Bills and Other Eligible Bills

	2002 $million	2001 $million
Dealing securities	164	144
Investment securities	4,886	4,961
Total treasury bills and other eligible bills	5,050	5,105

The estimated market value of treasury bills and similar securities held for investment purposes amounted to $4,895 million (2001: $4,973 million).

Treasury bills and other eligible bills include $202 million (2001: $5 million) of bills sold subject to sale and repurchase transactions.

13. Treasury Bills and Other Eligible Bills continued

The change in the book amount of treasury bills and similar securities held for investment purposes comprised:

	Historical cost $million	Amortisation of discounts/ premiums $million	Book amount $million
At 1 January 2002	4,972	(11)	4,961
Exchange translation differences	95	–	95
Acquisitions	10,453	–	10,453
Maturities and disposals	(10,654)	(13)	(10,667)
Amortisation of discounts and premiums	–	44	44
At 31 December 2002	4,866	20	4,886

At 31 December 2002, unamortised discounts on treasury bills and similar securities held for investment purposes amounted to $10 million (2001: $19 million) and there were $5 million unamortised premiums (2001: $3 million).

14. Loans and Advances to Banks

	2002 $million	2001 $million
Repayable on demand	2,396	2,545
With a residual maturity of:		
Three months or less	8,896	9,082
Between three months and one year	4,047	6,795
Between one and five years	387	775
Over five years	385	418
	16,111	19,615
Provisions for bad and doubtful debts (note 17)	(103)	(37)
Interest in suspense (note 18)	(7)	–
	16,001	19,578

Loans and advances to banks include balances with central banks and other regulatory authorities amounting to $1,239 million (2001: $1,288 million) which are required by local statute and regulation and $128 million (2001: $111 million) which are subordinated to the claims of other parties.

15. Loans and Advances to Customers

	2002 $million	2001 $million
Repayable on demand	6,509	4,345
With a residual maturity of:		
Three months or less	15,453	14,883
Between three months and one year	7,631	8,570
Between one and five years	11,673	10,466
Over five years	16,994	16,348
	58,260	54,612
Specific provisions for bad and doubtful debts (note 17)	(585)	(914)
General provisions for bad and doubtful debts (note 17)	(468)	(468)
Interest in suspense (note 18)	(198)	(225)
	57,009	53,005

There are loans of $4 million (2001: $4 million) which are subordinated to the claims of other parties.

The Group's exposure to credit risk is concentrated in Hong Kong and the Asia Pacific region. The Group is affected by the general economic conditions in the territories in which it operates. The Group sets limits on the exposure to any counterparty, and credit risk is spread over a variety of different personal and commercial customers. The Group has outstanding residential mortgage loans to Hong Kong residents of approximately $13.0 billion (2001: $12.6 billion).

15. Loans and Advances to Customers continued

The following table shows loans and advances to customers by each principal category of borrower's business or industry:

	One year or less $million	One to five years $million	More than five years $million	2002 Total $million	2001 Total $million
Loans to Individuals:					
Mortgages	1,977	4,399	14,012	20,388	18,749
Other	4,798	3,197	1,218	9,213	8,666
Consumer Banking	6,775	7,596	15,230	29,601	27,415
Agriculture, forestry and fishing	492	60	10	562	637
Construction	307	27	10	344	402
Commerce	4,435	489	60	4,984	4,239
Electricity, gas and water	486	111	119	716	965
Financing, insurance and business services	4,522	905	512	5,939	5,179
Loans to governments	857	59	29	945	922
Mining and quarrying	566	181	62	809	977
Manufacturing	6,299	1,604	420	8,323	8,341
Commercial real estate	1,751	48	20	1,819	926
Transport, storage and communication	1,899	415	472	2,786	2,229
Other	421	178	50	649	1,241
Wholesale Banking	22,035	4,077	1,764	27,876	26,058
General provisions				(468)	(468)
				57,009	53,005

16. Assets Leased to Customers

	2002 $million	2001 $million
Finance leases	315	457
Instalment credit agreements	832	787
	1,147	1,244

Assets leased to customers are included in loans and advances to customers.

The cost of assets acquired during the year for leasing to customers under finance leases and instalment credit agreements amounted to $203 million (2001: $159 million).

The aggregate amounts of leasing income receivable, including capital repayments, under finance leases amounted to $183 million (2001: $161 million).

17. Provisions for Bad and Doubtful Debts

	2002 Specific $million	2002 General $million	2001 Specific $million	2001 General $million
Provisions held at 1 January	951	468	1,146	468
Exchange translation differences	1	–	(12)	–
Amounts written off	(1,008)	–	(633)	–
Amounts written down	(23)	–	(368)	–
Recoveries of amounts previously written off	65	–	51	–
Other	(3)	–	35	–
New provisions	1,012	–	994	–
Recoveries/provisions no longer required	(307)	–	(262)	–
Net charge against profit	705	–	732	–
Provisions held at 31 December	688	468	951	468

Corporate loans and advances to customers against which provisions have been outstanding for two years or more are written down to their net realisable value.

17. Provisions for Bad and Doubtful Debts continued

The following table shows specific provisions by each principal category of borrower's business or industry:

	2002 $million	2001 $million
Loans to Individuals:		
Mortgages	76	74
Other	51	136
Consumer Banking	127	210
Agriculture, forestry and fishing	5	8
Construction	7	43
Commerce	129	218
Electricity, gas and water	11	1
Financing, insurance and business services	13	70
Loans to governments	–	5
Mining and quarrying	28	39
Manufacturing	244	262
Commercial real estate	1	3
Transport, storage and communication	3	13
Other	17	42
Wholesale Banking	458	704
Provision for bad and doubtful debts against loans and advances to customers (note 15)	585	914
Provisions for bad and doubtful debts against loans and advances to banks (note 14)	103	37
Total provisions for bad and doubtful debts	688	951

18. Interest in Suspense

	2002 $million	2001 $million
At 1 January	337	411
Exchange translation differences	2	(4)
Withheld from profit	199	229
Amounts written off	(201)	(321)
Other	–	22
At 31 December	337	337
Total interest in suspense relating to:		
Loans and advances to customers (note 15)	198	225
Loans and advances to banks (note 14)	7	–
Prepayments and accrued income	132	112
	337	337

19. Non-performing Loans

	2002			2001		
	SCNB (LMA) $million	Other $million	Total $million	SCNB (LMA) $million	Other $million	Total $million
Loans and advances on which interest is suspended	693	1,912	2,605	742	2,451	3,193
Specific provisions for bad and doubtful debts	(3)	(685)	(688)	(3)	(948)	(951)
Interest in suspense	–	(205)	(205)	–	(225)	(225)
	690	1,022	1,712	739	1,278	2,017

19. Non-performing Loans continued

The Group acquired Standard Chartered Nakornthon Bank (SCNB) (formerly Nakornthon Bank) in September 1999. Under the terms of the acquisition, non-performing loans (NPLs) of $904 million are subject to a Loan Management Agreement (LMA) with the Financial Institutions Development Fund (FIDF), a Thai Government agency. Under the LMA, the FIDF has guaranteed the recovery of a principal amount of the NPLs of $533 million. The LMA also provides, inter alia, for loss sharing arrangements whereby the FIDF will bear up to 85 per cent of losses in excess of the guaranteed amount. The carrying cost of the NPLs is reimbursable by the FIDF to SCNB every half year for a period of five years from the date of acquisition.

Excluding the SCNB non-performing loan portfolio, subject to the LMA, specific provisions and interest in suspense together cover 47 per cent (2001: 48 per cent) of total non-performing lending to customers. If lending and provisions are adjusted for the cumulative amounts written off of $1,652 million (2001: $1,574 million), the effective cover is 71 per cent (2001: 68 per cent).

			2002			2001
	Customers $million	Banks $million	Total $million	Customers $million	Banks $million	Total $million
Gross loans and advances on which interest is suspended	189	–	189	275	–	275
Gross loans and advances on which provisions have been raised	2,204	212	2,416	2,777	141	2,918
Total gross loans and advances on which interest is suspended	2,393	212	2,605	3,052	141	3,193

Income suspended in the period amounted to $259 million (2001: $287 million). Income recognised in the period was $60 million (2001: $58 million).

20. Debt Securities and Other Fixed Income Securities

				2002
	Book amount Investment securities $million	Book amount Dealing securities $million	Book amount Total debt securities $million	Valuation Investment securities $million
Issued by public bodies:				
Government securities	5,498	733	6,231	5,606
Other public sector securities	599	–	599	607
	6,097	733	6,830	6,213
Issued by banks:				
Certificates of deposit	4,260	32	4,292	4,258
Other debt securities	4,494	247	4,741	4,492
	8,754	279	9,033	8,750
Issued by other issuers:				
Bills discountable with recognised markets	–	113	113	–
Other debt securities	3,547	664	4,211	3,556
	3,547	777	4,324	3,556
Total debt securities	18,398	1,789	20,187	18,519
Of which:				
Listed on a recognised UK exchange	4,167	24	4,191	4,169
Listed elsewhere	7,244	692	7,936	7,350
Unlisted	6,987	1,073	8,060	7,000
	18,398	1,789	20,187	18,519

Book amount investment securities:	
One year or less	9,033
One to five years	7,976
More than five years	1,389
	18,398

20. Debt Securities and Other Fixed Income Securities continued

	Book amount Investment securities $million	Book amount Dealing securities $million	Book amount Total debt securities $million	2001 Valuation Investment securities $million
Issued by public bodies:				
Government securities	4,454	1,006	5,460	4,532
Other public sector securities	607	20	627	613
	5,061	1,026	6,087	5,145
Issued by banks:				
Certificates of deposit	3,872	61	3,933	3,841
Other debt securities	2,260	33	2,293	2,261
	6,132	94	6,226	6,102
Issued by other issuers:				
Bills discountable with recognised markets	–	137	137	–
Other debt securities	3,252	269	3,521	3,258
	3,252	406	3,658	3,258
Total debt securities	14,445	1,526	15,971	14,505
Of which:				
Listed on a recognised UK exchange	4,208	–	4,208	4,219
Listed elsewhere	4,109	108	4,217	4,145
Unlisted	6,128	1,418	7,546	6,141
	14,445	1,526	15,971	14,505
Book amount investment securities:				
One year or less	7,063			
One to five years	6,370			
More than five years	1,012			
	14,445			

Debt securities include $552 million (2001: $203 million) of securities sold subject to sale and repurchase transactions, and $552 million (2001: $11 million) which are subordinated to the claims of other parties.

The valuation of listed investments is at market value and of unlisted investments at directors' estimate.

The change in the book amount of debt securities held for investment purposes comprised:

	Historical cost $million	Amortisation of discounts/ premiums $million	Book amount $million
At 1 January 2002	14,422	23	14,445
Exchange translation differences	1,135	7	1,142
Acquisitions	38,314	5	38,319
Maturities and disposals	(35,488)	(24)	(35,512)
Amortisation of discounts and premiums	–	4	4
At 31 December 2002	18,383	15	18,398

At 31 December 2002, unamortised premiums on debt securities held for investment purposes amounted to $307 million (2001: $75 million) and unamortised discounts amounted to $21 million (2001: $4 million).

21. Equity Shares and Other Variable Yield Securities

	2002			2001
	Book amount Investment securities $million	Valuation Investment securities $million	Book amount Investment securities $million	Valuation Investment securities $million
Listed on a recognised UK exchange:				
Own shares	57	58	1	1
Other	1	1	–	–
Listed elsewhere	69	66	10	12
Unlisted	123	123	98	98
	250	248	109	111
One year or less	6	5	–	–
One to five years	45	46	26	27
More than five years	–	–	4	4
Undated	199	197	79	80
	250	248	109	111

The valuation of listed securities is at market value and of unlisted securities at directors' estimate.

Income from listed equity shares amounted to $1 million (2001: $1 million) and income from unlisted equity shares amounted to $4 million (2001: $2 million).

The change in the book amount of equity shares held for investment purposes comprised:

	Historical cost $million	Provisions $million	Book amount $million
At 1 January 2002	123	(14)	109
Exchange translation differences	4	(1)	3
Acquisitions	175	–	175
Disposals	(20)	2	(18)
Other	–	(19)	(19)
At 31 December 2002	282	(32)	250

The Royal Bank of Scotland Trust Company (Jersey) Limited is trustee of the 1995 Employees' Share Ownership Plan Trust (the 'trust'), which is an employee benefit trust used in conjunction with some of the Group's employee share schemes. The Trustee has agreed to satisfy a number of awards made under these schemes. As part of these arrangements Group companies fund from time to time, the trust to enable the trustee to aquire shares to satisfy these awards.

The trust has acquired, at market value, 7,160,366 Standard Chartered PLC shares which are held in a pool for the benefit of participants under the Group's Restricted Share Scheme and Executive Share Option Schemes. The purchase of these shares has been fully funded by the Group.

At 31 December 2002, the trust held 7,160,366 shares, of which 2,038,122 have vested unconditionally. The balance of 5,122,244 shares have been included in the Group balance sheet, as investments in own shares, at cost of $57 million. The market value of the unvested shares at 31 December 2002 was $58 million. 3,022,244 shares have been conditionally gifted to employees and 2,100,000 shares are under option to employees. Dividends on the shares held have been waived.

22. Investments in Subsidiary Undertakings

	Historical cost $million	Revaluation reserve $million	Loans $million	Total $million
At 1 January 2002, previously published	3,937	3,636	1,670	9,243
Prior year adjustment (note 40)	–	156	–	156
At 1 January 2002, restated	3,937	3,792	1,670	9,399
Exchange translation differences	3	10	25	38
Additions	300	–	–	300
Decrease in net assets of subsidiary undertakings	–	(625)	–	(625)
Other	–	–	(153)	(153)
At 31 December 2002	4,240	3,177	1,542	8,959

At 31 December 2002, the principal subsidiary undertakings, all indirectly held and principally engaged in the business of banking and provision of other financial services, were as follows:

Country and place of incorporation or registration	Main areas of operation	Group interest in ordinary share capital
Standard Chartered Bank, England and Wales	United Kingdom, Middle East, South Asia, Asia Pacific, Americas and, through Group companies, Africa	100%
Standard Chartered Grindlays Bank Limited, Australia	Middle East and South Asia	100%
Standard Chartered Bank Malaysia Berhad, Malaysia	Malaysia	100%
Manhattan Card Company Limited, Hong Kong	Hong Kong	100%
Standard Chartered Nakornthon Bank Public Company Limited, Thailand	Thailand	75%
Banco Standard Chartered, Peru	Peru, Venezuela, Colombia and Americas	100%

Details of all Group companies will be filed with the next annual return of the Company.

23. Intangible Fixed Assets

	Goodwill $million
Cost	
At 1 January 2002	2,493
Movements during the year	5
At 31 December 2002	2,498
Provisions for amortisation	
At 1 January 2002	224
Amortisation charged in the year	156
At 31 December 2002	380
Net book value at 31 December 2002	2,118
Net book value at 31 December 2001	2,269

Movements during the year relate to the purchase of the minority shareholding in Banco Standard Chartered.

Purchased goodwill in respect of acquisitions in 1998 is being amortised on a straight-line basis over ten years, and goodwill arising on acquisitions in 1999–2000 is being amortised on a straight-line basis over 20 years.

Following an impairment review goodwill relating to the Groups' Latin American businesses has been written down by $20 million.

24. Tangible Fixed Assets

	Premises $million	Equipment $million	Total $million
Cost or valuation			
At 1 January 2002	742	724	1,466
Exchange translation differences	(7)	7	–
Additions	51	158	209
Disposals and fully depreciated assets written off	(63)	(118)	(181)
Net deficit on revaluation	(92)	–	(92)
Other	(17)	17	–
At 31 December 2002	614	788	1,402
Depreciation			
Accumulated at 1 January 2002	148	326	474
Exchange translation differences	–	3	3
Charge for the year	37	143	180
Impairment losses	9	–	9
Write back of depreciation	(46)	–	(46)
Other	(5)	5	–
Attributable to assets sold or written off	(34)	(112)	(146)
Accumulated at 31 December 2002	109	365	474
Net book value at 31 December 2002	505	423	928
Net book value at 31 December 2001	594	398	992

	2002 $million	2001 $million
Premises – analysis of net book value		
Freehold	153	171
Long leasehold	74	72
Short leasehold	278	351
	505	594
Premises – cost or valuation		
At cost	196	606
At valuations made:		
Prior to 1999	–	39
1999	22	97
2002	396	–
	614	742
On the historical cost basis, the book amount of premises amounted to:		
Cost	661	679
Accumulated depreciation	(145)	(144)
Net book value	516	535

Valuations were carried out on an open market existing use basis by the directors based upon the advice of independent qualified professional valuers. The net book value of premises occupied by the Group for its own activities at 31 December 2002 was $505 million (2001: $594 million). Cost or valuation of premises subject to depreciation at 31 December 2002 was $484 million (2001: $702 million).

25. Future Rental Commitments Under Operating Leases

The Group's future annual rental commitments under operating leases are as follows:

	2002 Premises $million	2002 Equipment $million	2001 Premises $million	2001 Equipment $million
Annual rental on operating leases expiring:				
Within one year	12	1	18	2
Between one and five years	31	1	65	4
Five years or more	33	–	14	–
	76	2	97	6

The majority of leases relating to premises are subject to rent reviews.

26. Other Assets

	2002 $million	2001* $million
Mark-to-market adjustments arising on foreign exchange and interest rate contracts	5,031	4,784
Hong Kong Government certificates of indebtedness (note 42)	2,015	1,884
Assets awaiting sale	13	4
Deferred taxation (note 32)	236	188
Other	1,811	1,390
	9,106	8,250

*Comparative restated (see note 40).

The Hong Kong Government certificates of indebtedness, are surbordinated to the claims of other parties.

27. Deposits by Banks

	2002 $million	2001 $million
Repayable on demand	2,742	2,810
With agreed maturity dates or periods of notice, by residual maturity:		
Three months or less	6,718	7,342
Between three months and one year	1,112	1,042
Between one and five years	277	494
Over five years	1	–
	10,850	11,688

The deposits by banks over five years at 31 December 2002 are on a fixed rate charge of three per cent.

28. Customer Accounts

	2002 $million	2001 $million
Repayable on demand	24,730	22,135
With agreed maturity dates or periods of notice, by residual maturity:		
Three months or less	39,691	39,210
Between three months and one year	5,539	5,331
Between one and five years	1,666	1,132
Over five years	–	47
	71,626	67,855

29. Debt Securities in Issue

	2002			2001		
	Certificates of deposit of $100,000 or more $million	Other debt securities in Issue $million	Total $million	Certificates of deposit of $100,000 or more $million	Other debt securities in Issue $million	Total $million
By residual maturity:						
Three months or less	1,642	142	1,784	1,278	65	1,343
Between three and six months	411	138	549	1,204	37	1,241
Between six months and one year	648	28	676	239	82	321
Between one and five years	1,527	152	1,679	594	84	678
Over five years	27	162	189	–	123	123
	4,255	622	4,877	3,315	391	3,706

30. Structure of Deposits

The following table sets out the structure of the Group's deposits in the principal geographic regions where it operates at 31 December 2002 and 31 December 2001:

	2002 $million	2001 $million
Deposits by banks (note 27)	10,850	11,688
Customer accounts (note 28)	71,626	67,855
Debt securities in issue (note 29)	4,877	3,706
	87,353	83,249

2002

	Asia Pacific								
	Hong Kong $million	Singapore $million	Malaysia $million	Other Asia Pacific $million	India $million	Middle East & Other South Asia $million	Africa $million	Americas, UK & Group Head Office $million	Total Deposits $million
Non interest bearing current and demand accounts	1,341	992	828	597	807	1,465	696	428	7,154
Interest bearing current and demand accounts	10,841	1,860	76	1,590	3	500	908	2,939	18,717
Savings deposits	553	455	514	1,117	584	1,151	416	11	4,801
Time deposits	14,615	7,779	2,739	4,812	2,722	3,531	525	11,726	48,449
Other deposits	5	382	444	1,097	113	410	26	878	3,355
Total	27,355	11,468	4,601	9,213	4,229	7,057	2,571	15,982	82,476
Deposits by banks (note 27)	649	1,356	422	2,183	1,078	1,156	113	3,893	10,850
Customer accounts (note 28)	26,706	10,112	4,179	7,030	3,151	5,901	2,458	12,089	71,626
	27,355	11,468	4,601	9,213	4,229	7,057	2,571	15,982	82,476
Debt securities in issue (note 29)	1,813	177	295	358	82	–	–	2,152	4,877
Total	29,168	11,645	4,896	9,571	4,311	7,057	2,571	18,134	87,353

2001

	Asia Pacific								
	Hong Kong $million	Singapore $million	Malaysia $million	Other Asia Pacific $million	India $million	Middle East & Other South Asia $million	Africa $million	Americas, UK & Group Head Office $million	Total Deposits $million
Non interest bearing current and demand accounts	1,207	901	728	439	672	980	714	669	6,310
Interest bearing current and demand accounts	10,002	1,622	107	1,301	5	767	711	2,228	16,743
Savings deposits	582	437	579	1,042	518	1,040	372	220	4,790
Time deposits	16,687	7,078	2,824	4,565	2,798	3,672	461	9,831	47,916
Other deposits	4	253	303	1,099	57	205	190	1,673	3,784
Total	28,482	10,291	4,541	8,446	4,050	6,664	2,448	14,621	79,543
Deposits by banks (note 27)	1,001	1,028	472	2,051	1,115	1,298	67	4,656	11,688
Customer accounts (note 28)	27,481	9,263	4,069	6,395	2,935	5,366	2,381	9,965	67,855
	28,482	10,291	4,541	8,446	4,050	6,664	2,448	14,621	79,543
Debt securities in issue (note 29)	1,305	81	245	363	82	–	3	1,627	3,706
Total	29,787	10,372	4,786	8,809	4,132	6,664	2,451	16,248	83,249

31. Other Liabilities

	2002 $million	2001 $million
Mark-to-market adjustments arising on foreign exchange and interest rate contracts	**5,454**	4,792
Notes in circulation (note 42)	**2,015**	1,884
Short positions in treasury bills	**69**	210
Short positions in debt securities and equity shares	**178**	166
Current taxation	**255**	162
Proposed dividend	**385**	329
Other liabilities	**3,262**	2,367
	11,618	9,910

Short positions in treasury bills and short positions in debt securities and equity shares are stated at market value.

32. Deferred Taxation

	2002 $million	2001* $million
Deferred taxation comprises:		
Accelerated tax depreciation	**1**	17
Provisions for bad debts	**(173)**	(171)
Other timing differences	**(64)**	(34)
	(236)	(188)
Changes in deferred taxation balances during the year comprised:		
At 1 January	**(188)**	(185)
Exchange translation differences	**(4)**	2
Charge (credit to)/against profit	**(42)**	22
Other	**(2)**	(27)
At 31 December	**(236)**	(188)

The net deferred tax asset is included in other assets.

	2002 $million	2001* $million
No account has been taken of the following potential deferred taxation assets/(liabilities):		
Accelerated tax depreciation	**–**	52
Tax losses carried forward	**53**	137
Provisions for bad debts	**20**	20
Other	**10**	10
Unrelieved foreign tax	**76**	31
Premises revaluation	**(16)**	(16)

*Comparative restated (see note 40).

No provision is made for any tax liability which might arise on the disposal of subsidiary undertakings at the amounts stated in these accounts, other than in respect of disposals which are intended in the foreseeable future. As it is expected that substantially all such assets will be retained by the Group, it is considered that no useful purpose would be served by attempting to quantify the unprovided potential liability.

33. Provisions for Liabilities and Charges

	Provision for restructuring $million	Provision for retirement benefits $million	Provision for contingent liabilities and commitments $million	Total $million
At 1 January 2002	**102**	**39**	**9**	**150**
Exchange translation differences	**–**	**(2)**	**1**	**(1)**
Charge against profit	**–**	**73**	**7**	**80**
Provisions utilised	**(79)**	**(91)**	**(3)**	**(173)**
Other	**–**	**5**	**2**	**7**
At 31 December 2002	**23**	**24**	**16**	**63**

In August 2000, the Group announced a major efficiency programme to improve efficiency and customer service. This involved a major restructuring and re-shaping of the Group's business. The remaining provision will be utilised in 2003.

34. Subordinated Loan Capital

	2002 $million	2001* $million
Undated – Company		
Primary Capital Floating Rate Notes:		
$400 million	**400**	400
$300 million (Series 2)	**300**	300
$400 million (Series 3)	**400**	400
$200 million (Series 4)	**200**	200
£150 million	**242**	218
	1,542	1,518
Undated – Subsidiary undertakings		
£200 million Step-Up Notes	**311**	286
Undated subordinated loan capital – Group	**1,853**	1,804
Dated – Company		
£97 million 12⅞ per cent Subordinated Unsecured Loan Stock 2002/2007	**–**	141
Dated – Subsidiary undertakings		
£30 million Floating Rate Notes 2009	**48**	44
£300 million 6.75 per cent Notes 2009	**433**	432
€600 million 5.375 per cent Notes 2009	**562**	526
$25 million Floating Rate Notes 2004/2009	**25**	25
BWP 75 million Floating Rate Notes 2012	**14**	–
$325 million Floating Rate Notes 2005/2010	**311**	323
€575 million 4.5 per cent Notes 2010	**592**	498
$700 million 8.0 per cent subordinated notes 2031	**620**	688
€500 million 8.16 per cent non-cumulative Trust Preferred Securities 2010	**518**	437
£300 million 8.103 per cent Step-Up Callable Perpetual Trust Preferred Securities	**479**	430
Dated subordinated loan capital – Group	**3,602**	3,544
Dated subordinated loan capital – repayable:		
Between one and two years	**–**	141
Between two and five years	**336**	348
Over five years	**3,266**	3,055
Dated subordinated loan capital – Group	**3,602**	3,544
Total subordinated liabilities	**5,455**	5,348

*Comparative restated (see note 40).

All dated and undated loan capital described above is unsecured, unguaranteed and subordinated to the claims of other creditors including, without limitation, customer deposits and deposits by banks.

On 17 March 2000, the Group issued at par €575 million of 4.5 per cent Subordinated Guaranteed Convertible Bonds via a Jersey incorporated subsidiary, Standard Chartered Finance (Jersey) Ltd. The bondholders have the right to convert each bond (denominated in units of €1,000 face value) into one fully paid €1,000 Preference Share in Standard Chartered Finance (Jersey) Ltd at any time on or after 26 April 2000. These will be exchanged immediately for ordinary shares in Standard Chartered PLC at a price of 1,018.70 pence per ordinary share (the 'exchange price', which is subject to adjustment as set out in the offering circular). Unless previously redeemed, purchased and cancelled or converted, bonds will be redeemed on 30 March 2010, although they may be redeemed at Standard Chartered's option after 15 April 2005. They may be redeemed earlier if 85 per cent of the bonds have been converted.

On 11 May 2001, the Group issued Tier 1 Capital £300 million of 8.103 per cent Step-up Callable Perpetual Trust Preferred Securities. They are redeemable at the option of the Bank on 11 May 2016 or on any coupon payment date thereafter. Dividends are set at a rate of 8.103 per cent per annum until 2016. Thereafter they will be reset every five years as the aggregate of 4.275 per cent and the five year benchmark gilt-rate. The preferred securities may at the Bank's option, be either exchanged or their terms varied so that they become Upper Tier 2 securities, upon the occurrence of certain tax or regulatory events.

On 22 March 2000, the Group issued Tier 1 Capital €500 million of 8.16 per cent Non-cumulative Trust Preferred Securities in Standard Chartered Capital Trust 1LP, a Delaware statutory business trust, representing a corresponding amount of 8.16 per cent Non-cumulative Partnership Preferred Securities of Standard Chartered Capital 1LP, a Delaware limited partnership in which Standard Chartered Bank ('the Bank') is the general partner. The securities may be redeemed at the option of the Bank in its capacity as general partner of the Partnership in whole or (in certain circumstances) in part on 23 March 2010 or in whole or in part on any dividend payment date thereafter. Dividends are fixed at 8.16 per cent for ten years and at Euribor plus 3.8 per cent thereafter. The securities will be exchanged for preference shares in Standard Chartered PLC in the event that they

34. Subordinated Loan Capital continued

have not been redeemed by 2045, the Bank's or Group's total capital ratio is less than the regulatory minimum or the Partnership is liquidated. The holders of the securities will have the right, subject to the Partnership's right of redemption, to exchange their securities for the cash proceeds of a sale of ordinary shares of Standard Chartered PLC on 23 March 2010.

In February 2002, the Urgent Issues Task Force issued Abstract 33 – Obligations in Capital Instruments. This reviewed the classification of instruments that have the characteristics of both liabilities and shareholders' funds and provided further guidance on the accounting treatment of these issues. As a result of this €500 million 8.16 per cent Non-cumulative Trust Preferred Securities 2010 and £300 million 8.103 per cent Step-Up Callable Perpetual Securities were reanalysed from non-equity minority interests to subordinated loan capital.

On 30 September, 2002 £97 million 12⅞ per cent subordinated loan stock was redeemed pursuant to the Terms and Conditions of the Notes.

On 14 October 2002 Standard Chartered Bank Botswana Limited issued at par BWP 75 million Fixed Term Floating Rate Subordinated Notes due 14 October 2012. The coupon resets every three months dependant upon the Bank of Botswana three-month rate.

The Group policy is to manage its capital actively. During 2002 the Group bought back a portion of its subordinated debt issues on the open market. The amounts stated are net of the repurchases.

35. Minority Interests

The change in minority shareholders' interests (equity) in subsidiary undertakings comprised:

	Total* $million
At 1 January 2002	73
Exchange translation differences	(2)
Additions	171
Retained profits	13
Other	(6)
At 31 December 2002	249

* Restated balance at 1 January 2002 (see note 40).

36. Called-up Share Capital

Authorised

The authorised share capital of the Company at 31 December 2002 was $4,671 million (2001: $4,427 million) made up of 2,632 million ordinary shares of $0.50 each, 500 million non-cumulative preference shares of £1 each, 300 million non-cumulative preference shares of $5 each and one million non-cumulative preference shares of €1,000 each.

	Preference shares of $5 each Number of shares ('000)	Preference shares of £1 each Number of shares ('000)	Ordinary shares of $0.50 each Number of shares ('000)	Total $million
Allotted, called-up and fully paid				
At 1 January 2002	1,000	200,000	1,130,678	861
Exchange translation differences	–	–	–	32
Shares issued in Hong Kong	–	–	35,000	18
Preference shares repurchased	(659)	–	–	(3)
Issued instead of dividends	–	–	2,352	–
Issued under employee share option schemes	–	–	2,021	1
At 31 December 2002	341	200,000	1,170,051	909

On 31 October 2002, the Company listed its ordinary share capital on the Stock Exchange of Hong Kong and 35,000,000 shares were issued in Hong Kong at the price of HK$84.00 per share. The price of HK$84.00 represented an approximate two percent discount to 708 pence, which was the closing price of the Company's ordinary shares trading on the London Stock Exchange on 25 October 2002. The shares issued in Hong Kong represented approximately 3.1 per cent of the issued share capital at the time.

Part of the net proceeds from the issue of shares in Hong Kong was used to repurchase 659,126 of the Company's US dollar preference shares, as detailed below, with the remainder being invested in the Company's wholly-owned subsidiary, Standard Chartered Bank to support ongoing growth of the Group.

On 17 May 2002, 1,622,990 ordinary shares were issued instead of the 2001 final dividend. On 15 October 2002, 728,338 ordinary shares were issued instead of the 2002 interim dividend.

36. Called-up Share Capital continued

On 4 December 2002 the Company repurchased and cancelled 659,126 of its 8.9 per cent non-cumulative preference shares of $5 each at a price of $1,110 per share. The preference shares of $5 each were originally issued at a price of $1,000 per share and 340,874 of these shares remain in issue following the repurchase. The preference shares rank pari passu inter se with the existing preference shares and in priority to the ordinary shares. Subject to certain conditions, all or part of the preference shares may be redeemed at the option of the issuer, at dividend payment dates on or after October 2006.

The non cumulative 7⅜ per cent and 8¼ per cent preference shares of £1 each are irredeemable and carry the right to repayment of capital in the event of a winding up of the Company. They do not carry a right to vote at general meetings unless a dividend is unpaid or a resolution is proposed at the meeting to vary their rights.

Up to 117,005,066 ordinary shares of $0.50 each, being part of the authorised share capital, may be issued under the employee share schemes.

1984 and 1994 Executive Share Option Schemes

As at 1 January 2002, there were options outstanding over 6,964,259 ordinary shares under the schemes. During the year options over 1,297,125 ordinary shares lapsed and options over 563,143 ordinary shares were exercised at various prices from 116.875 pence to 808.5 pence. There were no options granted under these schemes during the year.

As at 31 December 2002, there were options outstanding over 5,103,991 ordinary shares which may be exercised on various dates up to 2009 under the rules of the schemes.

Supplemental Executive Share Option Scheme

As at 1 January 2002, there were options outstanding over 2,963,884 ordinary shares under the scheme. During the year 1,661,416 options over ordinary shares lapsed and there were no exercises.

The exercise of these options will be linked to performance criteria.

As at 31 December 2002, there were options outstanding over 1,302,468 ordinary shares, which may be exercised on various dates up to 2005 under the scheme rules.

1997 Restricted Share Scheme

As at 1 January 2002, there were allocations outstanding over 3,329,106 ordinary shares. During the year, allocations over 620,834 ordinary shares were exercised. The following allocations were made:

Date allocation made	Number of shares allocated	Exercise period
6 March 2002	2,190,462	2004–2009
20 May 2002	52,216	2004–2009
17 September 2002	210,055	2004–2009
5 December 2002	45,319	2004–2009

As at 31 December 2002, there were allocations outstanding over 4,938,714 ordinary shares, with allocations over 267,610 ordinary shares having lapsed during the year.

2000 Executive Share Option Scheme

As at 1 January 2002 there were options outstanding over 12,858,920 ordinary shares under the scheme. During the year options over 2,065,950 ordinary shares lapsed and no options were exercised.

The following options were granted under the scheme:

Date option granted	Option price per share	Number of shares under option	Exercise period
6 March 2002	722.8p	8,366,700	2005–2012
20 May 2002	861.8p	208,865	2005–2012
17 September 2002	718.2p	170,008	2005–2012
5 December 2002	772.3p	135,957	2005–2012

The exercise of options granted during the year will be linked to performance criteria and a personal shareholding requirement.

As at 31 December 2002, there were options outstanding over 19,674,500 ordinary shares which may be exercised at various dates up to 2012 under the rules of the scheme.

36. Called-up Share Capital continued

2001 Performance Share Plan

At 1 January 2002 there were options outstanding over 669,750 ordinary shares.

The following options were granted under the Plan:

Date option granted	Number of shares under option	Exercise period
6 March 2002	899,866	2005–2012
20 May 2002	52,216	2005–2012

The options granted under the 2001 performance share plan are nil cost options. The exercise of options granted during the year will be linked to performance criteria and a personal shareholding requirement. No options lapsed during the year and none were exercised.

At 31 December 2002 there were options outstanding over 1,621,832 ordinary shares.

Savings Related Share Option Schemes

UK Scheme

The terms of the Group's savings related share option schemes were amended in 1996 so that existing and future options may be subscribed for, at up to full market value, by a qualifying share ownership trust (QUEST) which will deliver them to the employees on payment of the option price. This makes the Group's subsidiaries more accountable for the cost of granting options. During the year 457,768 ordinary shares were issued to the QUEST and options were exercised over 400,486 ordinary shares at an average price to the employees of 437 pence per share, with the price received by the Company from the QUEST averaging 752 pence per share. The difference between the exercise price and the issue price was met by the Company's UK subsidiaries and has been included in the consolidated accounts as share premium.

At 1 January 2002, there were options outstanding over 1,926,630 ordinary shares under this scheme. During the year, options were exercised over 400,486 ordinary shares at prices from 200 pence to 723 pence and 438,104 options were registered as having lapsed. The following options were granted under the schemes:

Date option granted	Option price per share	Number of shares under option	Exercise period
6 September 2002	559.5p	810,003	2005–2008

At 31 December 2002, there were options outstanding over 1,898,043 ordinary shares, which may be exercised at various dates up to 2008 under the rules of the schemes.

International Scheme

The Company's savings related share option scheme is now available in all countries where the Group operates.

At 1 January 2002, there were 6,420,309 options outstanding under the scheme. During the year, 1,883,973 options were registered as having lapsed. Options were exercised over 972,375 ordinary shares at prices from 334 pence to 723 pence and the following options were granted under the scheme:

Date option granted	Option price per share	Number of shares under option	Exercise period
17 September 2002	559.5p	5,138,193	2005–2008

At 31 December 2002, there were options outstanding over 8,702,154 ordinary shares which may be exercised on various dates up to 2008 under the scheme rules.

37. Shareholders' Funds

	Share capital $million	Share premium account $million	Capital reserve $million	Capital redemption reserve $million	Premises revaluation reserve $million	Profit and loss account $million	2002 Total shareholders' funds $million	2001 Total shareholders' funds $million
At 1 January, previously published	861	2,761	5	–	45	3,710	7,382	6,353
Prior year adjustment (note 40)	–	–	–	–	16	140	156	155
At 1 January restated	861	2,761	5	–	61	3,850	7,538	6,508
Exchange translation differences	32	–	–	–	(6)	(26)	–	(118)
Shares issued, net of expenses	19	329	–	–	–	39	387	991
Repurchase of preference shares	(3)	(328)	–	3	–	(413)	(741)	–
Retained profit for the year	–	–	–	–	–	191	191	157
Premises revaluation	–	–	–	–	(48)	–	(48)	–
Capitalised on exercise of share options	–	2	–	–	–	(2)	–	–
Realised on disposal of premises	–	–	–	–	(4)	4	–	–
At 31 December	909	2,764	5	3	3	3,643	7,327	7,538
Equity interests							6,695	6,279
Non-equity interests							632	1,259
At 31 December							7,327	7,538

The cumulative amount of premiums on the acquisition of subsidiary and associated undertakings written off against Group reserves since 1973 is $27 million (2001: $27 million). This excludes amounts in respect of businesses sold.

A substantial part of the Group's reserves are held in overseas subsidiary undertakings and branches principally to support local operations or to comply with local regulations. The maintenance of local regulatory capital ratios could potentially restrict the amount of reserves which can be remitted. In addition, if these overseas reserves were to be remitted, further unprovided taxation liabilities might arise.

38. Company Share Capital and Reserves

	Share capital $million	Share premium account $million	Capital reserve $million	Capital redemption reserve $million	Revaluation reserve $million	Profit and loss account $million	2002 Total shareholders' funds $million	2001 Total shareholders' funds $million
At 1 January, previously published	861	2,761	5	–	3,636	119	7,382	6,353
Prior year adjustment (note 40)	–	–	–	–	156	–	156	155
At 1 January restated	861	2,761	5	–	3,792	119	7,538	6,508
Exchange translation differences	32	–	–	–	10	(14)	28	(8)
Shares issued, net of expenses	19	331	–	–	–	39	389	1,010
Repurchase of preference shares	(3)	(328)	–	3	–	(413)	(741)	–
(Decrease)/ increase in net assets of subsidiary undertakings	–	–	–	–	(625)	–	(625)	368
Profit for the year	–	–	–	–	–	1,391	1,391	202
Dividends paid and proposed	–	–	–	–	–	(653)	(653)	(542)
At 31 December	909	2,764	5	3	3,177	469	7,327	7,538
Equity interests							6,695	6,279
Non-equity interests							632	1,259
At 31 December							7,327	7,538

39. Consolidated Cash Flow Statement

(a) Reconciliation between operating profit before taxation and net cash inflow from operating activities

	2002 $million	2001* $million
Operating profit	**1,262**	1,089
Items not involving cash flow:		
Amortisation of goodwill	**156**	140
Depreciation and amortisation of premises and equipment	**189**	184
Loss on disposal of tangible fixed assets	**3**	1
Gain on disposal of investment securities	**(18)**	(23)
Amortisation of investments	**(48)**	(11)
Charge for bad and doubtful debts and contingent liabilities	**712**	731
Amounts written off fixed asset investments	**8**	–
Debts written off, net of recoveries	**(966)**	(950)
Decrease in accruals and deferred income	**(256)**	(66)
(Increase)/decrease in prepayments and accrued income	**(16)**	236
Adjustments for items shown separately:		
Interest paid on subordinated loan capital	**330**	321
Premium and costs on payment of subordinated liabilities	**10**	–
Net cash inflow from trading activities	**1,366**	1,652
Net increase in cheques in the course of collection	**(19)**	(71)
Net (increase)/decrease in treasury bills and other eligible bills	**(93)**	1
Net decrease in loans and advances to banks and customers	**485**	1,282
Net increase in deposits from banks, customer accounts and debt securities in issue	**2,891**	3,805
Net increase in dealing securities	**(302)**	(606)
Net decrease in mark-to-market adjustment	**414**	63
Net increase/(decrease) in other accounts	**36**	(13)
Net cash inflow from operating activities	**4,778**	6,113

*Comparative restated (see note 40).

(b) Analysis of changes in cash

	2002 $million	2001 $million
Balance at 1 January	**3,549**	4,278
Exchange translation differences	**61**	(121)
Net cash outflow	**(114)**	(608)
Balance at 31 December	**3,496**	3,549

(c) Analysis of cash

	2002 $million	2001 $million
Cash and balances at central banks	**1,100**	1,004
Demand loans and advances to banks	**2,396**	2,545
	3,496	3,549

39. Consolidated Cash Flow Statement continued

(d) Analysis of changes in financing during the year

	2002					2001			
	Share capital $million	Share premium $million	Capital reserve $million	Capital redemption reserve $million	Loan capital $million	Share capital $million	Share premium $million	Capital reserve $million	Loan capital $million
Balance at 1 January	861	2,761	5	–	4,481	719	1,907	–	4,075
Prior year adjustment (note 40)	–	–	–	–	867	–	–	–	458
At 1 January restated	861	2,761	5	–	5,348	719	1,907	–	4,533
Exchange translation differences	32	–	–	–	450	(9)	–	–	(108)
Transfer from share premium as a result of capital conversion	–	–	–	–	–	144	(149)	5	–
Share capital issued, net of expenses	19	329	–	–	–	7	984	–	–
Repurchase of preferences shares	(3)	(328)	–	3	–	–	–	–	–
Capitalised on exercise of share options	–	2	–	–	–	–	19	–	–
Issue of subordinated loan capital, net of expenses	–	–	–	–	12	–	–	–	1,119
Repayment of subordinated liabilities	–	–	–	–	(355)	–	–	–	(200)
Other	–	–	–	–	–	–	–	–	4
Balance at 31 December	909	2,764	5	3	5,455	861	2,761	5	5,348

40. Change in Accounting Policies.

Financial Reporting Standard 19 – Deferred Tax (FRS19) is effective for accounting periods ending on or after 23 January 2002, and the Group adopted FRS19 in the current period.

It specifies the provisions that are required for Deferred Tax, which are on a different basis to its predecessor, Statement of Standard Accounting Practice 15.

The adjustments have no effect on current or prior periods tax charge but affect the Deferred Tax balances, and Reserves. The brought forward balances at 1 January 2001 have been restated as follows: the Deferred Tax Asset balance is increased by $156 million, the Profit and Loss Reserves balance is increased by $140 million and the Premises Revaluation Reserve is increased by $16 million. In the Company balance sheet, the carrying value of Investments in Subsidiary Undertakings and the Revaluation Reserve is increased by $156 million.

In February 2002, the Urgent Issues Task Force issued Abstract 33 (UITF 33) – Obligations in Capital Instruments. This reviewed the classification of instruments that have the characteristics of both liabilities and shareholders' funds and provided further guidance on the accounting treatment of these issues.

In 2001, the £300 million 8.103 per cent Step-up Callable Perpetual Trust Preferred Securities and the €500 million 8.16 per cent non-cumulative Trust Preferred Securities were treated as minority interests (non-equity) in the consolidated accounts of Standard Chartered PLC, in accordance with Financial Reporting Standard 4 – Capital Instruments.

As a result of complying with UITF 33 the instruments have been reclassified from minority interests (non-equity) to liabilities. The restatement of principal balances at 31 December 2001 is $878 million together with accrued interest is $51 million and fee accruals of $11 million. The associated minority interest payable reclassified to interest payable is $59 million, for the year ended 31 December 2001.

Comparative figures for the year ended 31 December 2001 are restated to reflect these changes to accounting policy.

41. Segmental Information

By Geographic Segment

The following tables set out profit and loss information, average loans and advances to customers, net interest margin and selected balance sheet information by geographic segment for the years 2002 and 2001:

	Asia Pacific								2002
	Hong Kong $million	Singapore $million	Malaysia $million	Other Asia Pacific $million	India $million	Middle East & Other South Asia $million	Africa $million	Americas, UK & Group Head Office $million	Total $million
Interest receivable	1,718	780	349	789	597	638	316	1,541	6,728
Interest payable	(641)	(421)	(181)	(427)	(369)	(319)	(113)	(1,194)	(3,665)
Net interest income	1,077	359	168	362	228	319	203	347	3,063
Fees and commissions receivable, net	267	80	52	135	85	119	89	164	991
Dealing profits	68	31	15	73	43	58	37	95	420
Other operating income	4	15	(1)	2	38	5	3	(1)	65
Net revenue	1,416	485	234	572	394	501	332	605	4,539
Costs	(622)	(209)	(143)	(406)	(190)	(196)	(228)	(407)	(2,401)
Amortisation of goodwill								(156)	(156)
Total operating expenses	(622)	(209)	(143)	(406)	(190)	(196)	(228)	(563)	(2,557)
Operating profit before provisions	794	276	91	166	204	305	104	42	1,982
Charge for debts, contingent liabilities and commitments	(428)	(41)	(13)	(61)	(38)	(13)	(3)	(115)	(712)
Amounts written off fixed assets investments	–	–	–	–	–	–	–	(8)	(8)
Profit before taxation	366	235	78	105	166	292	101	(81)	1,262
Loans and advances to customers – average	21,121	7,534	3,808	5,952	2,186	4,369	1,042	8,451	54,463
Net interest margin (%)	3.0	2.3	2.6	2.3	4.2	3.7	6.9	1.0	3.1
Loans and advances to customers – period end	21,313	8,060	4,201	6,390	2,458	4,883	1,168	8,536	57,009
Loans and advances to banks – period end	2,507	2,027	394	2,703	212	1,792	218	6,148	16,001
Total assets employed	41,143	17,387	6,732	16,295	6,411	10,400	3,880	42,327	144,575
Total risk weighted assets and contingents	19,958	11,570	3,724	7,512	4,367	6,709	1,556	20,430	75,826

Total interest receivable and total interest payable include intra-group interest of $1,440 million. Total assets employed include intra-group items of $25,874 million and balances of $5,691 million which are netted in the Consolidated Balance Sheet. Total risk weighted assets and contingents include $1,272 million of balances which are netted in the note on Capital ratios on page 38 in accordance with regulatory guidelines.

Group central expenses and other overhead costs have been distributed between segments in proportion to their direct costs, and the benefit of the Group's capital has been distributed between segments in proportion to their risk weighted assets. Assets held at the centre have been distributed between geographic segments in proportion to their total assets employed.

Business acquisitions have been made as part of the Group's growth strategy. These activities are a result of corporate decisions made at the centre and the amortisation of purchased goodwill is included in the Americas, UK and Group Head Office segment.

The geographic segment is based on the location of the office.

41. Segmental Information continued
By Geographic Segment

2001*

	Asia Pacific Hong Kong $million	Singapore $million	Malaysia $million	Other Asia Pacific $million	India $million	Middle East & Other South Asia $million	Africa $million	Americas, UK & Group Head Office $million	Total $million
Interest receivable	2,377	913	385	892	572	749	339	2,479	8,706
Interest payable	(1,283)	(608)	(218)	(580)	(373)	(468)	(134)	(2,142)	(5,806)
Net interest income	1,094	305	167	312	199	281	205	337	2,900
Fees and commissions receivable, net	301	95	47	121	78	96	86	153	977
Dealing profits	50	40	20	90	42	55	62	111	470
Other operating income	(3)	–	3	6	36	4	2	10	58
Net revenue	1,442	440	237	529	355	436	355	611	4,405
Costs	(679)	(205)	(131)	(404)	(209)	(207)	(226)	(384)	(2,445)
Amortisation of goodwill								(140)	(140)
Total operating expenses	(679)	(205)	(131)	(404)	(209)	(207)	(226)	(524)	(2,585)
Operating profit before provisions	763	235	106	125	146	229	129	87	1,820
Charge for debts, contingent liabilities and commitments	(257)	(51)	(130)	(86)	(27)	(39)	(13)	(128)	(731)
Profit before taxation	506	184	(24)	39	119	190	116	(41)	1,089
Loans and advances to customers – average	21,233	6,311	3,555	5,520	1,909	4,102	1,007	9,198	52,835
Net interest margin (%)	3.2	1.9	2.7	2.3	4.0	4.0	8.2	1.0	3.0
Loans and advances to customers – period end	21,145	6,828	3,705	5,842	1,923	4,117	969	8,476	53,005
Loans and advances to banks – period end	1,227	2,315	607	3,184	398	1,704	325	9,818	19,578
Total assets employed	39,508	15,086	6,223	14,580	5,994	9,604	3,487	41,335	135,817
Total risk weighted assets and contingents	19,320	8,933	3,630	7,446	3,590	5,802	1,343	19,778	69,842

*Comparative restated (see note 40).

Total interest receivable and total interest payable include intra-group interest of $2,287 million. Total assets employed include intra-group items of $24,724 million and balances of $3,558 million which are netted in the Consolidated Balance Sheet. Total risk weighted assets and contingents include balances of $500 million which are netted in the note on Capital ratios on page 38 in accordance with regulatory guidelines.

Group central expenses and other overhead costs have been distributed between segments in proportion to their direct costs, and the benefit of the Group's capital has been distributed between segments in proportion to their risk weighted assets. Assets held at the centre have been distributed between geographic segments in proportion to their total assets employed.

Business acquisitions have been made as part of the Group's growth strategy. These activities are a result of corporate decisions made at the centre and the amortisation of purchased goodwill is included in the Americas, UK and Group Head Office segment.

The geographic segment is based on the location of the office.

41. Segmental Information continued

By Class of Business

	2002			2001*		
	Consumer Banking $million	Wholesale Banking $million	Total $million	Consumer Banking $million	Wholesale Banking $million	Total $million
Net interest income	1,867	1,196	3,063	1,702	1,198	2,900
Other income	549	927	1,476	520	985	1,505
Net revenue	2,416	2,123	4,539	2,222	2,183	4,405
Costs	(1,190)	(1,211)	(2,401)	(1,254)	(1,191)	(2,445)
Amortisation of goodwill			(156)			(140)
Total operating expenses[†]	(1,190)	(1,211)	(2,557)	(1,254)	(1,191)	(2,585)
Operating profit before provisions	1,226	912	1,982	968	992	1,820
Charge for debts, contingent liabilities, and commitments	(603)	(109)	(712)	(330)	(401)	(731)
Amount written off fixed assets investments	–	(8)	(8)	–	–	–
Profit before taxation	623	795	1,262	638	591	1,089
Total assets employed	40,465	104,110	144,575	44,992	90,825	135,817
Total risk weighted assets and contingents	23,779	50,775	74,554	21,688	47,654	69,342

[†] Total operating expenses include $156 million (2001: $140 million) amortisation of goodwill. This cost is a result of global projects managed from the centre and corporate decisions made at the centre and has not been attributed to business segments.
* Comparative restated (see note 40).

For the segmental information given above, Group central expenses and other overhead costs have been distributed between classes of business in proportion to their direct costs and the benefit of the Group's capital has been distributed between classes of business in proportion to their risk weighted assets. Total assets employed include intra-group items of $25,874 million (2001: $24,724 million) and balances which are netted in the summarised consolidated balance sheet of $5,691 million (2001: $3,558 million). Assets held at the centre have been distributed between classes of businesses in proportion to their total assets employed.

42. Secured Liabilities

	2002 $million	2001 $million
Notes in circulation (note 31)	2,015	1,884

The notes in circulation were secured by the deposit of funds of $2,015 million (2001: $1,884 million) in respect of which Hong Kong Government certificates of indebtedness were held (note 26).

43. Capital Commitments

Capital expenditure approved by the directors but not provided for in these accounts amounted to:

	2002 $million	2001 $million
Contracted	12	29
Not contracted	27	32

44. Assets and Liabilities in Currencies other than US dollar

	2002 $million	2001* $million
Total assets denominated in:		
US dollar	51,079	52,513
Other currencies	61,931	55,022
	113,010	107,535
Total liabilities denominated in:		
US dollar	46,108	52,750
Other currencies	66,902	54,785
	113,010	107,535

* Comparative restated (see note 40).

45. Contingent Liabilities and Commitments

The table below shows the contract or underlying principal amounts, credit equivalent amounts and risk weighted amounts of unmatured off-balance sheet transactions at the balance sheet date. The contract or underlying principal amounts indicate the volume of business outstanding and do not represent amounts at risk. The credit equivalent and risk weighted amounts have been calculated in accordance with the Bank of England's guidelines implementing the Basel Accord on capital adequacy, after taking account of collateral and guarantees received.

	2002			2001		
	Contract or underlying principal amount $million	Credit equivalent amount $million	Risk weighted amount $million	Contract or underlying principal amount $million	Credit equivalent amount $million	Risk weighted amount $million
Contingent liabilities						
Acceptances and endorsements	897	897	854	704	704	671
Guarantees and irrevocable letters of credit	12,199	8,374	6,102	11,227	7,926	5,940
Other contingent liabilities	4,817	3,371	2,281	3,645	2,352	1,895
	17,913	12,642	9,237	15,576	10,982	8,506
Commitments						
Documentary credits and short term trade-related transactions	1,690	338	295	2,032	406	328
Forward asset purchases and forward deposits placed	21	21	4	41	41	8
Undrawn formal standby facilities, credit lines and other commitments to lend:						
one year and over	8,125	4,063	3,399	6,487	3,244	2,358
Less than one year	5,152	–	–	6,911	–	–
Unconditionally cancellable	28,815	–	–	27,151	–	–
	43,803	4,422	3,698	42,622	3,691	2,694

Under the Basel Accord, credit equivalent amounts, obtained by applying credit conversion factors to the contract amount, are risk weighted according to the nature of the counterparty. Undrawn loan commitments which are unconditionally cancellable at any time or which have a maturity of less than one year have a risk weighting of zero.

46. Fair Values

These tables analyse the notional principal amounts and the positive and negative fair values of the Group's derivative financial instruments. Positive and negative fair values are the mark-to-market values of the derivative contracts adjusted for any amounts recognised in the Consolidated Profit and Loss Account for non-trading items. Notional principal amounts are the amount of principal underlying the contract at the reporting date.

Fair values at the period end are representative of the Group's typical position during the period.

Trading activities are defined as positions held in financial instruments with the intention of benefiting from short term rates or price movements.

46. Fair Values continued

The risk section of the Financial Review on pages 28 to 37 explains the Group's risk management of derivative contracts.

	2002 Notional principal amounts $million	2002 Positive fair value $million	2002 Negative fair value $million	2001 Notional principal amounts $million	2001 Positive fair value $million	2001 Negative fair value $million
Trading book						
Forward foreign exchange contracts	340,334	5,623	5,548	373,796	5,050	4,636
Foreign exchange derivative contracts						
Currency swaps and options	96,940	1,108	1,252	56,327	760	776
Interest rate derivative contracts						
Swaps	188,313	2,926	2,653	172,144	1,508	1,354
Forward rate agreements and options	28,335	108	91	73,051	158	114
Exchange traded futures and options	39,834	25	36	45,646	22	23
Total	256,482	3,059	2,780	290,841	1,688	1,491
Equity and stock index derivatives	–	–	–	123	–	–
Total trading book derivative financial instruments	693,756	9,790	9,580	721,087	7,498	6,903
Effect of netting		(5,691)	(5,691)		(3,558)	(3,558)
		4,099	3,889		3,940	3,345

Non-trading activities are defined as positions held with respect to management of the Group's assets and liabilities and related hedges.

	2002 Notional principal $million	2002 Positive fair value $million	2002 Negative fair value $million	2001 Notional principal $million	2001 Positive fair value $million	2001 Negative fair value $million
Non-trading book						
Forward foreign exchange derivative contracts						
Currency swaps and options	524	2	–	–	–	–
Interest rate derivative contracts						
Swaps	1,313	–	2	1,639	2	7
Forward rate agreements and options	181	2	1	6	–	–
Exchange traded futures and options	2,231	2	1	2,781	–	1
Total	3,725	4	4	4,426	2	8
Commodity derivative contracts	1,812	14	14	954	39	39
Total non-trading book derivative financial instruments	6,061	20	18	5,380	41	47

	2002 Book value $million	2002 Market value $million	2001 Book value $million	2001 Market value $million
Listed and publicly traded securities:				
Financial assets	16,337	16,451	13,223	13,283
Preference shares	632	753	1,259	1,377
Other financial liabilities	9,710	9,478	7,809	7,385
Financial liabilities	10,342	10,231	9,068	8,762

Financial assets include treasury bills, debt securities and equity shares. Other financial liabilities include debt securities in issue and subordinated loan capital.

47. Credit Exposures in respect of Derivative Contracts

The residual maturity analysis of the notional principal amounts of derivative contracts, excluding exchange traded futures and options, held at 31 December 2002 and 2001 for trading and non-trading purposes is set out below:

	2002				2001			
	Under one year $million	One to five years $million	Over five years $million	Total $million	Under one year $million	One to five years $million	Over five years $million	Total $million
Forward foreign exchange and foreign exchange derivative contracts								
Notional principal amount	415,839	18,589	3,370	437,798	415,360	12,608	2,155	430,123
Net replacement cost	6,294	360	79	6,733	5,513	232	65	5,810
Interest rate derivative contracts								
Notional principal amount	120,843	77,219	20,080	218,142	160,364	74,811	11,665	246,840
Net replacement cost	578	1,490	968	3,036	637	836	195	1,668
Equity and stock index derivatives								
Notional principal amount	–	–	–	–	123	–	–	123
Net replacement cost	–	–	–	–	–	–	–	–
Commodity derivative contracts								
Notional principal amount	943	869	–	1,812	424	530	–	954
Net replacement cost	3	11	–	14	18	21	–	39
Counterparty risk								
Financial institutions				9,034				7,057
Non financial institutions				749				460
Total net replacement cost				9,783				7,517

The risk section of the Financial Review on pages 28 to 37 explains the Group's risk management of derivative contracts.

48. Interest Rate Sensitivity Gap for the Non-Trading Book

This table shows the extent to which the Group's interest rate exposures on assets and liabilities are matched but does not take into account the currency of the exposure or the effect of interest rate options used by the Group to hedge these exposures. Items are allocated to time bands by reference to the earlier of the next contractual interest rate repricing date and maturity date.

	Non-trading book							2002
	Three months or less $million	Between three months and six months $million	Between six months and one year $million	Between one year and five years $million	More than five years $million	Non-interest bearing $million	Trading book $million	Total $million
Assets								
Cash, balances at central banks and cheques in course of collection	458	–	–	–	–	779	–	1,237
Treasury bills and other eligible bills	2,826	1,115	943	59	22	–	85	5,050
Loans and advances to banks	10,731	2,540	1,463	277	135	619	236	16,001
Loans and advances to customers	45,055	4,656	2,939	3,113	1,143	–	103	57,009
Debt securities and equity shares	7,510	3,503	2,120	4,654	627	768	1,255	20,437
Other assets	75	2	311	11	3	7,665	5,209	13,276
Total assets	66,655	11,816	7,776	8,114	1,930	9,831	6,888	113,010
Liabilities								
Deposits by banks	8,479	579	569	275	–	574	374	10,850
Customer accounts	57,579	3,025	2,686	1,645	–	6,578	113	71,626
Debt securities in issue	1,914	416	539	1,608	189	–	211	4,877
Other liabilities	171	1	221	111	50	6,304	5,768	12,626
Subordinated liabilities	–	–	–	338	5,165	(48)*	–	5,455
Minority interests and shareholders' funds	–	–	–	–	–	7,576	–	7,576
Total liabilities	68,143	4,021	4,015	3,977	5,404	20,984	6,466	113,010
Off balance sheet items	1,237	(337)	(1,014)	114	–	–	–	–
Interest rate sensitivity gap	(251)	7,458	2,747	4,251	(3,474)	(11,153)	422	–
Cumulative gap	(251)	7,207	9,954	14,205	10,731	(422)	–	–

* Unamortised discount on the issue of subordinated loan capital.

The risk section of the Financial Review on pages 28 to 37 explains the Group's risk management with respect to asset and liability management.

48. Interest Rate Sensitivity Gap for the Non-Trading Book continued

2001*

	Non-trading book							
	Three months or less $million	Between three months and six months $million	Between six months and one year $million	Between one year and five years $million	More than five years $million	Non-interest bearing $million	Trading book $million	Total $million
Assets								
Cash, balances at central banks and cheques in course of collection	374	–	–	–	–	800	–	1,174
Treasury bills and other eligible bills	2,548	1,496	718	266	22	–	55	5,105
Loans and advances to banks	11,647	4,617	2,103	276	16	896	23	19,578
Loans and advances to customers	44,158	3,753	1,904	2,707	468	–	15	53,005
Debt securities and equity shares	5,854	2,548	2,403	3,789	354	120	1,012	16,080
Other assets	165	5	86	25	2	7,412	4,898	12,593
Total assets	64,746	12,419	7,214	7,063	862	9,228	6,003	107,535
Liabilities								
Deposits by banks	9,208	784	487	613	–	585	11	11,688
Customer accounts	55,417	2,862	2,530	1,065	5	5,725	251	67,855
Debt securities in issue	1,252	1,513	188	630	123	–	–	3,706
Other liabilities	145	34	110	32	–	5,665	5,341	11,327
Subordinated liabilities	1,511	542	–	–	3,338	(43)†	–	5,348
Minority interests and shareholders' funds	–	–	–	–	–	7,611	–	7,611
Total liabilities	67,533	5,735	3,315	2,340	3,466	19,543	5,603	107,535
Off balance sheet items	(9,064)	1,043	225	4,855	2,941	–	–	–
Interest rate sensitivity gap	(11,851)	7,727	4,124	9,578	337	(10,315)	400	–
Cumulative gap	(11,851)	(4,124)	–	9,578	9,915	(400)	–	–

*Comparative restated (see note 40).
† Unamortised discount on the issue of subordinated loan capital.

49. Non-Structural Currency Exposures

The Group does not maintain material non-trading open currency positions other than the structural currency exposures arising from its investment in overseas operations and their related funding (see note 50).

The risk section of the Financial Review on page 37 explains risk management with respect to the Group's hedging policies.

50. Structural Currency Exposures

The Group's structural currency exposures were as follows:

	2002			2001		
	Net investments in overseas units $million	Borrowing in the functional currency of the units concerned hedging the net investment in the units $million	Structural currency exposures $million	Net investments in overseas units $million	Borrowing in the functional currency of the units concerned hedging the net investment in the units $million	Structural currency exposures $million
Functional currency of the business unit:						
Singapore Dollar	**49**	**–**	**49**	4	–	4
Indian Rupee	**459**	**–**	**459**	278	–	278
Hong Kong Dollar	**(32)**	**–**	**(32)**	–	–	–
Malaysian Ringgit	**428**	**–**	**428**	453	–	453
Thai Baht	**27**	**–**	**27**	20	–	20
UAE Dirham	**170**	**–**	**170**	316	–	316
Sterling	**1,593**	**(1,542)**	**51**	633	(725)	(92)
Other non US dollar	**799**	**–**	**799**	808	–	808
Total	**3,493**	**(1,542)**	**1,951**	2,512	(725)	1,787

50. Structural Currency Exposures continued

Structural currency exposures for 2001 and 2002 relate to net investments in non US dollar units.

In the years ended 31 December 2001 and 2002, the Group's main operations in non US dollar units were Asia, Africa and the United Kingdom. The main operating (or 'functional') currencies of its overseas business units therefore include Hong Kong Dollar, Malaysian Ringgit, Singapore Dollar and Sterling. As the Group prepares its consolidated financial statements in US dollars, it follows that the Group's consolidated balance sheet is affected by movements in the exchange rates between functional currencies and US dollars.

These currency exposures are referred to as structural. Translation gains and losses arising from these exposures are recognised in the Consolidated Statement of Total Recognised Gains and Losses.

The risk section of the Financial Review on page 37 explains the risk management with respect to the Group's hedging policies.

51. Market Risk

Trading book	12 months to 31 December 2002			31 December 2002	12 months to 31 December 2001			31 December 2001
	Average $million	High $million	Low $million	Actual $million	Average $million	High $million	Low $million	Actual $million
Daily value at risk:								
Interest rate risk	**2.6**	**6.0**	**1.6**	**1.6**	2.6	4.2	2.1	2.1
Foreign exchange risk	**1.9**	**2.6**	**1.1**	**1.1**	2.5	5.3	1.3	1.5
Total	**4.5**	**8.6**	**2.7**	**2.7**	5.1	9.5	3.5	3.5

This note should be read in conjunction with the market risk section of the Financial Review on pages 28 to 37 which explains the Group's market risk management.

The Group measures the risk of losses arising from future potential adverse movements in interest and exchange rates, prices and volatilities using VaR methodology. This methodology measures the estimated potential change in the market value of the portfolio during a specified period.

The Group Trading book exposure shown in the table above is not a sum of the interest rate and exchange rate risks. The highest and lowest VaR are independent, and could have occurred on different days.

The Group uses a combination of variance-covariance methodology and historical simulation to measure VaR on all market risk related activities. In 2002, most of the trading book VaR was measured using the historical simulation and the remainder using the variance-covariance approach. The exposures above are reported under the variance-covariance methodology

VaR is calculated for expected movements over a minimum of one business day and to a confidence level of approximately 97.5 per cent. This confidence level suggests that potential daily losses, in excess of the VaR measure, are only likely to be experienced six times per year.

For derivative products and FX products the historic simulation method is used with an observation period of 250 days. The historical simulation approach involves the complete revaluation of all unmatured contracts to reflect the effect of historically observed changes in market risk factors on the valuation of the current portfolio. This entails building a set of valuations of the portfolio and a set of changes in value relative to the current market valuation, from which VaR can be derived.

The variance-covariance methodology is based on statistical analysis of past interest and exchange rate movements over the past two to three years with greater weight given to more recent data. The derived volatility and correlations are applied to risk factor sensitivities to measure the VaR.

Offsetting between exchange rate and interest rate exposures is not allowed. This approach is conservative, as the diversification effects that would be implied if such offsetting were allowed, are likely to have the impact of reducing the overall VaR.

51. Market Risk continued

The Group recognises that there are limitations to the generic VaR methodology. These limitations include the fact that the risk factors may not fall within the assumption of a normal distribution, i.e. that a greater than expected number of observations may fall outside the stated confidence level. Also, the historical data may not be the best proxy for future price movements, either because the observation period does not include extreme price movements or, in some cases, because data is not available. Losses beyond the confidence interval are not captured by a VaR calculation, which therefore gives no indication of the size of unexpected losses in these situations. This is particularly relevant in the case of extreme market movements, which may arise in periods of low liquidity and invalidate the assumption that positions can be closed in a liquid market. VaR is calculated as the Group's exposure as at the close of business, London time. Intra-day risk levels may vary from those reported at the end of the day.

To manage the risk arising from events which the VaR methodology does not capture, the Group regularly back-tests and stress tests its main risk exposures. In back testing actual profits and losses are compared with VaR estimates to track the accuracy of the predictions. Stress testing involves valuing portfolios at prices which assume extreme changes in risk factors beyond the range of normal experience. Positions that would give rise to potentially significant losses under a low probability stress event are reviewed by the Group Risk Committee.

52. Hedging Instruments – Unrecognised Gains and Losses on Derivative Hedges

Gains and losses on derivatives used for hedging are recognised and reported in the profit and loss account and balance sheet in line with the underlying items which are being hedged. At 31 December 2002, the unrecognised gains and losses on derivatives used for hedging where the item being hedged had not been recognised were $20 million and $18 million respectively.

			2002			2001
	Gains $million	Losses $million	Net gains/ (losses) $million	Gains $million	Losses $million	Net gains/ (losses) $million
Unrecognised gains and losses at 1 January	41	47	(6)	42	22	20
Exchange translation differences	–	–	–	–	–	–
Gains and losses arising in previous years recognised in the year	(26)	(31)	5	(40)	(20)	(20)
Gains and losses arising in the year but not recognised	5	2	3	39	45	(6)
Unrecognised gains and losses at 31 December	20	18	2	41	47	(6)
Of which:						
Gains and losses expected to be recognised within one year	4	4	–	20	22	(2)
Gains and losses expected to be recognised in more than one year	16	14	2	21	25	(4)
	20	18	2	41	47	(6)

53. UK and Hong Kong Accounting Requirements

The consolidated financial statements of the Group are prepared in accordance with UK GAAP which differs in certain significant respects from Hong Kong GAAP. There would be no material differences between the accounting conventions except as set out below:

Investments in securities

UK GAAP

Securities, including equity shares and treasury bills, which are intended for use on a continuing basis are classified as investment securities. Investment securities are stated at cost less any provision for permanent diminution in value. Where dated investment securities are purchased at a premium or a discount, these premiums or discounts are amortised through the profit and loss account. Securities other than investment securities are classified as dealing securities and are stated at market value.

Hong Kong GAAP

Under Hong Kong Statement of Accounting Practice 24 – Accounting for Investments in Securities (SSAP24), investment securities classified as held-to-maturity securities are stated at amortised cost less any provision for diminution in value. Other securities, not intended to be held until maturity, are accounted for under the 'alternative' treatment. Under the alternative treatment securities are identified as either trading or non-trading. Trading securities are stated at fair value with changes in fair value recognised in the profit and loss account as they arise. Non-trading securities are stated at fair value with changes in fair value recognised in the revaluation reserve until disposal.

If the Group had prepared its financial statements under Hong Kong SAAP24 there would have been a net charge to the profit and loss account of $20 million (2001: $1 million), an increase in investment in securities of $60 million (2001: increase of $1 million) and a credit to reserves of $42 million (2001: credit of $1 million).

Tangible Fixed Assets

UK GAAP

Under Financial Reporting Standard 15 – Tangible Fixed Assets (FRS15), revaluation gains should be recognised in the profit and loss account only to the extent (after adjusting for subsequent depreciation) that they reverse revaluation losses on the same asset that were previously recognised in the profit and loss account. All other revaluation gains should be recognised in the statement of total recognised gains and losses.

All revaluation losses that are caused by a clear consumption of economic benefits should be recognised in the profit and loss account. Other revaluation losses should be recognised:

- In the statement of total recognised gains and losses until the carrying amount reaches its depreciated historical cost; and
- thereafter, in the profit and loss account unless it can be demonstrated that the recoverable amount (the higher of net realisable value and value in use as defined in Financial Reporting Standard 11 – Impairment of fixed assets and goodwill) of the asset is greater than the revalued amount, in which case the loss should be recognised in the statement of recognised gains and losses to the extent that the recoverable amount of the asset is greater than its revalued amount.

Hong Kong GAAP

Under Hong Kong SSAP17 – Property, Plant and Equipment, when an asset's carrying amount is increased as a result of revaluation, the increase should be credited directly to equity under the heading of revaluation reserve. However, a revaluation increase should be recognised as income to the extent that it reverses a revaluation decrease of the same asset previously recognised as an expense.

When an asset's carrying amount is decreased as a result of a revaluation, the decrease should be recognised as an expense. However, a revaluation decrease should be charged directly against any related revaluation reserve to the extent that the decrease does not exceed the amount held in the revaluation reserve in respect of that same asset. Any excess thereafter will be charged to the profit and loss account.

At 31 December 2002, the Group's total properties comprised less than one per cent of the Group's total assets. A formal revaluation of certain of the Group's principal properties was performed at 31 August 2002, and at 30 September 2002 for all other properties, by independent valuers.

If the Group had prepared its financial statements under Hong Kong SSAP17 there would have been a net charge to the profit and loss account of $80 million (2001: $Nil million) in respect of valuations below depreciated historical cost.

53. UK and Hong Kong Accounting Requirements continued

Dividends

UK GAAP

Dividends declared after the period end are recognised as a liability in the period to which they relate.

Hong Kong GAAP

Under Hong Kong SSAP9 (revised) – Events after the balance sheet date which is effective for accounting periods beginning on or after 1 January 2001, dividends are only recognised as a liability in the accounting period in which they are declared by the directors (in the case of interim dividends) or approved by the shareholders (in the case of final dividends).

The retained profit for the year ended 31 December 2002 would be increased by $56 million (year ended 31 December 2001, $31 million increase) had the Company adopted Hong Kong SSAP9 (revised), and there would have been an increase in reserves of $385 million (2001: increase $329 million).

Cash Flow Statement

UK GAAP

The Group prepares its cash flow statement in accordance with Financial Reporting Standard 1 – Cash flow statements (FRS1). FRS1 is based on cash, with no concept of cash equivalents. Cash is defined as cash in hand and deposits with qualifying financial institutions repayable on demand, less overdrafts from such institutions repayable on demand.

Hong Kong GAAP

Under Hong Kong SSAP15 – Cash flow statements (Revised 2001) the statement is based on a wider concept of cash and cash equivalents. Cash includes cash on hand and demand deposits. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

Hong Kong SSAP15 also specifies that bank borrowings are generally considered to be financing activities. However, bank overdrafts repayable on demand which form an integral part of an enterprise's Cash Management are included as a component of cash and cash equivalents.

In addition, Hong Kong SSAP15 is different from FRS1 in respect of the presentation/classification of the cash flow statement. Hong Kong SSAP15 classifies cash flows under three headings: (a) cash flows from operating activities; (b) cash flows from investing activities; and (c) cash flows from financing activities. FRS1 specifies a fuller analysis using eight headings: (a) cash flows from operating activities; (b) dividends from joint ventures and associates; (c) returns on investment and servicing of finance; (d) taxation; (e) capital expenditure and financial investment; (f) acquisitions and disposals; (g) equity dividends paid; and (h) financing.

Retirement Benefits

UK GAAP

Background

Financial Reporting Standard 17 – Retirement benefits (FRS17) has been published by the Accounting Standards Board in December 2000 to replace United Kingdom SSAP24 – Accounting for pension costs.

Currently UK SSAP24 is still applicable although additional disclosure is required under the transitional provisions in FRS17.

Hong Kong GAAP

Hong Kong SSAP34 – Employment benefits has been published by the Hong Kong Society of Accountants in December 2001 and is effective for periods beginning on or after 1 January 2002. Hong Kong SSAP34 contains transitional provisions which are applicable only to defined benefit plans.

Hong Kong SSAP34 requires the defined benefit pension scheme assets to be measured at fair value at the balance sheet date. Hong Kong SSAP34 requires actuarial gains and losses to be recognised in the profit and loss account if the net cumulative unrecognised actuarial gains and losses at the end of the previous reporting period exceeded the greater of ten per cent of the present value of the defined benefit obligation at that date (before deducting plan assets) and ten per cent of the fair value of any plan assets at that date. These limits should be calculated and applied separately for each defined benefit plan. Actuarial gains and losses falling outside this ten per cent 'corridor' may be recognised in the profit and loss account over the average remaining working lives of participating employees. However, recognition on a fast systematic basis is permitted if consistently applied. In addition, Hong Kong SSAP34 does not allow the balance sheet or liability to be offset by the related deferred tax.

53. UK and Hong Kong Accounting Requirements continued

Transitional provisions for defined benefit scheme are summarised as follows:

- A liability or asset at the date of first adoption of Hong Kong SSAP34 needs to be determined and compared to the amount that would have been recognised at the same date under the previous accounting policy.
- A resulting transitional loss can be recognised either immediately under Hong Kong SSAP2 – Net profit or loss for the period, fundamental errors and changes in accounting policies or on a straight-line basis over up to five years from the date of adoption.
- A resulting transitional gain should be recognised immediately under Hong Kong SSAP2.

The Group has not quantified, on practical grounds, the differences arising from the different treatments between Hong Kong GAAP and UK GAAP for retirement benefits. In order to quantify the differences, the Group would need to examine approximately 50 different retirement benefit schemes operating throughout the world during the period. Additionally, the Group has already provided disclosures under two accounting standards (UK SSAP24 and FRS17). Full compliance with a third standard (Hong Kong SSAP34) would be costly in terms of commissioning a third actuarial review, the results of which the Group do not believe would be materially different from those obtained under the FRS17 disclosures.

Investment in subsidiaries
UK GAAP

Standard Chartered PLC has recorded its investments in subsidiary undertakings at the Company's share of their attributable net assets, together with any long-term loans provided by the Company to the subsidiary undertakings.

Hong Kong GAAP

Under Hong Kong SSAP32 – Consolidated Financial Statements and Accounting for Investments in Subsidiaries, investments in undertakings are recorded at cost less any impairment loss in the Company balance sheet.

If the Company had prepared its financial statements under Hong Kong SSAP32 there would have been a reduction in the reserves of the Company at 31 December 2002 of $3,177 million (2001: $3,792 million).

There would have been no impact on the consolidated financial statements of the Group.

Deferred taxation
UK GAAP

Under Financial Reporting Standard 19 – Deferred tax, deferred taxation is provided in full, subject to the recoverablility of deferred tax assets, on timing differences at the rates of taxation anticipated to apply when the differences crystallise, arising from the inclusion of income and expenditure in taxation computations in periods different from those in which they are included in the financial statements.

Hong Kong GAAP

Under Statement of Standard Accounting Practice 12 – Accounting for deferred tax, provision is made, under the liability method, for the tax effect arising from all material timing differences which are expected with reasonable probability to crystallise in the forseeable future.

The deferred tax asset balance would be decreased by $165 million at 31 December 2002 (31 December 2001: $156 million) and the deferred tax liability balance would be increased by $nil at 31 December 2002 (at 31 December 2001: $nil; 2000). The profit and loss reserves balance would be decreased by $149 million (at 31 December 2001: $140 million) and the Premises Revaluation Reserve would be decreased by $16 million at 31 December 2002 (at 31 December 2001: US $16 million).