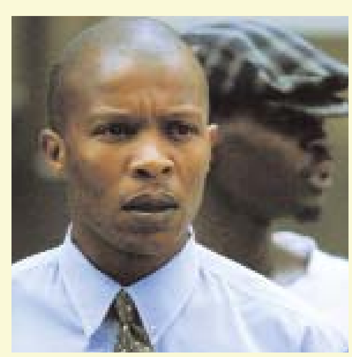
FIRSTRAND
Bank Limited

FirstRand Bank Limited annual report 2003



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Bank Limited

FirstRand Bank Limited annual report 2003

Contents

Board of Directors and board committees of FirstRand Bank Limited

GT Ferreira (55)
Non-executive Chairman

BCom, Hons B (B&A), MBA

Chairman of FirstRand, FirstRand Bank Holdings and RMB Holdings

PK Harris (53)
Chief Executive Officer

MCom

Director of FirstRand, Chief Executive Officer of FirstRand Bank Holdings and Director of RMB Holdings

VW Bartlett (60)
Executive director

AMP (Harvard), FIBSA

Director of FirstRand and Deputy Chief Executive Officer of FirstRand Bank Holdings

MPC Brogan (53)*
Executive director

FCA

Chairman of FirstRand International and Ansbacher Holdings

JP Burger (44)
Executive director

BCom (Hons), CA(SA)

Financial Director of FirstRand Bank Holdings and Chief Financial Officer of FirstRand

LL Dippenaar (54)
Executive director

MCom, CA(SA)

Chief Executive Officer of FirstRand, Chairman of Momentum Group and Director of RMB Holdings

DM Falck (57)
Non-executive director

CA(SA)

Director of FirstRand and RMB Holdings

JW Gafney (69)
Independent non-executive director

CA(SA)

PM Goss (55)
Independent non-executive director

BEcon (Hons), BAccSc (Hons), CA(SA)

Director of FirstRand and RMB Holdings

MW King (66)
Independent non-executive director

CA(SA), FCA

Director of FirstRand and Ansbacher Holdings

AS Vahed (68)
Independent non-executive director

Hon DCom (UDW), Hon DEcon (Natal)

RA Williams (62)
Independent non-executive director

BA, LLB

Director of FirstRand

**Australian*

The following directors served on the board during the year and resigned on the dates indicated below:

R Spilg – 1 April 2003

SR Maharaj – 31 August 2003

Audit Committee

MW King (Chairman)
DM Falck
RA Williams

Risk Committee

MW King (Chairman)
DM Falck
RA Williams

Large Exposures Credit Committee

GT Ferreira (Chairman)
JW Gafney
AS Vahed

Remuneration Committee

PM Goss (Chairman)
GT Ferreira
MW King
RA Williams

Directors' Affairs and Governance Committee

DM Falck
GT Ferreira
JW Gafney
PM Goss
MW King
AS Vahed
RA Williams

Corporate governance

Compliance statement

FirstRand Bank is committed to good corporate citizenship and to open corporate governance in its stewardship of the bank's affairs.

This commitment provides stakeholders with the comfort that the bank's affairs are being managed in an ethical, transparent and responsible manner, after considering prudently determined risk parameters.

Furthermore, in recognition of the need to conduct the affairs of the bank according to the highest standards of corporate governance, in the interests of investor protection, the directors of FirstRand Bank endorse the Code of Corporate Practices and Conduct recommended in the King II Report on Corporate Governance for South Africa 2002 ("King"). The directors are satisfied that the bank has observed and applied the Code consistently during the year under review.

The corporate governance framework ensures the strategic guidance of the bank, the effective monitoring of management by the Board, and the Board's accountability to shareholders. Further, the framework ensures that timely and accurate disclosure is made on all material matters regarding the bank, including the financial situation, performance, ownership, and governance of the bank. Mechanisms that ensure good corporate governance are discussed in more detail below.

Board of Directors

Responsibilities of directors

The Board of Directors is responsible for reviewing and guiding corporate strategy, major plans of action, risk policy, annual budgets and business plans, monitoring corporate performance and overseeing major capital expenditures, acquisitions and disposals, while still retaining full and effective control over the bank.

Composition and frequency of meetings

FirstRand Bank has a unitary board. Its chairman is non-executive, but not independent in terms of the King II definition. The Board members believe that it is appropriate for Mr Ferreira to continue to chair the bank's Board, notwithstanding the fact that he does not fulfil the strict criteria of "independence" as set out in King II. It is also the view of the directors that a strong independent element of non-executive directors exists on the board and that this provides the necessary objectivity essential for its effective functioning. The roles of chairman and chief executive officer are separate with segregated duties.

The Board comprises 12 directors of whom five serve in an executive capacity. The directors of the bank are listed on page 1. Non-executive directors comprise individuals of high calibre with diverse backgrounds and expertise. This ensures that their views carry significant weight in the Board's deliberations and decisions.

The Board has a formal schedule of matters it oversees. The Board meets quarterly. A further meeting is devoted solely to a review of the strategic plans and the resulting budgets. Additional meetings are convened as and when necessary.

To fulfil their responsibilities, Board members have access to accurate, relevant and timely information. Any director may call on the advice and services of the company secretary, who gives guidance on legislative or procedural matters. Directors are also entitled to seek independent professional advice, at the bank's expense, in support of their duties.

Limitation to appointment period

There is a formal transparent Board nomination process. Non-executive directors are appointed, subject to re-election and to Companies Act provisions relating to removal, and retire by rotation every three years. Re-appointment of non-executive directors is not automatic. The retirement age of directors is set at age 70.

Company secretary

The company secretary is suitably qualified and experienced and was appointed by the Board in 1998. He is inter alia responsible for the duties stipulated in section 268G of the Companies Act and the certificate required to be signed in terms of subsection (d) thereof appears on page 17.

Risk report

The bank complies with the FIrstRand Banking Group's risk management framework, details of which are addressed in this report.

1. What is risk?

The Banking Group defines risk as any event or occurrence that may cause one not to achieve a desired business objective. Business risks are myriad and include business strategy, quality of the workforce, product composition and delivery, return on investment, tax, financial control, liquidity, income sensitivity to changes in interest rates, credit exposures, market trading, legal matters, information security, compliance, business continuation, business capacity, criminal activities, processes and systems.

2. Risk management is a key focus of the Banking Group

A business can only be successful if it identifies and manages its risks across the wide spectrum of business risks and activities in order to achieve desired objectives, avoid adverse outcomes and ensure sustainability of the business.

For this reason, risk management is a key focus of the Banking Group. The approach to risk management is vested by the Business Success and Risk Management Framework ("the Framework"), which is a policy of the boards of directors of FirstRand Bank and FirstRand Bank Holdings ("the Boards").

In terms of the Framework, business and risk management is an integrated process and the responsibility of the heads of each business entity. The latter includes the holding, operating and subsidiary companies and their divisions, departments and business units.

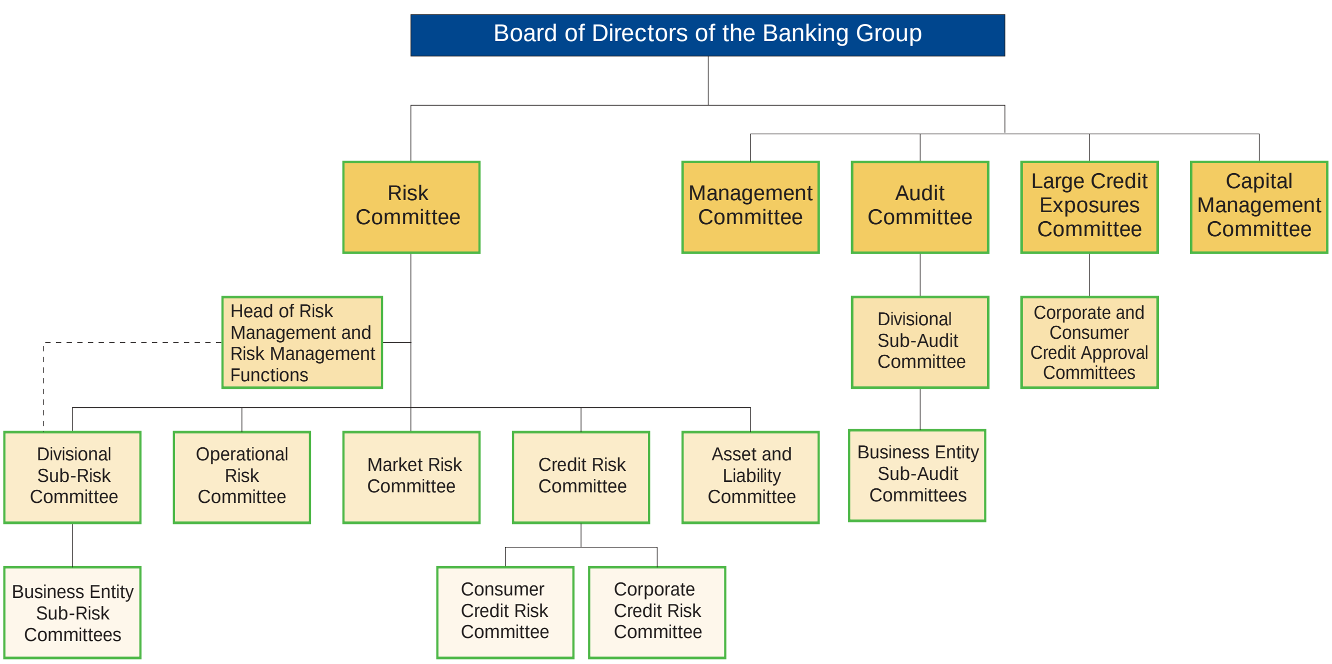
Executive managers are directly responsible for the management of the strategic business risks. They may delegate the management of the operating risks to specialist line and risk managers.

2.1 Risk management structure

The effectiveness of risk management is monitored and assessed by the Main Risk Committee, which is a committee of the Boards ("the Risk Committee").

The Risk Committee is supported in its task by the Credit Approval Committees of the Boards and the sub-committees of the Risk Committee namely the Credit Risk, Asset and Liability Management, Market and Operational Risk Committees. The main subsidiary companies have their own risk committees which report to their respective statutory and management boards and committees on the effectiveness of risk management and to the Risk Committee as is appropriate. Similarly, the main divisions of the bank have their own risk committees, which are sub-committees of the Risk Committee. In addition, many divisions have risk committees at business unit level where warranted.

Set out below is a schematic diagram of the governance structures, which are in place in the Banking Group to drive and monitor the risk management processes and to assess the effectiveness of risk management.



Risk report continued

The table below lists the committees of the Boards, which are charged with the responsibility to monitor the risk management processes and the effectiveness of risk management. These committees also monitor the identification of risk management shortcomings, process breakdowns and the implementation of corrective actions to address these.

Committees and sub-committees of the Boards

Committees	Functions and responsibilities
Main Audit Committee Sub-Audit Committees	Approve the financial statements and accounting policies. Monitor the quality of the internal controls and processes of the Banking Group and the implementation of corrective actions.
Main Risk Committee and Sub-Risk Committees	Monitor the implementation of risk management policies, risk assessments, exposures under limits and the effectiveness of risk management.
Credit Approval Committees and Sub-Committees • Large exposures • Large corporate • Medium corporate • Corporate property finance • Financial institutions • Portfolio risk • Consumer sectors • Project finance • Structured finance • Wealth sector	Oversee the management of credit risk, which is the risk of default of a counterpart. Responsible for credit approvals and the approval of credit policies for submission to the Credit Portfolio Risk Committee and the Main Risk Committee.
Capital Management Committee Capital Investment Committee	Sets policies for the allocation and investment of capital and the management of capital adequacy requirements and compliance.
Sub-committees of the Risk Committee	
Asset and Liability Committees (“Alco”) • Main Alco • International Alco • Business unit Alcos	Oversee the management of liquidity and interest rate risk in the banking book and sets prudential limits for liquidity and interest rate exposures. Liquidity risk is the risk that the bank is unable to meet its liabilities and trading obligations. Interest rate risk is the risk of changes to the interest margin due to maturity re-pricing mismatches and changes in interest rates.
Credit Portfolio Risk Management Committees • Corporate • Consumer	Responsible for credit portfolio risk management and the monitoring of the effectiveness of credit risk management.

Committees	Functions and responsibilities
Market Risk Committee	Market risk is the risk of loss by the trading activities due to changes in prices and interest rates.
Technical Risk Committee	The committees approve policies, methodologies and trading limits and monitor exposures and trading performance.
Operational Risk Committee	Operating risk is the risk of loss or losses of opportunity due to the failure or inefficiency of a process.
Technology and Information Management Committee Security Committee	The committees monitor the risk management processes and the management of operating risk and process breakdowns.

2.2 The role of the finance, risk and audit division

The finance, risk and audit services division assists the Boards, the audit and risk committees and the business units to develop policies, standards, methodologies, processes and procedures for the management of risk. In order to fulfil these roles, the division employs professionals in the following risk management fields:

- Financial
- Direct tax
- Indirect tax
- Compliance
- Corporate governance
- Corporate credit
- Consumer credit
- Capital management
- General risk management
- Legal
- Financial market trading
- Liquidity
- Asset and liability management
- Internal audit
- Loss prevention
- Operational risk management
- Risk identification
- Risk insurance
- Information security

As part of its routine functions, the division monitors the effectiveness of risk management, the identification of shortcomings and breakdowns and the implementation of corrective actions and reports accordingly to the Risk Committee.

3. Effectiveness of risk management

The objectives of risk management are to manage business risks to achieve desired objectives, avoid adverse outcomes and to ensure business sustainability.

The Banking Group has been very successful at managing its strategic business risks, as demonstrated through its successful results set out elsewhere in the annual report. The management of operating business risks over the past financial year and the effectiveness thereof is discussed in this section.

3.1 Capital management

The aim of capital management is to:

- maintain sound capital adequacy ratios and a strong debt rating for the Banking Group;
- protect the capital base;
- allocate capital to a portfolio of businesses to promote growth in shareholder value; and
- align the management of the Banking Group with shareholder value growth objectives.

The achievement of these objectives is supported by the Capital Management Framework, which consists of three pillars, namely:

1. Optimal capitalisation of the Banking Group

The aim is to maintain sound capital adequacy ratios and a strong debt rating for the Banking Group.

The Banking Group's overall capital needs are continually reviewed to ensure that its capital base appropriately supports its current and planned business and regulatory capital requirements.

It is the capital management division's policy to capitalise the Banking Group at the higher of economic or regulatory capital. Economic capital is used as an assessment of the risk the Banking Group is exposed to.

The capital management division further aims to implement an optimal capitalisation level and structure to ensure an efficient cost of capital.

Risk report continued

2. Investment of the capital of the Banking Group

The capital of the Banking Group is invested in AAA rated local currency government bonds while the desired interest rate risk profile is achieved by using interest rate derivative instruments. In such cases, the counterparties are AA rated financial institutions. Equity or capital is notionally allocated to businesses while actual Bank Capital (including Tier 2 capital) ("own funds") are retained in the Capital Centre and invested in risk free or near risk free investments.

3. Allocation of capital within the Banking Group

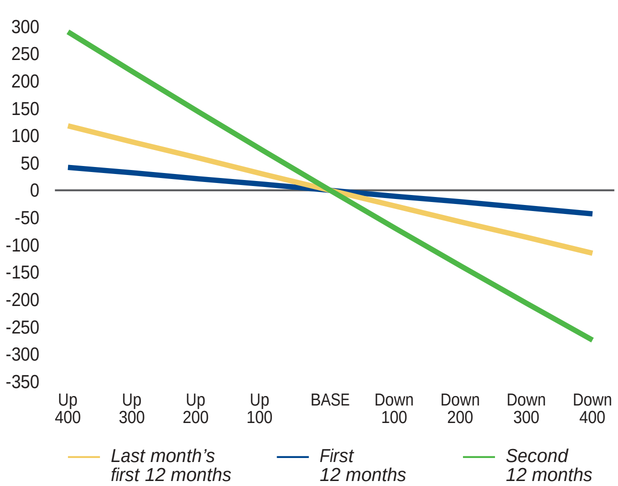
The economic capital allocation methodology has been refined during the period under review. Economic capital has been allocated to the various business units, which aligns closely with the proposed Basel II Capital Accord.

3.2 Investment of own funds

Income from own funds potentially vary in line with interest rates. The Banking Group's own funds have been invested in longer dated maturities in anticipation of lower interest rates and to reduce income volatility from this source.

The interest earned on the capital portfolio is subject to the interest rate forecast and actual market movements. The graph below indicates that interest income on current own funds will fluctuate by less than R300 million of the base income forecast for a unexpected variation of 400 points in interest rates against forecast rates, up or down, during each of the next two financial years to June 2005.

Net interest income shock (R million)
Rand change to base



3.3 Operating risk management

Operating risk management covers all the material areas of financial, process, systems and other operational risks. The approach to operating risk management and the effectiveness thereof is demonstrated in the sections that follow.

3.4 Financial management

South Africa is one of the first countries to adopt the local equivalent of IAS 39 – "Financial Instruments – Recognition and Measurement", by way of the equivalent South African accounting statement, AC133.

FirstRand Bank is the first bank in South Africa to report its audited financial results for a full financial year in compliance with the South African standard.

The Banking Group successfully adjusted all material accounting systems and policies to achieve compliance with this new standard. The new standard introduces a number of rules, which in certain cases result in anomalous accounting treatments of linked assets and liabilities, rights and obligations in the same business activity.

The international standard is currently subject to further improvements, specifically with the view to eliminate certain of these anomalies and the resultant income and balance sheet volatility. These changes, and the resultant changes to the South African standard, may result in ongoing systems and policy challenges in the next financial year.

Controls over capital, operating and other budgetary expenditures and the reconciliation processes worked well with no material issues reported to the relevant audit and risk committees.

3.5 Direct tax management

Tax risk management has the following primary objectives:

- compliance with local and international tax legislation; and
- implementation of policies and processes to ensure that tax compliance is properly vested within the various business units of the Banking Group.

3.6 Indirect tax management

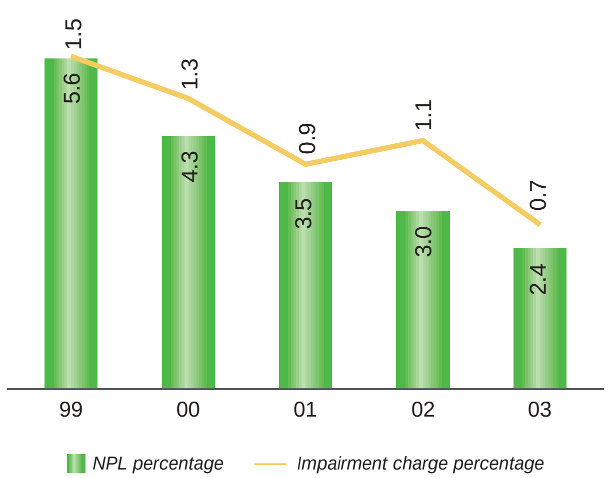
The Indirect Tax business unit comprises of a small team of specialists who specifically manage Value Added Tax ("VAT"), Regional Services Council levies ("RSC") and stamp duty compliance for the Banking Group. This unit has also been involved in assisting with the implementation of VAT compliance in FNB Namibia and Botswana.

The indirect taxation standing committee of the Banking Council, of which FirstRand Bank is a member, meets regularly with the South African Revenue Service. This joint working committee resolves banking industry disputes and is also proactively involved in changes to legislation that impact on the banking industry.

3.7 Credit risk exposures

Bad debts continue to decline in line with the improvement in the credit quality of the advances book. The graph below shows the trends in non-performing loans and loan impairments for the Banking Group over the past five years:

Non-performing loans and impairments



3.7.1 Corporate credit risk exposures

A number of projects are in place to improve the credit review, securities and ongoing exposure management processes in those businesses which serve the corporate market segments. Good progress is being made with the foregoing. The project to automate the aggregation of credit risk exposures across these business units continues, but is proving to be a very demanding task, which will take more time to implement than originally envisaged.

The FirstRand or FR credit rating system that was initiated in 1999 has been well bedded down and has proved to be most useful in the pricing of credit risk and the management of the corporate credit portfolio. It is also a prerequisite should the Banking Group wish to determine its capital adequacy requirements according to Basel II based on an internal rating based approach.

The bank has seen a significant improvement in corporate non-performing loans over the past twelve months. The key drivers for this performance relate to the results achieved by the workout and restructuring team and the relatively benign credit environment. During the year actual cash repayments reduced the outstanding non-performing loan balances and no new large exposures were listed. Year-on-year the non-performing and impaired loan ratio on corporate exposures reduced to 2.98% from 4.28%.

The challenges facing the bank and the banking industry at large in the event of a liquidation of a counterpart to balance social responsibility and the financial interests of all the stakeholders, are addressed by the bank at the highest level and in liaison with industry forums such as the Banking Council.

3.7.2 Consumer credit

Bad debts continue to decline as a percentage of credit exposures across the consumer products. The table below shows the effectiveness of credit risk management by product in the consumer sector. Non-performing loans as a percentage of advances declined across all the consumer credit lines.

	Non-performing loans %	
Product	**2003**	2002
Asset based instalment credit	**1.1**	1.4
Home loans (excl acquired advances)	**1.9**	2.3
Home loans (incl acquired advances)	**2.7**	3.0
Credit cards	**5.4**	9.4
Overdrafts	**7.4**	11.2
Loans	**4.4**	5.9

The Retail portfolio is dominated by asset based instalment credit and home loans, which comprise 85% of the total.

Credit approval processes

The approach to lending in the consumer sector is characterised by a separation between credit sales and the credit approval and management processes, which are centralised.

The majority of advances are approved by means of scorecards, whilst the larger amounts are subjected to a judgmental process achieved through a series of credit committees. An overview process ensures that quality standards are continuously monitored.

Each counterparty is subjected to the FR credit risk rating and pricing process, primarily by means of the scorecards. This provides the bank with an overall risk-weighted view of the pricing of its lending portfolio. The credit management processes also make use of statistical modelling in order to identify early signs of default. This allows for proactive management with varying degrees of intensity, according to the level of risk observed.

Significant progress has been made in automating credit application processes across all product offerings. This enables fast and consistent decision-making as well as scoring, pricing and fee generation, which creates significant credit efficiencies for the Banking Group.

The requirements of AC133 have been applied for the first time to the provisioning process. This has required that a model be created that takes into account:

- the expected default rate of each counterparty;
- the rate which the bank earns on the transaction; and
- expected percentage recovery of the outstanding amount in the event of default.

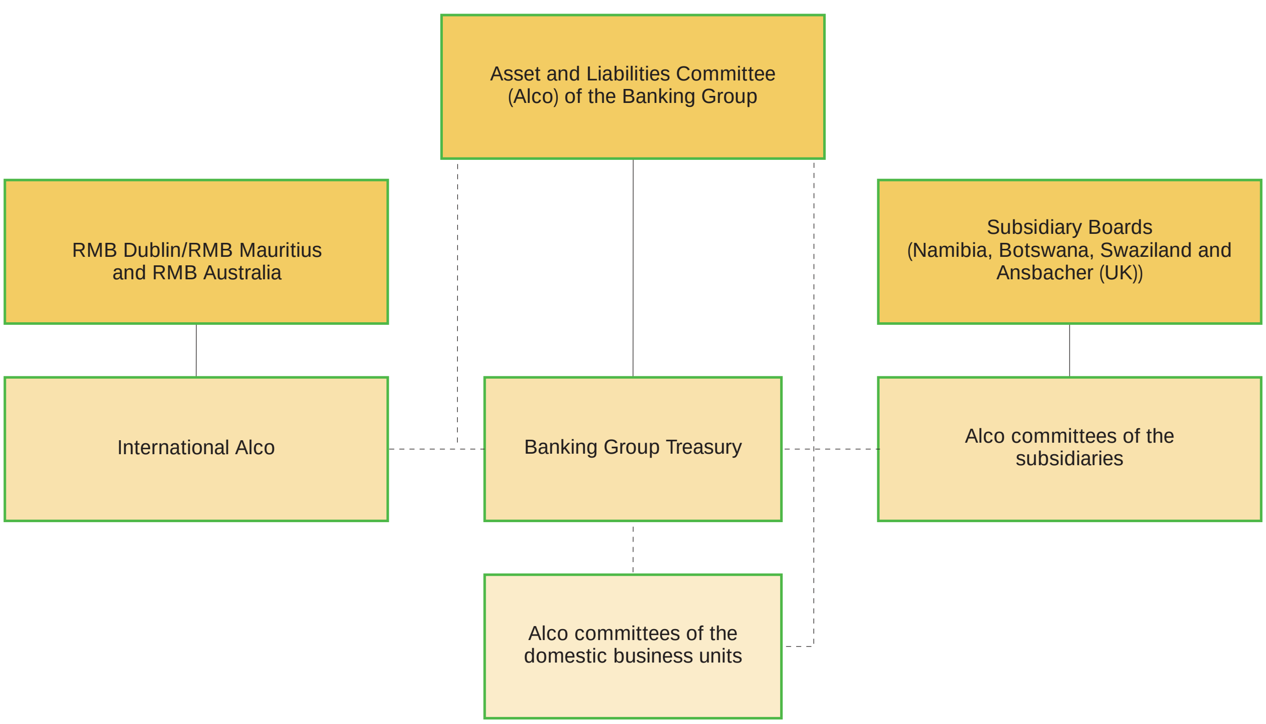
This is expressed as a present value and any shortfall relative to the face value is regarded as an impairment and is charged to the income statement.

3.8 Asset and liability management

Alco oversees the management of liquidity and interest rate risk in the Banking Group. Alco approves the policies and limits for the management of liquidity and interest rate risk and monitors these exposures and the effectiveness of the risk management processes.

The diagram below shows the structure of the assets and liabilities committees in the domestic and international businesses of the Banking Group, supported by Banking Group Treasury ("BGT"). BGT's function is to establish a comprehensive liquidity and interest rate risk management framework, including policies, and to recommend appropriate risk limits.

Assets and Liabilities Committees of the Banking Group



Liquidity risk

Liquidity is managed centrally in each of the entities as per the diagram in accordance with the core principles for liquidity management approved by Alco. This centralised cash and collateral management structure permits tight control on both the local and global liquidity positions of the Banking Group.

Exposure limits are in place for liquidity exposures due to the mismatch of maturities of assets and liabilities, especially for maturities in the near term and also for deposits taken from wholesale, or large corporate and institutional investors. Maturities were contained within these limits. During the period under review, the Banking Group did not experience any liquidity shortfalls which it was unable to fund at market rates.

3.9 Interest turn

3.9.1 Interest rate risk

Interest rate risk is managed, monitored, analysed and measured in two distinct portfolios, namely:

- Banking book; and
- Trading book.

3.9.2 Banking book

Alco has approved risk management policies, risk limits and a control framework for BGT's banking book interest rate risk management process. Most interest rate risks in the banking book are captured at the point of business origination and then transferred, through a transfer pricing mechanism, to one of the centralised risk management units.

Interest rate risk refers to the volatility in net interest income attributable to changes in:

- the level of interest rates;
- the mix and volume of assets and liabilities; and
- mismatches between the interest rate repricing profiles of assets and liabilities.

The objective of interest rate risk management is to protect the interest margin of the following portfolios:

- Endowment portfolio;
- Prime portfolio;
- Capital portfolio;
- Mismatch portfolio; and
- Residual risk portfolio.

Three key measures are used to quantify interest rate risk:

- interest rate sensitivity expresses the impact of a one basis point (0.01%), parallel rise in interest rates on the fair value (net present value) of all Banking Group's interest rate risk positions;
- economic value sensitivity measures the potential change in fair value of BGT's interest rate positions resulting from a large instantaneous shock to interest rates; and
- net interest income at risk is defined as the potential change in the Banking Group's net interest income resulting from adverse movements in interest rates over the next twelve months.

Various changes in the level of interest rates are applied. Usually the worst case is captured by using instantaneous shock scenarios.

Interest rate risk is inherent in many of the Banking Group's businesses. It arises from a variety of factors, including differences in timing between contractual maturity or re-pricing of assets, liabilities and derivative instruments which impact net interest income in the event of changes in market interest rates. In the case of some variable rate assets and liabilities, the Banking Group is also exposed to basis risk, which is the difference in re-pricing characteristics of floating rate indices, such as the savings rate and money market rates. In addition, certain products have embedded options that affect their pricing and effective maturity.

Interest rate sensitivity

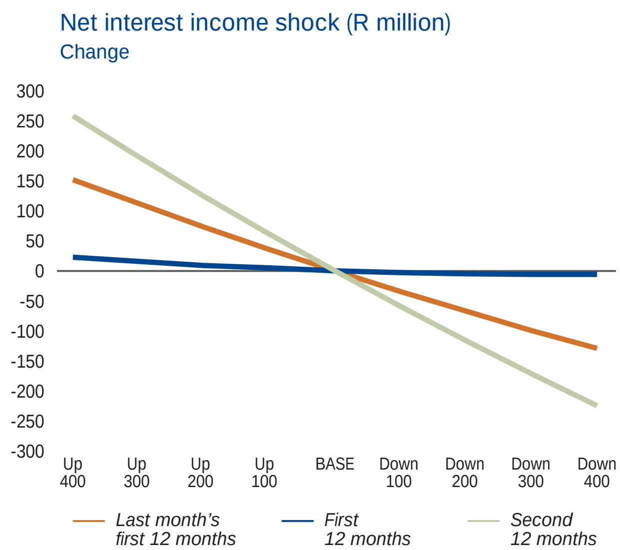
Interest rate sensitivity in the banking book is measured using simulation techniques. All of the scenarios are compared with a base case scenario where current market rates and client behaviour are held constant for the next twelve months. The methodology is designed to highlight the effects of market changes in interest rates on interest income.

The Banking Group accepts deposits at variable rates and uses pay fixed interest rate derivatives as cash flow hedges of future interest payments, effectively converting borrowings from floating to fixed rates. The Banking Group also has assets at variable rates and uses receive fixed interest rate derivatives as cash flow hedges of future interest receipts. The impact of these instruments has been included in the simulations summarised in the following graph.

The most significant portion of the Banking Group's interest rate risk is on the South African balance sheet. The sensitivity of

Risk report continued

SA Rand earnings to an instantaneous shock to interest rates over a 12-month forecast period is as follows:



The sensitivity of interest income in comparison to the base scenario is considered small relative to the size of the Banking Group's net interest income of R9 104 million (on a post-AC133 basis) for the 2003 financial year and is well within the Banking Group's prudential limits. The graph above presents a static picture and assumes no management intervention during the forecast period. Interest rate sensitivity is continuously managed based on management's view of future interest rates.

Strategy in using hedging instruments

The Asset and Liability Management Unit ("ALMU") hedges interest rate risk on the balance sheet of the bank using separate risk portfolios. These portfolios are managed under separate mandates, which take into account the underlying risks inherent in each portfolio. In order to understand the detailed composition of these hedge portfolios ALMU does the following:

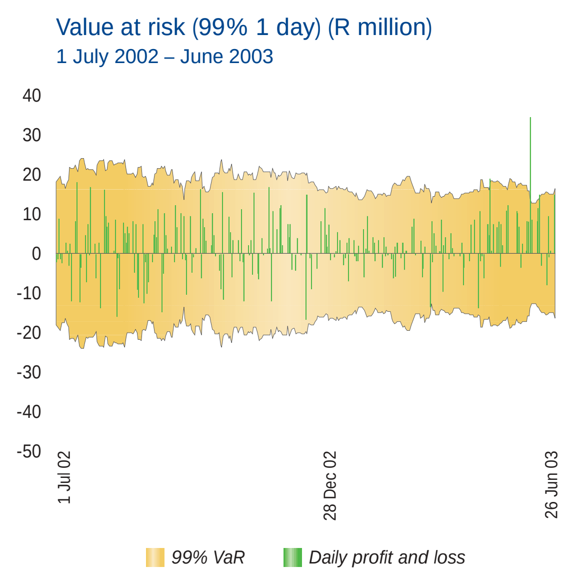
- ALMU formally documents all relationships between hedging instruments, and hedged items in the bank's balance sheet and document the enterprise risk management objective and strategy for undertaking the hedge. This process includes linking all derivatives designated as hedges to specific assets or liabilities in the Banking Group balance sheet.
- ALMU also formally assesses, both at hedge inception and at external reporting dates, whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in cash flows attributable to the hedged risk.
- Interest rate derivatives comprising mainly of interest rate swaps and Rand overnight deposit swaps (RODS), and government securities, are utilised for hedging purposes to eliminate uncertainty and reduce the risk that the bank faces due to volatile interest rates.

3.9.3 Trading book

Interest rate risk in the trading book is managed and controlled within the Market Risk Management Framework, using stress loss limits and value at risk models.

3.10 Market risk

The financial market trading and structuring activities had a satisfactory year. Trading profits were high even though financial markets were not very volatile. More importantly, excellent profits were earned without taking undue risk as can be seen below:



The graph compares the daily trading profits and losses with our market risk exposures using a statistical loss measure in the form of a 99% one day value at risk ("VaR") measure scaled to stress exposure. This VaR measure shows the maximum risk exposure that statistically had not been exceeded by a trading profit or loss more than one day out of 100 trading days. The outlier in June corresponds with the volatility experienced in the market at the time the South African Reserve Bank announced a 150 basis points interest rate cut.

Although the Banking Group calculates risk measures such as VaR to obtain an understanding of the profit and loss characteristics of the portfolio under “normal market” conditions, the primary risk measure that is used for risk control purposes is a stress loss limit. The latter is the maximum loss that all the trading operations would have suffered over a ten day holding period under conditions of severe shocks in all markets, assuming that all open positions were incorrectly positioned for such an eventuality and that market liquidity virtually dries up, events which are most unlikely to happen.

The maximum and average stress loss exposures during 2003 were R415 million and R335 million respectively. The maximum and average normal market risk exposures measured in terms of 99% one day value at risk were R24 million and R18 million respectively and are more reflective of our financial market risk exposures. This is an insignificant exposure compared with the Banking Group’s net income before tax of R5 706 million (on a post-AC133 basis) in the 2003 financial year.

3.11 Operational risk

The table below shows operational losses by reporting date indexed to 100 in the 2000 financial year.

As can be seen, losses due to robberies, theft and fraud were at the same level as last year, but substantially lower than the peak in the year to June 2000.

The past financial year was the first year during which business units were required to report all operational losses. As can be seen, operational losses other than from criminal activities and loss of assets, were minimal. However, being the first year for reporting losses of this type, these results have not been audited and the system is open to refinement. Total operational losses are very low in monetary terms relative to the income of the Banking Group and a fraction of the capital requirements which the new Basel Accord seeks to implement against potential operational losses in terms of the standardised method.

In terms of the proposed Basel II Accord a bank would be required to maintain capital against operational losses equal to approximately 15% of gross income in terms of the basic indicator approach. The Banking Group views these capital requirements as excessive in terms of its loss experience.

Losses due to criminal activities and money differences (index total losses 2000 = 100) financial year to 30 June

	2003	2002	2001	2000
Banking fraud and forgery	**36**	29	37	67
Robberies and burglaries	**12**	15	19	12
Card fraud	**13**	11	16	11
Transit losses	**0**	0	2	1
Money differences	**5**	7	7	7
Other	**0**	0	0	1
Total local operations	**66**	62	81	99
International fraud	**0**	0	14	1
Total losses	**66**	62	95	100
Other operational losses	**10**	9		

Losses due to criminal activities have been well contained and declined significantly relative to the growth in assets over the period.

3.12 Information security

An information risk management framework has been implemented and is already effective in many areas. Formal risk assessments are carried out against internationally accepted standards of good practice and at the end of the financial year no systems were rated as representing a material risk (at Banking Group level).

The policy for information security has been revised and technical baseline standards for all major operating system platforms are in place and are continually reviewed. A questionnaire to measure compliance with policy has been developed and will be used to enhance the existing monitoring tools.

Risk report continued

The Banking Group's Internet perimeter defences are protected by firewall technology and an intrusion detection system is operational in the main network control centre. Incidents caused by hacking attempts were well contained and no reputational damage or financial loss was incurred. The Banking Group experienced minimal downtime as a result of virus infiltration despite the fact that the frequency of this type of attack is increasing. Inadequate security controls on a number of application servers throughout the Banking Group allowed some loss of service due to outbreaks of the "SQL Slammer Worm" during the first quarter of 2003, but this has now been resolved.

A sub-committee of the Operational Risk Committee was set up to identify security risks and to initiate projects to introduce security improvements and new controls.

The table below shows the overall impact on the business of incidents relating to loss of confidentiality, integrity and availability of information.

Category	Business impact			
	Major	Minor	None	
Service loss				Minor systems and network outages
Financial loss				No direct financial loss due to information security deficiencies
Reputation				Reputational effects due to loss of confidentiality, integrity or availability of information was minimal

Overall, a good level of awareness and control has been achieved throughout the Banking Group, but improvement is required in a number of areas to keep abreast with the ever-increasing threats. The Banking Group has initiated a number of projects under the following headings to improve controls:

Project area	Status of improvement projects		Actions
	Under way	Complete	
Risk Framework			Implement improved monitoring of compliance and performance
Policy and Standards			Ongoing policy and standards review
Awareness			Major new awareness campaign
Control			Update server baseline controls
Status			Continually review servers for compliance
Perimeter Protection			Improve standards for perimeter protection and review
New risks			Increase research and improve advice and support services to the business areas

3.13 Business continuation

Business continuation arrangements for the Banking Group have been greatly improved. Mission critical processes have successfully tested their recovery plans. Further to this, a new disaster recovery (DR) site for core and delivery infrastructure has been built, constituting a major improvement over the previous site. Implementation thereof will be finalised during the second half of 2003, followed by a series of tests to ensure the effectiveness of this facility.

During the past financial year, the readiness of business units for disruptive events was tested to a large degree. Testing has not addressed all scenarios in every instance. This will be the objective of tests during the new financial year. The business continuation and recovery programme will be substantially completed by the end of this calendar year.

One must accept that continuous change in the business environment necessitates ongoing fine tuning and adjustment of business continuity plans.

A graphic representation of the Banking Group business continuity status can be seen as depicted here:

Systems	**Assessment**	**Plans and implementation**	**Testing**	**% Complete †**
Core and production				100
Front-end, delivery				94
Enterprise specific				70

† With the migration to a new mirrored site, a fresh test cycle will be commenced during 2003/2004

Business clusters	**Assessment**	**Plans and implementation**	**Testing**	**% Complete †**
Retail				76
Corporate/trading				88
Wealth				88

† Percentage completeness is a subjective, arithmetic calculation

3.14 Risk insurance

The Banking Group protects itself, wherever possible, against insurable risks through a combination of vigorous risk management processes and a comprehensive structured insurance risk financing programme.

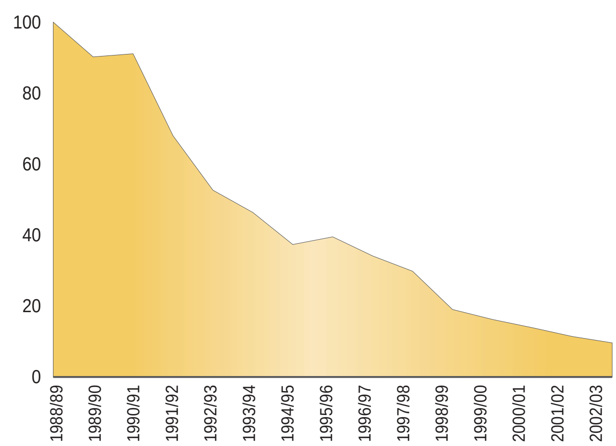
Despite the difficult conditions in the international insurance/reinsurance markets, the Banking Group has successfully renewed all of its current insurance requirements for the forthcoming year at favourable terms relative to the state of these markets.

The efficacy of the risk financing structure is reviewed constantly and expanded, where necessary, to cover any new risks that are identified. The programme is also benchmarked against comparable organisations on an annual basis and account is taken of developments within the Banking Group to ensure that both the scope and levels of cover are adequate.

Whilst the level of cover has periodically been increased proportionate to the growth in assets, the efficiency of the Banking Group's risk management process and its impact on the cost of the insurance programme is demonstrated in the following graph. Insurance costs have reduced considerably relative to assets, while the level of cover has increased in line with the growth in assets.

Bankers Blanket Bond/Computer Crime Insurance Programme

Cost of funding and premiums relative to assets – Indexed



3.15 Legal risk

To facilitate the management of legal risk (the risk of loss caused by the Banking Group being held legally liable or because a bank claim is unenforceable), a legal risk management framework has recently been implemented by Legal Services. Business units are required to identify the sources of legal risk, to implement plans to monitor these and to measure that such risks are obviated, tolerated or acceptably mitigated. Action plans are put in place to manage and mitigate potential losses and to ensure that appropriate remedial action is taken where legal defect has resulted in losses.

To this end, a database, under the control of Legal Services, is held of all litigation against the Banking Group, ensuring that all claims are identified and reported to management. Each claim is analysed to ascertain the likelihood of the Banking Group sustaining a loss, if and at what level provision is required and whether remedial steps are required to prevent future, similar losses.

4. Review and the way forward

General risk management

Risk management is well entrenched throughout the Banking Group. The Banking Group is pleased with the success that it had, as demonstrated by the foregoing review of the effectiveness of the risk management processes.

Overall, the Banking Group has achieved the desired business objectives and managed to avoid unexpected losses which might have been caused by shortcomings in risk controls.

However, there is always room for improvement. During the current year the Banking Group will focus on the following:

- further integration of the management and risk management processes;
- improving the measurement and reporting of the effectiveness of risk management;
- improving risk controls to vest best practices or to address shortcomings which have been identified, and to strengthen defences against external threats. Particularly, the Banking Group will concentrate on improving its general systems controls, credit processes and business continuation arrangements;
- reacting proactively and timeously to market events; and
- automating the risk management reporting and risk quantification processes in general and specifically to address the requirements of the new Basel Capital Accord in respect of credit and operational risk.

5. Internal audit

Internal audit supports the risk management process by continuously reviewing the processes and systems of the Banking Group using a risk-based approach, with the objective to identify process weaknesses and control shortcomings. The table below shows the achievement of the audit plans during the past financial year. Audit findings are reported to the relevant Audit and Sub-Audit Committees.

Audit teams	Frequency of audits
• Process auditors who specialise in the auditing of branches and processing facilities.	• Annually – 98% completed.
• Credit auditors who audit the credit processes in the branches and credit hubs.	• Annually – 100% completed.
• Business auditors who audit the financial, governance, risk management and business processes of the business units.	• Annually – 100% completed for high/medium priority units. – 95% completed for low priority units.
• Systems auditors who assess the effectiveness of systems, general and application controls, information security and systems development.	• Three year cycle subject to risk profile, business changes and system developments.

The audit teams and the risk managers attend the relevant audit and risk committees to monitor the progress with corrective actions to address control shortcomings. In this way they support continuous process improvement across the Banking Group.

Capital adequacy

Capital adequacy statement

The capital base of a bank provides the foundation for lending, off-balance sheet transactions and other activities. The capital adequacy of banks is measured in terms of the Banks Act requirements. Under these regulations banks are required to maintain a minimum level of capital based on their risk-adjusted assets and off-balance sheet transactions. As at 30 June 2003 South African banks were required to hold capital equal to a minimum of 10% of risk-adjusted assets and contingencies. Capital has to be held against trading assets as calculated using risk models. As at 30 June 2003, the capital held against the trading assets of the bank was R372 million (2002: R265 million).

R million	**2003**	2002
REGULATORY CAPITAL		
Tier 1		
Share capital	**4**	4
Share premium	**2 490**	1 502
Retained income	**6 305**	5 257
Capital redemption reserve fund	**705**	705
Other non-distributable reserves	**359**	–
Less: Tertiary capital allocated to the trading book	**(72)**	(25)
Less: Impairments	**(317)**	(64)
Less: Allocated to trading activities	**(200)**	(140)
Total tier 1 capital available to banking activities	**9 274**	7 239
Tier 2		
Subordinated debt instruments	**2 471**	2 659
General risk reserve	**921**	1 024
Less: Allocated to trading activities	**(100)**	(100)
Total tier 2 capital available to banking activities	**3 292**	3 583
TOTAL REGULATORY CAPITAL	**12 566**	10 822
Tier 1 (%)	**7,6**	6,7
Tier 2 (%)	**2,7**	3,3
Total (%)	**10,3**	10,0

R million	**Balances 2003**	Balances 2002	Risk weighting	**Risk-adjusted balances 2003**	Risk-adjusted balances 2002
RISK-ADJUSTED ASSETS AND OFF-BALANCE SHEET EXPOSURES					
Cash, own bank and central government advances	**108 568**	94 283	0%	**–**	–
Letters of credit and unutilised facilities on behalf of public sector bodies and exposures from dematerialisation	**–**	–	5%	**–**	–
Public sector body advances	**2 932**	2 709	10%	**293**	271
Other bank advances and letters of credit	**26 172**	13 969	20%	**5 235**	2 794
Mortgage advances, remittances in transit and performance-related guarantees	**43 384**	44 580	50%	**21 692**	22 290
Other advances and lending-related guarantees	**87 532**	75 951	100%	**87 532**	75 951
Counterparty risk exposure	**7 722**	6 890	100%	**7 722**	6 890
	276 310	238 382		**122 474**	108 196

Directors' responsibility statement

The directors of FirstRand Bank Limited are required by the Companies Act to maintain adequate accounting records and to prepare financial statements for each financial year that fairly present the state of affairs of the bank at the end of the financial year, and of the results and cash flows for the year. In preparing the accompanying financial statements, South African Statements of Generally Accepted Accounting Practice have been followed, including the interpretation issued under Circular ED168, suitable accounting policies have been applied and reasonable estimates have been made. The Board approves significant changes to accounting policies and the effects of these are fully explained in the annual financial statements. The financial statements incorporate full and responsible disclosure in line with the FirstRand Bank's philosophy on corporate governance. The external auditors, PricewaterhouseCoopers Inc. and Deloitte & Touche, have audited the financial statements and their unqualified report appears below.

The directors have reviewed the bank's budget and cash flows for the year to 30 June 2004. On the basis of this review, and in the light of the current financial position, the directors have no reason to believe that the bank will not be a going concern for the foreseeable future. The going concern basis has therefore been adopted in preparing the financial statements.

The annual financial statements for the year ended 30 June 2003 which appear on pages 17 to 61, have been approved by the Board of Directors and are signed on its behalf by:

JP Burger
Chief Financial Officer
FirstRand Bank Limited

PK Harris
Chief Executive Officer
FirstRand Bank Limited

Sandton, 15 September 2003

Report of the independent auditors

To the directors of FirstRand Bank Limited

We have audited the annual financial statements of the FirstRand Bank Limited set out on pages 17 to 61, for the year ended 30 June 2003. The financial statements are the responsibility of the directors of FirstRand Bank Limited. Our responsibility is to express an opinion on these financial statements based on our audit.

Scope

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

An audit includes:

- Examining, on a test basis, evidence supporting the amounts and disclosures included in the financial statements;
- Assessing the accounting principles used and significant estimates made by management; and
- Evaluating the overall financial presentation.

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

Audit opinion

In our opinion, the financial statements fairly represent, in all material respects, the financial position of the FirstRand Bank Limited at 30 June 2003 and the results of its operations and cash flows for the year then ended in accordance with Statements of Generally Accepted Accounting Practice in South Africa, and in the manner required by the South African Companies Act of 1973.

PricewaterhouseCoopers
Incorporated
Chartered Accountants (SA)
Registered Accountants
and Auditors

Deloitte & Touche
Chartered Accountants (SA)
Registered Accountants
and Auditors

Sandton, 15 September 2003

Directors' report

for the year ended 30 June 2003

Nature of business

The activities of FirstRand Bank Limited include merchant banking, instalment finance, retail banking, property finance and private banking.

Share capital

Details of the bank's share capital are presented in notes 25 and 26 of the notes to the financial statements.

Dividends

Ordinary cash dividends of R1 021 million were paid during the 2003 financial year (2002: R250 million).

Ownership of the bank

The bank is wholly owned subsidiary of FirstRand Bank Holdings Limited.

Profit after tax

Profit after tax amounted to R2 380 million (2002: R1 807 million).

Directors' interests in the bank

Other than nominee shares held on behalf of FirstRand Bank Holdings Limited under power of attorney, no shares in the company are held by the directors.

Directorate

Mr SR Maharaj's resignation from the Board of the Directors, effective from 31 August 2003 was accepted by the board on 13 August 2003. Mr R Spilg, an alternate director, resigned from the Board on 1 April 2003.

Consolidated accounts

Group annual financial statements have not been prepared as the bank is a wholly owned subsidiary of FirstRand Bank Holdings Limited and its ultimate holding company is FirstRand Limited, a company incorporated in South Africa.

Post-balance sheet events

No material matters which adversely affect the financial position of the bank have arisen subsequent to the year-end.

Share purchase/option scheme

Details of the investment in the FirstRand Limited ordinary shares by the First National Bank Share Purchase Scheme ("the FNB Scheme") and in the RMB Holdings Limited ordinary shares by the Rand Merchant Bank Share Incentive Scheme ("the RMB scheme") established for the benefit of employees of the bank are set below:

	FNB scheme 2003	RMB scheme 2003	FNB scheme 2002	RMB scheme 2002
Number of options in the force at the end of year (millions)	**45,2**	**26,5**	53,1	31,5
Granted at prices ranging between (cents)	**225 – 1 069**	**250 – 1625**	173 – 1 069	250 – 1 625
Number of options granted during year (millions)	**–**	**–**	–	–
Number of options exercised/released during year (million)	**7,9**	**5,0**	18,1	5,7
Market value range at date of exercise/release (cents)	**617 – 807**	**910 – 1 142**	651 – 899	945 – 1 262
Number of unallocated shares available for future options (millions)	**0,4**	**–**	–	–
Value of company loan to share option trust (R million)	**375,6**	**315,4**	403,9	373,1

Included in other advances, shown in note 10 to the financial statements, are amounts owing by the schemes.

Declaration by the company secretary in respect of section 268G(d) of the Act

I declare that, to the best of my knowledge, the company has lodged with the Registrar of Companies all such returns as are required of a public company in terms of the Act and that all such returns are true, correct and up to date.

BW Unser

Company Secretary

Accounting policies

The bank adopts the following accounting policies in preparing its annual financial statements:

1. Basis of presentation

The bank prepares its audited annual financial statements on a going concern basis using the historical cost basis, except for certain financial assets and liabilities where it adopts the fair value basis of accounting. These financial assets and liabilities include:

- financial assets held for trading;
- financial assets classified as available for sale;
- derivative financial instruments;
- financial instruments elected to be carried at fair value; and
- short trading positions.

The annual financial statements conform to Statements of Generally Accepted Accounting Practice in South Africa.

The principal accounting policies are consistent in all material respects with those adopted in the previous year, except where otherwise noted. Where necessary the bank adjusts comparative figures to conform to changes in presentation in the current year.

The bank adopted AC133 – "Financial Instruments: Recognition and Measurement" ("AC133") with effect from 1 July 2002. The effect of the change in accounting policy on the financial statements of the bank is set out in paragraph 24 below.

2. Subsidiary companies

Investments in subsidiary companies are carried at cost less amounts written off.

3. Associated companies

Associated companies are companies in which the bank holds a long-term equity interest of between 20% and 50%, or over which it has the ability to exercise significant influence, but does not control.

The bank carries its interest in an associated company in its balance sheet at cost less amounts written off. Associated company results are not equity accounted.

4. Joint ventures

The bank accounts for interests in jointly controlled entities at cost less amounts written off.

5. Revenue recognition

5.1 Interest income

The bank recognises interest income, excluding that arising from trading activities, on an accrual basis, by applying the effective yield on the assets. The effective yield takes into account all directly attributable external costs, discounts or premiums on the advance.

From an operational perspective, it suspends the accrual of contractual interest on the non-recoverable portion of an advance, when the recovery of the advance is considered doubtful. However, in terms of AC133, interest income on impaired advances is thereafter recognised based on the original effective interest rate used to determine the recoverable amount. The difference between the recoverable amount and the original carrying value is released to interest income over the expected collection period of the advance.

5.2 Trading income

The bank includes profits, losses and fair value adjustments on trading financial instruments (including derivative instruments which do not qualify for hedge accounting in terms of AC133), both realised and unrealised, in income as incurred.

5.3 Fee and commission income

The bank recognises fee and commission income on an accrual basis when the service is rendered.

Commission income on acceptances, bills and promissory notes endorsed is credited to income over the lives of the relevant instruments on a time apportionment basis.

5.4 Services rendered

The bank recognises revenue for services rendered to customers based on the estimated outcome of the transactions.

When the outcome can be reliably estimated, transaction revenue is recognised by reference to the stage of completion of the transaction at the balance sheet date. The stage of completion is measured based on the amount of work performed.

When the outcome cannot be reliably estimated, revenue is recognised only to the extent of the expenses incurred that are recoverable.

5.5 Dividends

The bank recognises dividends on the “last day to trade” for listed shares, and on the “date of declaration” for unlisted shares. Dividend income includes scrip dividends, irrespective of whether there is an option to receive cash instead of shares.

6. Foreign currency translation

The bank presents its annual financial statements in South African Rand, the measurement currency of the holding company (“the reporting currency”).

The bank converts transactions in foreign currencies to South African Rand at the spot rate on the transaction date. Monetary assets and liabilities in foreign currencies are translated to South African Rand using the rates of exchange ruling at the financial year-end. Translation differences on monetary assets and liabilities measured at fair value are included in the income statement for the year, with translation differences on non-monetary items included as part of the fair value gain or loss in equity.

Profits and losses from forward exchange contracts used to hedge potential exchange rate exposures are offset against gains and losses on the specific transaction being hedged, to the extent that the hedging transaction qualifies for hedge accounting in terms of AC133.

7. Borrowing costs

The bank capitalises borrowing costs incurred in respect of assets that require a substantial period to construct or install, up to the date on which the construction or installation of the assets is substantially complete.

Other borrowing costs are expensed as incurred.

8. Direct and indirect taxation

Direct taxes include South African and foreign jurisdiction corporate tax payable, as well as secondary tax on companies and capital gains tax.

Indirect taxes include various other taxes paid to central and local governments, including value added tax and regional services levies.

Indirect taxes are separately disclosed in the income statement.

The charge for current tax is based on the results for the year as adjusted for items which are non-taxable or disallowed. It is calculated using taxation rates that have been enacted or substantively enacted by the balance sheet date, in each particular jurisdiction within which the bank operates.

9. Recognition of assets, liabilities and provisions

9.1 Assets

The bank recognises assets when it obtains control of a resource as a result of past events, and from which future economic benefits are expected to flow to the enterprise.

9.2 Contingent assets

The bank discloses a contingent asset where, as a result of past events, it is highly likely that economic benefits will flow to it, but this will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events which are not wholly within the bank’s control.

9.3 Liabilities and provisions

The bank recognises liabilities, including provisions, when:

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

9.4 Contingent liabilities

The bank discloses a contingent liability where:

- it has a possible obligation arising from past events, the existence of which will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the enterprise; or
- it is not probable that an outflow of resources will be required to settle an obligation; or
- the amount of the obligation cannot be measured with sufficient reliability.

9.5 Sale and repurchase agreements and lending of securities

The financial statements reflect securities sold subject to a linked repurchase agreement (repos) as trading or investment securities. These instruments are measured at fair value, with changes in fair value reported in the income statement. The counterparty liability is included in deposits from other banks, other deposits, or deposits due to customers, as appropriate.

Securities purchased under agreements to resell (reverse repos) are recorded as loans and advances to other banks or customers as appropriate. The difference between sale and repurchase price is treated as interest and accrued over the life of repos using the effective yield method. Securities lent to counterparties are retained in the financial statements.

The bank does not recognise securities borrowed in the financial statements, unless sold to third parties, in which case the purchase and sale are recorded with the gain or loss included in trading income. The obligation to return these securities is recorded at fair value as a liability.

10. Derecognition of assets and liabilities

The bank derecognises an asset when it loses control over the contractual rights that comprise the asset and consequently transfers the substantive risks and benefits associated with the asset. This occurs when the rights are realised, expire or are surrendered. A liability is derecognised when it is legally extinguished.

11. Offsetting financial instruments

The bank offsets financial assets and liabilities and reports the net balance in the balance sheet where:

- there is a legally enforceable right to set off;
- there is an intention to settle on a net basis or to realise the asset and settle the liability simultaneously;
- the maturity date for the financial asset and liability is the same; and
- the financial asset and liability is denominated in the same currency.

12. Cash and cash equivalents

In the cash flow statement, cash and cash equivalents comprise:

- coins and bank notes;
- money at call and short notice;
- balances with central banks;
- balances guaranteed by central banks; and
- balances with other banks.

13. Financial instruments

13.1 General

Financial instruments carried on the balance sheet include all assets and liabilities, including derivative instruments, but excludes associated companies, subsidiary companies, fixed assets, deferred taxation, taxation payable and intangible assets.

The bank initially recognises borrowings, including debentures, at the fair value of the consideration received. Discounts or premiums on debentures issued are amortised on a basis that reflects the effective yield on the debentures over their life span. Interest paid is brought to account on an effective interest rate basis.

The bank separately measures and recognises the fair value of the equity component of an issued convertible bond in equity. It calculates interest on the debt portion of the instrument based on the market rate for a non-convertible instrument at the inception thereof.

Instruments with characteristics of debt, such as redeemable preference shares, are included in liabilities. Dividends on such instruments are included in interest expense.

Note 5 above contains the particular revenue recognition methods adopted for financial instruments held for trading purposes.

Where the bank purchases its own debt, the debt is presented on a net basis in the balance sheet and any difference between the carrying amount of the liability and the consideration paid is included in trading income.

The bank recognises purchases and sales of financial instruments that require delivery within the time frame established by regulation or market convention (regular way purchases and sales) at settlement date, which is the date the asset is delivered to or by it. Otherwise such transactions are treated as derivatives until settlement.

13.2 Advances and impairments for credit losses

13.2.1 Originated advances

The bank classifies advances as “Originated” where it provides money directly to a borrower or to a sub-participation agent at drawdown. Originated advances are carried at amortised cost. Third party expenses, such as legal fees or mortgage origination fees, incurred in securing a loan are treated as part of the transaction.

All advances are recognised when cash is advanced to borrowers.

13.2.2 Purchased advances and receivables and investment securities

The bank classifies purchased advances and receivables and investment securities as either held-to-maturity or available-for-sale assets. Purchased advances and receivables (including sub-participations acquired after providing the original loan), and investment securities with a fixed maturity and fixed or determinable payments, where management has both the intent and the ability to hold to maturity, are classified as “Held-to-maturity”. The bank classifies purchased advances and receivables and investment securities where the intention is to hold for an indefinite period of time and which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices, as “Available-for-sale”. Management determines the appropriate classification at the time of purchase.

The bank initially recognises purchased advances and receivables and investment securities at cost (which includes transaction costs). It subsequently re-measures available-for-sale advances and receivables and investment securities at fair value, based on quoted bid prices where the underlying markets for the instruments are liquid and well developed. Alternatively, it derives fair value from cash-flow models or other appropriate valuation models where markets are illiquid or do not reflect the true market value based on the underlying risks of the instrument.

The bank estimates fair values for unquoted equity instruments using applicable price: earnings ratios or cash-flow models. It estimates the fair value of debt instruments with reference to applicable underlying interest rate yield curves and estimated future cash flows on the applicable instruments.

The bank recognises unrealised gains and losses arising from changes in the fair value of advances and receivables classified as available-for-sale, in equity. It recognises interest income on these assets as part of interest income, based on the instrument’s original effective rate. Interest income is excluded from the fair value gains and losses reported in equity. When the advances and receivables or investment securities are disposed of or impaired, the related accumulated fair value adjustments are included in the income statement as gains and losses from investment securities.

The bank carries held-to-maturity advances and receivables and investments at amortised cost using the effective yield method, less any impairment.

The bank classifies purchased advances and receivables acquired in terms of a business combination, as “Originated”, where such advances and receivables were classified as “Originated” by the seller.

13.3 Impairments for credit losses

13.3.1 General

A financial asset is impaired if its carrying amount is greater than its estimated recoverable amount.

13.3.2 Impairment of originated advances

The bank creates a specific impairment when there is objective evidence that it will not be able to collect all amounts due. The amount of the impairment is the difference between the carrying amount and the recoverable amount, calculated as the present value of expected future cash flows, including amounts recoverable from guarantees and collateral, discounted based on the original effective interest rate at inception of the advance.

The bank creates a further portfolio impairment where there is objective evidence that components of the advances portfolio contain probable losses at the balance sheet date, which will only be identified in the future, or where insufficient data exists to reliably determine whether such losses exist. The estimated probable losses are based upon historical patterns of losses in each component, the credit ratings allocated to the borrowers and take account of the current economic climate in which the borrowers operate.

When an advance is uncollectable, it is written off against the related impairment. Subsequent recoveries are credited thereto.

Accounting policies continued

The bank writes off advances once all reasonable attempts at collection have been made and there is no realistic prospect of recovering outstanding amounts.

Statutory and other regulatory loan loss reserve requirements that exceed the specific and portfolio impairment amounts are dealt with in a general risk reserve as an appropriation of retained earnings.

The bank reverses impairments through the income statement, if the amount of the impairment subsequently decreases due to an event occurring after the initial impairment.

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

13.3.3 Impairment of other financial assets carried at amortised cost

The bank calculates the impairment loss for assets carried at amortised cost as the difference between the asset's carrying amount and the present value of expected future cash flows discounted at the financial instrument's original effective interest rate. By comparison, the recoverable amount of an instrument measured at fair value is the present value of expected future cash flows discounted at the current market rate of interest for a similar financial asset.

13.4 Trading securities

The bank includes in "Trading securities", securities that are:

- acquired for generating a profit from short-term fluctuations in price or dealer's margin; or
- included in a portfolio in which a pattern of short-term profit-taking exists; or
- designated as such on initial recognition.

The bank initially recognises trading securities at cost (which includes directly attributable transaction costs) and subsequently remeasures them at fair value based on quoted bid prices. It includes all related realised and unrealised gains and losses in trading income. It reports interest earned on trading securities as non-interest income. Dividends received are included in dividend income.

The bank determines the fair value of listed trading instruments by reference to quoted bid prices, which may be adjusted where the bid/offer spreads for long-dated financial instruments are considered to be significant. For non-trading, illiquid or unlisted financial instruments, the fair value is the amount for which assets or liabilities could be exchanged or settled between knowledgeable, willing parties in an arm's length transaction, determined using various methods and on assumptions that are based on market conditions and risks existing at each balance sheet date. In the case of long-term debt or investment securities, these methods include using quoted market prices or dealer quotes for the same or similar securities, estimated discount values of future cash flows, replacement cost and termination cost.

13.5 Derivative financial instruments and hedging

The bank initially recognises derivative financial instruments, including foreign exchange contracts, interest rate futures, forward rate agreements, currency and interest rate swaps, currency and interest rate options (both written and purchased) and other derivative financial instruments, in the balance sheet at cost (including transaction costs) and subsequently remeasures these instruments at their fair value.

The fair value of publicly traded derivatives are based on quoted bid prices for assets held or liabilities to be issued, and current offer prices for assets to be acquired and liabilities held.

The fair value for non-traded derivatives are based on discounted cash-flow models and option pricing models as appropriate. The bank recognises derivatives as assets when fair value is positive and as liabilities when fair value is negative.

The bank recognises fair value changes of derivatives that are designated and qualify as fair value hedges in the income statement along with the corresponding change in fair value of the hedged risk of the hedged asset or liability.

If the hedge no longer meets the accounting criteria for hedge accounting, the cumulative adjustment to the carrying amount of a hedged interest-bearing financial instrument is amortised to net profit or loss over the period to maturity.

The transitional adjustment in respect of the un-hedged portion of available-for-sale equity securities remains in equity until the disposal of the instrument.

The bank recognises fair value changes of derivatives that are designated and qualify as cash flow hedges and prove to be highly effective in relation to the hedged risk, in the revaluation reserve in equity. Where the forecasted transaction or firm commitment results in the recognition of an asset or a liability, the gains and losses previously deferred in equity are transferred from equity and included in the initial measurement of the cost of the asset or liability. Otherwise, the bank transfers amounts deferred in equity to the income statement and classifies them as revenue or expense in the periods during which the hedged firm commitment or forecasted transaction affects the income statement.

The bank treats derivatives embedded in other financial instruments, such as the conversion option in a convertible bond, as separate derivatives when:

- their risks and characteristics are not closely related to those of the host contract; and
- the host contract is not carried at fair value, with gains and losses reported in income.

Where embedded derivatives meet the criteria for hedge accounting, they are accounted for in terms of the applicable hedge accounting rules.

On the date a derivative is entered into, the bank designates certain derivatives as either:

- a hedge of the fair value of a recognised asset or liability ("fair value hedge"); or
- a hedge of a future cash flow attributable to a recognised asset or liability, a forecasted transaction or a firm commitment ("cash flow hedge").

The bank applies hedge accounting for a derivative instrument when the following criteria are met:

- formal documentation identifying the hedging instrument, hedged item, hedging objective, hedging strategy and relationship between the hedged item and the hedge, is prepared before hedge accounting is applied;
- the hedge documentation shows that the hedge is expected to be highly effective in offsetting the risk in the hedged item throughout the reporting period; and
- the hedge is effective on an ongoing basis.

14. Commodities

Commodities are carried at the lower of cost or net realisable value. Net realisable value is determined with reference to open market value in arm's length transactions.

15. Property and equipment

15.1 Owner occupied

The bank carries property and equipment at cost less accumulated depreciation.

It depreciates plant and equipment on a straight-line basis at rates calculated to reduce the book value of these assets to estimated residual values over their expected useful lives. Management reviews useful lives periodically to evaluate their appropriateness and current and future depreciation charges are adjusted accordingly.

The periods of depreciation used are as follows:

Leasehold property	Shorter of estimated life or period of lease
Freehold property	50 years
Computer equipment	3 – 5 years
Furniture and fittings	3 – 10 years
Motor vehicles	5 years
Office equipment	3 – 6 years

The bank impairs an asset to its estimated recoverable amount where there is a permanent diminution in the carrying value of an asset.

Repairs and renewals are charged to the income statement as they are incurred.

Gains or losses on disposals are determined by reference to the carrying amount of the asset and the net proceeds received, and are recorded in income on disposal.

Accounting policies continued

15.2 Investment properties

The bank classifies investment properties as properties held to earn rental income and/or for capital appreciation. It carries investment properties at fair value based on valuations by professional valuators. Valuations are carried out annually. Fair value movements are taken to the income statement in the year in which they arise.

The bank carries properties under development at cost, less adjustments to reduce the cost to open market value, if appropriate.

16. Accounting for leases – where the bank is the lessee

The bank classifies leases of property and equipment where it assumes substantially all the benefits and risks of ownership as finance leases. Finance leases are capitalised at the estimated present value of the underlying lease payments. The bank allocates each lease payment between the liability and finance charges to achieve a constant rate on the finance balance outstanding. The interest component of the finance charge is charged to the income statement over the lease period. The property and equipment acquired are depreciated over the useful life of the asset, on a basis consistent with similar fixed assets.

The bank classifies leases of assets, where the lessor effectively retains the risks and benefits of ownership, as operating leases. It charges operating lease payments to the income statement on a straight-line basis over the period of the lease. Minimum rentals due after year-end are reflected under commitments.

The bank recognises as an expense any penalty payment to the lessor for early termination of an operating lease before the lease period has expired, in the period in which termination takes place.

17. Accounting for leases – where the bank is the lessor

17.1 Finance leases

The bank recognises as advances assets sold under a finance lease at the present value of the lease payments. The difference between the gross receivable and the present value of the receivable represents unearned finance income. Lease income is recognised over the term of the lease using the effective interest rate method, which reflects a constant periodic rate of return.

17.2 Operating leases

The bank includes in property and equipment, assets leased out under operating leases. It depreciates these assets over their expected useful lives on a basis consistent with similar fixed assets. Rental income is recognised on a straight-line basis over the lease term.

17.3 Instalment credit agreements

The bank regards instalment credit agreements as financing transactions and includes the total rentals and instalments receivable thereunder, less unearned finance charges, in advances.

It calculates finance charges using the effective interest rates as detailed in the contracts and credits finance charges to income in proportion to capital balances outstanding.

18. Intangible assets

18.1 Computer software development costs

The bank generally expenses computer software development costs in the year incurred. However, where computer software development costs can be clearly associated with a strategic and unique system which will result in a benefit for the bank exceeding the costs incurred for more than one accounting period, the bank capitalises such costs and recognise them as an intangible asset.

The bank carries capitalised software assets at cost less amortisation and any impairment losses. It amortises these assets on a straight-line basis at a rate applicable to the expected useful life of the asset, but not exceeding three years. Management reviews the carrying value on an annual basis. Carrying value is written down to estimated recoverable amount when a permanent decrease in value occurs. Any impairment is recognised in the income statement when incurred.

18.2 Other intangible assets

The bank does not attribute value to internally developed trademarks, concessions, patents and similar rights and assets, including franchises and management contracts. It charges costs incurred on trademarks, concessions, patents and similar rights and assets, whether purchased or created by it, to the income statement in the period in which the costs are incurred.

Amortisation of and impairments of intangible assets are reflected under operating expenditure in the income statement.

19. Deferred taxation

The bank calculates deferred taxation on the comprehensive basis using the liability method on a balance sheet based approach. It calculates deferred tax liabilities or assets by applying corporate tax rates to the temporary differences existing at each balance sheet date between the tax values of assets and liabilities and their carrying amount, where such temporary differences are expected to result in taxable or deductible amounts in determining taxable income for future periods when the carrying amount of the assets or liabilities are recovered or settled.

The bank recognises deferred tax assets if the directors of the bank consider it probable that future taxable income will be available against which the unused tax losses can be utilised.

Temporary differences arise primarily from depreciation of property and equipment, revaluation of certain financial assets and liabilities, provisions for pensions and other post-retirement benefits and tax losses carried forward.

20. Employee benefits

20.1 Post-employment benefits

The bank operates defined benefit and defined contribution schemes, the assets of which are held in separate trustee-administered funds. The pension plans are generally funded by payments from employees and the relevant bank companies, taking account of the recommendations of independent qualified actuaries. For defined benefit plans the pension accounting costs are assessed using the projected unit credit method.

These funds are registered in terms of the Pension Funds Act, 1956, and membership is compulsory for all bank employees. Qualified actuaries perform annual valuations.

The bank writes off current service costs immediately, while it expenses past service costs, experience adjustments, changes in actuarial assumptions and plan amendments over the expected remaining working lives of employees. The costs are written off immediately in the case of retired employees.

20.2 Post-retirement medical benefits

In terms of certain employment contracts, the bank provides for post-retirement healthcare benefits to qualifying employees and retired personnel by subsidising a portion of their medical aid contributions. The bank created an independent fund in 1998 to fund these obligations. AC116 requires that the assets and liabilities in respect thereof be reflected on the balance sheet. The bank recognises all expenses for post-retirement medical benefits, as well as all investment income of the fund, in the income statement.

The entitlement to these benefits is usually based on the employee remaining in service up to retirement age and completing a minimum service period. Qualified actuaries perform annual valuations.

20.3 Termination benefits

The bank recognises termination benefits as a liability in the balance sheet and as an expense in the income statement when it has a present obligation relating to termination.

20.4 Leave pay provision

The bank recognises in full employees' rights to annual leave entitlement in respect of past service.

20.5 Recognition of actuarial gains and losses

Actuarial gains or losses occur as a result of:

- increases or decreases in the present value of defined benefit plan liabilities;
- increases or decreases in the fair value of plan assets; or
- a combination of the above.

Increases or decreases in the fair value of plan liabilities can be caused by changes in the discount rate used, expected salaries, number of employees, plan benefits and expected inflation rates.

Increases or decreases in the fair value of plan assets occur as a result of the difference between the actual and expected return on the plan assets.

Accounting policies continued

An enterprise has the option of recognising actuarial gains and losses that fall within a specific range ("corridor") in the accounting period in which such loss or gain occurs or defer them to the following accounting period. A portion of the actuarial gains or losses that are in excess of the corridor must be recognised as income or expense in the current accounting period.

The bank does not recognise actuarial gains or losses below the corridor limit of 10% in the period under review, but defers such gains or losses to future periods.

21. Acceptances

Acceptances comprise undertakings by the bank to pay bills of exchange drawn on customers. The bank accounts for and discloses acceptances as a contingent liability.

22. Related party transactions

All related party transactions are at arm's length and incurred in the ordinary course of business.

23. Fiduciary activities

The bank excludes assets and the income thereon, together with related undertakings to return such assets to customers, from these financial statements where it acts in a fiduciary capacity such as nominee, trustee or agent.

24. Changes in accounting policy

The bank adopted AC133 on 1 July 2002. The statement is the South African equivalent of IAS39, the International Financial Reporting Standard.

The statement introduces fair value accounting to certain classes of financial assets and liabilities such as certain advances, derivative instruments and investments in debt and equity securities. The statement is not applicable to assets such as fixed assets or investments in subsidiaries and associated companies.

Depending on the asset classification used, fair value changes are reflected in income and expenditure or directly in equity.

There are four primary asset categories:

- Originated assets, such as most of the bank's normal advances, which are carried at amortised cost;
- Held-to-maturity assets, such as certain government bonds, where the bank has the intention and ability to hold the asset until maturity, which are carried at amortised cost;
- Trading assets, such as most equities trading portfolios where the intention is to trade with a short-term profit motive, which are fair valued with changes in fair value recorded in the income statement; and
- Available for sale assets, such as certain private equity investments where there is no trading intention, which are carried at fair value, with unrealised fair value changes reflected in equity until realisation.

AC133 also allows for the designation of any financial instrument as "Held for trading", irrespective of the described categories above, with fair value changes on such assets reflected in the income statement.

The bank is required to designate financial instruments into these categories on initial recognition, and the designation is final, thereby effectively determining the future accounting treatment of the instrument on either an amortised cost or fair value basis.

AC133 is a prospective accounting statement and does not provide for the restatement of comparative figures. It has comprehensive transitional provisions, which affect opening equity balances.

General provisions

Prior to the implementation of AC133, the bank, consistent with existing banking industry practice, calculated a general provision for bad debts based on a matrix model by applying the one-year historical default frequency to its advances book.

AC133 prescribes that a cash flow valuation methodology be used in calculating provisions in the future. This methodology requires that all future expected cash flows, including interest income, be taken into account in this calculation.

AC133 is ambiguous in dealing with the transitional arrangements in respect of the treatment of the adjustments to provisions, but not in respect of the methodology used in calculating the quantum of impairments. On 4 September 2003, the South African Institute of Chartered Accountants issued an interpretation (ED168) on the correct transitional treatment, stating that the release of previous provisions should be treated on the same basis as other transitional adjustments relating to AC133 subject to certain requirements being met. The bank complies with these requirements, and consequently, transferred the once-off release of the previous general provision for bad debts of R1 151 million to opening retained income.

Portfolio impairments

The credit risk premium included in interest charged to clients offsets future losses to the extent that risk pricing has been correctly applied. The bank's credit model includes risk pricing and consequently, to the extent that the bank is of the opinion that the credit premium is not sufficient to compensate for future losses inherent in the performing advances portfolio, or that insufficient data exists to reliably determine whether such losses exist, a portfolio provision is created. In line with this methodology, a portfolio provision of R535 million was created at 1 July 2002.

General risk reserve

The bank created an impaired capital reserve of R431 million at 1 July 2002 in compliance with the regulatory provisioning requirements set out in the regulations to the Banks Act.

Internal hedging transactions

Historically the bank utilised internal transactions to hedge their risk exposures in respect of its banking operations with the central treasury operation of the bank. Internal transactions were pooled in terms of certain common criteria and hedged out on a net aggregated basis with external parties in the market. These transactions qualified for hedge accounting treatment prior to the introduction of AC133.

AC133 contains very strict rules for the application of hedge accounting. As a result, the previous method of centralising all interest rate exposures with the central treasury does not qualify for hedge accounting in terms of these requirements.

This has had a far-reaching impact on the bank's economic hedge structures. The bank hedges the underlying interest rate risk inherent in its banking book using derivative instruments. In terms of AC133, these derivatives are valued at fair value while the underlying banking book is valued at amortised cost. As a consequence, a timing difference arises in the recognition of income.

The impact of the timing difference on current period income is set out below:

R million	Post-AC133	Pre-AC133
Fair value of hedge losses at 30 June 2002	(211)	–
Fair value of hedge profits at 30 June 2003	187	–
Net release of hedge profits to the income statement	398	–

The bank, prior to 30 June 2003, externalised various of its previous internal hedging structures to be compliant with hedging requirements of AC133.

Impact of adopting AC133 on opening equity

The table below provides disclosure of the adjustments required to opening equity of the bank as a result of the implementation of AC133, together with accompanying commentary:

R million	Retained income	Revaluation reserve	General risk reserve	Total
Closing balance at 30 June 2002	5 257	–	–	5 257
Retained income adjustment for:				
Present value adjustment for off-market loans[1]	(125)	–	–	(125)
Present value adjustment for specific loan impairments[2]	(242)	–	–	(242)
Non-qualifying interest rate hedges[3]	(211)	–	–	(211)
Release of general loan provisions[4]	1 151	–	–	1 151
Creation of a general risk reserve (impaired capital reserve)[5]	(616)	–	616	–
Creation of portfolio impairment	(535)	–	–	(535)
Revaluation of held for trading portfolios[6]	174	–	–	174
Revaluation of available for sale portfolios[7]	(267)	–	–	(267)
Transfer of available for sale portfolios	267	(267)	–	–
Taxation on above	121	80	(185)	16
Restated opening balance at 1 July 2002	4 974	(187)	431	5 218

1. AC133 requires that loans and advances should be recognised at inception at the fair value of the consideration given. Where off-market rates are applicable, then the fair value of the consideration is measured by present valuing the future cash flows using an applicable market interest rate. This gives rise to an "up-front loss" on inception of such loans, which then gradually unwinds over the life of the transaction to interest income.

2. A major change introduced by AC133 relates to the impairment of advances, on an individual or portfolio basis, which must be calculated using a present value methodology, based on expected future cash flows of identified impaired advances or losses inherent in a portfolio of advances. This results in an increase in specific impairments previously provided to take account of the delay in collection of the recoverable amount.

3. AC133 sets onerous requirements before hedge accounting can be applied, including restrictions on the use of partial hedges, internal hedges and net hedging. While the bank has complied with these requirements in certain circumstances, in other situations, where the cost of complying exceeds any tangible business benefit, the bank has elected to reflect the hedges through the income statement.

4. The present value calculation applied in AC133 requires that all future cash flows, including future interest payments, be taken into account in the creation of credit risk impairments. If the risk pricing methodology of an enterprise is appropriate and the current expectations of recoverable cash flows is consistent with the initial expectations, then the risk premium inherent in future interest flows should compensate for the risk inherent in the underlying capital amount relating to expected future losses. The specific impairment losses is supplemented where market conditions change and as a result the bank's expectations of future cash flows change and it is not possible to re-price sufficiently quickly to compensate for the change in risk. This additional impairment is included in adjustment 2 above. As a result, the old general provision, which pre-AC133 took account of the inherent risk in the book, without taking the risk premium into account, is no longer permitted under AC133. To the extent that the bank is of the opinion that there are losses inherent in the performing portfolio of advances, which will only be identified in the future, or that insufficient data exists to reliably determine whether such losses exist, a portfolio impairment has been created. In line with standard industry practice, an impaired capital reserve has been created in terms of the requirements of the South African Reserve Bank ("SARB") (refer 5 below).

5. The general risk reserve is created to comply with the minimum provisioning levels required in terms of the SARB. The formulistic approach prescribed by the SARB results in levels of provisioning which incorporate "unexpected losses" in a portfolio of advances. To the extent that general or specific impairments created relate to advances now held as "Available for sale", these impairments have been included in the Revaluation Reserve column of the statement of changes in equity.

6. Investment banking assets previously held at cost, now designated at fair value. This category includes private equity investments, which are not associated companies or subsidiaries.

7. Adjustment relating to the measurement of available for sale financial assets to fair value or amortised cost, on 1 July 2002.

Impact on current income

The table below sets out the effect of the change in accounting policy on the current period income:

R million	Net interest income	Bad debts	Other income	Other	Total
Unwind of present value adjustment in the current period	106	–	–	–	106
Increase in specific impairment (present value)	–	(65)	–	–	(65)
Increase in specific impairment (other)	–	(62)	–	–	(62)
Portfolio impairment	–	(67)	–	–	(67)
General provision	–	32	–	–	32
Non-qualifying hedge profits	–	–	398	–	398
Mark-to-market vs accrual profits	–	–	(131)	(17)	(148)
Re-allocations	362	–	(362)	–	–
Effect of individual line items	468	(162)	(95)	(17)	194
Tax impact on the above	(140)	49	28	5	(58)
Net impact on current period income	328	(113)	(67)	(12)	136

Impact on closing reserves

R million	Retained income	Other non-distributable reserves	Re-valuation reserve	General risk reserve	Total
Reserves before AC133	6 480	704	–	–	7 184
Opening adjustment	(283)	–	(187)	431	(39)
Current period income statement effect	136	–	–	–	136
Transfer to general risk reserve	(28)	–	–	28	–
Revaluation of available for sale portfolios	–	–	546	–	546
Revised closing reserves	6 305	704	359	459	7 827

Income statement

for the year ended 30 June

R million	Notes	**2003**	2002
Interest income	3	**18 764**	14 505
Interest expenditure	4	**(11 843)**	(9 732)
Net interest income before impairment of advances		**6 921**	4 773
Impairment of advances	11	**(1 304)**	(1 024)
Net interest income after impairment of advances		**5 617**	3 749
Non-interest income	5	**6 201**	5 979
– Fee and commission income		**4 392**	4 150
– Trading income		**874**	1 107
– Investment income		**103**	332
– Other non-interest income		**889**	419
– Loss on sale of fixed assets		**(57)**	(29)
Net income from operations		**11 818**	9 728
Operating expenditure	6	**(8 268)**	(7 229)
Income from operations		**3 550**	2 499
Indirect taxation	7	**(288)**	(227)
Income before direct taxation		**3 262**	2 272
Direct taxation	7	**(882)**	(465)
Earnings attributable to ordinary shareholders		**2 380**	1 807

Balance sheet

as at 30 June

R million	Notes	2003	2002
Assets			
Cash and short-term funds	8	**19 333**	11 564
Derivative financial instruments	9	**21 827**	22 483
Advances	10	**152 276**	136 725
Investment securities and other investments	12	**23 992**	20 262
Accounts receivable	13	**1 724**	1 207
Investment in associated companies	14	**777**	615
Interest in subsidiary companies	15	**24**	23
Holding and fellow subsidiary companies	16	**24 532**	17 544
Property and equipment	17	**1 472**	1 395
Employee benefit assets	18.3	**1 628**	1 544
Intangible assets	19	**21**	23
Total assets		**247 606**	213 385
Liabilities and shareholders' funds			
Liabilities			
Deposits and current accounts	20	**150 829**	145 925
Short trading positions	21	**34 585**	15 019
Derivative financial instruments	9	**22 451**	25 558
Creditors and accruals	22	**2 528**	3 071
Provisions	23	**978**	530
Taxation		**607**	356
Post-retirement medical liability	18.2	**942**	861
Deferred taxation liability	7	**1 557**	1 167
Holding and fellow subsidiary companies	16	**19 697**	10 301
Long-term liabilities	24	**3 111**	3 111
Total liabilities		**237 285**	205 899
Shareholders' equity			
Ordinary shares	25	**4**	4
Share premium		**2 490**	1 502
Non-distributable reserves	26	**1 522**	723
Distributable reserves		**6 305**	5 257
Total shareholders' equity		**10 321**	7 486
Total liabilities and shareholders' funds		**247 606**	213 385
Contingencies and commitments	27	**20 982**	24 997

Cash flow statement

for the year ended 30 June

R million	Notes	2003	2002
Cash flows from operating activities	28.1	**5 356**	4 001
Cash received from customers		**24 794**	20 179
Interest income		**18 639**	14 502
Fee and commission income		**4 392**	4 150
Other income		**1 763**	1 527
Cash paid to customers and employees		**(18 101)**	(15 768)
Interest expenditure (excluding debenture interest)		**(11 374)**	(9 242)
Total other operating expenditure (excluding depreciation, provisions and accruals)		**(6 727)**	(6 526)
Cash flows from returns on investments and servicing of finance		**(1 337)**	(410)
Debenture interest paid		**(473)**	(485)
Dividends from other investments		**157**	325
Dividends paid	28.2	**(1 021)**	(250)
Taxation paid	28.3	**(451)**	(464)
Cash flows from banking activities		**2 861**	13 148
Increase in income-earning assets		**(17 545)**	(35 748)
Advances		**(16 130)**	(26 429)
Investment securities and other investments		**(3 823)**	(1 821)
Funding from/(of) holding and fellow subsidiary companies		**2 408**	(7 498)
Increase in deposits and other liabilities		**20 406**	48 896
Term deposits		**(2 068)**	16 818
Current deposit accounts		**16 539**	5 507
Deposits from banks		**3 102**	7 242
Negotiable certificates of deposit		**1 235**	(1 699)
Savings accounts		**(1 775)**	(57)
Short trading positions		**19 566**	14 897
Creditors net of debtors		**(3 593)**	(2 080)
Other liabilities and assets		**(12 600)**	8 268
Net cash inflow from operating activities		**7 766**	16 685
Cash flows from investment activities			
Acquisitions to increase operations		**(206)**	(8 147)
Capital expenditure to maintain operations		**(678)**	(411)
Acquisition of associates		**(162)**	(534)
Acquisition of subsidiaries		**(1)**	(1)
Proceeds from sale of plant and equipment		**62**	60
Net cash outflow from investment activities		**(985)**	(9 033)
Cash flows from financing activities			
Net repayment of long-term liabilities		**–**	(558)
Proceeds from the issue of ordinary shares		**988**	–
Net cash flow from financing activities		**988**	(558)
Net increase in cash and cash equivalents		**7 769**	7 094
Cash and cash equivalents at beginning of the year		**11 564**	4 470
Cash and cash equivalents at end of the year	8	**19 333**	11 564

Statement of changes in equity

for the year ended 30 June 2003

R million	Ordinary share capital (Note 25)	Share premium	General risk reserve	Revalu-ation reserve	Other non-distribu-table reserves (Note 26)	Distribu-table reserves	Total share-holders' equity
Balance at 1 July 2001	4	1 502	–	–	151	4 258	5 915
Currency translation differences	–	–	–	–	14	–	14
Earnings attributable to ordinary shareholders	–	–	–	–	–	1 807	1 807
Final dividend – 31 October 2001	–	–	–	–	–	(250)	(250)
Transfer to other non-distributable reserves	–	–	–	–	558	(558)	–
Balance as at 30 June 2002	4	1 502	–	–	723	5 257	7 486
Effect of adopting AC133:							
– Present value adjustment for off-market loans	–	–	–	–	–	(125)	(125)
– Present value adjustment for specific loan provisions	–	–	–	–	–	(242)	(242)
– Non-qualifying interest rate hedges	–	–	–	–	–	(211)	(211)
– Release of general loan provisions	–	–	–	–	–	1 151	1 151
– Creation of general risk reserve	–	–	616	–	–	(616)	–
– Creation of portfolio provision	–	–	–	–	–	(535)	(535)
– Revaluation of held-for-trading portfolios	–	–	–	–	–	174	174
– Revaluation of available for sale portfolios	–	–	–	–	–	(267)	(267)
– Transfer of available for sale portfolios	–	–	–	(267)	–	267	–
Current taxation on above	–	–	–	–	–	63	63
Deferred taxation on above	–	–	(185)	80	–	58	(47)
Restated balance as at 30 June 2002	4	1 502	431	(187)	723	4 974	7 447
Currency translation differences	**–**	**–**	**–**	**–**	**(20)**	**–**	**(20)**
Earnings attributable to ordinary shareholders	**–**	**–**	**–**	**–**	**–**	**2 380**	**2 380**
Transfer to General Risk Reserve (impaired capital reserve)	**–**	**–**	**28**	**–**	**–**	**(28)**	**–**
Final dividend – 4 November 2002	**–**	**–**	**–**	**–**	**–**	**(500)**	**(500)**
Interim dividend – 31 March 2003	**–**	**–**	**–**	**–**	**–**	**(521)**	**(521)**
Revaluation of available for sale provisions	**–**	**–**	**–**	**546**	**–**	**–**	**546**
New share issue	**–**	**988**	**–**	**–**	**–**	**–**	**988**
Other	**–**	**–**	**–**	**–**	**1**	**–**	**1**
Balance as at 30 June 2003	**4**	**2 490**	**459**	**359**	**704**	**6 305**	**10 321**

Details regarding the adjustments relating to the implementation of AC133 are contained in paragraph 24 of the accounting policies of the bank.

Notes to the annual financial statements

for the year ended 30 June 2003

R million	2003	2002
1. Accounting policies		
The accounting policies of the bank are set out on pages 18 to 29.		
2. Turnover		
Turnover is not relevant in banking business.		
3. Interest income		
Interest on:		
Advances	**17 289**	13 538
Cash and short-term funds	**161**	606
Investment securities	**–**	13
Holding and fellow subsidiaries (net)	**925**	–
Accrued on impaired advances	**106**	–
Other	**283**	348
	18 764	14 505
4. Interest expenditure		
Interest on:		
Deposits from banks and financial institutions	**(654)**	(23)
Current accounts	**(5 321)**	(2 250)
Savings accounts	**(73)**	(83)
Term deposits	**(4 899)**	(3 758)
Debentures	**(473)**	(485)
Holding and fellow subsidiaries (net)	**–**	(2 485)
Other	**(423)**	(648)
	(11 843)	(9 732)
5. Non-interest income		
Fee and commission income		
– Banking	**3 984**	3 232
– Knowledge based	**4**	29
– Non-banking fee income	**72**	143
– Other	**332**	746
	4 392	4 150
Trading income		
– Trading dividends received	**250**	19
– Foreign exchange trading	**607**	523
– Trading profit	**17**	565
	874	1 107
Investment income		
– (Loss)/profit on sale of investments	**(54)**	7
– Other dividends received	**157**	325
	103	332
Other non-interest income		
– Recoveries from subsidiaries	**304**	177
– Other	**585**	242
	889	419
Loss on sale of property and equipment	**(57)**	(29)
Total non-interest income	**6 201**	5 979

R million	2003	2002
6. Operating expenditure		
Auditors' remuneration		
– Audit fees	**(34)**	(29)
– Fees for other services	**(5)**	(2)
– Prior year overprovision	**2**	
	(37)	(31)
Amortisation of intangible assets		
– Software	**(13)**	(9)
– Development costs	**(1)**	–
	(14)	(9)
Depreciation		
– Property	**(130)**	(94)
Freehold buildings	**(81)**	(48)
Leasehold premises	**(49)**	(46)
– Equipment	**(351)**	(301)
Computer equipment	**(221)**	(184)
Furniture and fittings	**(97)**	(83)
Motor vehicles	**(15)**	(19)
Office equipment	**(18)**	(15)
	(481)	(395)
Operating lease charges		
– Land and buildings	**(388)**	(202)
– Equipment	**(13)**	(34)
– Motor vehicles	**(25)**	–
	(426)	(236)
Directors' emoluments paid		
– Salaries, pension and medical contributions	**(21)**	(16)
– Fees for services as directors/consultants	**(2)**	(2)
	(23)	(18)
Professional fees		
– Managerial	**(22)**	(9)
– Technical	**(68)**	(81)
– Other	**(118)**	(58)
	(208)	(148)
Staff costs		
– Salaries, wages and allowances	**(3 166)**	(2 724)
– Contributions to employee benefit funds	**(470)**	(316)
– Social security levies	**(34)**	(18)
– Other	**(241)**	(454)
	(3 911)	(3 512)
Net transfer to provisions		
– Transfers to provisions (excluding audit fee)	**(457)**	(30)
	(457)	(30)
Other operating costs	**(2 711)**	(2 850)
Total operating expenditure	**(8 268)**	(7 229)

Notes to the annual financial statements continued

for the year ended 30 June 2003

R million	2003	2002
7. Taxation		
Charge for the year		
Normal taxation		
– Current	**(707)**	(896)
Current year	**(925)**	(941)
Prior year adjustment	**218**	45
– Deferred	**(153)**	441
Current year	**79**	22
Prior year adjustment	**(232)**	(45)
Total charge for the year	**(860)**	(455)
Capital gains tax	**–**	(10)
Total direct taxation	**(860)**	(465)
Value-added taxation (net)	**(249)**	(166)
Regional services levy	**(39)**	(33)
Stamp duties	**(17)**	(6)
Other	**(5)**	(22)
Total indirect taxation	**(310)**	(227)
Total taxation	**(1 170)**	(692)
Taxation rate reconciliation	**%**	%
Effective rate of taxation	**33.0**	27.7
Total taxation has been affected by:		
Miscellaneous taxes	**(8.7)**	(9.7)
Non-taxable income	**4.4**	10.7
Prior year adjustments	**(0.4)**	–
Other permanent differences	**1.7**	1.3
Standard rate of taxation	**30.0**	30.0
Deferred taxation		
The movement on the deferred taxation account is as follows:		
At beginning of the year	**1 167**	1 561
Effect of adopting AC133		
– Present value adjustment for off-market loans	**(37)**	–
– Present value adjustment for specific loan provisions	**(73)**	–
– Release of general loan provisions	**345**	–
– Creation of portfolio provisions	**(160)**	–
– Revaluation of held for trading portfolios	**52**	–
– Revaluation of available for sale portfolios	**(80)**	–
Beginning of the year as restated	**1 214**	1 561
(Release)/charge to the income statement	**153**	(441)
Other	**190**	47
At end of the year	**1 557**	1 167

7. Taxation (continued)

Deferred taxation assets and liabilities are offset when the income taxes relate to the same fiscal authority. Deferred taxation assets and liabilities and deferred taxation charge/(credit) in the income statement are attributable to the following items:

R million	Opening balance	AC133 Adjustments to opening balance Rate	Taxation charge	Other	Closing balance
Deferred tax					
Taxation losses	82	–	–	(82)	–
Provision for loan impairment	(175)	272	(14)	(187)	(104)
Other provisions	–	–	–	151	151
On fair value adjustments of financial instruments	–	(11)	–	–	(11)
Instalment credit agreements	772	–	(15)	372	1 129
Accruals	919	–	227	(903)	243
Revaluation of available for sale securities to equity	–	(80)	–	–	(80)
Other	(431)	(134)	(45)	839	229
Total deferred taxation	1 167	47	153	190	1 557

R million	**2003**	2002
8. Cash and short-term funds		
Coins and bank notes	**1 926**	1 529
Money at call and short notice	**116**	6 551
Balances with central banks	**3 272**	3 484
Balances with other banks	**14 019**	–
	19 333	11 564
Mandatory reserve balances included in above:	**2 494**	2 191

Banks are required to deposit a minimum average balance, calculated monthly, with the central bank.
These deposits bear no or very low interest.
Money at short notice constitutes amounts withdrawable in 32 days or less.

9. Derivative financial instruments

The bank uses the following financial instruments for hedging purposes:
Forward rate agreements are negotiated interest rate futures that call for cash settlement at a future date for the difference between the contractual and market rates of interest, based on a notional principal amount.

Interest rate swaps are commitments to exchange one set of cash flows for another, resulting in the economic exchange of interest rates (for example fixed rate for floating rate).

Rand overnight deposit swaps are commitments to exchange fixed rate interest flows with floating rate interest flows where the repricing takes place daily on the floating leg based on the daily overnight rates.

Strategy in using hedging instruments

Interest rate derivatives comprising mainly of interest rate swaps, rand overnight deposit swaps and forward rate agreements are utilised for hedging purposes to eliminate uncertainty and reduce the risk that the bank faces due to volatile interest rates. The bank accepts deposits at various rates and uses pay fixed interest rate derivatives as cash flow hedges of future interest payments, effectively converting borrowings from floating to fixed rates. The bank also has assets at various rates and uses fixed received interest rate derivatives as cash flow hedges of future interest receipts as well as bond positions to hedge the yield received.

The notional amounts of the derivative instruments do not necessarily indicate the amounts of future cash flows involved or the current fair value of the instruments, and therefore, do not represent the bank's exposure to credit or pricing risk. Derivative instruments become favourable (assets) or unfavourable (liabilities) based on changes in market interest rates.

The bank's detailed risk management strategy is set out on in the risk report on pages 3 to 14 of the annual report. Further information pertaining to the risk management of the bank is set out in note 29.

R million	2003 Assets Notional	Fair value	2003 Liabilities Notional	Fair value
9. Derivative financial instruments (continued)				
The bank utilises the following derivatives for hedging and trading purposes:				
Qualifying for hedge accounting				
Cash flow hedges				
Interest rate derivatives				
– Forward rate agreements	500	1	–	–
– Swaps	19 385	292	2 850	24
Total cash flow hedges	19 885	293	2 850	24
Held for trading				
Currency derivatives				
– Forward rate agreements	62 563	4 256	64 912	3 527
– Swaps	115 894	8 283	107 548	8 224
– Options	3 492	401	2 203	139
Total currency derivatives	181 949	12 940	174 663	11 890
Interest rate derivatives				
– Forward rate agreements	84 533	243	52 460	155
– Swaps	131 643	5 001	112 845	4 392
– Options	2 582	80	3 168	141
– Other	683	–	688	13
Total interest rate derivatives	219 441	5 324	169 161	4 701
Equity derivatives				
– Options	106	1 110	793	426
– Other	28	–	–	–
Total equity derivatives	134	1 110	793	426
Commodity derivatives				
– Forward rate agreements	204	1 041	172	1 772
– Swaps	–	2	–	21
– Options	4 939	1 004	5 003	701
– Other	279	111	54	68
Total commodity derivatives	5 422	2 158	5 229	2 562
Credit derivatives	–	2	3 198	2 848
Total held for trading	406 946	21 534	353 044	22 427
Total derivative financial instruments	426 831	21 827	355 894	22 451

	2002			
	Assets		Liabilities	
R million	Notional	Carrying value	Notional	Carrying value
9. Derivative financial instruments (continued)				
Currency derivatives				
– Forward rate agreements	333 162	10 818	1 196	10 484
– Swaps	10 368	643	–	667
– Options	4 794	116	–	218
Total currency derivatives	348 324	11 577	1 196	11 369
Interest rate derivatives				
– Forward rate agreements	52 113	67	–	104
– Swaps	315 478	3 995	38 889	3 467
– Options	4 343	109	–	126
– Other	2 478	–	–	9
Total interest rate derivatives	374 412	4 171	38 889	3 706
Equity derivatives				
– Forward rate agreements	482	–	–	223
– Options	23 275	1 046	794	4 912
– Other	150	–	–	–
Total equity derivatives	23 907	1 046	794	5 135
Commodity derivatives				
– Forward rate agreements	44 952	2 942	200	4 369
– Swaps	986	1	–	2
– Options	15 027	1 127	3 000	957
– Other	5 481	1 619	–	20
Total commodity derivatives	66 446	5 689	3 200	5 348
Credit derivatives	–	–	16 942	–
Total derivative financial instruments	813 089	22 483	61 021	25 558

Following the adoption of AC133, all derivatives have been reclassified as either trading in nature or qualifying for hedge accounting. However, in terms of the requirements of AC133, the statement has been applied on a prospective basis and consequently the 2002 results have not been restated. The effect of the implementation of AC133 in respect of derivative instruments qualifying for hedge accounting is set out in paragraph 24 in the accounting policies under “Change in accounting policy”.

R million	2003 Originated	2003 Held-to-maturity	2003 Available for sale	2003 Trading	2003 Total	2002 Total
10. Advances						
Sector analysis						
Agriculture	**3 504**	**–**	**351**	**54**	**3 909**	2 166
Banks and financial services	**7 068**	**–**	**–**	**25 973**	**33 041**	26 176
Building and property development	**4 468**	**–**	**–**	**4**	**4 472**	2 420
Government, Land Bank and public authorities	**354**	**–**	**–**	**4 669**	**5 023**	8 798
Individuals	**64 296**	**8 874**	**–**	**–**	**73 170**	65 322
Manufacturing and commerce	**22 162**	**–**	**–**	**3 440**	**25 602**	26 851
Mining	**1 825**	**–**	**–**	**–**	**1 825**	1 046
Transport and communication	**2 149**	**–**	**–**	**5**	**2 154**	1 489
Other services	**5 519**	**–**	**–**	**663**	**6 182**	5 978
Total value of advances	**111 345**	**8 874**	**351**	**34 808**	**155 378**	140 246
Contractual interest suspended	**(494)**	**(36)**	**–**	**–**	**(530)**	(642)
Gross advances	**110 851**	**8 838**	**351**	**34 808**	**154 848**	139 604
Impairment of advances (note 11)	**(2 381)**	**(191)**	**–**	**–**	**(2 572)**	(2 879)
Net advances	**108 470**	**8 647**	**351**	**34 808**	**152 276**	136 725
Geographic analysis (based on credit risk)						
South Africa	**110 668**	**8 874**	**351**	**16 364**	**136 257**	131 191
Other Africa	**24**	**–**	**–**	**252**	**276**	372
Europe	**418**	**–**	**–**	**14 338**	**14 756**	5 878
United Kingdom	**38**	**–**	**–**	**8 554**	**8 592**	–
Ireland	**380**	**–**	**–**	**237**	**617**	–
Other Europe	**–**	**–**	**–**	**5 547**	**5 547**	–
North America	**73**	**–**	**–**	**3 803**	**3 876**	–
South America	**10**	**–**	**–**	**51**	**61**	–
Australasia	**52**	**–**	**–**	**–**	**52**	–
Other	**100**	**–**	**–**	**–**	**100**	2 805
Total value of advances	**111 345**	**8 874**	**351**	**34 808**	**155 378**	140 246
Contractual interest suspended	**(494)**	**(36)**	**–**	**–**	**(530)**	(642)
Gross advances	**110 851**	**8 838**	**351**	**34 808**	**154 848**	139 604
Impairment of advances (note 11)	**(2 381)**	**(191)**	**–**	**–**	**(2 572)**	(2 879)
Net advances	**108 470**	**8 647**	**351**	**34 808**	**152 276**	136 725

R million	Originated	Held-to-maturity	2003 Available for sale	Trading	Total	2002 Total
10. Advances (continued)						
Category analysis						
Overdrafts and managed account debtors	**25 139**	**–**	**–**	**–**	**25 139**	11 810
Card loans	**4 321**	**–**	**–**	**–**	**4 321**	3 713
Instalment sales	**23 366**	**–**	**351**	**357**	**24 074**	20 157
Lease payments receivable	**10 216**	**–**	**–**	**1 141**	**11 357**	8 969
Home loans	**35 092**	**8 874**	**–**	**–**	**43 966**	38 779
Collateralised debt obligations	**87**	**–**	**–**	**54**	**141**	–
Preference share advances	**45**	**–**	**–**	**–**	**45**	–
Personal loans	**4 233**	**–**	**–**	**–**	**4 233**	–
Assets under agreement to resell	**380**	**–**	**–**	**8 007**	**8 387**	–
Other	**8 466**	**–**	**–**	**25 249**	**33 715**	56 818
Total value of advances	**111 345**	**8 874**	**351**	**34 808**	**155 378**	140 246
Contractual interest suspended	**(494)**	**(36)**	**–**	**–**	**(530)**	(642)
Gross advances	**110 851**	**8 838**	**351**	**34 808**	**154 848**	139 604
Impairment of advances (note 11)	**(2 381)**	**(191)**	**–**	**–**	**(2 572)**	(2 879)
Net advances	**108 470**	**8 647**	**351**	**34 808**	**152 276**	136 725

R million	2003 Within 1 year	Between 1 and 5 years	More than 5 years	Total	2002 Total
Analysis of instalment sales and lease payments receivable					
Instalment sales	**8 411**	**22 587**	**2**	**31 000**	11 308
Lease payments receivable	**4 567**	**8 367**	**2 751**	**15 685**	26 001
	12 978	**30 954**	**2 753**	**46 685**	37 309
Less: Unearned finance charges	**(2 950)**	**(7 446)**	**(858)**	**(11 254)**	(8 183)
	10 028	**23 508**	**1 895**	**35 431**	29 126

A maturity analysis of advances is set out in note 29.7 on page 59 of this annual report, and is based on the remaining periods to contractual maturity from the year-end.

Notes to the annual financial statements continued

for the year ended 30 June 2003

R million	**2003**	2002
11. Impairment of advances		
Balance at beginning of the year	**(2 879)**	(2 447)
Adjustments for exchange rate differences	**–**	(9)
Transfer of general provision to general risk and portfolio impairment	**616**	–
Amounts written off	**1 183**	780
Present value adjustments relating to AC133	**(242)**	–
Unwinding of discounted present value on non-performing loans	**106**	–
Other	**168**	–
Recoveries of amounts previously written off	**(210)**	(179)
Profit on sale of security	**(10)**	–
Charge to income statement	**(1 304)**	(1 024)
Balance at end of the year	**(2 572)**	(2 879)

R million	**2003** Specific impairment	Portfolio impairment	General provision	Income statement
Analysis of movement in impairment of advances				
Opening balance	**1 728**	**–**	**1 151**	**–**
Present value adjustment on adoption of AC133	**242**	**–**	**–**	**–**
Transfer of provisions from/(to) reserves	**–**	**535**	**(1 151)**	**–**
Amounts written off	**(1 183)**	**–**	**–**	**–**
Unwinding of discounted present value on non-performing loans	**(106)**	**–**	**–**	**–**
Reclassifications	**(176)**	**(11)**	**–**	**–**
Net new provisions created	**1 388**	**136**	**–**	**(1 524)**
Provisions created	**1 840**	**136**	**–**	**(1 976)**
Provisions released	**(452)**	**–**	**–**	**452**
Recoveries of bad debts	**–**	**–**	**–**	**210**
Other	**19**	**–**	**–**	**10**
Closing balance	**1 912**	**660**	**–**	**(1 304)**

11. Impairment of advances (continued)

Analysis of movement in impairment of advances

R million	2002 Specific provision	2002 General provision	2002 Income statement
Opening balance	1 645	803	–
Exchange rate difference	9	–	–
Amounts written off	(780)	–	–
Reclassifications	(32)	32	–
Net new provisions created	898	316	(1 214)
Provisions created	1 117	316	(1 433)
Provisions released	(219)	–	219
Recoveries of bad debts	–	–	179
Realisation of security	–	–	11
Other	(12)	–	–
Closing balance	1 728	1 151	(1 024)

R million	**2003 Gross advances**	**2003 Contingent liability**	**2003 Security held**	**2003 Contractual interest suspended**	**2003 Specific impairments**	2002 Specific impairments
Non-performing lendings by sector						
Agriculture	**80**	**–**	**51**	**15**	**25**	25
Banks and financial services	**57**	**–**	**8**	**16**	**32**	77
Building and property development	**331**	**–**	**164**	**28**	**139**	131
Government, Land Bank and public authorities	**68**	**–**	**–**	**32**	**3**	22
Individuals	**2 136**	**–**	**859**	**242**	**962**	845
Manufacturing and commerce	**979**	**–**	**219**	**159**	**652**	558
Mining	**2**	**–**	**1**	**1**	**1**	5
Transport and communication	**8**	**–**	**2**	**3**	**4**	30
Other services	**84**	**6**	**41**	**34**	**94**	35
Total	**3 745**	**6**	**1 345**	**530**	**1 912**	1 728
2002 total non-performing lendings	4 422	–	1 141	642	1 728	
Non-performing lendings by category						
Overdrafts and managed account debtors	**1 322**	**1**	**416**	**272**	**715**	477
Card loans	**447**	**–**	**–**	**16**	**194**	144
Instalment sale	**243**	**–**	**72**	**31**	**139**	108
Lease payments receivable	**99**	**–**	**33**	**17**	**60**	61
Home loans	**1 203**	**–**	**771**	**135**	**440**	379
Other	**431**	**5**	**53**	**59**	**364**	559
Total	**3 745**	**6**	**1 345**	**530**	**1 912**	1 728
2002 total non-performing lendings	4 422	–	1 141	642	1 728	

R million	2003 Elected fair value	2003 Available for sale	2003 Trading	2003 Total	2002 Total
12. Investment securities and other investments					
Total					
Negotiable certificates of deposit	**–**	**–**	**417**	**417**	260
Treasury bills	**–**	**810**	**73**	**883**	2 898
Other government and government guaranteed stock	**–**	**9 747**	**5 026**	**14 773**	11 966
Other dated securities	**1 265**	**–**	**950**	**2 215**	753
Other undated securities	**–**	**–**	**–**	**–**	14
Other	**202**	**2 104**	**3 398**	**5 704**	4 371
	1 467	**12 661**	**9 864**	**23 992**	20 262
Listed					
Negotiable certificates of deposit	**–**	**–**	**–**	**–**	–
Treasury bills	**–**	**810**	**73**	**883**	2 898
Other government and government guaranteed stock	**–**	**9 746**	**5 026**	**14 772**	5 663
Other dated securities	**–**	**–**	**652**	**652**	–
Other	**–**	**200**	**439**	**639**	145
	–	**10 756**	**6 190**	**16 946**	8 706
Unlisted					
Negotiable certificates of deposit	**–**	**–**	**417**	**417**	260
Treasury bills	**–**	**–**	**–**	**–**	–
Other government and government guaranteed stock	**–**	**1**	**–**	**1**	6 303
Other dated securities	**1 265**	**–**	**298**	**1 563**	753
Other undated securities	**–**	**–**	**–**	**–**	14
Other	**202**	**1 904**	**2 959**	**5 065**	4 226
	1 467	**1 905**	**3 674**	**7 046**	11 556

The trading portfolio includes commodities of R165 million and R9 207 million (2002: R8 018 million) of the financial instruments held for trading form part of the bank's liquid asset portfolio in terms of the South African Reserve Bank requirements.

R million	2003	2002
12. Investment securities and other investments (continued)		
Analysis of investment securities		
Listed	**16 946**	8 706
Equities	**609**	145
Debt	**16 337**	8 561
Unlisted	**7 046**	11 556
Equities	**4 092**	3 970
Debt	**2 954**	7 586
	23 992	20 262
Aggregate market value of listed securities	**16 972**	8 722
Aggregate directors' valuation of unlisted investments	**7 227**	11 558
	24 199	20 280

Held-to-maturity securities are carried at amortised cost in both years. Available for sale securities are carried at fair value in 2003 and at values approximating fair value in 2002.

Information regarding other investments as required in terms of Schedule 4 of the Companies Act is kept at the company's registered offices. This information is open for inspection in terms of the provisions of section 113 of the Companies Act.

The maturity analysis for investment securities is set out in note 29.7.

R million	2003	2002
13. Accounts receivable		
Items in transit	**74**	304
Accrued interest	**165**	40
Accounts receivable	**219**	167
Other debtors	**1 266**	696
	1 724	1 207
14. Investment in associated companies		
Listed investments		
Equity investments	**636**	494
Total cost less amounts written off	**636**	494
Unlisted investments		
Equity investments	**141**	121
Total cost less amounts written off	**141**	121
Total carrying value	**777**	615
Valuation		
Listed investments at market value	**698**	494
Unlisted investments at directors' valuation	**146**	130
	844	624

	Nature of business	Issued ordinary share capital R	Number of ordinary shares held	Year-end
14. Investment in associated companies (continued)				
Listed				
McCarthy Limited	Retail	1027 631	964 898 728	30 Jun
Relyant Retail Limited	Retail	18 791 174	234 096 511	30 Jun
Unlisted				
Natal Lands (Pty) Limited	Property holding	240 000	60 000	31 Dec
Mobile Acceptances (Pty) Limited	Leasing	700 000	182 000	31 Dec
Toyota Financial Services (Pty) Limited	Vehicle finance	2 700	900	30 Jun

	Effective holding %		Market value or directors' valuation		Bank costs less amounts written off	
R million	**2003**	2002	**2003**	2002	**2003**	2002
Listed						
McCarthy Limited	**48**	48	**444**	494	**444**	494
Relyant Retail Limited	**26**	–	**254**	–	**192**	–
Total listed			**698**	494	**636**	494
Unlisted						
Natal Lands (Pty) Limited	**50**	50	**9**	3	**1**	1
Infrastructure Finance Corp Limited	**18**	18	**–**	29	**–**	18
Mobile Acceptances (Pty) Limited	**26**	26	**2**	4	**–**	–
Toyota Financial Services (Pty) Limited	**33**	33	**106**	73	**120**	90
Arthur Kaplan Jewellers (Pty) Limited	**46**	46	**–**	20	**–**	10
Other	**–**	–	**29**	1	**20**	2
Total unlisted			**146**	130	**141**	121
Total listed and unlisted			**844**	624	**777**	615

	Infrastructure Finance Corp Limited[1]		Mobile Acceptances (Pty) Limited		Toyota Financial Services (Pty) Limited	
R million	**2003**	2002	**2003**	2002	**2003**	2002
Summarised financial information of associated companies:						
Balance sheet						
Non-current assets	**–**	1 126	**31**	64	**2 490**	1 623
Current assets	**–**	4 170	**20**	72	**1 056**	852
Current liabilities	**–**	(407)	**(11)**	(63)	**(187)**	(106)
Non-current liabilities	**–**	(4 718)	**(26)**	(60)	**(3 041)**	(2 150)
Equity	**–**	171	**14**	13	**318**	219
Loans to/(from) associates	**–**	(134)	**27**	107	**3 041**	2 150

1. The bank no longer exercises significant control over Infrastructure Finance Corp Limited and this investment has been reclassified as other investments.

R million	McCarthy Limited 2003	McCarthy Limited 2002	Natal Lands (Pty) Limited 2003	Natal Lands (Pty) Limited 2002	Relyant Retail Limited 2003	Relyant Retail Limited 2002
14. Investment in associated companies (continued)						
Balance sheet						
Non-current assets	**405**	557	**5**	5	**536**	–
Current assets	**1 807**	1 886	**1**	1	**2 466**	–
Current liabilities	**(1 472)**	(1 711)	**(2)**	(2)	**(1 886)**	–
Non-current liabilities	**(34)**	(350)	**–**	–	**–**	–
Equity	**706**	382	**4**	4	**1 116**	–
Income statement						
Loans to/(from) associates	**–**	145	**–**	–	**–**	–

R million	Arthur Kaplan 2003	Arthur Kaplan 2002
Balance sheet		
Non-current assets	**–**	11
Current assets	**–**	63
Current liabilities	**–**	(30)
Non-current liabilities	**–**	(37)
Equity	**–**	7
Income statement		
Loans to/(from) associates	**–**	5

The most recent audited annual financial statements of associates are used by the bank in applying the equity method of accounting for associates. These are not always drawn up to the same date as the financial statements of the bank. In instances where significant events occurred between the last financial statement date of an associate and the financial statement date of the bank, the effect of such events are adjusted for. Where the last financial statement date of an associate was more than six months before the financial statement date of the bank, the bank uses the unaudited management accounts of the associate. The bank has applied this principle consistently since adopting the equity accounting method for associates.

Notes to the annual financial statements continued

for the year ended 30 June 2003

R million	2003	2002
15. Interest in subsidiary companies		
Shares at cost less amounts written off	**24**	23

	Nature of business	Issued capital	Effective holding %	Investment in subsidiaries Rand
30 June 2003				
Direct Axis (Pty) Limited	**Services**	**21 600**	**51.0%**	**11 000 000**
Comcorp Online (Pty) Limited	**Technology**	**2 000**	**80.0%**	**5 000 160**
Premium Credit (Pty) Limited	**Finance**	**1 000**	**100.0%**	**4 161 859**
RMB Corporate Finance (Pty) Limited	**Investment**	**500**	**100.0%**	**1 282 762**
Property Consultants Services (Pty) Limited	**Services**	**1 749 004**	**57.1%**	**999 000**
Other				**1 268 148**
				23 711 929
30 June 2002				
Direct Axis (Pty) Limited	Services	21 600	51.0%	11 000 000
Comcorp Online (Pty) Limited	Technology	2 000	80.0%	5 000 160
Premium Credit (Pty) Limited	Finance	1 000	100.0%	4 161 859
RMB Corporate Finance (Pty) Limited	Investment	500	100.0%	1 282 762
Property Consultants Services (Pty) Limited	Services	1 749 004	57.1%	999 000
Other				672 148
				23 115 929

R million	2003	2002
16. Holding and fellow subsidiary companies		
Amounts due to holding company	**(372)**	(344)
Amounts due to fellow subsidiary companies	**(19 325)**	(9 957)
Amounts due to holding and fellow subsidiary companies	**(19 697)**	(10 301)
Amounts due by holding company	**938**	410
Amounts due by fellow subsidiary companies	**23 594**	17 134
Amounts due by holding and fellow subsidiary companies	**24 532**	17 544
Net amounts due by/(to) holding and fellow subsidiary companies	**4 835**	7 243

These loans have no fixed terms of repayment and carry varying rates of interest. Loans to subsidiary companies amounting to R75 million (2002: R107 million) are subject to subordination agreements until such time that their assets, fairly valued, exceed their liabilities.

R million	**Cost** **2003**	**Accumulated depreciation and impairments** **2003**	**Net book value** **2003**	Cost 2002	Accumulated depreciation and impairments 2002	Net book value 2002
17. Property and equipment						
Property						
Freehold land and buildings	**762**	**385**	**377**	750	299	451
Leasehold premises	**342**	**181**	**161**	460	288	172
	1 104	**566**	**538**	1 210	587	623
Equipment						
Computer equipment	**1 955**	**1 451**	**504**	1 723	1 370	353
Furniture and fittings	**765**	**471**	**294**	857	516	341
Motor vehicles	**60**	**35**	**25**	109	52	57
Office equipment	**193**	**82**	**111**	109	88	21
	2 973	**2 039**	**934**	2 798	2 026	772
Total	**4 077**	**2 605**	**1 472**	4 008	2 613	1 395

R million	Freehold land and buildings	Leasehold premises	Computer equipment	Furniture and fittings	Motor vehicles	Office equipment
Movement in property and equipment – net book value						
Net book value at 1 July 2001	470	172	331	392	60	32
Changes in bank structure	–	–	–	(1)	–	–
Additions	47	49	211	52	35	18
Depreciation charge for period	(48)	(46)	(184)	(83)	(19)	(15)
Disposals	(37)	(3)	(11)	(19)	(18)	–
Interbank transfers	–	–	(6)	(1)	–	–
Other	19	–	12	1	(1)	(14)
Net book value at 30 June 2002	451	172	353	341	57	21
Additions	66	49	375	57	19	112
Depreciation charge for period	(81)	(49)	(221)	(97)	(15)	(18)
Disposals	(59)	(11)	(3)	(7)	(36)	(4)
Net book value at 30 June 2003	377	161	504	294	25	111

Information regarding land and buildings as required in terms of Schedule 4 of the Companies Act is kept at the company's registered offices. This information will be open for inspection in terms of the provisions of section 113 of the Companies Act, 1973.

R million	2003	2002

18. Pension and post-retirement benefits

The bank has incurred a liability to subsidise the post-retirement medical expenditure of certain of its employees.

At 30 June 2003, the actuarially determined liability of the bank in respect of such liabilities was R986 million (2002: R861 million).

The bank converted its primary pension plan from a defined benefit to a defined contribution scheme in 1996. At that point, an actuarial surplus was converted into a realised surplus. AC116 requires that this surplus be reflected on the balance sheet as an asset of the bank. All income and expenditure with regard to the pension fund surplus is brought to account in the income statement. The residual was used to create an employers' reserve. The bank has been accessing this reserve via a pension fund holiday. At 30 June 2003, none (2002: R430 million) of the employers' reserve remained in the fund.

18.1 Post-retirement pension fund liability

R million	2003	2002
Present value of funded liability	**8 802**	9 036
Fair value of plan assets	**(8 346)**	(9 466)
Pension fund loss/(surplus)	**456**	(430)
Unrecognised actuarial gains/(losses)	**(456)**	–
Retirement benefit asset	**–**	(430)
The amounts recognised in the income statement are as follows:		
Current service cost	**212**	197
Interest cost	**1 033**	962
Expected return on plan assets	**(1 080)**	(1 032)
Other	**267**	–
Total included in staff costs	**432**	127
Movement in liability recognised in pension fund surplus		
Present value at the beginning of the year	**(430)**	(557)
Amounts recognised in the income statement as above	**432**	127
Contributions paid	**(2)**	–
Present value at the end of the year	**–**	(430)
The principal actuarial assumptions used for accounting purposes were:		
Discount rate (%)	**11.5**	11.8
Expected return on plan assets (%)	**11.5**	11.8
Salary inflation (%)	**6.3**	7.0
Net interest rate used to value pensions, allowing for pension increases (%)	**5.0**	6.0

R million	**2003**	2002
18. Pension and post-retirement benefits (continued)		
18.2 Post-retirement medical liability		
Present value of unfunded liability	**986**	861
Unrecognised actuarial gains/(losses)	**(44)**	–
Post-retirement medical liability	**942**	861
The amounts recognised in the income statement are as follows:		
Current service cost	**25**	22
Interest cost	**98**	91
Total included in staff costs	**123**	113
Movement in liability recognised in the balance sheet		
Present value at the beginning of the year	**861**	789
Amounts recognised in the income statement as above	**123**	113
Contributions paid	**(42)**	(41)
Present value at the end of the year	**942**	861
The principal actuarial assumptions used for accounting purposes were:		
Discount rate (%)	**10.3**	11.8
Long-term increase in medical subsidies (%)	**8.3**	9.5
18.3 Employee benefits assets		
Leave pay insurance policy	**550**	300
Post-retirement medical asset	**1 078**	814
Retirement benefit asset (18.1)	**–**	430
	1 628	1 544
19. Intangible assets		
Intangible assets		
Gross amount	**47**	36
Less: Accumulated amortisation and impairment losses	**(26)**	(13)
	21	23
Movement in intangibles – book value		
Opening balance	**23**	13
Additions	**12**	19
Amortisation charge and impairment losses	**(14)**	(9)
	21	23
Software		
Gross amount	**46**	34
Less: Accumulated amortisation and impairment losses	**(25)**	(12)
	21	22
Movement in software – book value		
Opening balance	**22**	12
Additions	**12**	18
Amortisation charge and impairment losses	**(13)**	(8)
	21	22

Notes to the annual financial statements continued

for the year ended 30 June 2003

R million	2003	2002
19. Intangible assets (continued)		
Development costs		
Gross amount	**1**	2
Less: Accumulated amortisation and impairment losses	**(1)**	(1)
	–	1
Movement in development costs – book value		
Opening balance	**1**	1
Additions	**–**	1
Amortisation charge and impairment losses	**(1)**	(1)
	–	1
Total intangible assets		
Software	**21**	22
Development costs	**–**	1
	21	23
20. Deposits and current accounts		
From banks and financial institutions	**12 257**	9 155
– In the normal course of business	**4 137**	1 031
– Under repurchase agreements	**8 120**	8 124
From customers	**105 014**	92 318
– Current accounts	**54 747**	38 208
– Savings account	**1 585**	3 360
– Term deposits	**48 682**	50 750
Other deposits	**33 558**	44 452
– Negotiable certificates of deposit	**11 018**	9 783
– Other deposits	**22 540**	34 669
	150 829	145 925
Geographic analysis (based on counterparty risk)		
South Africa	**144 856**	141 187
Other Africa	**528**	502
United Kingdom	**2 838**	1 988
Other	**2 607**	2 248
	150 829	145 925

A maturity analysis of deposits and current accounts is set out in note 29.7 on page 59 of this annual report, and is based on the remaining periods to contractual maturity from the year-end.

Deposits include amounts raised under repurchase agreements with a carrying value of R8 120 (2002: R8 124), which agreements mature within 12 months of the balance sheet date.

R million	2003	2002
21. Short trading positions		
Government and government guaranteed	**8 452**	7 220
Other dated securities	**24 511**	7 711
Undated securities	**1 622**	88
	34 585	15 019
Analysed as follows:		
Listed	**5 273**	7 220
Unlisted	**29 312**	7 799
	34 585	15 019
22. Creditors and accruals		
Accrued interest	**19**	230
Accounts payable	**200**	575
Short-term portion of long-term liabilities (note 24)	**–**	188
Other creditors	**2 309**	2 078
	2 528	3 071
23. Provisions		
Leave pay		
Opening balance	**514**	484
Charge to the income statement	**98**	30
Utilised	**(31)**	–
Closing balance	**581**	514
Audit fees		
Opening balance	**16**	9
Additions	**–**	–
Charge to the income statement	**34**	29
Utilised	**(22)**	(22)
Closing balance	**28**	16
Other		
Additions	**10**	–
Charge to the income statement	**359**	–
Closing balance	**369**	–
Total provisions	**978**	530
24. Long-term liabilities		
Debentures		
Unsecured debt securities amortising over the period to 2005 [a]	**122**	310
Less: Portion payable within 12 months transferred to current liabilities (note 22)	**–**	(188)
	122	122

[a] *Repayments of the unsecured debt securities occur between 2002 and 2005. Interest rates vary between 16.74% and 17.66% per annum.*

Notes to the annual financial statements continued

for the year ended 30 June 2003

R million	2003	2002
24. Long-term liabilities (continued)		
Preference shares		
Authorised		
5 000 000 000 (2002: 5 000 000 000) cumulative preference shares with a par value of R0.0001		
Issued		
6 403 (2002: 6 403) cumulative redeemable shares with a par value of R0.0001 at a premium of R99 999.9999 per share	**640**	640
	640	640
The redeemable preference shares have been issued at variable rates linked to prime, with varying redemption periods.		
Other long-term liabilities		
Subordinated convertible loans		
The subordinated convertible loans are redeemable in 2009 and bear interest at 16.5% semi-annually.		
These loans are convertible into ordinary shares at the option of the holder at any time prior to redemption	**2 349**	2 349
	2 349	2 349
	3 111	3 111
25. Ordinary shares		
Authorised		
2 000 000 ordinary shares of R2 each	**4**	4
Issued shares		
1 758 305 (2002: 1 757 106) ordinary shares of R2 each	**4**	4
* *1 199 ordinary shares of R2 each were issued at a premium of R988 million.*		
26. Non-distributable reserves		
Currency conversion reserve	**1**	21
Revaluation reserve – available for sale instruments	**359**	–
General risk reserve (impaired capital reserve)	**459**	–
Capital redemption reserve fund	**705**	705
Other	**(2)**	(3)
	1 522	723
A detailed reconciliation of the movements in the respective non-distributable reserve balances is set out in the statement of changes in equity.		
27. Contingencies and commitments		
Contingencies		
Guarantees	**17 389**	22 335
Acceptances	**215**	253
Letters of credit	**3 378**	2 409
	20 982	24 997

There are a number of legal or potential claims against the bank, the outcome of which cannot at present be foreseen. These claims are not regarded as material either on an individual or bank basis.

Provision is made for all liabilities which are expected to materialise.

R million	2003	2002
27. Contingencies and commitments (continued)		
Employee benefit contingent liability		
A contingent liability has been raised in respect of pension fund holidays taken since 15 December 2001	**315**	103
Commitments		
Commitments in respect of capital expenditure and long-term investments approved by directors		
Contracted for	**56**	24
Not contracted for	**242**	59
Funds to meet these commitments will be provided from bank resources.		

Bank commitments under operating leases

R million	Next year	2003 2nd to 5th year	After 5th year
Office premises	**161**	**1 108**	**1**
Equipment and motor vehicles	**52**	**42**	**–**
	213	**1 150**	**1**

R million	Next year	2002 2nd to 5th year	After 5th year
Office premises	158	756	496
Equipment and motor vehicles	34	36	–
	192	792	496

R million	2003	2002
28. Cash flow information		
28.1 Reconciliation of operating profit to cash flow from operating activities		
Income from operations	**3 550**	2 499
Adjusted for:		
– Depreciation and amortisation costs	**495**	404
– Impairment of advances	**1 304**	1 024
– Provision for post-employment benefit obligations	**555**	240
– Other non-cash provisions	**362**	62
– Loss on sale of fixed assets and investments	**111**	22
– Dividends paid	**(1 021)**	(250)
Cash flows from operating activities	**5 356**	4 001
28.2 Dividends paid		
Charged to distributable reserves	**(1 021)**	(250)
Total dividends paid	**(1 021)**	(250)

Notes to the annual financial statements continued

for the year ended 30 June 2003

R million	**2003**	2002
28. Cash flow information (continued)		
28.3 Taxation paid		
Amounts unpaid at beginning of the year	**(356)**	86
Taxation charge per income statement	**(860)**	(465)
Deferred taxation included in tax charge	**153**	(441)
Other movements	**315**	227
VAT and other tax charges	**(310)**	(227)
Amounts unpaid at end of the year	**607**	356
Total taxation paid	**(451)**	(464)

29. Risk management

29.1 General

The comprehensive risk report of the bank is contained on pages 3 to 14. The report sets out in detail the various risks the bank is exposed to, as well as the strategy, methodology and instruments used to mitigate these risks.

Risk control policies and exposure limits for the key risk areas of the bank are approved by the Board, while operational policies and control procedures are approved by the relevant risk committees. Details of the committees are found on page 4 of the annual report.

Strategy in using financial instruments

By its nature the bank's activities are principally related to the use of financial instruments including derivatives. The bank accepts deposits from customers at both fixed and floating rates and for various periods and seeks to earn above average interest margins by investing these funds in high quality assets. The bank seeks to increase these margins by consolidating short-term fund and lending for longer periods at higher rates while maintaining sufficient liquidity to meet all claims that might fall due.

The bank also trades in financial instruments where it takes positions in traded and over the counter instruments including derivatives, to take advantage of short-term market movements in the equity and bond markets and in currency, interest rate and commodity prices. The Board of the bank places trading limits on the level of exposure that can be taken in relation to both overnight and intra-day positions. With the exception of specific hedging arrangements, foreign exchange and interest rate exposure associated with these derivatives are normally offset by entering into counter-balancing positions, thereby controlling the variability in the net cash amounts required to liquidate market positions.

29.2 Strategy in using hedges

The bank's strategy for using hedges is set out in note 9 above.

29.3 Credit risk management

Credit risk

Credit risk is the risk that a counterparty will be unable to repay amounts when they fall due. In general, the bank manages its credit risk exposure by placing limits on the acceptable risk exposure to individual borrowers or groups of borrowers, and within geographical and industry segments. Credit risk is monitored on an ongoing basis. Further details on credit risk management is contained in paragraph 3.7 of the risk report on pages 7 to 8 of the annual report.

Significant credit exposures at 30 June 2003 were:

R million	South Africa	Other Africa	United Kingdom	Ireland	Other Europe	North America	South America	Australasia	Other	Total
Assets										
Advances	136 257	276	8 592	617	5 547	3 876	61	52	100	155 378
Contingencies	20 982	–	–	–	–	–	–	–	–	20 982
	157 239	276	8 592	617	5 547	3 876	61	52	100	176 360

Economic sector risk concentrations in respect of advances are set out in note 10.

29.4 Market risk

The bank takes on exposure to market risk. Market risks arise from open positions in interest rate, currency and equity products, all of which are exposed to general and specific market movements. The bank applies a "value at risk" methodology to estimate the market risk positions held and the maximum losses expected, based on a number of assumptions for various changes in market conditions. The primary risk control mechanism used for risk control purposes are stress loss test and limits. Further details on the market risk management are set out in paragraph 3.10 of the risk report on pages 10 to 11 of the annual report.

29. Risk management (continued)

29.5 Currency risk management

The bank takes on exposure to effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows.

The bank manages foreign currency exposures in terms of approved limits. The currency position at 30 June 2003 is set out below:

R million	Rand	UK£	US$	Eur	Other	Total
Assets						
Cash and short-term funds	17 847	26	1 298	77	85	19 333
Derivative financial instruments	20 765	89	5	968	–	21 827
Advances	141 306	371	9 345	1 246	8	152 276
Investment securities and other investments	23 992	–	–	–	–	23 992
Accounts receivable	1 651	–	73	–	–	1 724
Investment in associated companies	777	–	–	–	–	777
Interest in subsidiary companies	24	–	–	–	–	24
Holding and fellow subsidiary companies	22 898	356	1 278	–	–	24 532
Property and equipment	1 472	–	–	–	–	1 472
Retirement benefit asset	1 628	–	–	–	–	1 628
Intangible assets	21	–	–	–	–	21
	232 381	842	11 999	2 291	93	247 606
Liabilities						
Deposit and current accounts	146 479	241	3 339	738	32	150 829
Short trading positions	34 585	–	–	–	–	34 585
Derivative financial instruments	22 451	–	–	–	–	22 451
Creditors	2 456	–	72	–	–	2 528
Provisions	978	–	–	–	–	978
Taxation	607	–	–	–	–	607
Post-retirement medical liability	942	–	–	–	–	942
Deferred taxation liability	1 557	–	–	–	–	1 557
Holding and fellow subsidiary companies	19 084	4	567	–	42	19 697
Long-term liabilities	3 111	–	–	–	–	3 111
Shareholders' equity	10 321	–	–	–	–	10 321
	242 571	245	3 978	738	74	247 606

29.6 Interest rate risk management

Interest sensitivity of assets, liabilities and off balance sheet items – repricing analysis

The bank takes on exposure to the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. Interest margins may increase as a result of such changes but may reduce or create losses in the event that unexpected movements arise. The Board of Directors sets limits on the level of mismatch of interest rate repricing that may be undertaken, which is monitored daily.

The table below summarises the bank's exposure to interest rate risks. Included in the table are the bank's assets and liabilities at carrying amounts, categorised by the earlier of repricing or maturity dates.

A graphical analysis on interest sensitivity in the banking book is set out on page 10.

Notes to the annual financial statements continued

for the year ended 30 June 2003

29. Risk management (continued)

29.6 Interest rate risk management

The table below summarises the bank's exposure to interest rate risk, categorised by contractual repricing date:

R million	Carrying amount 2003	Interest earning/bearing Term to pricing Demand	1 – 12 months	1 – 5 years	Over 5 years	Non-interest earning/ bearing
Assets						
Cash and short-term funds	**19 333**	17 327	80	–	–	1 926
Derivative financial instruments	**21 827**	–	11 872	5 773	4 182	–
Advances	**152 276**	57 387	34 065	36 489	24 320	15
Investment securities and other investments	**23 992**	23 992	–	–	–	–
Accounts receivable	**1 724**	102	120	2	–	1 500
Investment in associated companies	**777**	–	–	–	–	777
Interest in subsidiary companies	**24**	24	–	–	–	–
Holding and fellow subsidiary companies	**24 532**	24 532	–	–	–	–
Property and equipment	**1 472**	1	47	54	31	1 339
Retirement benefit asset	**1 628**	0	–	–	–	1 628
Intangible assets	**21**	–	–	–	–	21
	247 606	123 365	46 184	42 318	28 533	7 206
Liabilities						
Deposits and current accounts	**150 829**	106 803	32 596	7 204	4 204	22
Short trading positions	**34 585**	3 889	27 122	3 091	406	77
Derivative financial instruments	**22 451**	–	15 220	5 447	1 354	430
Post-retirement medical liability	**942**	–	–	–	942	–
Creditors and accruals	**2 528**	906	130	–	–	1 492
Provisions	**978**	–	–	–	–	978
Taxation	**607**	9	–	–	–	598
Deferred taxation liability	**1 557**	–	–	–	–	1 557
Holding and fellow subsidiary companies	**19 697**	19 697	–	–	–	–
Long-term liabilities	**3 111**	7	–	2 470	634	–
Shareholders' equity	**10 321**	–	–	–	–	10 321
	247 606	131 311	75 068	18 212	7 540	15 475
Net interest sensitivity gap	**–**	(7 946)	(28 884)	24 106	20 993	(8 269)

29. Risk management (continued)

29.7 Liquidity risk management

The bank is exposed to daily liquidity requirements from overnight deposits, current accounts, maturing deposits, loan draw-downs and other cash requirements. The bank does not maintain sufficient cash resources to meet all of these liquidity needs, as historical experience indicates a minimum level of reinvestment of maturing funds with a high level of certainty.

The matching and controlled mismatching of maturities and interest rates of assets and liabilities is fundamental to the management of the bank. It is unusual for banks to be completely matched since business transactions are often of uncertain terms and of different types. An unmatched position potentially enhances profitability, but may also increase the risk of loss.

The maturities of assets and liabilities and the ability to replace, at an acceptable cost, interest-bearing liabilities as they mature, are important factors in assessing the liquidity of the bank and its exposure to changes in interest rates and exchange rates.

Details on the liquidity risk management process is set out in paragraph 3.8 of the risk report on pages 8 to 9.

The table below sets out the maturity analysis of the bank balance sheet based on the remaining period from year-end to contractual maturity. "Demand" denotes assets or liabilities with a contractual maturity of 32 days or less.

R million	**Carrying amount 2003**	Term to maturity Demand	1 – 12 months	1 – 5 years	Over 5 years
Assets					
Cash and short-term funds	**19 333**	19 313	20	–	–
Derivative financial instruments	**21 827**	624	10 140	5 773	5 290
Advances	**152 276**	41 111	28 969	55 894	26 302
Investment securities and other investments	**23 992**	6 833	3 272	11 118	2 769
Accounts receivable	**1 724**	1 602	120	2	–
Investment in associated companies	**777**	–	–	655	122
Interest in subsidiary companies	**24**	–	–	–	24
Holding and fellow subsidiary companies	**24 532**	–	24 532	–	–
Property and equipment	**1 472**	3	12	384	1 073
Retirement benefit asset	**1 628**	–	–	–	1 628
Intangible assets	**21**	11	10	–	–
	247 606	69 497	67 075	73 826	37 208
Liabilities					
Deposits and current accounts	**150 829**	113 047	29 364	3 532	4 886
Short trading positions	**34 585**	10 309	19 157	3 091	2 028
Derivative financial instruments	**22 451**	1 485	13 799	5 451	1 716
Post-retirement medical liability	**942**	–	–	–	942
Creditors and accruals	**2 528**	2 398	130	–	–
Provisions	**978**	815	163	–	–
Taxation	**607**	92	506	–	9
Deferred taxation liability	**1 557**	30	1 077	450	–
Holding and fellow subsidiary companies	**19 697**	–	19 697	–	–
Long-term liabilities	**3 111**	–	–	2 470	641
Shareholders' equity	**10 321**	–	–	–	10 321
	247 606	128 176	83 893	14 994	20 543
Net liquidity gap	**–**	(58 679)	(16 818)	58 832	16 665

Notes to the annual financial statements continued

for the year ended 30 June 2003

29. Risk management (continued)

29.8 Fair value of financial instruments

The following represents the fair values of financial instruments not carried at fair value on the balance sheet:

R million	Carrying amount 2003	Fair value 2003	Unrecognised gain/(loss) 2003
Assets			
Advances	**152 276**	**152 276**	**–**
Investment securities	**23 992**	**23 992**	**–**
	176 268	**176 268**	**–**
Deposit and current accounts	**150 829**	**150 829**	**–**
Long-term liabilities	**3 111**	**3 111**	**–**
	153 940	**153 940**	**–**

Fair value has been determined as follows:

– advances – based on the discounted value of estimated future cash flows, determined based on current market rates;

– held-to-maturity investment securities – market/dealer quotations, if available, or fair value estimations based on market prices for similar instruments with similar credit risks;

– deposits and current accounts – where there is no stated maturity, the amount repayable on demand – in respect of interest bearing liabilities with a fixed maturity, based on discounted cash flow value using market rates on new liabilities with a similar maturity;

– long-term liabilities – quoted market prices, if available, or based on the discounted cash flow values using market rates for similar instruments with a comparable term to maturity.

30. Trust activities

The market value of assets held or placed on behalf of customers in a fiduciary capacity amounts to R5 144 million (2002: R6 201 million).

31. Segment information

31.1 Primary segments (business)

Cluster	Segment	Brands	Target segment	Description
Retail Cluster	Retail banking	First National Bank, FNB Card, BOB, First National (Rural bank) FNB HomeLoans	Small businesses and individuals	Retail banking, wholesale banking and support services
	Instalment finance	WesBank	Corporates and individuals	Motor vehicle and instalment finance
	African subsidiaries	FNB Namibia, FNB Botswana and FNB Swaziland	Corporates and individuals	Corporate and retail banking
	Short-term insurance	OUTsurance and First Link	Corporates and individuals	Short-term insurance
Corporate Cluster	Investment banking	Rand Merchant Bank, RMB Private Equity, RMB International and RMB Resources, RMB Australia and RMB International	Large corporates, parastatals and government	Merchant and investment banking services
	Corporate	FNB Corporate, Hyphen	Medium and large corporates	Corporate banking
Wealth Cluster	Wealth management	RMB Private Bank, Ansbacher UK and FNB Trust Services	High net worth individuals	Wealth management Trust services
Capital Centre	Capital Centre	FirstRand Bank		Owns the capital of the Banking Group

Segmental financial information is not presented as the bank is a wholly owned subsidiary of FirstRand Bank Holdings Limited.

Administration

FirstRand Bank Limited

Registered bank

(Registration No 1929/001225/06)

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Notes

Notes

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