FIRSTRAND

Bank Limited

Annual Report 2002

FIRSTRAND BANK LIMITED ANNUAL REPORT 2002

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Board of Directors and board committees of FirstRand Bank Limited

G T Ferreira (54)
BCom (Hons), (B&A), MBA
Chairman of FirstRand, FirstRand Bank Holdings and RMB Holdings

P K Harris (52)
MCom
Director of FirstRand, Chief Executive Officer of FirstRand Bank Holdings, Director of RMB Holdings

V W Bartlett (59)
AMP (Harvard), FIBSA
Director of FirstRand, Deputy Chief Executive Officer of FirstRand Bank Holdings

M P C Brogan (53)*
FCA
Chairman of FirstRand International and Ansbacher Holdings

Alternate to M P C Brogan: R Spilg (45)
CA(SA), CA (Australia), HDip Tax (Wits)
Chief Executive Officer of Ansbacher Holdings

J P Burger (43)
BCom (Hons), CA(SA)
Financial Director of FirstRand Bank Holdings, Chief Financial Officer of FirstRand

L L Dippenaar (53)
MCom, CA(SA)
Chief Executive Officer of FirstRand, Chairman of Momentum Group, Director of RMB Holdings

D M Falck (56)
CA(SA)
Director of FirstRand and RMB Holdings

J W Gafney (68)
CTC, CA(SA)

P M Goss (54)
BEcon (Hons), BAccSc (Hons), CA(SA)
Director of FirstRand and RMB Holdings

M W King (65)
CA(SA), FCA
Director of FirstRand and Ansbacher Holdings

S R Maharaj (67)
BA, BAdmin
Director of FirstRand

A S Vahed (68)
DCom (Hons), UDW (Hons), DEcon (Natal)

R A Williams (61)
BA, LLB
Director of FirstRand

**Australian*

The following director served on the board during the year and has resigned on the date indicated below:

M W Pfaff – 11 June 2002

Audit Committee:
M W King (Chairman)
V W Bartlett
D M Falck
P K Harris
R A Williams
A H Arnott (ex officio)
J P Burger (ex officio)

Remuneration Committee:
G T Ferreira (Chairman)
P M Goss
M W King
R A 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 Report on Corporate Governance for South Africa 2002. 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

The Board is chaired by a non-executive director. The roles of chairman and chief executive officer are separate with responsibilities divided between them.

The Board comprises 13 directors of whom four serve in an executive capacity. The directors of the bank are listed on page 2. 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 and meets eight times per year. Additional meetings are convened when major issues arise which need to be resolved between scheduled meetings.

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 for specified terms, subject to re-election and to Companies Act provisions relating to removal, retiring 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 19.

Risk management report

Board responsibility

The business risks of the Banking Group including FirstRand Bank Limited, are managed in terms of the Business Success and Risk Management Framework which is a policy of the Board of FirstRand Bank Holdings.

The objective of risk management is to identify those factors which could prevent the organisation and its various entities from achieving their desired objectives and to take appropriate actions to minimise the impact of adverse developments.

Risk Management is a very useful management tool because it highlights the potential pitfalls inherent in any task, activity, project, business process or strategy and assists management to focus on the key risk or key performance factors to achieve desired outcomes and to guard against excessive risk exposures.

Risk control policies and exposure limits for the key risk areas of the Banking Group are approved by the Board, while operational policies and control procedures are approved by the relevant risk committees.

The Risk Management Framework ("framework") defines the generic risk categories within which business risks are to be identified, the risk management processes and risk monitoring functions and structures and the responsibilities of the line managers, risk managers, management, audit and risk committees of the Banking Group.

By means of the framework, the Board has vested the responsibility and accountability for the implementation of its risk management policies with the various business units. The risk management structures and functions which are in place in terms of the framework, ensure that risk management is implemented and the effectiveness thereof monitored throughout the Banking Group. These structures and functions ensure that risk management is an integral part of the Banking Group's culture and operations.

Values

To be successful, risk management has to operate within an organisational culture and value system that supports the process of risk identification and mitigation. The Banking Group endeavours to maintain the highest ethical standards in its interactions with its employees, its clients, the authorities, its shareholders and the community as a whole. It strives to comply fully with statutes and regulations and has zero tolerance for criminal and unethical actions by its employees or outsiders. The various businesses strive to generate profits which adequately reward for risk while avoiding excessive risk exposures and concentrations.

Risk management structure

Committees of the Board

The following committees monitor the internal control and risk management processes on behalf of the Board:

Committees of the Board	**Function**
• Main Audit Committee of the Banking Group Chairperson: M W King	Monitors the internal control and compliance processes of the Banking Group.
• Banking Group Credit Committee Chairperson: J P Burger	Approval of credit policies in the Corporate and Wealth clusters. Approval of large corporate credit facilities.
• Corporate Credit Risk Committee Chairperson: F J Swanepoel	Monitors the effectiveness of corporate credit risk management.
• Consumer Credit Risk Committee Chairperson: M D Macmillan	Monitors the effectiveness of credit risk management in the Retail Cluster.
• Assets and Liability Committee Chairperson: V W Bartlett	Oversees the management of interest rate and liquidity risk in the Banking Group.
• Operational Risk Committee Chairperson: J J H Bester	Oversees the management of risk and operational risk in the Banking Group.
• RMB Risk Committee Chairperson: D Prout-Jones	Oversees the management of market risk in the main trading entities.

Sub-audit committees

The Main Audit Committee delegates the responsibility to monitor the internal control and compliance processes of the divisions and subsidiaries of the Banking Group to the sub-audit committees of the various entities. The subcommittees review the internal and external audit and compliance reports relevant to the entity, to monitor the effectiveness of the control, compliance and risk management processes and the implementation of corrective actions to address control shortcomings. Material process breakdowns and control issues are reported to the Main Audit Committee.

Representatives of the independent risk and audit functions attend all subcommittee meetings.

Risk committees of the business units

All the main operating subsidiaries and divisions and many of the business units within these entities have established risk committees which monitor the risk management processes, risk control breakdowns and the management of operational risk within these entities.

These risk committees also monitor the implementation of corrective actions to address control and compliance shortcomings identified by management, the internal and external auditors or the risk managers.

Independent risk control

The Banking Group uses a structure of independent and deployed risk management functions. Through the integration of the risk and business management processes, the Banking Group aims to minimise risk by combining the advantages of an independent monitoring, co-ordination and standards function with deployed risk management functions. The latter are integrated with the business and operational activities and add value to operations because of their specialised knowledge of the business processes and their day-to-day involvement with the business.

Finance, Risk and Audit division

The Finance, Risk and Audit division of the Banking Group manages the finance, compliance, risk and audit functions on a day-to-day basis and are responsible for the maintenance of risk management policies, standards, methodologies and processes and the monitoring of the implementation thereof. This division comprises the following risk management units: Financial Accounting, Capital Management, Compliance, FirstLaw, Direct Tax, Indirect Tax, Governance, Corporate Credit Risk, Retail Credit Risk, Risk and Audit Services.

Risk management by the business units

The foundation of the risk management process is the deployment of the responsibility for the risk management process to line management. All line functions and the risk managers within all the major business units are responsible for the implementation of an effective process to identify and manage all business risks.

Business units are required to identify their key risks as an integral part of their day-to-day activities and to implement actions to address these risks. Process breakdowns, weaknesses and major risk control initiatives are reported to the relevant management, risk and audit subcommittees.

Risk management policies, procedures and control requirements are communicated throughout the organisation to achieve the broadest possible awareness of the need for effective risk control.

The risk management process

Each business unit assesses its business risks within the generic risk categories specified in the framework. The key risks are identified and responsibility is assigned to implement initiatives to ensure that these risks are adequately managed. Progress with the implementation of risk mitigating actions is monitored by the management and risk committees of each business unit.

The risk assessments and general risk control processes cover all significant business risks including the safeguarding of the organisation's human, physical, and information assets, statutory and regulatory compliance, business continuation, financial reporting and the completeness of financial information, legal risks, process systems and technology risks, people and skills management, credit, market liquidity and interest rate risks, payment and settlement risks and risk insurance.

The independent risk management operations unit and the deployed risk managers monitor the risk control initiatives and highlight process breakdowns and control shortcomings to the business units and the risk committees.

Business units are reviewed regularly to assess the effectiveness of their risk management processes.

The risk committees of the business entities meet at regular intervals, mostly monthly, to monitor the risk management processes, major process breakdowns and the implementation of risk management initiatives.

The central risk management unit and the internal auditors are represented on the risk committees of the business units. Consequently, risk control shortcomings and process failures are brought to their attention as soon as these are identified by management. This enables the independent risk and internal audit functions to monitor the implementation and effectiveness of corrective measures to address shortcomings identified by management, the deployed risk managers and through the internal audit process on an ongoing basis.

Through the aforementioned structures and processes, the Banking Group has ensured that risk is managed proactively throughout the organisation on an ongoing basis and that control shortcomings are timeously addressed and the implementation of corrective actions monitored. The Board, the Main Audit Committee and the various business units monitor the effectiveness of risk management by means of the formal reporting of credit default experience and credit performance, market trading performance and market risk exposures, operational losses, material issues and major process breakdowns and weaknesses.

Internal audit

The internal audit function is divided into four departments, namely:

- process auditors for the branch system;
- credit auditors who audit the credit processes in the branches and credit hubs;

- business auditors who audit the financial, governance, risk management and business processes of the business units; and
- systems auditors who assess the effectiveness of systems, general and application controls, information security and systems development.

The process auditors audit each retail outlet at least once a year. Comprehensive audit reports are issued to the business unit sub-audit committees, the deployed risk managers and to management who implement actions to correct control deficiencies. Summaries of the audit findings and material issues are advised to the Main Audit Committee.

Each process auditor is assigned to specific branches in a geographical area and has the responsibility to monitor that control shortcomings are corrected in the branches under the auditor's supervision. Should a branch receive an unacceptable rating in respect of controls over the branch processes, the auditor will do a follow-up audit within a few months to check that controls have been improved satisfactorily.

The credit auditors that are responsible for the retail branches and credit hubs, also audit the units assigned to them once a year to ensure that effective credit processes are in place. Because the auditors have the responsibility for specific branches and hubs they are able to assess local credit trends and to keep in close contact on problematic accounts. They are also ideally placed to monitor activities where improvement is required to ensure progress.

The business auditors audit the effectiveness of the controls over business processes including governance, credit, market trading, operations, financial and operational risk management of the various business units within the Banking Group.

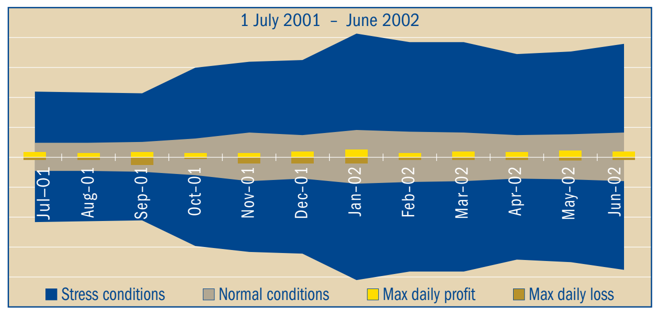
Similarly, the systems auditors audit the operating systems and new systems developments across the Banking Group to assess the adequacy of general and application controls, information security and general operations.

Both the business and systems auditors are represented on the audit and risk committees of the business units to enable them to monitor the implementation of improvements, and for process breakdowns or weaknesses to be brought to their attention at the earliest opportunity. Auditors' representation at these committees enables them to ensure that the risk management functions operate effectively across the organisation.

Market risk

Trading in the financial markets is primarily conducted within the ambit of the activities of Rand Merchant Bank. As in preceding years, market risk was very well controlled with no incidents of losses or profits in excess of normal risk levels. The inner envelope in the accompanying graph depicts normal risk exposures. In the graph the maximum mark-to-market profits and losses are compared with the calculated risk exposures. Incidences where the profit or loss exceeds the calculated risk exposure might indicate that limits were exceeded or that the risk exposure measures are inadequate and would be investigated by the risk managers. There were no such incidences as can be seen from the graph. Overall the market risk management processes are considered to be very effective, especially in the light of the market upheavals of the year under review.

The financial market traders succeeded in generating excellent profits while controlling risk exceptionally well.



Rand Merchant Bank
Treasury market risk

Risk exposure limits

Market risk exposures are limited by an overall stress-loss-limit of R538 million as approved by the Banking Group Board. Exposures are determined in a very conservative way by calculating the change in the market values of all the net open positions on a trading desk which would result from changes in prices and rates under stress conditions. These changes in market values are then aggregated for the trading desk without taking correlation factors or diversification benefits into account.

The stress exposure values are calculated for each trading desk and aggregated across all desks, again without taking any correlation, diversification or offsetting positions into account, to determine the overall stress exposure. In this way it is ensured that individual trading desks and the overall trading activities are safeguarded against excessive losses which could result from a breakdown in correlation factors under stress conditions or from applying offsets across trading desks.

It is highly unlikely, for the Banking Group ever to experience trading losses under stress conditions equal to the stress-loss-limit unless all market positions held are at the maximum and are impacted adversely by extreme conditions of a total breakdown across all markets. The estimated maximum normal risk exposure at the 99% confidence level, which equates to the stress-loss-limit of R538 million, is in the order of R85 million. Furthermore, the stress-loss-limit of R538 million is less than 5% of the total capital of the Banking Group. Market risk emanating from trading positions is considered to be relatively small in the context of the Banking Group's overall operations.

Automation of market risk reporting

Rand Merchant Bank is implementing the Algorithmics RiskWatch system for the quantification of the risk exposures of its trading activities and expects the first phase to be successfully completed during the first quarter of the current financial year. The system automates the production of the daily risk reports, provides an independent pricing check and calculates profit and loss attribution by risk factor for comparison with the financial accounts.

Operational risk

Security of employees and customers

The Banking Group is very concerned about the security of our employees and customers in the branches where there is exposure to robberies. Every effort is made to continuously strive to implement new security measures to deter robbers, burglars and fraudsters. In addition, the banking industry will be launching major new initiatives to combat crime for the protection of the industry's employees and customers.

Security of assets

The Banking Group has been successful in reducing losses from criminal activities by 55% from a peak in the financial year to 30 June 1999 and to contain losses at the lower levels while the Banking Group's assets and trading volumes have increased substantially over the period. Although a high level of success has been achieved in reducing losses in absolute and relative terms, ways are continuously sought to reduce losses even further. New control measures are constantly introduced together with the launching of awareness programmes in an effort to eradicate losses due to criminal activities.

Losses due to criminal activities and money differences

Index (2000 = 100)	2002	2001	2000
Banking fraud and forgery	**29**	37	67
Robberies and burglaries	**15**	19	12
Card fraud	**11**	16	11
Transit losses	**0**	2	1
Money differences	**7**	7	7
Other	**0**	0	1
Total local operations	**62**	81	99
International fraud	**0**	14	1
Total losses	**62**	95	100

The table shows the degree to which losses due to criminal activities and money differences have been reduced. All loss values are indexed to 100 with the 2000 financial year as the base year. Total losses have declined by almost 40% in value. Losses due to fraud and forgeries are down substantially; losses due to card fraud have been contained at the level of two years ago, while losses due to robberies and burglaries have been reduced from last year, but are still up on two years ago. Prior year figures are constantly updated to add incidents that have been identified after a year-end and to adjust losses for recoveries.

Information security

The Banking Group's internet perimeter is protected by firewall technology that is continually tested to identify and repair vulnerabilities. An intrusion detection system has been installed in the main network control centre and a project is under way to establish the need for this facility across the Banking Group's networks.

Policy for information security has been revised and issued and is supported by the ISF Standard of Good Practice which is in excess of the ISO Standard 17799. Technical baseline standards for all platforms are in place and are continually reviewed.

The Banking Group has not experienced any incident of external unauthorised access to its systems from the internet that has resulted in reputational or financial loss and has experienced minimal downtime as a result of virus infiltration. The threat from these sources is known to be increasing worldwide and a high priority is given to the introduction and maintenance of adequate controls in this area.

The business units are monitored to ensure that they implement corrective actions to improve control shortcomings in access, general and application controls identified by the risk managers and the systems auditors.

Business continuation

Appropriate business continuation measures have been implemented for most key activities. Furthermore, the end of a comprehensive programme to implement adequate business continuation arrangements for all the business units of the Banking Group is being reached; the programme should be completed before the end of the calendar year and testing completed by June 2003.

Legal risk

Legal risk is managed by the business units within the Compliance and Legal Risk Management Framework of the Banking Group. FirstLaw, as the central legal risk management unit, the deployed legal and compliance officers of the individual business units and the Legal and Compliance Forum combine to identify legal risks and losses due to contractual imperfections or the incorrect application of contractual terms in order to limit potential losses emanating from contract management or common law obligations.

Risk management report continued

Risk insurance

The Banking Group maintains a comprehensive insurance programme as additional protection against potential losses from theft, fraud, loss of physical assets, professional liability claims and director's and officer's liability. It increased its cover by a third, recognising the growth in assets and transaction values.

As a result of the Banking Group's loss control programmes, it has succeeded in obtaining substantial insurance cover without a concomitant rise in insurance costs. However, as a consequence of the September 11 events, the Banking Group's premiums for physical asset cover increased substantially. The Banking Group also expects relatively large increases in the premiums of the other insurance arrangements when these come up for renewal at the end of the current financial year.

The insurance and reinsurance industries have suffered severe losses resulting from the September 11 catastrophe and face high claims from subsequent events in the financial industry. They have little choice but to recover these losses through higher premiums. Although the Banking Group will face higher premiums, the total increase will be small in relative terms. In addition, the Banking Group will continue to adjust its insurance programmes to achieve the most effective cost benefits.

The new Basel Capital Accord proposals in respect of operational risk

The Basel Committee has proposed that banks, which subscribe to their recommendations in respect of capital adequacy requirements, should also maintain capital against potential operational losses with effect from a date still to be finalised, but which is expected to be January 2007.

Operational losses are defined as the risk of loss due to inadequate or failed internal processes, people, and systems or from external events, including legal risk.

Banks will have a choice of determining their capital requirement against operational risk in one of three different ways:

- according to the Basic Indicator Approach, a bank would be required to calculate its capital requirement as a set percentage of gross income;
- according to the Standard Indicator Approach a bank will have to allocate risk-weighting factors to its different business lines to allocate capital per business line with an overall minimum requirement set as a percentage of gross income;
- by using an Advanced Measurement Approach a bank will be able to maintain capital according to its actual loss experience and by applying statistical quantification methods. A minimum capital requirement will apply. The aforementioned minimums have not been finalised and are subject to change.

In order to use the Advanced Measurement Approach a bank will have to record operational losses in the appropriate categories for at least three years prior to the implementation of the new Basel Capital Accord. To meet this requirement, the Banking Group has implemented a database and loss recording system with effect from 1 July 2002 which is structured to ensure that the loss database information aligns with loss categories as per the general ledger so that the Banking Group can confirm the integrity of the data.

It is anticipated that the Banking Group will be ready in 2007 to use the Advanced Measurement Approach which will ensure that the Banking Group incurs the minimum capital requirement in accordance with its actual operational loss experience.

Interest rate risk and liquidity management in the banking book

The Group Asset/Liability Committee ("Group ALCO") is responsible for the management of the interest rate risk and the liquidity risks for the consolidated Banking Group operating under a mandate from the Banking Group Board. Trading book interest rate risks are managed separately and are monitored within the Market Risk Committee.

For the purpose of separating trading and banking book portfolios, the trading book consists of proprietary positions taken with the intention of benefiting in the short term from actual or anticipated differences between buying and selling prices. Trading book positions are all mark-to-market. The banking book comprises the rest of the Banking Group balance sheet.

Group ALCO members are drawn from Banking Group Treasury, Group Risk and Audit Services and the clusters. The committee manages the limit allocation and monitors the management processes for these risks.

Interest rate risk management in the banking book

Interest rate risk is managed on a decentralised basis where appropriate, with centralised monitoring of risk against approved limits. Decentralised management is allowed where there is sufficient resource and understanding of interest rate risks of the business unit's balance sheet.

Various risk measurement tools are used. These include interest rate gap reports and the simulation of the impact of rate shocks on projected earnings and on the present value of future cash flows. These measures are used where appropriate in the markets in which the Banking Group operates.

The presence on the Banking Group's balance sheet of administered rate products with ambiguous repricing and maturity structures requires that behavioural assumptions be made to allow these products to be modelled. These assumptions are based on statistical analysis coupled with management's judgement based on the underlying product behaviour. The assumptions are reviewed regularly and changed where appropriate.

The Banking Group's capital is treated as a separate portfolio in the major banking entities. Separate committees set benchmark maturity structures for these portfolios based on anticipated interest rate movements within defined risk parameters. This investment process is undertaken with a minimum of additional credit risk being created.

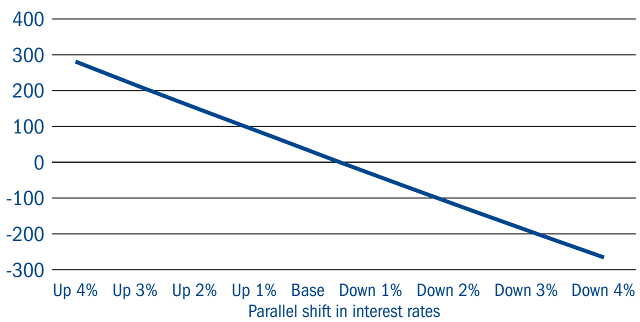
As part of the initiative to forge closer ties between Banking Group Treasury and the clusters, Cluster ALCOs are being established. Cluster ALCOs also ensure that the management of interest rate and liquidity risks in the bank remains a collaborative effort.

International operations are managed on a decentralised basis with the International ALCO responsible for monitoring the risks and reporting to the Group ALCO.

Banking book interest rate risk

Structural banking book interest rate sensitivity is measured using simulation techniques. The forecast balance sheets are based on estimated future new business volumes and margins. These assumptions are updated regularly based on the expected business and interest rate environments.

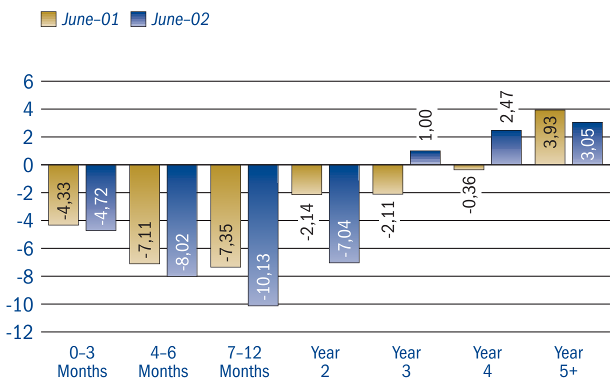
The most significant portion of the Banking Group's interest rate risk resides on its South African balance sheet. The sensitivity of SA rand earnings to an instantaneous shock to interest rates over a 12-month forecast period is as follows:



Net interest income sensitivity (R million) – 30 June 2002

This exposure is considered small relative to the size of the banking operations and is within the Banking Group's prudential limits. The graph 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.

The following graph depicts the cumulative repricing gap of the domestic portion of the banking book. Assets, liabilities and derivative instruments are placed in repricing buckets based on their repricing characteristics. Administered rate products are included in the 0-to-3-month bucket, a conservative repricing assumption for these products.



Cumulative repricing gap (R billion)

Hedging of interest rate risk is undertaken using various financial instruments including interest rate swaps, rand overnight deposit swaps (RODS) and government securities. The impact of these instruments has been included in the simulations summarised on the above graph.

Liquidity risk management

Liquidity risk management, or the risk of not being able to meet future cash flow commitments, is handled differently in the various locations where the Banking Group operates depending on a number of factors. These factors include the relative size, the nature and the responsibilities of the various entities as well as the size and liquidity of the markets in which they operate and the products on the balance sheets.

Liquidity risk management in the southern African currencies is focused on avoiding any maturity or counterpart concentrations and ensuring an orderly cash flow to the funding desks. Limits exist for these risks and are monitored on a daily basis with regular reporting to the Group ALCO. A significant portion of the Banking Group's deposits consists of savings and current accounts. While these funds are repayable on demand, they exhibit a high degree of stability and form an important source of liquidity.

The Banking Group's significant involvement in the South African markets, coupled with its good earnings growth and strong balance sheet are important factors in ensuring the continued availability of funds at competitive rates for the banking operations.

In the offshore operations, the Banking Group operates as relatively small entities in large international markets. Here, two sets of limits are used – one related to the short-term cash flow of the entity and the other to the possibility of increased funding costs arising from a liquidity mismatch. These limits are managed by the local entities with reporting through the International ALCO to the Group ALCO.

The short-term cash flow limits ensure that sufficient liquidity exists to cover the immediate 0-to-8-day period. Increased liquidity mismatch limits are allowed into the future but these are capped by the potential loss limits where funding costs could increase.

In all cases prudent liquidity management is considered of paramount importance.

Credit risk

Corporate credit

The strategy of the Banking Group is to either originate and hold, or distribute credit risk, given the opportunities prevailing in the capital and debt syndication markets from time to time

The Banking Group is developing a common credit risk management framework aligned to the Advanced Internal Ratings Based Approach for credit risk of the New Basel Capital Accord. The latter is currently in it's quantitative impact analysis stage ("QIS3 project").
The Basel II Capital Accord provides inter alia for:

- risk weighting of bank exposures with associated Probability of Default ("PD") estimates per class of exposure;
- differentiation between exposure types, maturity structure and collateral types in Exposure at Default ("EAD") and Loss given Default ("LGD") calculations;
- an option to the regulator for a capital charge add-on based on regulatory review; and
- increased disclosure requirements,

all of which emphasise the requirement for reliable and comprehensive credit data and substantial investment in information technology and skilled resources. The Banking Group has implemented a number of projects to establish a central credit database and record credit default data in the formats required in order to comply with the proposed new Basel II requirements when it comes into effect.

From a strategic credit management perspective, the underlying credit re-engineering project of the Banking Group, which has as its focus the implementation of the risk management framework, receives executive management attention. The Banking Group's participation in the QIS3 project, an initiative between the regulators and the major international banks, provides a sound basis for assessing progress in respect of compliance at a detailed level with the envisaged standards. The latter are the result of international best practices research and debate.

Progress with the implementation of the common credit risk management framework in the Corporate Credit Process can be summarised as follows:

Credit management

Framework	Re-engineering project focus	Progress with implementation
Common risk parameters Common rating scale	Credit commoditisation (Tradability of credit): • rating/grading; • pricing for risk/return; and • dynamic provisioning.	The corporate credit portfolio has been risk rated and pricing for risk and dynamic provisioning are being tested against established processes. Credit trading has been enabled (see comments on credit risk portfolio management).
	Implementing a Risk Based Limit System	Prudential limit policies have been implemented with the objective of protecting the Banking Group against revenue earnings volatility and intolerable losses.
Common portfolio reporting methodology	Measuring and managing portfolio risk	Implemented standard reporting format to the Credit and Market Risk Committee which will serve as basis for compliance with the QIS3 project information requirements. This will enable consolidation of the portfolio at a Banking Group level (see comments on credit risk portfolio management).
Common capital management approach	Optimising the relationship between regulatory and economic capital Re-engineering of the credit processes: • origination; • approval; • legal and risk compliance; • ongoing risk management and operational portfolio management; • corporate recovery; and • debt restructuring.	Quantification of economic capital used by business units is on the short-term horizon of the Capital Management Committee. Further focus on industry specialisation in respect of origination process for large corporate segment to be implemented. Approval mandate structure in place for the Corporate Cluster (see credit governance below). Accountability for standardisation of credit documentation has been established. Corporate recoveries have been centralised and function across Banking Group clusters ensuring efficiencies. An effective debt restructuring team operates on a multidisciplinary basis. The standardised risk rating forms the basis for decisions throughout the credit cycle such as: • depth of due diligence at origination; • allocation of mandates; • determining frequency and depth of facility reviews and facility covenants; • dealing with trends in the portfolio; • establishment of portfolio limits; and • pricing decisions.
	Managing the cost of credit risk	The financial impact of the re-engineered processes with regard to the reduction in bad debt write-offs are discussed in the report. Workflow technology is being implemented to enhance staff productivity, to reduce paper flow and support the credit data architecture.
	Aligning the organisational structure and the credit risk strategy	Credit structure has been revisited to ensure single accountability for total counterparty exposure and specialisation (see below).

Risk management report continued

Credit risk portfolio management

Credit risk portfolio management is a key objective and business processes are being implemented to enable this initiative. In this regard the significant credit trading and structuring skills developed in Rand Merchant Bank has culminated in the successful closure of two ground-breaking securitisation transactions. FRESCO is a synthetic collateralised loan obligation which provides credit protection on a portfolio basis on R12,5 billion of corporate credit exposures. These corporate exposures represent over 100 of the larger exposures within the Banking Group. The PROCUL transaction is a synthetic auto loan securitisation of WesBank assets. This transaction secured protection on R2 billion of auto loans. Further to these transactions the Banking Group has continued to be active in the South African capital markets and continues to see growth in the credit trading market. These activities contributed to Rand Merchant Bank being awarded the accolade of top debt house in South Africa by Euromoney in 2002. The credit structuring and distribution of credit risk are core competencies of the Banking Group and will significantly contribute to the success of the future portfolio management strategies.

Structure, management and organisation

The focus of credit risk management is being changed to enhance specialisation in credit risk management and research throughout the Banking Group. In this regard specialisation is focused on complex lending products, such as structured finance, project finance, and an industry focus on counterparty research.

Each industry specialist in the large corporate segment takes responsibility for operational portfolio risk management including:

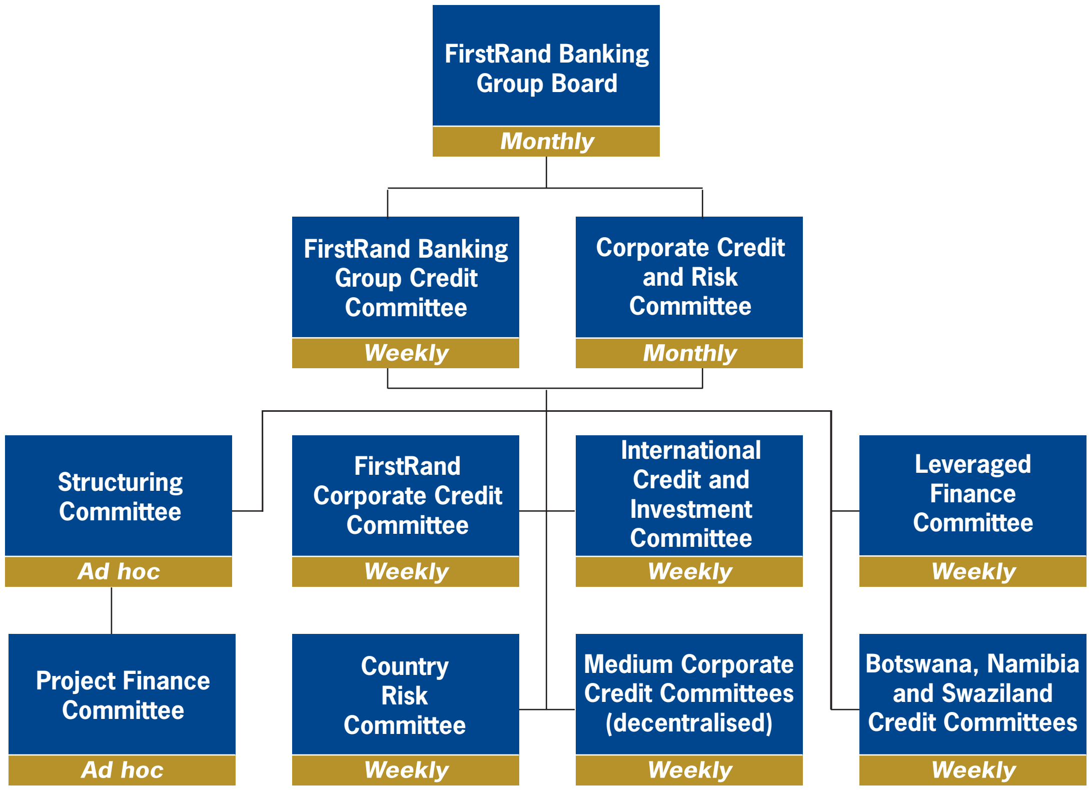
- industry reporting on a proactive basis;
- credit assessment and risk rating on the client relationship as a whole, including the preparation of the credit proposal for the aggregate exposure to the client as well as the extensions thereof;
- ongoing risk management in respect of clients in their portfolio;
- the calculation of certain variables for and the fulfilling of a watchdog role in respect of the return on capital rendered by client relationships; and
- general product knowledge.

Specialised lending analysts take responsibility for assessment, on a multidisciplinary basis, of credit exposure inherent in innovative structures and prepare the credit proposal for specialised lending activities utilising the aforementioned relationship profile prepared by the industry specialist, if applicable.

Product specialists take responsibility for in-depth understanding of product profiles from a legal, cash flow, tenor and pricing perspective ensuring maximum exposure is accurately calculated, communicated and marked against approved facilities on an ongoing basis.

Credit governance structure

The following illustrates the structure regarding delegation of authority in respect of credit approval mandates and the frequency of the meetings held:



Certain salient features of the aforementioned structure are set out below:

- the Structuring Committee assesses and approves technical risks such as legal, structural and tax before a transaction is referred to the relevant credit committee which assesses the counterparty credit risk.
- the Project Finance Committee assesses the risks on projects where reliance is placed on inherent cash flows of the project.
- the Medium Corporate Committees are decentralised with mandates up to R20 million. Larger exposures are approved at the FirstRand Corporate Credit Committee which has a mandate up to R100 million.
- exposure above R100 million are approved by the FirstRand Banking Group Credit Committee.
- senior and mezzanine debt exposures to highly leveraged entities are approved by the Leveraged Finance Committee.
- the Corporate Credit and Market Risk Committee reviews portfolio trends on an individual and global portfolio basis. Concentration risk and related diversification strategies are assessed with the purpose of minimising the adverse impact of any single event or set of occurrences. The downstream credit trading and structuring capability will actively generate solutions for risks identified.

The aforementioned structure governs the fundamentals that underpin the credit management framework, such as:

- formulation of the credit philosophy which provides for a single centre of control of risk towards a particular counterparty (for relationship-related business) and per deal (for specialised lending activities);
- approval of credit norms and limits as appropriate, eg prudential and country limits;
- approval of the counterparty risk grading;
- credit risk provisioning methodology on a dynamic basis;
- executive and non-executive involvement as applicable;
- integration of business and credit risk management plan;
- risk ownership by accountable business units;
- risk reporting; and
- risk/reward framework.

Description of grading methodology and credit risk models

The rating of the Corporate Cluster credit portfolio over all borrower and deal types is well advanced. Through this process expected losses, once measured, can be provided for on a dynamic basis over a given time horizon based on historical default behaviour and the collateral

Risk management report continued

recovery results associated with the defaulted transactions. For derivative transactions, the credit exposure is measured on a present value and potential future loan equivalent basis by using the Riskwatch model. These risks are generally mitigated through ISDA agreements and collateral arrangements where deemed necessary. Unexpected losses will be measured over a given time horizon. An estimate can be derived of possible worst case credit losses, given a predetermined confidence level (say 99%), and used as input into the management of economic capital levels by business unit and the Banking Group as a whole.

Counterparty credit risk is rated based on internal rating models. Ratings are verified against available external information such as KMV, bond spreads and rating agency reports, where available. In taking the FRESCO transaction to market, the external rating agency placed strong reliance on the Banking Group's internal rating methodology.

Medium corporate clients are rated by using a combination of the Moody's Riskcalc Model (North American version, as adjusted for South African circumstances) and certain qualitative attributes.

Effectiveness of the credit risk management process

The credit quality of the domestic loan book improved significantly during the year under review. This was as a result of improvements in the credit processes and corporate restructurings on distressed clients. As mentioned elsewhere in this report, the international corporate bond portfolio is heavily invested in the US Corporate market and did not escape the effects of unexpected events such as September 11, corporate fraud and the deteriorating economic environment.

Debt collection

The Banking Group has been very successful in collecting outstanding debt, mostly recovering the full outstanding exposures because of its involvement in and control over the liquidation process, and its expertise in debt restructuring.

To the extent that it is possible, the Banking Group aims to re-structure distressed credits whilst the borrower still has a viable business. In this way, losses due to bad debts are reduced or eliminated while retaining our banking relationships with the underlying entities.

Consumer credit

The re-engineering project in the South African Retail Banking operations is well advanced, with the majority of lending now graded for risk and priced accordingly. The introduction of actuarial skills to evaluate and analyse the book has led to a significant improvement in understanding the risks that lie within the portfolios with improvements in portfolio management and exploitation of newly identified opportunities.

Upgraded credit management processes, including the use of electronic communication and automated scoring systems, have resulted in an improvement in turnaround times.

These initiatives, along with the benefits arising out of specialist divisions that focus on workout and collection activities, have seen the quality of the domestic retail book improve over the last year.

The exposure to MicroLoans is only R245 million and because the amount is immaterial in the context of the retail book as a whole, it has been excluded from the analysis below.

The table below highlights the improvement in the retail book:

	Non-performing loans	
Product	**2002**	**2001**
Instalment credit	**1,4%**	1,8%
Home loans (excluding acquired advances)	**2,3%**	3,1%
Credit card	**9,5%**	11,2%
Overdrafts	**11,2%**	12,6%
Personal loans	**5,9%**	5,9%

Progress toward compliance with AC 133 is on track to meet the target date of 1 July 2002. The dynamic provisioning requirements of this accounting standard fit neatly into the Basel compliance projects currently being undertaken.

The vast majority of the retail book lending activity is subjected to scorecard assessment, with only the larger exposures being assessed by various levels of credit committees. New scorecards have been developed for agricultural and small business customers during the year which will add to the assessment tools available to the business going forward.

It is a feature of the domestic Retail Banking book that 80% is secured by the underlying asset being financed, since the lendings are substantially led by advances through the WesBank and FNB HomeLoans product lines.

Product	Retail gross advances	Charge for bad and doubtful debts
Instalment sales/leases	**R23,1bn**	**0,8%**
Mortgage loans	**R33,4bn**	**1,1%**
Subtotal	**R56,5bn**	**1,0%**
Credit cards	**R3,7bn**	**3%**
Overdrafts	**R5,9bn**	**1,9%**
Personal loans	**R2,6bn**	**3%**

Over time experience has shown that recoveries in domestic instalment sales and mortgage loans have substantially mitigated losses on defaults, as can be seen from the specific provisions and non-performing loans for these products.

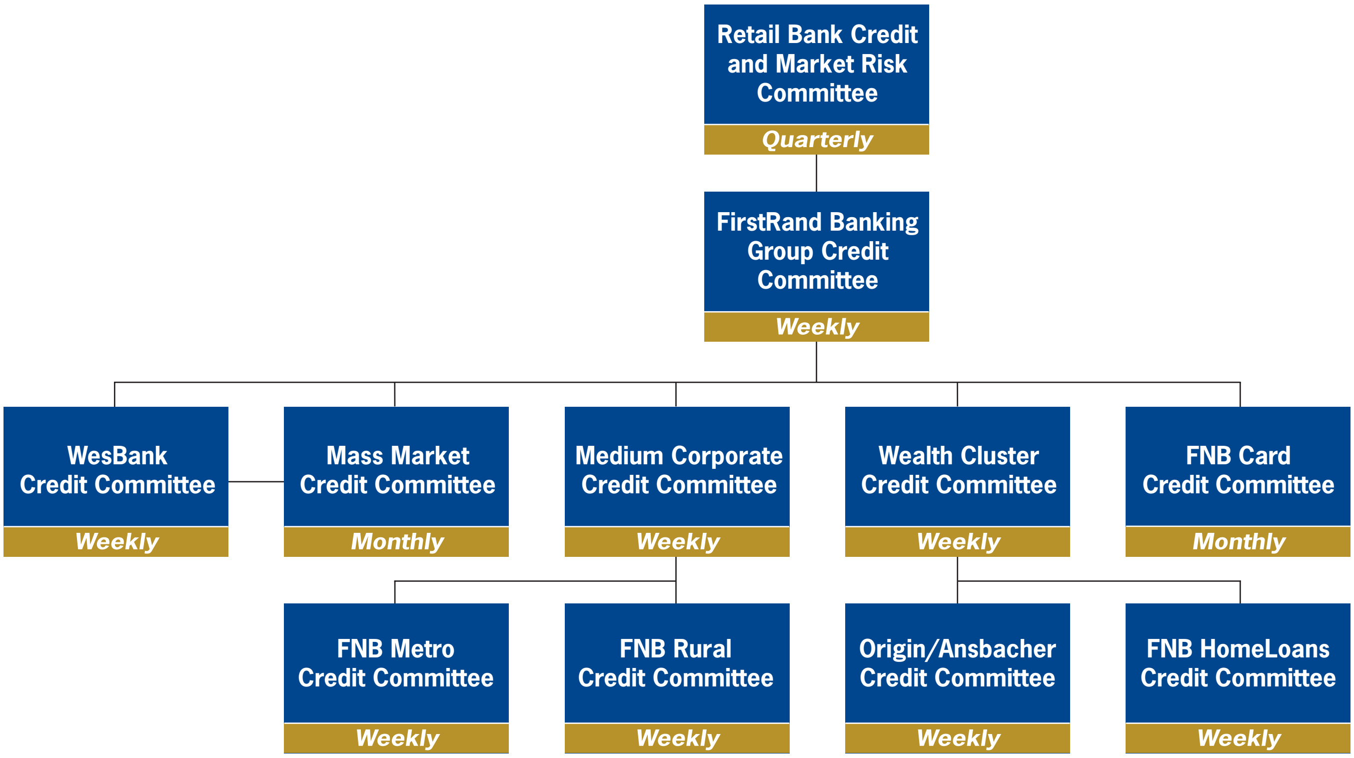
During the course of the year, management took the view that they should increase the general provisions for the other categories of lending products, where it was felt that in view of the rising interest rates, it was appropriate to increase these.

General provisions are now at the following levels:

Instalment credit	0,6%
Home loans	0,7%
Credit cards	1,4%
Overdrafts	1,9%
Personal loans	1,7%

Retail credit governance structure

The following illustrates the structure in respect of delegated authority to the various divisions within the Retail Bank. Exposures to a single counterparty are networked between these divisions via a central database.



Risk management report continued

- credit committees meet weekly except FNB Card and Mass Market where, because of the smaller size of the advance application, they meet monthly;
- the delegated authorities of the various business units depend on the requirements of the business and vary from R2,5 million to R50 million;
- the Retail Bank Credit and Market Risk Committee reviews the trends in the individual and overall portfolios on a quarterly basis; and
- this structure governs and underpins the Banking Group credit risk framework including:
  - formulation of credit policies and philosophies;
  - approval of delegated authorities;
  - approval of counterparty risk grading;
  - approval of provisioning methodologies;
  - ownership of risk by business unit;
  - integration of business and credit risk management plans;
  - risk reporting; and
  - risk/reward framework.

Risk mitigation

All counterparties are risk graded in terms of the FirstRand Credit Rating System to ensure uniformity of the credit risk assessments throughout the Banking Group. The rating methodology enables the Banking Group to price for risk in setting the lending margins and for determining prudential exposure limits.

Regulatory environment

Since the beginning of 1990 the banking industry has gone through substantial changes. Recently there has been debate between the Minister of Finance and the Governor of the South African Reserve Bank (SARB) about the establishment of a single regulator. The single regulator has been proposed in order to ensure that scarce resources are retained to develop policies that are appropriate to the rapidly evolving financial environment. The banking industry is supportive of the above policy; however, of concern is the necessary co-operation between the Regulator, National Treasury and the SARB. The question of who will provide liquidity in time of crisis needs to be critically addressed.

The final implementation date with regard to the new Basel Capital Accord has now been moved to 2007 and the necessary data relating to credit and operational risk is being gathered. The Banking Group is a participant in the latest quantitative impact study conducted by the Basel Committee with the objective to gauge the impact of the proposed capital requirements.

Two significant changes to prudential requirements occurred during the year: Firstly the percentage of Reserve Bank notes and coin that may be taken into consideration for purposes of the calculation of the minimum reserve balance to be maintained by banks was reduced from 100% to 75% with effect from August 2001. The prescribed percentage will be reduced by a further 25% per year over the next three years. Secondly the overall capital requirement for banks was raised from 8% to the 10% level on 1 October 2001. These changes have led to a substantial increase in the costs associated with maintaining prudential requirements.

During the year more on-site reviews were undertaken by the Bank Supervision Department of the SARB. The aim of on-site reviews is to ensure a review at least every 18 months. As a result of the new capital accord SARB will be required to meet the challenges posed to include risk management assessments of both operational and market risk.

The numerous corporate and banking failures of late have given the banking regulators cause for concern. This in turn leads to the increased need for consumer protection and the possible introduction of a deposit insurance scheme. Furthermore, it has placed both management and the Board under pressure for increasing adherence to the latest corporate governance principles.

New legislation introduced during the year included the Financial Intelligence Centre Act on 1 January 2002 to co-ordinate policy and efforts to counter money-laundering activities. Additionally the Promotion of Access to Information Act and the Electronic Communications and Transactions Act were enacted. Processes and procedures to ensure compliance with the new laws are presently being implemented.

Capital adequacy report

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 2002 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 2002, the capital held against the trading assets of the bank was R264,7 million (2001: R450,0 million).

R million	2002	2001
REGULATORY CAPITAL		
Tier 1		
Share capital	**3,5**	3,5
Share premium	**1 502,3**	1 502,3
Retained income	**5 257,6**	4 258,8
Capital redemption reserve fund	**705,0**	146,9
Less: Unappropriated retained income	**–**	(484,4)
Less: Impairments	**(63,8)**	(41,6)
Less: Allocated to trading activities	**(140,0)**	(166,9)
Total tier 1 capital available to banking activities	**7 264,6**	5 218,6
Tier 2		
Subordinated debt instruments	**2 658,9**	2 658,9
General provision	**1 024,3**	561,8
Less: Allocated to trading activities	**(100,0)**	(225,0)
Total tier 2 capital available to banking activities	**3 583,2**	2 995,7
REGULATORY CAPITAL	**10 847,8**	8 214,3
Tier 1 (%)	**6,7**	6,0
Tier 2 (%)	**3,3**	3,4
Total (%)	**10,0**	9,4

R million	Balances 2002	Balances 2001	Risk weighting	Risk-adjusted balances 2002	Risk-adjusted balances 2001
RISK-ADJUSTED ASSETS AND OFF-BALANCE SHEET EXPOSURES					
Cash, own bank and central government advances	**94 282,8**	53 021,0	0%	**–**	–
Letters of credit and unutilised facilities on behalf of public sector bodies and exposures from dematerialisation	**–**	1 936,7	5%	**–**	96,8
Public sector body advances	**2 709,0**	2 690,2	10%	**270,9**	269,0
Other bank advances and letters of credit	**13 969,5**	9 319,5	20%	**2 793,9**	1 863,9
Mortgage advances, remittances in transit and performance-related guarantees	**44 580,2**	26 672,7	50%	**22 290,1**	13 336,4
Other advances and lending-related guarantees	**75 951,1**	71 551,8	100%	**75 951,1**	71 551,8
Counterparty risk exposure	**6 889,6**	–	100%	**6 889,6**	–
	238 382,2	165 191,9		**108 195,6**	87 117,9

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 Practices have been followed, 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 philosophy on corporate governance. The directors have no reason to believe that FirstRand Bank Limited will not be a going concern for the foreseeable future. The going-concern basis has therefore been adopted in preparing the financial statements. The external auditors, PricewaterhouseCoopers Inc and Deloitte & Touche, have audited the financial statements and their unqualified report appears below.

The financial statements for the year ended 30 June 2002 which appear on pages 19 to 52, have been approved by the Board of Directors and are signed on its behalf by:

J P Burger
Chief financial officer
FirstRand Bank Limited

P K Harris
Chief executive officer
FirstRand Bank Limited

Sandton, 4 September 2002

Report of the independent auditors

To the members of FirstRand Bank Limited

We have audited the annual financial statements of FirstRand Bank Limited, set out on pages 19 to 52, for the year ended 30 June 2002. These 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 present, in all material respects, the financial position of the FirstRand Bank Limited at 30 June 2002 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 Inc.

PricewaterhouseCoopers Incorporated
Chartered Accountants (SA)
Registered Accountants and Auditors

Sandton, 4 September 2002

Deloitte & Touche

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

Sandton, 4 September 2002

Directors' report

for the year ended 30 June 2002

Nature of business

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

Share capital

Details of the bank's share capital are presented in notes 20 and 21 of the notes to the financial statements. During the current year redeemable preference shares to the value of R558,1 million (2001: R146,9 million) have been redeemed.

Dividends

Ordinary cash dividends of R250 million were paid during the 2002 financial year (2001: R352,3 million) (note 28).

Ownership of the bank

The shareholder at the close of the financial year was:

FirstRand Bank Holdings Limited	100,0%

Profit after tax

Profit after tax amounted to R1 807,0 million (2001: R898,7 million).

Directors' interests in the bank

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

Directorate

Following the restructure of FirstRand into the new clusters (Retail, Corporate, Wealth, Health and International) the Board structures were examined with the view to creating a greater concentration of non-executives on them. As a consequence, Mr M W Pfaff resigned from the Board on 11 June 2002.

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 FirstRand Limited ordinary shares by the First National Bank Share Purchase Scheme ("the FNB scheme") and in 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 out below.

R million	FNB scheme 2002	RMB scheme 2002	FNB scheme 2001	RMB scheme 2001
Number of options in force at end of year (millions)	**53,1**	**31,5**	71,2	37,2
Granted at prices ranging between (cents)	**173 – 1 069**	**250 – 1 625**	40 – 1 069	250 – 1 625
Number of options granted during year (millions)	**–**	**–**	–	–
Number of options exercised/released during year (millions)	**18,1**	**5,7**	36,2	10,7
Market value range at date of exercise/release (cents)	**651 – 899**	**760 – 1 450**	636 – 874	910 – 1 010
Number of unallocated shares available for future options (millions)	**0,021**	**–**	52,6	–
Value of company loan to share option trust (R million)	**403,9**	**373,1**	834,4	434,5

Included in other advances, shown in note 6 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.

B W Unser
Company secretary

Accounting policies

The following are the principal accounting policies adopted in the preparation of the financial statements of the bank:

1. Basis of presentation

These financial statements have been prepared on the historical cost basis, except where the fair value basis of accounting has been adopted for certain assets and liabilities, and in conformity with Statements of Generally Accepted Accounting Practice in South Africa.

The principal accounting policies of the bank set out below are consistent in all material respects with those adopted in the previous year, except where specifically noted. Where necessary, comparative figures have been adjusted to conform with changes in presentation in the current year. The effect of the changes in accounting policy on the financial statements of the bank are set out in 22 below.

2. Associated companies

Associated companies are those companies in which the bank holds a long-term equity interest and over which it has the ability to exercise significant influence but does not control.

The bank's interest in an associate is carried in the balance sheet at cost and associates are not equity accounted for.

3. Revenue recognition

Interest

Interest income excluding that arising from trading activities, is recognised on an accrual basis, applying the effective yield on the assets. Accrual of interest on an advance is suspended when its recovery is considered doubtful.

Trading income

Profits and losses on trading financial instruments (including derivatives), both realised and unrealised, are included in income as incurred, except for those instruments designated as hedges. Profits and losses relating to financial instruments (including derivatives) that are designated as hedges are deferred and recognised on the same basis as the hedged asset or liability.

Dividends

Dividends are recognised when the right to receive payment is established. Dividend income includes scrip dividends, irrespective of whether there is an option to receive cash in lieu of shares.

Commission on acceptances, bills and promissory notes

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

Services rendered

Revenue arising from the provision of services to customers is recognised based on the estimated outcome of the transactions, ie:

- when the outcome of the transaction can be estimated reliably, revenue associated with the transaction 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 of the transaction cannot be estimated reliably, revenue is recognised only to the extent of the expenses incurred that are recoverable.

Foreign currency translation

The assets and liabilities of foreign operations are translated into rand at historic rates, with monetary assets and liabilities being translated at rates of exchange ruling at year-end. Gains and losses arising on translation of these operations are recognised in the income statement.

Reserves are translated at historic rates, while income statement items are translated at the weighted average rate for the year.

Transactions in foreign currencies are converted 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. 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.

4. Borrowing costs

Borrowing costs incurred in respect of assets that require a substantial period to construct or install, are capitalised up to the date that the construction or installation of the assets is substantially complete.

5. Indirect taxes

These taxes include various taxes paid to central and local governments and have been separately disclosed in the income statement.

6. Recognition of assets, liabilities and provisions

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

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

Liabilities, including provisions, are recognised when the bank 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.

No liability is recognised when:

- the bank has a possible obligation arising from past events whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the 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.

In case of the above, a contingent liability is disclosed.

7. Advances and provision for credit losses

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

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

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

The aggregate provisions made during the year, less amounts released and recoveries of advances previously written off, are charged to the income statement. Interest on advances is accrued to income until such time as reasonable doubt exists regarding recovery, thereafter such further interest is not included in income.

Advances are written off using the specific provision for credit losses once all reasonable attempts at collection have been made and there is no realistic prospect of recovering outstanding amounts.

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

8. Cash and cash equivalents

For the purposes of the cash flow statement, cash and cash equivalents comprise:

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

9. Repurchase and resale agreements

Where the bank sells a financial asset from its portfolio, subject to a repurchase agreement, the financial asset continues to be recorded as an asset, and the consideration received is included under deposit and current accounts, since the risk of ownership remains with the bank. The value at which the asset is recorded in the financial statements corresponds with the bank's accounting policy applicable to that class of asset.

Conversely, where a financial asset is purchased subject to a resale agreement, the consideration paid is included under advances. The securities are not recorded on the balance sheet, since the risk of ownership does not pass to the bank.

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

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

Leases of assets under which all the risks and benefits of ownership are effectively retained by the lessor are classified as operating leases. Payments made under operating leases are charged to the income statement on a straight-line basis over the period of the lease. Minimum rentals due after year-end are reflected under commitments.

When an operating lease is terminated before the lease period has expired, any payment required to be made to the lessor by way of penalty is recognised as an expense in the period in which termination takes place.

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

Finance leases

When assets are sold under a finance lease, the present value of the lease payments is recognised as a receivable under advances. 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.

Operating leases

Assets leased out under operating leases are included in property and equipment in the balance sheet. They are depreciated 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.

Instalment credit agreements

Instalment credit agreements are regarded as financing transactions and the total rentals and instalments receivable thereunder, less unearned finance charges, are included in advances.

Finance charges are computed using the effective interest rates as detailed in the contracts and are credited to income in proportion to capital balances outstanding.

12. Financial instruments

Financial instruments carried on the balance sheet include all assets and liabilities, including derivative instruments, but exclude investments in subsidiary and associate companies, fixed assets, deferred taxation and intangible assets.

Financial assets and liabilities held for trading purposes are stated at fair value. The fair values of listed financial instruments are determined by reference to quoted market rates, which may be adjusted where the bid/offer spreads for long-dated financial instruments are considered to be significant. In the case of 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, or in the case of derivative financial instruments, from option pricing models or other alternative valuation models as deemed appropriate.

Instruments with characteristics of debt are included in liabilities and dividends on such instruments are included as interest expense.

The particular revenue recognition methods adopted for financial instruments held for trading and hedging purposes are disclosed in 3 above.

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

13. Other investments

Financial assets held for investment purposes are stated at carrying value less any permanent diminution in value, with profits and losses recognised in income. In determining the carrying amount of investments, financial assets with a fixed redemption date are stated at original cost plus accrued interest, which is recognised in the income statement based on the effective interest rate method.

14. Property and equipment

Property and equipment are carried at cost less accumulated depreciation.

Plant and equipment is depreciated on the straight-line basis at rates, which are calculated to reduce the book value of these assets to estimated residual values over their expected useful lives. Management reviews useful lives periodically in order to evaluate their appropriateness, and current and future depreciation charges are adjusted accordingly.

Accounting policies continued

The periods of depreciation used are as follows:

Leasehold premises	Period of lease
Freehold property	40 years
Computer equipment	3 – 5 years
Furniture and fittings	5 – 10 years
Motor vehicles	5 years
Office equipment	6 years

Where there is a permanent diminution in the carrying value of an asset, it is written down to its estimated recoverable amount.

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.

All properties owned by the bank are held for use and are not considered investment properties.

15. Intangible assets

Computer software development costs

Generally, computer software development costs are expensed 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, such costs are capitalised and recognised as an intangible asset.

Capitalised software assets are carried at cost less amortisation and any impairment losses. These assets are amortised on a straight-line basis at a rate applicable to the expected useful life of the asset, but not exceeding three years. The carrying value is reviewed by management on a yearly basis and is written down to estimated recoverable amount when a permanent diminution in value occurs. Any impairment is recognised in the income statement when incurred.

Other intangible assets

No value is attributed to internally developed trademarks, concessions patents and similar rights and assets, including franchises and management contracts. Costs incurred on trademarks, concessions patents and similar rights and assets, whether purchased or created by the bank, are charged to the income statement in the period in which they are incurred.

16. Debentures

Debentures are initially recognised at the fair value of the consideration received. Discounts or premiums on debentures issued are amortised on a basis which reflects the effective yield on the debentures over their effective lifespan. Interest paid is brought to account on an effective interest rate basis.

17. Deferred taxation

Deferred taxation is calculated on the comprehensive basis using the liability method on a balance sheet based approach. Deferred tax liabilities or assets are recognised 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.

Deferred tax assets are only recognised to the extent that, in the opinion of the directors, it is probable that future taxable income will be available against which the unused tax losses can be used.

18. Employee benefits

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 bank, 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. Valuations are performed annually.

Current service costs are written off immediately, while past service costs, experience adjustments, changes in actuarial assumptions and plan amendments are expensed over the expected remaining working lives of employees. In the case of retired employees, the costs are written off immediately.

Post-retirement medical benefits

In terms of certain employment contracts, the bank makes provision 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. AC 116 requires that both the asset and liability in respect thereof be reflected in the balance sheet. All expenditure in respect of post-retirement medical benefits, as well as all investments in the fund, is accounted for in the income statement.

The entitlement to these benefits is usually based on the employee remaining in service up to the retirement age and the completion of a minimum service period. Valuations of these obligations are carried out by qualified actuaries on an annual basis.

Termination benefits

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

Leave pay provision

Employee benefits in respect of annual leave entitlement in respect of past service of employees are recognised in full.

Pension fund surplus

The bank converted its primary pension plan from a defined benefit scheme to a defined contribution scheme in 1996. At that point, an actuarial surplus was converted into a realised surplus. AC 116 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 on the income statement.

19. Acceptances

Acceptances comprise undertakings by the bank to pay bills of exchange drawn on customers. Acceptances are accounted for and disclosed as a contingent liability.

20. Related-party transactions

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

21. Fiduciary activities

Where the bank acts in a fiduciary capacity such as nominee, trustee or agent, assets and income arising thereon, together with related undertakings to return such assets to customers, are excluded from these financial statements.

22. Changes in accounting policy

The bank has adopted the revised accounting statements on employee benefits (AC 116) and investment property (AC 135).

AC 116, which was effective for years commencing on or after 1 January 2001, requires that assets and liabilities, income and expenditure arising from employee obligations be reflected in the financial statements in full in the period. Previously, the bank accounted for employee benefits on a pay-as-you-go basis. The bank's current accounting policy with regard to employee benefits is set out in note 18 on page 22.

AC 135, which was effective for years commencing on or after 1 April 2001, does not allow the classification of owner-occupied property as investment property. Previously, the bank accounted for such properties as investment property, and the bank's current accounting policy with regard to property is set out in note 14 on page 21.

These changes have been applied retrospectively and the comparative amounts for 2001, as well as the retained earnings for 2000, have been restated, as set out below:

R million	2002	2001
Attributable earnings before change in accounting policy	**1 907**	1 086
Employee benefits	**(70)**	(157)
Property and equipment	**(30)**	(30)
Attributable earnings after change in accounting policy	**1 807**	899

The distributable reserves of the bank have been affected as follows:

R million	2002	2001	2000
Closing balance of distributable reserves	**5 429**	4 330	3 743
Employee benefits	**119**	189	346
Property and equipment	**(290)**	(260)	(230)
Restated closing balance of distributable reserves	**5 258**	4 259	3 859

Balance sheet
as at 30 June

R million	Notes	2002	2001
ASSETS			
Cash and short-term funds	3	**11 563,5**	4 470,2
Short-term negotiable securities	4	**3 413,5**	4 681,2
Liquid assets and trading securities	5	**12 733,0**	9 653,6
Derivative instruments	27.4	**22 483,6**	9 324,3
Advances	6, 7	**136 724,9**	103 173,4
Debtors	8	**1 207,4**	1 270,2
Other investments	9	**4 115,5**	4 099,3
Investment in associate companies	10	**615,1**	81,2
Interest in subsidiary companies	11	**23,1**	22,4
Holding and fellow subsidiary companies	12	**17 543,1**	7 887,9
Property and equipment	13	**1 395,0**	1 456,0
Employee benefit assets	26.3	**1 544,3**	1 543,4
Intangible assets	14	**23,0**	12,9
Total assets		**213 385,0**	147 676,0
LIABILITIES AND SHAREHOLDERS' FUNDS			
Liabilities			
Deposit and current accounts	15	**145 925,6**	109 479,9
Derivative instruments	27.4	**25 557,7**	13 444,7
Short trading positions	16	**15 018,7**	121,9
Post-retirement medical liability	26.1	**860,5**	789,2
Creditors and accruals	17	**3 072,3**	3 955,8
Provisions	18	**529,6**	493,1
Taxation		**355,8**	(85,7)
Deferred taxation	19	**1 166,7**	1 560,7
Holding and fellow subsidiary companies	12	**10 300,7**	8 143,8
Long-term liabilities	20	**3 111,0**	3 857,3
Total liabilities		**205 898,6**	141 760,7
Shareholders' equity			
Share capital	21	**3,5**	3,5
Share premium		**1 502,3**	1 502,3
Non-distributable reserves	22	**723,0**	150,7
Distributable reserves		**5 257,6**	4 258,8
Total shareholders' equity		**7 486,4**	5 915,3
Total liabilities and shareholders' equity		**213 385,0**	147 676,0
Contingencies and commitments	23	**24 997,2**	17 515,9

Income statement

for the year ended 30 June

R million	Notes	2002	2001
Interest income	24.1	**14 504,6**	12 408,9
Interest expenditure	24.2	**(9 731,8)**	(7 167,9)
Net interest income before impairment of advances		**4 772,8**	5 241,0
Charge for bad and doubtful debts	7	**(1 024,1)**	(1 038,3)
Net interest income after impairment of advances		**3 748,7**	4 202,7
Fee and commission income		**3 375,0**	3 305,3
Dividend income from investments		**343,8**	288,2
Other operating income	24.3	**2 260,4**	495,4
Net income from operations		**9 727,9**	8 291,6
Other operating expenditure	24.4	**(7 229,1)**	(6 878,0)
Income before indirect taxation		**2 498,8**	1 413,6
Indirect taxation	19	**(236,9)**	(214,7)
Income before direct taxation		**2 261,9**	1 198,9
Direct taxation	19	**(454,9)**	(300,2)
Earnings attributable to ordinary shareholders		**1 807,0**	898,7

Cash flow statement

for the year ended 30 June

R million	Notes	2002	2001
Cash flows from operating activities			
Cash received from customers	25.1	**20 150,2**	16 239,6
Cash paid to customers and employees	25.2	**(16 076,3)**	(13 072,3)
Net cash inflow from operating activities		**4 073,9**	3 167,3
Cash flows from returns on investments and servicing of finance			
Debenture interest paid		**(484,7)**	(456,7)
Dividends received	25.3	**324,9**	288,2
Dividends paid	25.4	**(250,0)**	(352,3)
Net cash flows from returns on investments and servicing of finance		**(409,8)**	(520,8)
Taxation paid	25.5	**(463,7)**	(221,4)
Cash flows from investment activities			
Purchase of plant and equipment		**(410,5)**	(231,9)
(Acquisition)/disposal of associates		**(533,9)**	(30,0)
(Acquisition)/disposal of subsidiaries		**(0,7)**	(22,0)
Purchase of other investments		**(16,2)**	(2 479,8)
Proceeds from sale of other investments		**6,5**	10,6
Proceeds from sale of plant and equipment		**60,0**	139,1
Net cash outflow from investment activities		**(894,8)**	(2 614,0)
Cash flows from financing activities			
Redemption of preference shares		**(558,1)**	(146,9)
Net cash flow from financing activities		**(558,1)**	(146,9)
Cash flows from banking investment activities			
Net increase in income-earning assets	25.6	**(20 841,9)**	(16 036,8)
Net increase in deposits and other liabilities	25.7	**34 334,4**	16 634,6
Net cash flow from banking investment activities		**13 492,5**	597,8
Cash flow from assets purchased			
Advances acquired		**(11 864,6)**	–
Unsettled portion		**3 717,9**	–
Net cash flow from assets purchased		**(8 146,7)**	–
Net increase in cash and cash equivalents		**7 093,3**	262,0
Cash and cash equivalents at beginning of the year		**4 470,2**	4 208,2
Cash and cash equivalents at end of the year	3	**11 563,5**	4 470,2

Statement of changes in equity

for the year ended 30 June

R million	Notes	Share capital	Share premium	Non-distributable reserves	Distributable reserves	Total equity
Balance 1 July 2000		3,5	1 502,3	5,1	3 742,9	5 253,8
Changes in accounting policies						
Pension fund surplus		–	–	–	457,0	457,0
Leave pay provision		–	–	–	(110,6)	(110,6)
Provision for depreciation on freehold buildings		–	–	–	(230,0)	(230,0)
Restated balance 1 July 2000		3,5	1 502,3	5,1	3 859,3	5 370,2
Currency translation differences		–	–	1,5	–	1,5
Earnings attributable to ordinary shareholders		–	–	–	898,7	898,7
Dividends paid in 2001	28	–	–	–	(352,3)	(352,3)
Capital redemption reserve fund arising on the redemption of preference shares		–	–	146,9	(146,9)	–
Movement in other reserves		–	–	(2,8)	–	(2,8)
Restated by balance as at 30 June 2001	21, 22	3,5	1 502,3	150,7	4 258,8	5 915,3
Balance at 1 July 2001		**3,5**	**1 502,3**	**150,7**	**4 258,8**	**5 915,3**
Currency translation differences		**–**	**–**	**14,1**	**–**	**14,1**
Earnings attributable to ordinary shareholders		**–**	**–**	**–**	**1 807,0**	**1 807,0**
Dividends paid in 2002	28	**–**	**–**	**–**	**(250,0)**	**(250,0)**
Capital redemption reserve fund arising on the redemption of preference shares		**–**	**–**	**558,1**	**(558,1)**	**–**
Movement in other reserves		**–**	**–**	**0,1**	**(0,1)**	**–**
Balance as at 30 June 2002	21, 22	**3,5**	**1 502,3**	**723,0**	**5 257,6**	**7 486,4**

Notes to the annual financial statements

for the year ended 30 June

1. ACCOUNTING POLICIES

The accounting policies of the bank are set out on pages 20 to 23.

2. TURNOVER

Turnover is a concept not relevant to the business of banking.

R million	**2002**	**2001**
3. CASH AND SHORT-TERM FUNDS		
Coins and bank notes	**1 529,0**	1 537,7
Money at call and short notice	**6 551,0**	1 541,3
Balances with central banks	**3 483,5**	1 391,2
	11 563,5	4 470,2
Mandatory reserve balances included above:	**2 191,2**	941,2

Banks are required to deposit a minimum average balance, calculated monthly, with the central bank.

These deposits bear no interest.

Money at short notice constitutes amounts withdrawable in 32 days or less.

R million	**2002**	**2001**
4. SHORT-TERM NEGOTIABLE SECURITIES		
Bills	**0,2**	–
Negotiable certificates of deposit	**259,5**	2 129,7
Treasury bills and other government stock	**2 897,9**	2 178,9
Other	**255,9**	372,6
	3 413,5	4 681,2
Analysis of short-term negotiable securities		
Investment portfolio	**2 754,8**	16,0
Trading portfolio	**658,7**	4 665,2
	3 413,5	4 681,2

R million	2002	2001
5. LIQUID ASSETS AND TRADING SECURITIES		
Government and government guaranteed	**11 965,8**	9 630,3
Other dated securities	**752,9**	20,8
Undated securities	**14,3**	2,5
	12 733,0	9 653,6
Analysis of liquid assets and trading securities		
Listed		
Book value	**5 663,1**	9 627,5
Market value	**5 663,7**	9 627,5
Unlisted		
Book value	**7 069,9**	26,1
Directors' valuation	**7 069,9**	26,1
Investment portfolio		
Trading portfolio	**5 313,3**	3 333,4
Hedging portfolio	**7 419,7**	6 320,2
Total liquid assets and trading securities	**12 733,0**	9 653,6
6. ADVANCES		
Sector analysis		
Agriculture	**2 165,7**	1 896,6
Banks and financial services	**26 175,8**	11 773,1
Building and property development	**2 420,4**	1 574,0
Government, Land Bank and public authorities	**8 797,8**	3 245,8
Individuals	**65 322,3**	49 539,6
Manufacturing and commerce	**26 851,4**	26 783,8
Mining	**1 045,9**	1 459,8
Transport and communication	**1 488,8**	2 874,9
Other services	**5 978,3**	7 169,9
	140 246,4	106 317,5
Interest suspended	**(642,1)**	(696,7)
	139 604,3	105 620,8
Impairment of advances (note 7)	**(2 879,4)**	(2 447,4)
Advances after impairments	**136 724,9**	103 173,4

Notes to the annual financial statements continued

for the year ended 30 June

R million	2002	2001
6. ADVANCES (continued)		
Category analysis		
Card loans	**3 713,2**	3 185,8
Home loans	**38 779,3**	22 971,0
Instalment sales	**20 156,7**	17 632,3
Lease payments receivable	**8 968,9**	8 960,7
Overdrafts and managed account debtors	**11 809,5**	22 065,0
Other advances	**56 818,8**	31 502,7
	140 246,4	106 317,5
Interest suspended	**(642,1)**	(696,7)
	139 604,3	105 620,8
Impairment of advances (note 7)	**(2 879,4)**	(2 447,4)
Advances after impairments	**136 724,9**	103 173,4
Geographic analysis (based on credit risk)		
South Africa	**130 549,1**	101 933,8
Other Africa	**372,4**	172,6
Europe	**5 878,0**	798,6
Other	**2 804,8**	2 715,8
	139 604,3	105 620,8
Impairment of advances (note 7)	**(2 879,4)**	(2 447,4)
Advances after impairments	**136 724,9**	103 173,4
Analysis of instalment sales and lease payments receivable		
Instalment sales	**11 307,9**	22 175,2
Lease payments receivable	**26 000,6**	10 833,9
	37 308,5	33 009,1
Less: Unearned finance charges	**(8 182,9)**	(6 416,1)
Total	**29 125,6**	26 593,0
7. IMPAIRMENT OF ADVANCES		
Balance at beginning of the year	**(2 447,4)**	(2 326,1)
Adjustments for exchange rate	**(9,4)**	(0,7)
Amounts written off	**780,3**	1 050,5
	(1 676,5)	(1 276,3)
Recoveries of amounts previously written off	**(178,8)**	(132,8)
Charge to income statement	**(1 024,1)**	(1 038,3)
Balance at end of the year	**(2 879,4)**	(2 447,4)
Analysis		
Specific provision	**(1 728,3)**	(1 644,8)
General provision	**(1 151,1)**	(802,6)
	(2 879,4)	(2 447,4)

R million	Credit risk	Security held	Interest suspended	Provision
7. IMPAIRMENT OF ADVANCES (continued)				
Non-performing lendings by sector				
Agriculture	126,6	52,2	26,3	25,4
Banks and financial services	102,9	21,2	21,4	77,0
Building and property development	339,0	18,3	19,1	130,8
Government, Land Bank and public authorities	226,7	–	44,0	21,7
Individuals	2 437,8	886,0	283,0	845,0
Manufacturing and commerce	1 042,5	141,2	223,7	558,3
Mining	8,9	3,1	0,8	5,1
Transport and communication	80,4	7,6	13,7	29,9
Other services	56,7	11,5	10,1	35,1
Total	**4 421,5**	**1 141,1**	**642,1**	**1 728,3**
2001 total non-performing lendings	4 162,6	910,2	696,7	1 644,8
Non-performing lendings by category				
Overdrafts and managed account debtors	1 275,8	248,1	241,1	476,5
Card loans	344,4	–	92,4	144,0
Instalment sale	267,7	72,7	51,0	108,5
Lease payments receivable	117,4	24,7	26,7	60,5
Home loans	1 188,4	725,8	87,8	379,2
Other advances	1 227,8	69,8	143,1	559,6
Total	**4 421,5**	**1 141,1**	**642,1**	**1 728,3**
2001 total non-performing lendings	4 162,6	910,2	696,7	1 644,8

R million	2002	2001
8. DEBTORS		
Items in transit	**304,4**	342,7
Accrued interest	**40,4**	38,2
Accounts receivable	**167,0**	240,4
Other debtors	**695,6**	648,9
	1 207,4	1 270,2
9. OTHER INVESTMENTS		
Listed investments	**145,1**	71,2
Unlisted investments	**3 970,4**	4 028,1
	4 115,5	4 099,3
Aggregate market value for listed investments	**161,3**	63,0
Aggregate directors' valuation for unlisted investments	**3 970,7**	4 046,4
	4 132,0	4 109,4

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.

Notes to the annual financial statements continued

for the year ended 30 June

R million	2002	2001
10. INVESTMENT IN ASSOCIATE COMPANIES		
Listed investments		
Cost less amounts written off	**493,8**	–
Unlisted investments		
Cost less amounts written off	**121,3**	81,2
Total cost less amounts written off	**615,1**	81,2

	Nature of business	Issued ordinary share capital Rand	Number of ordinary shares held	Year-end
Significant associates are as follows:				
Listed				
McCarthy Limited	Retail	1 027 631	964 898 728	30 June
Unlisted				
Natal Lands (Pty) Limited	Property holding	240 000	60 000	31 Dec
Mobile Acceptances (Pty) Limited	Leasing	700 000	182 000	30 June
Toyota Financial Services (Pty) Limited	Vehicle finance	2 700	900	30 June
Arthur Kaplan Jewellers (Pty) Limited	Jewellers	1 000	463	31 May
Infrastructure Finance Corp Limited	Funding	848 532	150 020	31 Dec

	Effective holding %		Market value or directors' valuation		Bank costs less amounts written off	
R million	**2002**	**2001**	**2002**	**2001**	**2002**	**2001**
Listed						
McCarthy Limited	**48,2**	–	**493,8**	–	**493,8**	–
Unlisted						
Natal Lands (Pty) Limited	**50,0**	50,0	**2,8**	20,0	**0,5**	0,5
Mobile Acceptances (Pty) Limited	**26,0**	26,0	**3,5**	2,8	**0,4**	0,4
Toyota Financial Services (Pty) Limited	**33,0**	33,0	**73,1**	45,8	**90,0**	60,0
Arthur Kaplan Jewellers (Pty) Limited	**46,3**	–	**20,0**	–	**10,0**	–
Infrastructure Finance Corp Limited	**17,7**	20,8	**28,8**	18,3	**18,3**	18,3
Other			**1,7**	6,0	**2,1**	2,0
			623,7	92,9	**615,1**	81,2

10. INVESTMENT IN ASSOCIATE COMPANIES (continued)

Associate companies have not been equity accounted for in the bank. Detailed below is summarised financial information of significant associates

R million	McCarthy Limited 2002	McCarthy Limited 2001	Arthur Kaplan Jewellers (Pty) Limited 2002	Arthur Kaplan Jewellers (Pty) Limited 2001	Infrastructure Finance Corporate Limited 2002	Infrastructure Finance Corporate Limited 2001
Balance sheet						
Non-current assets	**556,7**	–	**10,5**	–	**1 125,6**	961,4
Current assets	**1 885,7**	–	**63,1**	–	**4 170,2**	3 673,2
Current liabilities	**(1 711,2)**	–	**(30,0)**	–	**(406,5)**	(435,1)
Non-current liabilities	**(350,4)**	–	**(36,8)**	–	**(4 718,0)**	(4 048,8)
Equity	**380,8**	–	**6,8**	–	**171,3**	150,7
Income statement						
Profit/(loss) attributable to FirstRand Bank ordinary shareholders	**–**	–	**2,1**	–	**4,9**	6,2

R million	Natal Lands (Pty) Limited 2002	Natal Lands (Pty) Limited 2001	Mobile Acceptances (Pty) Limited 2002	Mobile Acceptances (Pty) Limited 2001	Toyota Financial Services (Pty) Limited 2002	Toyota Financial Services (Pty) Limited 2001
Balance sheet						
Non-current assets	**5,3**	5,3	**64,2**	111,0	**1 622,9**	1 525,6
Current assets	**1,3**	1,4	**71,6**	94,7	**851,7**	21,4
Current liabilities	**(2,1)**	(1,5)	**(62,9)**	(92,1)	**(105,5)**	(13,6)
Non-current liabilities	**(0,1)**	(0,5)	**(59,5)**	(102,5)	**(2 149,8)**	(1 396,0)
Equity	**4,4**	4,7	**13,4**	11,1	**219,3**	137,4
Income statement						
Profit/(loss) attributable to FirstRand Bank ordinary shareholders	**1,5**	0,8	**0,6**	0,6	**(2,7)**	(10,9)

Details of loans to significant associates

R million	Carrying amount of loans from associates 2002	Carrying amount of loans from associates 2001	Carrying amount of loans to associates 2002	Carrying amount of loans to associates 2001
Listed				
McCarthy Limited	**–**	–	**262,0**	–
Unlisted				
Arthur Kaplan Jewellers (Pty) Limited	**–**	–	**5,3**	–
Natal Lands (Pty) Limited	**–**	–	**0,1**	0,5
Mobile Acceptances (Pty) Limited	**–**	–	**106,7**	189,6
Infrastructure Finance Corp Limited	**328,2**	232,4	**194,3**	213,0
Toyota Financial Services (Pty) Limited	**–**	–	**2 150,0**	1 396,0

The amounts above are all included under deposits and advances.

Notes to the annual financial statements continued

for the year ended 30 June

R million	2002	2001
11. INTEREST IN SUBSIDIARY COMPANIES		
Shares at cost less amounts written off	**23,1**	22,4

	Nature of business	Issued capital	Effective holding %	Investment in subsidiaries Rand
30 June 2002				
Direct Axis (Pty) Limited	Services	21 600	51,0	11 000 000
Compcorp 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
30 June 2001				
Direct Axis (Pty) Limited	Services	21 600	51,0	11 000 000
Compcorp 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	700 004	57,1	400 003
Other				572 308
				22 417 092

R million	2002	2001
12. HOLDING AND FELLOW SUBSIDIARY COMPANIES		
Amounts due to holding company	**(343,5)**	(584,3)
Amounts due to fellow subsidiary companies	**(9 957,2)**	(7 559,5)
Amounts due to holding and fellow subsidiary companies	**(10 300,7)**	(8 143,8)
Amounts due by holding company	**409,6**	250,0
Amounts due by fellow subsidiary companies	**17 133,5**	7 637,9
Amounts due by holding and fellow subsidiary companies	**17 543,1**	7 887,9
Net amounts due by/(to) holding and fellow subsidiary companies	**7 242,4**	(255,9)

These loans have no fixed terms of repayment and carry varying rates of interest. Loans to subsidiary companies amounting to R106,9 million are subject to subordination agreements until such time that their assets fairly valued, exceed their liabilities.

R million	Cost 2002	Accumulated depreciation 2002	Net book value 2002	Cost 2001	Accumulated depreciation 2001	Net book value 2001
13. PROPERTY AND EQUIPMENT						
Property						
Freehold land and buildings	**750,0**	**298,9**	**451,1**	756,9	287,3	469,6
Leasehold premises	**460,4**	**288,2**	**172,2**	428,3	255,9	172,4
Total property	**1 210,4**	**587,1**	**623,3**	1 185,2	543,2	642,0
Equipment						
Computer equipment	**1 723,0**	**1 369,6**	**353,4**	1 659,3	1 328,6	330,7
Furniture and fittings	**857,2**	**516,3**	**340,9**	828,0	436,4	391,6
Motor vehicles	**109,2**	**51,6**	**57,6**	151,0	91,0	60,0
Office equipment	**108,3**	**88,5**	**19,8**	96,7	65,0	31,7
Total equipment	**2 797,7**	**2 026,0**	**771,7**	2 735,0	1 921,0	814,0
Total property and equipment	**4 008,1**	**2 613,1**	**1 395,0**	3 920,2	2 464,2	1 456,0

Movement in property and equipment – cost

	Freehold land and buildings	Leasehold premises	Computer equipment	Furniture and fittings	Motor vehicles	Office equipment
Cost at the beginning of the year	756,9	428,3	1 659,3	828,0	151,0	96,7
Changes in group structure	–	0,2	0,4	0,2	0,1	(0,1)
Additions	46,9	48,5	211,2	51,5	34,5	17,9
Disposals	(59,9)	(16,6)	(171,5)	(21,2)	(76,4)	(4,1)
Intergroup transfers	–	–	(7,5)	(1,1)	–	(0,1)
Other	6,1	–	31,1	(0,2)	–	(2,0)
Cost at the end of the year	750,0	460,4	1 723,0	857,2	109,2	108,3
Movement in property and equipment – accumulated depreciation						
Accumulated depreciation at the beginning of the year	(287,3)	(255,9)	(1 328,6)	(436,4)	(91,0)	(65,0)
Changes in group structure	–	–	(0,4)	(0,7)	(0,1)	0,1
Depreciation charge for the year	(48,3)	(45,8)	(184,1)	(82,8)	(18,5)	(15,2)
Disposals	22,9	13,5	160,5	2,3	58,0	4,0
Intergroup transfers	–	–	1,3	0,2	–	–
Other	13,8	–	(18,3)	1,1	–	(12,4)
Accumulated depreciation at the end of the year	(298,9)	(288,2)	(1 369,6)	(516,3)	(51,6)	(88,5)

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.

Notes to the annual financial statements continued

for the year ended 30 June

R million	2002	2001
14. INTANGIBLE ASSETS		
Intangible assets		
Gross amount	**35,8**	16,6
Less: Accumulated amortisation	**(12,8)**	(3,7)
	23,0	12,9
Movement in intangible assets – book value		
Opening balance	**12,9**	–
Additions	**19,2**	16,6
Amortisation charge	**(9,1)**	(3,7)
	23,0	12,9
Software		
Gross amount	**34,0**	15,9
Less: Accumulated amortisation	**(12,4)**	(3,7)
	21,6	12,2
Movement in software – book value		
Opening balance	**12,2**	–
Additions	**18,1**	15,9
Amortisation charge	**(8,7)**	(3,7)
	21,6	12,2
Development costs		
Gross amount	**1,8**	0,7
Less: Accumulated amortisation	**(0,4)**	–
	1,4	0,7
Movement in development costs – book value		
Opening balance	**0,7**	–
Additions	**1,1**	0,7
Amortisation charge	**(0,4)**	–
	1,4	0,7
Total intangible assets		
Software	**21,6**	12,2
Development costs	**1,4**	0,7
	23,0	12,9

R million	2002	2001
15. DEPOSIT AND CURRENT ACCOUNTS		
Term deposits	**50 750,2**	33 932,7
Current deposit accounts	**38 207,5**	32 700,4
Deposits from banks	**9 155,4**	1 913,5
Negotiable certificates of deposit	**9 783,4**	11 482,2
Savings accounts	**3 359,8**	3 416,3
Other	**34 669,3**	26 034,8
	145 925,6	109 479,9
Geographic analysis (based on credit risk)		
South Africa	**141 187,5**	101 622,3
Other Africa	**502,3**	263,8
Europe	**1 988,0**	618,6
Other	**2 247,8**	6 975,2
	145 925,6	109 479,9
The maturity analysis of deposit and current accounts is based on the remaining periods to contractual maturity from year-end.		
16. SHORT TRADING POSITIONS		
Government and government guaranteed	**7 220,1**	–
Other dated securities	**7 710,7**	–
Undated securities	**87,9**	121,9
	15 018,7	121,9
Analysis of liquid assets and trading securities		
Listed		
Book value	**7 220,1**	–
Market value	**7 220,1**	–
Unlisted		
Book value	**7 798,6**	121,9
Directors' valuation	**7 798,6**	121,9
17. CREDITORS AND ACCRUALS		
Accrued interest	**230,4**	17,9
Accounts payable	**575,4**	603,9
Short-term portion of long-term liabilities (note 20)	**188,2**	–
Other creditors	**2 078,3**	3 334,0
	3 072,3	3 955,8

Notes to the annual financial statements continued
for the year ended 30 June

R million	2002	2001
18. PROVISIONS		
Leave pay		
Opening balance	484,0	458,0
Charge to the income statement	30,0	26,0
Closing balance	514,0	484,0
Audit fees		
Opening balance	9,1	14,1
Charge to the income statement	28,5	24,5
Utilised	(22,0)	(29,5)
Closing balance	15,6	9,1
Total provisions	529,6	493,1
19. TAXATION		
Charge for the year		
Normal taxation		
Current		
Current year	(940,6)	–
Prior year adjustment	44,6	–
Deferred		
Current year	485,7	(300,2)
Prior year adjustment	(44,6)	–
Taxation expense before miscellaneous taxes	(454,9)	(300,2)
Miscellaneous taxes		
Capital gains tax	(10,0)	–
Value-added taxation (net)	(166,3)	(145,8)
Regional services levy	(32,7)	(29,7)
Stamp duties	(5,6)	(4,7)
Other	(22,3)	(34,5)
Total miscellaneous taxes	(236,9)	(214,7)
Total taxation	(691,8)	(514,9)

R million	2002	2001
19. TAXATION (continued)		
Estimated taxation losses available for set-off against future taxable income	**–**	20,0
	%	**%**
Taxation rate reconciliation		
Effective rate of taxation	**27,7**	35,9
Total taxation has been affected by:		
Miscellaneous taxes	**(9,7)**	(14,0)
Non-taxable income	**10,7**	12,8
Abnormal items – non-deductible		
Other permanent differences	**1,3**	(4,7)
Standard rate of taxation	**30,0**	30,0
Deferred taxation		
The movement on the deferred taxation account is as follows:		
At the beginning of the year	**1 560,7**	1 364,1
Charge to the income statement	**(441,1)**	300,2
Other	**47,1**	(103,6)
At the end of the year	**1 166,7**	1 560,7

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	Acquisitions and disposals	Income statement	Other	Closing balance
Deferred tax					
Instalment credit agreements	870,9	–	(99,1)	–	771,8
Accruals	965,3	–	(46,5)	–	918,8
Equipment	(4,1)	–	–	–	(4,1)
General provision	(175,3)	–	(0,1)	–	(175,4)
Taxation losses	–	–	82,7	–	82,7
Other	(96,1)	–	(378,1)	47,1	(427,1)
Total deferred taxation	1 560,7	–	(441,1)	47,1	1 166,7

Notes to the annual financial statements continued

for the year ended 30 June

R million	2002	2001
20. LONG-TERM LIABILITIES		
Debentures		
Unsecured debt securities amortising over the period to 2005[a]	**310,0**	310,0
Less: Portion payable within 12 months transferred to current liabilities (refer note 17)	**(188,2)**	–
	121,8	310,0
(a) Repayments of the unsecured debt securities occurs between 2002 and 2005. Interest rates vary between 16,74% and 17,66% per annum.		
Preference shares		
Authorised		
5 000 000 000 (2001: 5 000 000 000) cumulative preference shares with a par value of R0,0001.		
Issued		
6 403 (2001: 11 984) cumulative redeemable shares with a par value of R0,0001 at a premium of R99 999,9999 per share	**640,3**	1 198,4
The redeemable preference shares have been issued at variable rates linked to prime, with varying redemption periods.		
Subordinated convertible loans	**2 348,9**	2 348,9
The subordinated convertible loans are redeemable in 2009 and bear interest at 16,50% semi-annually. These loans are convertible into ordinary shares at the option of the holder at any time prior to redemption.		
	3 111,0	3 857,3
21. SHARE CAPITAL		
Ordinary shares		
Authorised		
2 000 000 ordinary shares of R2 each	**4,0**	4,0
Issued shares		
1 757 106 (2001: 1 757 106) ordinary shares of R2 each	**3,5**	3,5
The unissued ordinary shares are under the control of the directors until the next annual general meeting.		
22. NON-DISTRIBUTABLE RESERVES		
Currency conversion reserve	**20,7**	6,6
Capital redemption reserve fund	**705,0**	146,9
Other	**(2,7)**	(2,8)
	723,0	150,7

R million	2002	2001
23. CONTINGENCIES AND COMMITMENTS		
Contingencies		
Guarantees	**22 335,0**	14 847,8
Acceptances	**253,3**	471,9
Letters of credit	**2 408,9**	2 196,2
	24 997,2	17 515,9
There are a number of legal or potential claims against the bank, the outcome of which cannot at present be foreseen. Provision is made for all liabilities which are expected to materialise.		
Employee benefit contingent liability	**102,5**	–
The contingent liability arises from a contribution holiday taken by the bank as a result of a pension fund surplus.		
Commitments		
Commitments in respect of capital expenditure and long-term investments approved by directors		
Contracted for	**23,5**	9,0
Not contracted for	**58,9**	39,3

Funds to meet these commitments will be provided from internal resources.

Commitments under operating leases

R million	Next year	2nd to 5th year	6th year and thereafter
2002			
Office premises	**158,4**	**756,4**	**496,3**
Recoverable under subleases	**(0,2)**	**–**	**–**
	158,2	**756,4**	**496,3**
Equipment and motor vehicles	**33,9**	**35,8**	**–**
	192,1	**792,2**	**496,3**
2001			
Office premises	161,9	707,1	701,6
Recoverable under subleases	(0,1)	–	–
	161,8	707,1	701,6
Equipment and motor vehicles	61,1	54,6	–
	222,9	761,7	701,6

Notes to the annual financial statements continued

for the year ended 30 June

R million	2002	2001
24. ANALYSIS OF INCOME AND EXPENDITURE		
24.1 Interest income		
Interest on:		
Advances	**13 537,9**	11 670,7
Balances with banks and short-term funds	**605,5**	331,0
Short-term negotiable securities	**1,3**	0,3
Investment and trading securities		
– Unlisted	**0,1**	0,1
Other	**359,8**	406,8
	14 504,6	12 408,9
24.2 Interest expenditure		
Interest on:		
Term deposits	**(3 758,1)**	(2 529,0)
Current deposit accounts	**(2 249,7)**	(2 141,4)
Savings accounts	**(82,7)**	(168,8)
Debentures	**(484,7)**	(456,7)
Deposits from banks	**(23,3)**	(163,6)
Holding and fellow subsidiary companies (net)	**(2 484,9)**	(985,2)
Other	**(648,4)**	(723,2)
	(9 731,8)	(7 167,9)
24.3 Other operating income		
Exchange earnings	**523,3**	326,2
(Loss)/profit on sale of plant and equipment	**(28,5)**	55,8
Profit on sale of investments	**6,5**	10,6
Expenses recovered from fellow subsidiaries	**177,2**	62,1
Other income	**1 581,9**	40,7
	2 260,4	495,4

R million	2002	2001
24. ANALYSIS OF INCOME AND EXPENDITURE (continued)		
24.4 Other operating expenditure		
Auditors' remuneration		
Audit fees	**(28,5)**	(24,5)
Fees for other services	**(2,4)**	(8,4)
	(30,9)	(32,9)
Amortisation of intangible assets		
Software	**(8,7)**	(3,7)
Development costs	**(0,4)**	–
	(9,1)	(3,7)
Depreciation		
Property		
Freehold buildings	**(48,3)**	(33,6)
Leasehold premises	**(45,8)**	(44,3)
Equipment		
Computer equipment	**(184,1)**	(198,3)
Furniture and fittings	**(82,8)**	(64,5)
Motor vehicles	**(18,5)**	(37,4)
Office equipment	**(15,2)**	(10,6)
	(394,7)	(388,7)
Operating lease charges		
Land and buildings	**(201,7)**	(212,9)
Equipment	**(34,2)**	(26,4)
	(235,9)	(239,3)
Directors' emoluments paid		
Executive directors		
Salaries, pension and medical contributions	**(14,6)**	(19,9)
Non-executive directors		
Fees for services as directors/consultants	**(2,2)**	(1,3)
	(16,8)	(21,2)
Professional fees	**(147,6)**	(107,8)
Staff costs		
Salaries, wages and allowances	**(2 724,6)**	(2 737,5)
Contributions to employee benefit funds	**(316,3)**	(260,6)
Social security levies	**(17,8)**	(1,8)
Other	**(453,8)**	(516,9)
	(3 512,5)	(3 516,8)
Other costs	**(2 881,6)**	(2 567,6)
Total other operating expenditure	**(7 229,1)**	(6 878,0)

Notes to the annual financial statements continued

for the year ended 30 June

R million	2002	2001
25. CASH FLOW INFORMATION		
25.1 Cash received from customers		
Interest income	**14 502,4**	12 408,9
Fee and commission income	**3 375,0**	3 305,3
Other income	**2 095,6**	463,3
Expenses recovered from fellow subsidiaries	**177,2**	62,1
Total cash received from customers	**20 150,2**	16 239,6
25.2 Cash paid to customers and employees		
Interest expenditure (excluding debenture interest)	**(9 241,9)**	(6 711,2)
Total other operating expenditure (excluding depreciation)	**(6 834,4)**	(6 361,1)
Total cash paid to customers and employees	**(16 076,3)**	(13 072,3)
25.3 Dividends received		
Dividends from other investments	**323,6**	285,2
Dividends from associate companies	**1,3**	3,0
Total dividends received	**324,9**	288,2
25.4 Dividends paid		
Amounts unpaid at the beginning of the year	**–**	–
Charged to distributable reserves	**(250,0)**	(352,3)
Amounts unpaid at the end of the year	**–**	–
Total dividends paid	**(250,0)**	(352,3)
25.5 Taxation paid		
Amounts unpaid at the beginning of the year	**85,7**	93,8
Taxation charge per income statement	**(454,9)**	(367,6)
Deferred taxation included in tax charge	**441,1**	367,6
Other movements	**(654,5)**	(14,8)
VAT and other tax charges	**(236,9)**	(214,7)
Amounts unpaid at the end of the year	**355,8**	(85,7)
Total taxation paid	**(463,7)**	(221,4)

R million	2002	2001
25. CASH FLOW INFORMATION (continued)		
25.6 (Increase)/decrease in income-earning assets		
Short-term negotiable securities	**1 267,7**	4 631,8
Liquid assets and trading securities	**11 817,4**	(3 800,9)
Advances	**(26 428,8)**	(17 933,2)
Funding from/(of) fellow subsidiary companies	**(7 498,2)**	1 065,5
Net increase in income-earning assets	**(20 841,9)**	(16 036,8)
25.7 Increase/(decrease) in deposits and other liabilities		
Term deposits	**16 817,5**	24 177,3
Current deposit accounts	**5 507,1**	(5 702,4)
Deposits from banks	**7 241,9**	(2 842,0)
Negotiable certificates of deposit	**(1 698,8)**	900,9
Savings accounts	**(56,5)**	(118,9)
Creditors net of debtors	**(2 080,3)**	219,7
Other deposits	**8 603,5**	–
Net increase in deposits and other liabilities	**34 334,4**	16 634,6

Notes to the annual financial statements continued

for the year ended 30 June

26. PENSION AND OTHER POST-RETIREMENT BENEFITS

Post-retirement medical aid liability

The bank has incurred a liability to subsidise the post-retirement medical expenditure of certain of its employees. At 30 June 2002, the actuarially determined liability in respect of such liabilities was R860,5 million (2001: R789,2 million).

Pension fund surplus

The bank operates a defined contribution pension fund. This fund was converted from a defined benefit fund in 1996. At that point, an actuarial surplus was converted into a real surplus. In agreement with the bank's employee representatives, a portion of this surplus was credited to the members' pension accounts. The residual was used to create an employer's reserve. The bank has been accessing this reserve via a pension fund holiday. At 30 June 2002, R430,3 million (2001: R556,5 million) of the employer's reserve remained in the fund. New pension fund legislation has been introduced with effect from December 2001, which inter alia, sets out laws regarding the fair division of pension fund surpluses. The regulations governing the implementation of this legislation have not yet been introduced. Whilst uncertainty exists as to the form these regulations will take, the bank has not impaired this asset, as FirstRand Bank Holdings Limited has undertaken to replenish any capital deficiency resulting from any impairment thereof.

R million	**2002**	**2001**
26.1 Post-retirement medical aid liability		
Post-retirement medical liability	**860,5**	789,2
The amounts recognised in the income statement are as follows:		
Current service cost	**22,0**	18,5
Interest cost	**90,6**	83,8
Net actuarial (profit)/loss recognised in the year	**–**	–
Total included in staff costs	**112,6**	102,3
Movement in liability recognised in the balance sheet		
Present value at the beginning of the year	**789,2**	730,3
Amounts recognised in the income statement as above	**112,6**	102,3
Contributions paid	**(41,3)**	(43,4)
Present value at the end of the year	**860,5**	789,2
The principal actuarial assumptions used for accounting purposes were:		
Discount rate (%)	**12**	12
Expected return on plan assets (%)	**11**	11
Long-term increase in medical subsidies (%)	**10**	10

R million	2002	2001
26. PENSION AND OTHER POST-RETIREMENT BENEFITS (continued)		
26.2 Pension liability (FNB Pension Fund)		
Present value of funded liability	**9 035,8**	8 583,9
Fair value of plan assets	**(9 466,1)**	(9 140,4)
Recognised pension surplus	**(430,3)**	(556,5)
The amounts recognised in the income statement are as follows:		
Current service cost	**196,8**	178,1
Interest cost	**962,3**	941,7
Expected return on plan assets	**(1 032,5)**	(1 022,9)
Total included in staff costs	**126,6**	96,9
Movement in liability recognised in the balance sheet		
Present value at the beginning of the year	**(556,5)**	(652,9)
Amounts recognised in the income statement as above	**126,6**	96,9
Contributions paid	**(0,4)**	(0,5)
Present value at the end of the year	**(430,3)**	(556,5)
The principal actuarial assumptions used for accounting purposes were:		
Discount rate (%)	**12**	12
Expected return on plan assets (%)	**12**	12
Salary inflation (%)	**7**	7
Net interest rate used to value pensions, allowing for pension increases (%)	**6**	6
26.3 Employee benefits assets		
Leave pay insurance policy	**300,0**	300,0
Post-retirement medical asset	**814,0**	686,9
Retirement funding asset	**430,3**	556,5
	1 544,3	1 543,4

27. FINANCIAL INSTRUMENTS

A comprehensive risk management report is included on pages 4 to 16.

27.1 Credit risk management

Significant credit exposures at 30 June 2002 were:

R million	South Africa	Other Africa	Europe	Other	Total
Assets					
Advances before impairments	130 549,1	372,4	5 878,0	2 804,8	139 604,3
Contingencies	24 997,2	–	–	–	24 997,2
	155 546,3	372,4	5 878,0	2 804,8	164 601,5

27.2 Currency risk management

The bank manages foreign currency exposures in terms of approved limits. The currency position at 30 June 2002 is set out below:

R million	Rand	UK£	US$	Other	Total
Assets					
Cash and short-term funds	11 071,9	14,3	392,9	84,4	11 563,5
Short-term negotiable securities	3 413,5	–	–	–	3 413,5
Liquid assets and trading securities	12 705,2	–	–	27,8	12 733,0
Derivative instruments	17 080,6	–	–	5 403,0	22 483,6
Advances	123 958,7	16,1	12 082,9	667,2	136 724,9
Debtors	1 162,0	12,4	28,5	4,5	1 207,4
Other investments	4 115,5	–	–	–	4 115,5
Investment in associate companies	615,1	–	–	–	615,1
Interest in subsidiary companies	23,1	–	–	–	23,1
Holding and fellow subsidiary companies	15 266,3	764,7	1 151,3	360,8	17 543,1
Property and equipment	1 395,0	–	–	–	1 395,0
Employee benefit assets	1 544,3	–	–	–	1 544,3
Intangible assets	23,0	–	–	–	23,0
	192 374,2	807,5	13 655,6	6 547,7	213 385,0
Liabilities					
Deposit and current accounts	137 375,3	281,0	7 614,2	655,1	145 925,6
Derivative instruments	18 961,8	–	1 338,3	5 257,6	25 557,7
Short trading positions	15 018,7	–	–	–	15 018,7
Post-retirement medical liability	860,5	–	–	–	860,5
Creditors and accruals	3 072,3	–	–	–	3 072,3
Provisions	529,6	–	–	–	529,6
Taxation	355,8	–	–	–	355,8
Deferred taxation	1 166,7	–	–	–	1 166,7
Holding and fellow subsidiary companies	10 268,9	–	29,4	2,4	10 300,7
Long-term liabilities	3 111,0	–	–	–	3 111,0
Shareholders' equity	7 459,5	–	–	26,9	7 486,4
	198 180,1	281,0	8 981,9	5 942,0	213 385,0

27.3 Interest rate risk management

A graphical analysis of the interest income sensitivity gap and cumulative repricing gap is included on page 9.

R million	Future contracts	Options	Swaps	FRAs	Credit derivatives	Total
27. FINANCIAL INSTRUMENTS (continued)						
27.4 Derivative instruments						
Absolute value						
The notional amount of derivative instruments outstanding at 30 June 2002 is set out below:						
Currency	–	4 794,1	10 367,8	334 358,5	–	349 520,4
Equity	149,6	24 069,1	–	482,1	–	24 700,8
Bonds	–	5 523,1	–	–	16 941,7	22 464,8
Gold	–	12 500,9	986,4	43 078,7	–	56 566,0
Agriculture	5 480,9	–	–	461,7	–	5 942,6
Metals	–	2,8	–	761,8	–	764,6
Interest rate	2 478,3	4 343,5	354 366,8	52 113,0	–	413 301,6
Forward rate	–	–	–	850,0	–	850,0
	8 108,8	51 233,5	365 721,0	432 105,8	16 941,7	874 110,8
The fair value and carrying amount of derivative instruments outstanding at 30 June 2002 is set out below:						
Assets						
Fair value						
Currency	–	116,3	526,0	10 844,9	–	11 487,2
Equity	–	1 045,6	–	–	–	1 045,6
Bonds	–	27,5	–	–	–	27,5
Gold	–	1 099,2	0,7	2 864,7	–	3 964,6
Agriculture	1 619,0	–	–	54,9	–	1 673,9
Metals	–	–	–	20,5	–	20,5
Interest rate	0,4	104,0	4 125,6	67,4	–	4 297,4
Forward rate	–	–	–	1,4	–	1,4
	1 619,4	2 392,6	4 652,3	13 853,8	–	22 518,1
Carrying amount						
Currency	–	116,3	643,2	10 817,9	–	11 577,4
Equity	–	1 045,6	–	–	–	1 045,6
Bonds	–	27,5	–	–	–	27,5
Gold	–	1 099,2	0,7	2 864,7	–	3 964,6
Agriculture	1 619,0	–	–	54,9	–	1 673,9
Metals	–	–	–	20,5	–	20,5
Interest rate	0,4	108,6	3 995,5	67,4	–	4 171,9
Forward rate	–	–	–	2,2	–	2,2
	1 619,4	2 397,2	4 639,4	13 827,6	–	22 483,6

R million	Future contracts	Options	Swaps	FRAs	Credit derivatives	Total
27. FINANCIAL INSTRUMENTS (continued)						
27.4 Derivative instruments (continued)						
Liabilities						
Fair value						
Currency	–	217,8	667,4	10 483,8	–	11 369,0
Equity	–	4 912,2	–	222,9	–	5 135,1
Bonds	–	24,9	–	–	–	24,9
Gold	–	928,9	2,0	4 293,3	–	5 224,2
Agriculture	19,9	–	–	58,9	–	78,8
Metals	–	3,3	–	11,2	–	14,5
Interest rate	9,2	121,8	3 465,7	103,5	–	3 700,2
Forward rate	–	–	–	0,2	–	0,2
	29,1	6 208,9	4 135,1	15 173,8	–	25 546,9
Carrying amount						
Currency	–	217,8	667,4	10 483,8	–	11 369,0
Equity	–	4 912,2	–	222,9	–	5 135,1
Bonds	–	24,9	–	–	–	24,9
Gold	–	928,9	2,0	4 293,3	–	5 224,2
Agriculture	19,9	–	–	58,9	–	78,8
Metals	–	3,3	–	11,2	–	14,5
Interest rate	9,2	126,4	3 466,5	103,5	–	3 705,6
Forward rate	–	–	–	5,6	–	5,6
	29,1	6 213,5	4 135,9	15 179,2	–	25 557,7

R million	Carrying amount 2002	Demand	Term to maturity 0 – 12 months	1 – 5 years	Over 5 years
27.5 Liquidity risk management					
Assets					
Cash and short-term funds	**11 563,5**	9 163,1	2 400,4	–	–
Short-term negotiable securities	**3 413,5**	5,3	3 408,2	–	–
Liquid assets and trading securities	**12 733,0**	11,0	6 783,2	3 718,2	2 220,6
Derivative instruments	**22 483,6**	7,0	13 395,2	6 337,6	2 743,8
Advances	**136 724,9**	24 006,0	39 706,9	41 448,5	31 563,5
Debtors	**1 207,4**	703,9	503,5	–	–
Other investments	**4 115,5**	–	119,4	2 474,6	1 521,5
Investment in associate companies	**615,1**	–	–	–	615,1
Interest in subsidiary companies	**23,1**	–	–	–	23,1
Holding and fellow subsidiary companies	**17 543,1**	7 012,9	8 782,2	1 130,2	617,8
Property and equipment	**1 395,0**	–	594,3	673,9	126,8
Employee benefit assets	**1 544,3**	–	–	541,2	1 003,1
Intangible assets	**23,0**	–	11,0	12,0	–
	213 385,0	40 909,2	75 704,3	56 336,2	40 435,3

R million	Carrying amount 2002	Demand	Term to maturity 0 – 12 months	1 – 5 years	Over 5 years
27. FINANCIAL INSTRUMENTS (continued)					
27.5 Liquidity risk management (continued)					
Liabilities					
Deposit and current accounts	**145 925,6**	76 831,4	60 005,5	7 302,0	1 786,7
Derivative instruments	**25 557,7**	1,4	14 708,3	9 424,7	1 423,3
Short trading positions	**15 018,7**	85,3	12 595,2	265,0	2 073,2
Post-retirement medical liability	**860,5**	–	–	215,0	645,5
Creditors and accruals	**3 072,3**	520,6	2 551,7	–	–
Provisions	**529,6**	–	529,6	–	–
Taxation	**355,8**	–	355,8	–	–
Deferred taxation	**1 166,7**	–	101,3	1 065,4	–
Holding and fellow subsidiary companies	**10 300,7**	5 436,3	3 412,3	324,8	1 127,3
Long-term liabilities	**3 111,0**	–	–	762,1	2 348,9
Shareholders' equity	**7 486,4**	–	–	–	7 486,4
	213 385,0	82 875,0	94 259,7	19 359,0	16 891,3
Net liquidity gap	**–**	(41 965,8)	(18 555,4)	36 977,2	23 544,0

R million	Carrying amount 2002	Fair value 2002	Unrecog-nised gain 2002
27.6 Fair value of financial instruments			
The following represents the fair values of financial instruments carried on the balance sheet:			
Assets			
Cash and short-term funds	**11 563,5**	**11 563,5**	**–**
Short-term negotiable securities	**3 413,5**	**3 413,5**	**–**
Liquid assets and trading securities	**12 733,0**	**12 733,6**	**0,6**
Derivative instruments	**22 483,6**	**22 518,1**	**34,5**
Advances	**136 724,9**	**136 724,9**	**–**
Debtors	**1 207,4**	**1 207,4**	**–**
Other investments	**4 115,5**	**4 132,0**	**16,5**
Investment in associate companies	**615,1**	**623,7**	**8,6**
Interest in subsidiary companies	**23,1**	**72,1**	**49,0**
Holding and fellow subsidiary companies	**17 543,1**	**17 543,1**	**–**
Employee benefit assets	**1 544,3**	**1 544,3**	**–**
	211 967,0	**212 076,2**	**109,2**
Liabilities and equity			
Deposit and current accounts	**145 925,6**	**145 925,6**	**–**
Derivative instruments	**25 557,7**	**25 546,9**	**10,8**
Short trading positions	**15 018,7**	**15 018,7**	**–**
Post-retirement medical liability	**860,5**	**860,5**	**–**
Holding and fellow subsidiary companies	**10 300,7**	**10 300,7**	**–**
Creditors and accruals	**3 072,3**	**3 072,3**	**–**
Long-term liabilities	**3 111,0**	**3 111,0**	**–**
	203 846,5	**203 835,7**	**10,8**

Notes to the annual financial statements continued

for the year ended 30 June

R million	2002	2001
28. DIVIDENDS		
Dividends paid		
Ordinary dividend	(250,0)	(352,3)

29. PRIMARY BUSINESS UNITS

Segment	Brands	Target segment	Description
Merchant bank	Rand Merchant Bank, RMB Private Equity, RMB International and RMB Resources	Large corporates, parastatals and government	Merchant and investment banking services
Instalment finance	WesBank	Corporates and individuals	Motor vehicle and instalment finance
Retail banking	First National Bank, FNB Card, BOB and Smartbox	Small businesses and individuals	Retail banking, wholesale banking and support services
Corporate	FNB Corporate	Medium and large corporates	Corporate banking
Property finance	FNB HomeLoans and Origin	Individuals	Secured mortgage lending
Capital centre	FirstRand Bank		Owns the capital of the Banking Group
Private bank	Ansbacher and Origin	High net worth individuals	Wealth management

Administration

FirstRand Bank Limited

Registered bank
(Registration No 1929/001225/06)

Registered office

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