FirstRand Bank Limited

Annual report 2004

FIRSTRAND

Bank Limited

FirstRand Bank Limited annual report 2004

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Board of directors and board committees of FirstRand Bank Limited

GT FERREIRA / 56 / Non-executive / BCom, Hons B(B&A), MBA / Chairman of FirstRand, FirstRand Bank Holdings and RMB Holdings and director of Momentum Group

PK HARRIS / 54 / Executive / MCom / Chief executive officer of FirstRand Bank Holdings, director of FirstRand, RMB Holdings and Momentum Group

VW BARTLETT / 61 / Non-executive / AMP (Harvard), FIBSA / Director of FirstRand and FirstRand Bank Holdings

JP BURGER / 45 / Executive / BCom (Hons), CA(SA) / Chief financial officer of FirstRand and financial director of FirstRand Bank Holdings

I CHARNLEY / 44 / Independent Non-executive / Director of FirstRand Bank Holdings

LL DIPPENAAR / 55 / Executive / MCom, CA(SA) / Chief executive officer of FirstRand, chairman of Momentum Group and Discovery Holdings, director of FirstRand Bank Holdings and RMB Holdings

DM FALCK / 58 / Independent Non-executive / CA(SA) / Director of FirstRand, FirstRand Bank Holdings and RMB Holdings

PM GOSS / 56 / Independent Non-executive / BEcon (Hons), BAccSc (Hons), CA(SA) / Director of FirstRand, FirstRand Bank Holdings and RMB Holdings

WR JARDINE / 39 / Independent Non-executive / BSc, MSc / Director of FirstRand Bank Holdings

MW KING / 67 / Independent Non-executive / CA(SA), FCA / Director of FirstRand, FirstRand Bank Holdings and FirstRand International

SE NXASANA / 47 / Independent Non-executive / BCom, BCompt (Hons), CA(SA) / Director of FirstRand Bank Holdings

BJ VAN DER ROSS / 57 / Independent Non-executive / Dip Law (UCT) / Director of FirstRand, FirstRand Bank Holdings and Momentum Group

RA WILLIAMS / 63 / Independent Non-executive / BA, LLB / Director of FirstRand and FirstRand Bank Holdings

The following directors were appointed to the board during the year on the dates indicated below:

I Charnley – 21 January 2004
WR Jardine – 21 January 2004
SE Nxasana – 21 January 2004
BJ van der Ross – 21 January 2004

The following directors served on the board during the year
SR Maharaj resigned, 13 August 2003
MPC Brogan* resigned, 17 February 2004
JW Gafney resigned, 12 February 2004
AS Vahed resigned, 17 February 2004

**Australian*

Mr VW Bartlett relinquished all executive functions with effect from 30 June 2004.

Audit committee

MW King (Chairman)
DM Falck
RA Williams

Risk committee

MW King (Chairman)
DM Falck
RA Williams

Remuneration committee

PM Goss (Chairman)
VW Bartlett
LL Dippenaar
GT Ferreira
MW King
BJ van der Ross
RA Williams

Large exposures credit committee

GT Ferreira (Chairman)
JP Burger
PK Harris
PM Goss
WR Jardine
BJ van der Ross

Directors' affairs and governance committee

DM Falck (Chairman)
VW Bartlett
I Charnley
GT Ferreira
PM Goss
WR Jardine
MW King
SE Nxasana
BJ van der Ross
RA Williams

Corporate governance

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

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

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

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

Board of directors

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

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

The board comprises 13 directors of whom three serve in an executive capacity. The directors of the Bank are listed on page 1. Non-executive directors comprise individuals of high calibre with diverse backgrounds and expertise. This ensures that their views carry significant weight in the board's deliberations and decisions.

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

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

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

Company secretary / The company secretary is suitably qualified and experienced and was appointed by the board in 1998. He is inter alia responsible for the duties stipulated in section 268G of the Companies Act and the certificate required to be signed in terms of subsection (d) thereof appears on page 23.

Risk management

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

Risk management philosophy / To achieve business success, one has to get many things right and avoid adverse outcomes.

Risk is anything that may have an adverse impact on a business or which may prevent it from achieving its desired objectives. Risk cannot be managed unless it is known and understood. Risk management is the process of identification and evaluation of actual and potential risk areas, across the full spectrum of business management functions. These risks are then pro-actively addressed, tolerated, mitigated or terminated in the best possible way so that business can achieve its desired outcomes.

Risk management is simply an integral part of management's functions and includes the management of strategy, reputation, human resources, competitive positioning, all financial risks, tax, market and credit risk, capital management, liquidity, technology, business continuity, information security, legal and compliance risks, criminal activities, processes and systems risk and external factors.

The Business Success and Risk Management Framework ("the Framework") of the Bank is a policy of the board of directors of the Bank ("board") and was updated in May 2003. Its main objectives are to establish a formal approach to risk management, to vest a risk management culture in the Bank, to facilitate business success and to ensure compliance with statutes and industry codes.

The Framework distinguishes between strategic and operating business risks. The management of strategic business risks is the responsibility of business entity leaders, while the management of operating business risks may be delegated to operating managers, specialist risk managers and risk committees. However, business performance remains the responsibility of the business entity leaders. (Business entities include all holding, operating and subsidiary companies as well as their divisions, departments and business units.)

Risk governance structure and reporting / The risk management processes are monitored by the independent and deployed risk managers and the entity risk committees which meet monthly. The effectiveness of the risk management processes in the Bank is monitored on a quarterly basis by the risk committees of the business entities, deployed risk managers and Risk Management Services team within Risk and Audit Services, a division of the Finance, Risk and Audit area of the Bank and assessed, on behalf of the board, by the FirstRand Banking Group risk committee ("Group risk committee"). All the business units report on the effectiveness of their risk management processes, in a generic dashboard format, to their relevant risk management functions and risk committees, and to Risk Management Services via a bottom-up process. The assessments are submitted to the risk committee for each of the main business units.

This process provides the specialist risk managers, sub-risk committees and the Group risk committee with an overview of the effectiveness of risk management of the main business units by risk factor or category across the Bank. Business units rate the effectiveness of their risk management processes by risk factor on a three point, colour coded scale being red (unacceptable), amber (room for improvement) and green (acceptable). Explanations are provided where process shortcomings are identified.

Process ratings are combined with potential impact on the income of the business unit, should there be a breakdown in the control processes or the occurrence of an unforeseen event, to determine priorities for corrective actions. Actions to address shortcomings are then initiated and monitored by management, specialist risk managers, the sub-risk committees and ultimately the Group risk committee.

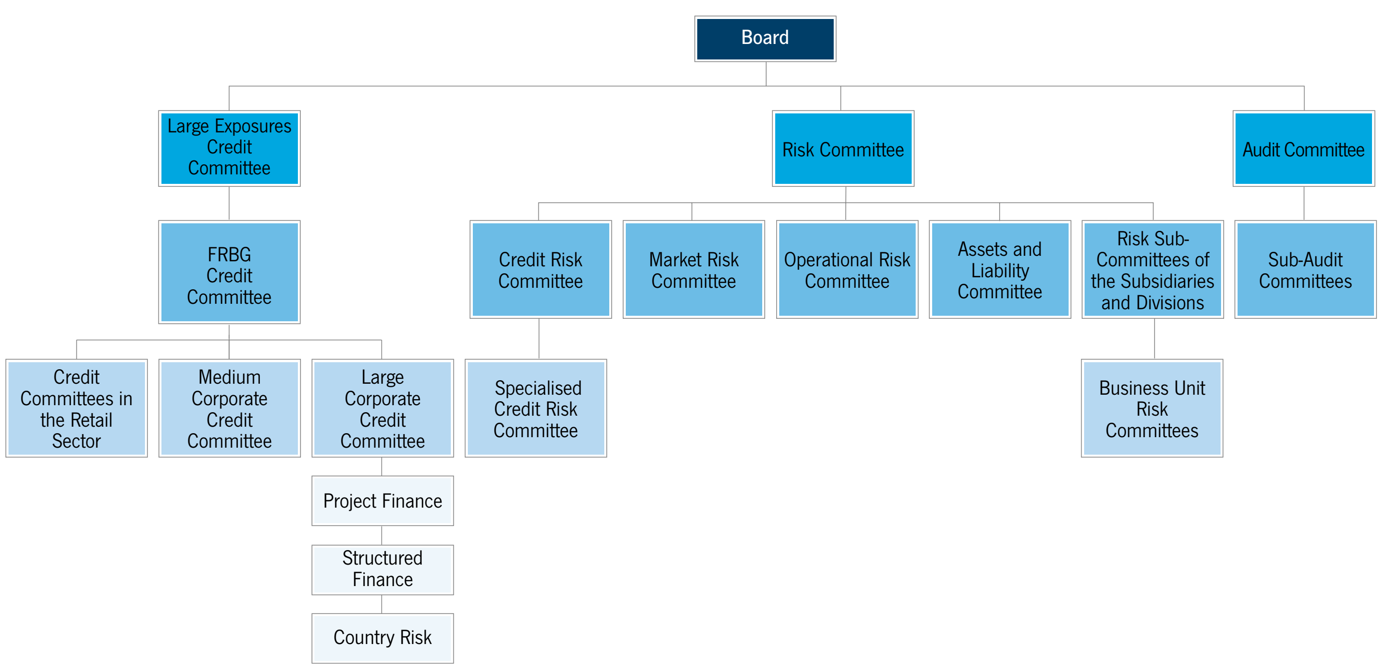
Responsibility of the board / The board is responsible for the overall risk management and the quality of internal control systems. The board is supported in these tasks by the committees of the board ("board committees") and their sub-committees. The table below lists these committees and their main responsibilities.

Audit and risk committees of the board

Committee and chairperson	Main duties and responsibilities
Audit committee MW King Sub-audit committees	Approves the financial statements and accounting policies. Monitors the quality of internal controls and processes of the Bank and the implementation of corrective actions.
Risk committee MW King Sub-risk committees	Approves risk management policy, standards and processes; monitors Group risk assessments; monitors the effectiveness of risk management and high priority corrective actions.
Large exposures credit committee GT Ferreira	Approves credit exposures in excess of 10% of bank capital.
FirstRand Banking Group credit committee JP Burger	Credit approvals of Group or individual credit facilities in excess of R100 million. Approves all credit products and product policies.

Committee and chairperson	Main duties and responsibilities
Credit approval committees and sub-committees ● Corporate credit ● Medium corporate ● Property finance ● Structured finance ● Project finance ● Consumer sectors ● Wealth sector ● Country risk	Credit approvals as per individual committee mandates.
Corporate and consumer credit risk committees	Approves credit risk management policies, standards and processes; monitors the effectiveness of the credit risk management processes.
Market risk committee MH Field	Approves market risk management policy, standards and processes; monitors the effectiveness of the market risk management processes.
Operational risk committee JJH Bester Sub-committees ● Security committee ● Technology and information management committee	Monitors the risk management processes, the effectiveness of risk management, process breakdowns and corrective actions and operational risk management.
Asset and liability committee (ALCO) EB Nieuwoudt	Approves liquidity and interest rate risk management policies for the banking book and monitors the effectiveness of the risk management processes.
Risk sub-committees of the subsidiaries and main operating divisions	Monitors risk management processes and risk assessments; monitors the effectiveness of risk management and high priority corrective actions.

Risk governance structure / The diagram below depicts the risk management governance structures for the Bank. All subsidiaries, divisions and major business units of the Bank have risk committees.



Independent risk monitoring responsibilities / The independent risk management functions of the Bank are vested in the Finance, Risk and Audit services division. The independent risk managers and the deployed risk management functions of the business entities monitor the implementation and execution of the Framework, risk management policies, standards, processes and methodologies, the identification of risks and risk management weaknesses and the implementation of corrective actions. The managers report to the relevant governance structures in an appropriate manner and in a format as agreed.

Representatives from the central and deployed risk management functions and internal audit functions attend all risk committee meetings. Through this hands-on process, risk management and internal audit are able to keep abreast of all developments in the Bank and are notified of process deficiencies and breakdowns at the earliest opportunity to enable identification of problem areas that might be generic across the Bank and to ensure that corrective actions are implemented.

The Group risk management functions of the Finance, Risk and Audit services division are responsible for the establishment of uniform risk management standards, policies, procedures and methodologies in conjunction with the business entities, audit and risk committees, management boards and boards of the Bank. The central Group risk management function is also responsible for setting the risk culture in the organisation, facilitating the risk management processes and communicating risk management strategies and general risk management requirements to the business entities. Furthermore, it is responsible for creating general and specific risk awareness, monitoring the implementation and effectiveness of the risk management processes and assisting with improvements to the risk management processes.

Finance, Risk and Audit services employs experts in the following areas to drive and facilitate risk management across the Bank, while Risk Management Services will drive the risk management processes:

- asset and liability management (ALCO);
- business continuity;
- capital management;
- compliance;
- corporate governance;
- credit (corporate, property, retail and wealth);
- criminal loss prevention;
- direct and indirect tax;
- financial market trading;
- information security;
- internal audit;
- legal;
- liquidity risk;
- market risk;
- operational risk;
- risk insurance; and
- financial management.

Strategic business risks are managed by executive management and monitored by the executive and strategic governance structures of the Bank. Shortcomings in these processes are also highlighted in the assessments of the effectiveness of risk management and reported as already outlined.

Responsibilities of the business units / Each business entity must allocate the responsibility for the monitoring of the management of the business success and risk management processes and the maintenance of risk management standards, policies, procedures and methodologies to a person in an independent role. Furthermore, appropriate governance structures are established in conjunction with the central risk management function to monitor the execution of the risk management strategy at all levels of the entity.

The management of strategic business risks is the responsibility of business entity leaders, while the management of operating business risks may be delegated to operations managers and specialist risk managers, operational and risk working groups and risk committees.

Enterprise-wide risk management / All risks are managed in terms of the policies and frameworks of the board and its committees and their sub-committees; for example the Business Success and Risk Management Framework, the Credit Risk Management Framework, the Market Risk Management Framework, the Compliance Risk Management Framework, the Legal Risk Management Framework, the Financial Risk Management Framework and the Direct Tax Risk Management Framework.

Risk management is well entrenched throughout the Bank. The Bank is pleased with the success that it has achieved as demonstrated by the review of the effectiveness of the risk management processes that follows.

Overall the Bank has achieved its desired business objectives and avoided unexpected losses of any consequence, which might have been caused by shortcomings in risk controls.

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

- further integration of the management and risk management processes;
- improving the measurement and reporting of the effectiveness of risk management;
- improving the alignment between risk management, internal audit and other governance functions;
- improving the qualitative and quantitative measures of key risks;
- improving risk controls to vest best practices or to address identified weaknesses and to strengthen defences against external threats. In particular, the Bank will concentrate on further improving its general systems controls, credit administration processes and business continuation arrangements;
- improving management information and financial reporting systems;
- reacting pro-actively and timeously to market events; and
- automating the risk management reporting and risk quantification processes generally, and specifically to address the requirements of the New Basel Capital Accord in respect of credit, market and operational risk.

Key risks / The senior executives of the Bank and the FirstRand Group annually review the risks facing the Bank to identify key risks. The effectiveness of the management of these key risks is assessed by the executive and special actions initiated where required to address shortcomings or to re-enforce management initiatives. The key risks, the assessment of the effectiveness of the management thereof and special actions initiated are reviewed and approved by the risk committee and the board.

Risk management effectiveness / The effectiveness of risk management is assessed by means of a framework template which is divided into seven main risk categories and 136 sub-categories. Each business entity in the reporting structure does a quarterly self-assessment which is agreed to by the risk managers and reported to the relevant governance committees as previously outlined. The process provides an overview right across the Bank of the effectiveness of risk management by business unit and by risk category. This enables management to identify processes or controls which are weak as well as business units where the risk management and control processes are sub-standard and to take corrective action.

In addition to the Bank wide overview by risk category and business unit, the heads of risk management and internal audit report all significant issues of process breakdown and control shortcomings to the sub-risk committees and ultimately to the Group risk committee. Follow-up reports are submitted to the risk committee until the issue has been resolved.

The following is a summary of the assessment of the effectiveness of risk management during the past financial year. The review is provided by selected risk factors which include all the key operating risks. This summary and the divisional performance reviews in the annual report demonstrate that the Bank was effective in controlling its business risks.

The review shows that credit defaults declined further. This is the result of improved business and economic conditions and improved credit risk management processes. Market risk was well controlled, yielding a satisfactory return on risk exposure. The Bank did not experience any funding problems such as a scarcity of funds or higher-than-market costs for funding.

The decline in the general level of interest rates was anticipated and the Bank benefited from appropriate hedging strategies.

The credit processes in the corporate sector, business continuation and general systems and process controls improved substantially.

The Bank's insurance programmes were renewed on favourable terms due to the quality of the risk management processes.

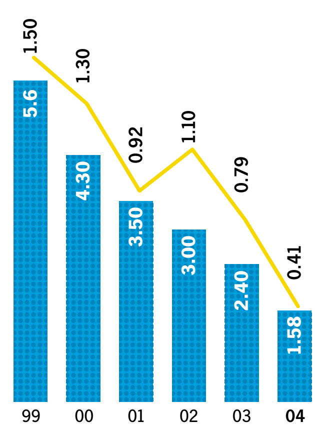
On the negative side, operational losses were higher than last year, but low in absolute terms. Losses due to criminal activities were higher due to more burglaries in the branches and increased volumes in the credit and debit card businesses. The Bank is upgrading its alarm systems in the branches to combat the increase in criminal activities.

The following summary provides qualitative comments on key questions in assessing the effectiveness of the risk management processes. Appropriate quantitative indicators are shown where possible.

Credit risk:

The risk that a counterparty will default on an obligation to the Bank / Non-performing loans and credit defaults for the Bank have declined considerably since 1999. Non-performing loans have declined from 2.4% of total loans and advances to 1.6% for the year to 30 June 2004 and credit defaults from 0.8% to 0.4%.

The improvement in the quality of the loan book can be attributed to favourable economic conditions, improved credit origination and credit risk management processes.



Non-performing loans and impairments (%)

Credit risk: Large and medium corporate sector

Credit cycle	Generic key business risk areas in credit management	Control evaluation
Origination	Origination aligned to segmentation criteria	Yes
	Standardisation of origination methodology	Implemented
	Pricing for risk	Yes, with continuous enhancement
Assessment	Calibrated risk measurement (grading) models in place	Yes
	Credit research aligned with portfolio dynamics	Yes
Approval	Credit losses in line with statistically expected and budgeted losses	Yes, better than expected
	Credit approval mandates adhered to	Yes
	Prudential limit policy in place	Yes
Ongoing risk management	Identification and management of high risk exposures	In place
	Operational limit management	In place
	Monitoring of facility covenants	In place with continuous enhancement
	Timely review of facilities	Yes
Credit legal and risk compliance	Losses caused by operational breakdowns in the credit processes with specific reference to validity of documentation	Losses insignificant; control enhancement in progress
Ongoing credit administration	Automated limit monitoring and exposure aggregation systems	Major systems enhancements in progress
	Data accuracy	Enhancement in progress
	Regulatory compliance	Comprehensive process
Recovery of defaulted accounts	Effectiveness of collection process	Very good
	Robustness of provisioning process	According to formal policies
Credit portfolio management	Robustness of process for measurement and management of portfolio risks	Enhancement In progress
	Alignment of capital management and credit management process	Key focus area

Key initiatives

- Ongoing development of credit risk management framework and related policies, norms and standards.
- Ongoing Basel II readiness assessment and related actions such as rating models calibration and collateral recovery measurement.
- Further development of the dynamic provisioning methodology.
- Segmentation alignment project in respect of SMEs in the Corporate and Retail segments.
- Development of robust systems architecture to address current and future needs including:
  - continued development of the Exposure and Limit Management System for the Corporate sector;
  - establishment of a Credit Data Matrix;
  - implementation and enhancement of workflow technology; and
  - development of a group-wide collateral register.
- In depth training of credit analysts in rating methodology, risk pricing and financial analysis.

Credit risk: Retail sector

Credit default losses in line with or better than expectations	Yes, better than expected
Reward for risk; return on capital	Above hurdle rate
Ongoing credit risk management	Formal processes in place
Level of non-performing loans	Acceptable
Collection processes	Excellent

Key initiatives

- Event driven systems to automate time consuming credit management processes.
- Enhancement of credit scoring systems.
- Further refinement of AC 133 compliant provisioning model.
- Single platform to automate credit applications from branch network to product houses.
- Review of credit policies.

Summary

The credit performance of the Retail book has been excellent and good progress has been made to automate the initiation and approval processes.

Non-performing loans (NPLs) as a % of gross advances

Portfolio	**2004**	2003
Cheque	**7.73%**	9.90%
Instalment loans	**3.50%**	4.06%
Mortgages	**1.57%**	3.04%
Auto loans	**0.72%**	1.06%
Card	**5.40%**	5.40%

Risk rating of retail advances

	Average FR Rating	
Portfolio	**2004**	2003
Cheque	**FR33**	FR41
Instalment loans	**FR47**	FR50
Mortgages	**FR28**	FR30
Auto loans	**FR28**	FR31
Card	**FR48**	FR54
Total	**FR30**	FR33

The Bank applies a uniform calibration of credit risk by way of an FR rating – the lower the rating the lower the risk. The ratings in the table are expressed on a deal rating basis i.e. after taking into account the value of security or underlying assets. The ratings show that the quality of the portfolio improved slightly.

Loss ratios or probability of default are ascribed to each FR rating (e.g. FR30 = 0.5% and FR50 = 3%). The credit risk spreads for individual advances are priced to take the loss ratio or probability of default and potential loss at default into account so that portfolio losses incurred during a year will be funded by the credit risk premiums earned across the portfolio of advances.

FNB Property Finance

Credit losses in line with statistically expected and budgeted losses	Losses are minimal due to the lower interest rate environment and higher recovery rates on security
Losses caused by operational breakdowns in the credit processes	None
Reward for risk return on capital	Very good
Ongoing management of high risk exposures	In place
Limit monitoring and exposure aggregation systems	Processes in place
Compliance with credit approval processes	Excellent. Credit policy and procedures in place
Ongoing credit administration	Processes have been improved. Credit division expanded

Key initiatives

- Credit policy and application procedures implemented.
- Lotus notes deal tracking system implemented.
- Deal rating mode devised to effect correct provisioning.
- Deal and FR rating model to be applied to calculate credit premium, economic capital allocation and pricing for risk.
- Systems enhancements.

Interest rate risk:

The risk of loss of interest income due to fluctuations in interest rates

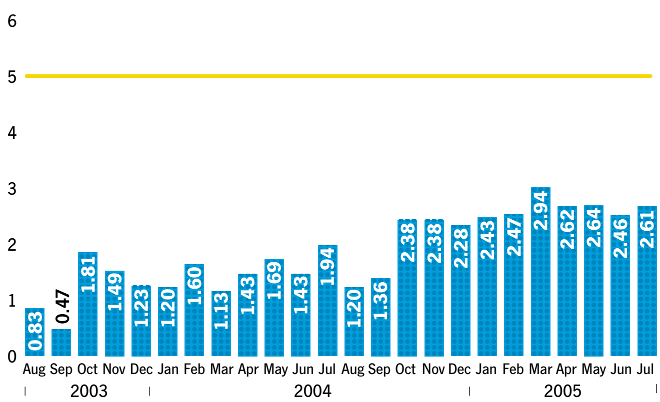
Interest rate risk in the banking book

Net interest income in line with expectations and interest rate forecast	Yes
Loss of income due to unexpected developments in interest rate markets	None
Interest rate sensitivity in line with approved limits, no exceptions noted during the period under review	Yes
Effectiveness of income hedges taken against expected rate trends	Very good
Portfolios managed within interest rate risk limits, namely interest rate sensitivity, economic value sensitivity, net interest income at risk.	Yes

Key initiatives

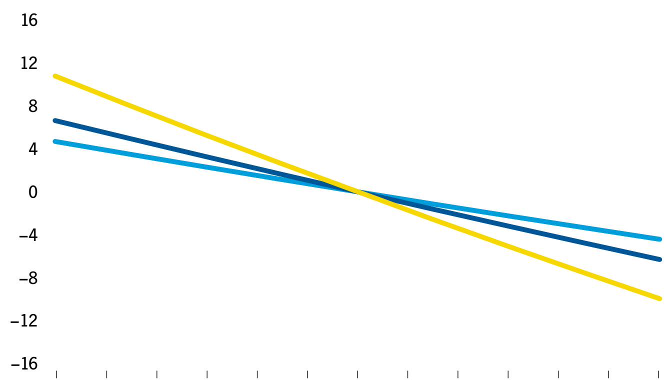
- Refinement of the quantification of interest rate risk per portfolio.
- Protection of the interest margin of portfolios by means of appropriate hedges where possible.

The table below reflects the adverse change in net interest income to a 1% instantaneous downward shock to the yield curve over a twelve month period and in addition, a forecast 12 month cycle. The limit reflects the impact of 1% instantaneous shock against the approved limit of not greater than 5% change to net interest income.



NII changes <5% for a 1% instantaneous shock to yield curve (%)

24 months rolling total %
5% limit



% change to net interest income for a shock in rates – June 2004

Last month's 1st 12m
First 12 months
Second 12 months

The sensitivity of interest income in comparison to the base scenario (where current market rates and client behaviour are held constant for the next twelve months) is considered small relative to the size of the Bank's net interest income of R8 907 million.

Liquidity risk:

The inability to discharge funding or trading obligations which fall due to market related prices

Liquidity risk in the Bank

Material or significant incidences of being unable to fund banking operations at market related prices	None
Sources, mix and term of funding aligned with market composition	Yes
Growth in deposit base	Acceptable

Key initiatives

- Refinement of liquidity management in the African and International entities.
- Focus on optimising the funding base throughout the Bank in terms of mix, stability of funding sources and cost.
- Focus on sensitivity of cash flows with refinement of alternative sources of funding and contingency plans.

The aims of liquidity risk management are twofold. Firstly, the Bank's liquidity risk management framework aims to ensure that there are sufficiently diversified funding sources to meet obligations when due. This is achieved by ensuring the Bank is able to fund ongoing lending and trading activity under increasing levels of stress at a maximum acceptable level of cost. Secondly, liquidity risk management serves to facilitate appropriate decision making around funding mix and cost optimisation for the Bank.

No significant changes to the Bank's liquidity position have been noted during the current financial period. Based on local and international benchmarks the Bank is adequately funded and able to meet all its current and future obligations.

Capital adequacy risk:

The risk of having insufficient capital to act as a buffer against unexpected losses or to comply with minimum regulatory requirements

Capital adequacy risk in the Bank

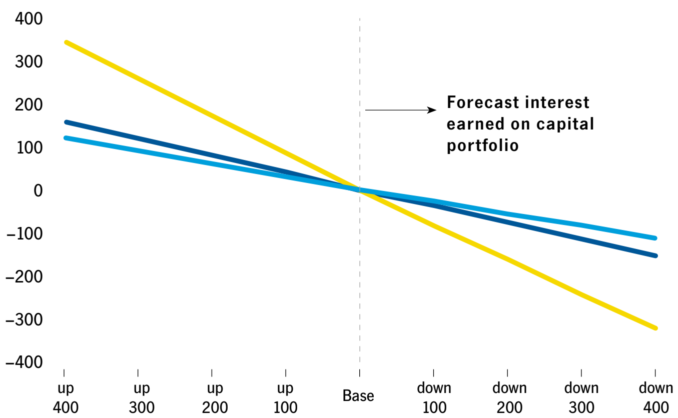
Breaches of minimum capital adequacy ratios	None
Measurement of capital requirements in both regulated and unregulated entities – capital maintenance at the higher of regulatory or economic capital	Yes
Income buffers in the Bank	Acceptable
Income sensitivity analysis	Yes
Internal generation of capital	Acceptable
Income on own funds	Key focus area

Key initiatives

- Ongoing refinement of economic capital calculation and allocation methodologies.
- Refinement of capital forecasting processes.
- Preparation for Basel II – including quarterly quantitative and qualitative impact assessments.
- Ongoing optimisation of the composition of capital base of the Bank (debt versus equity).

Income on own funds / The graph depicts the impact of an instantaneous interest rate shock on the interest income forecast for the capital portfolio of FirstRand Bank. As can be seen from the graph, the income effect of a shock in the interest rate is minimal to the Bank. The base is the forecast or budgeted interest income on the capital portfolio.

The forecast interest earned on the capital portfolio is subject to interest rate forecasts, hedging strategies and actual market movements. Given these risks FirstRand Bank is expecting to earn the budgeted income on its own funds portfolio.



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

Last month's 1st 12m
First 12 months
Second 12 months

Market risk:

The risk of loss on trading instruments due to changes in market prices and rates

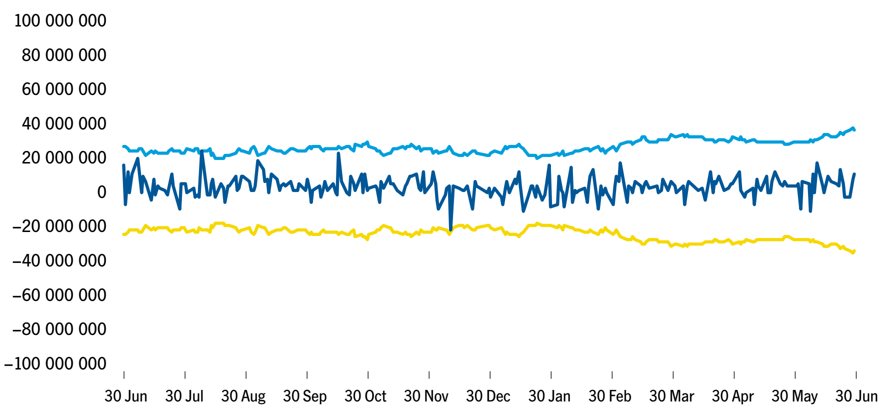
Market risk control of trading activities

Net income generated by trading activities relative to risk exposures	Very good
Containment of exposures within risk limits	Excellent
Profit and losses in line with risk exposures and identified risk factors	Yes
Highest market risk exposure (One day 99% VAR)	R35 million
Average market risk exposure	R25 million
General risk control of trading activities	Very good

Key initiatives

- Refinement of profit and loss attribution by risk factor.

Market risk exposures are controlled by means of stress exposure limits. The following graph shows the derived value at risk for the year under review. The value at risk graph is derived from the daily stress exposures for the trading activities and shows that the market risk exposures were small in relative terms.



Value at risk (99% 1 day) (Rand) – 1 July 2003 to 30 June 2004

99% VaR
P&L
99% VaR

Operational risk:

The risk of loss due to criminal activities, the failure of a process, system or human error

Operational risk management in the Bank

Risk management	
Independent operational risk management function to develop, implement and coordinate operational risk management strategies, processes and systems	In place
Operational risk management processes and systems	Good, being refined
Operational losses	
Losses due to criminal activities	Small increase
Losses due to process or systems failures or human error relative to size of operations and benchmarks	Low
Process losses	Higher than last year's figure; low in relative value terms
Reporting of operational losses	Good

Key initiatives

- Refinement of operational loss reporting and operational risk management processes.
- Alignment of internal audit processes with the risk management functions and the risk management framework.
- Alignment with Basel II requirements.

The following table shows the history of operational losses indexed to 100 with the year to 30 June 2000 as the base. The figures for 2001 and 2000 are for criminal losses only, while process losses have been formally recorded since 2002. Losses were higher than last year because of increases in robberies and burglaries, card fraud and process losses. Overall, losses due to criminal activities are 19% lower than in 2000, with process errors the cause of the increase in total losses. It was mentioned in last year's annual report that losses due to process errors were low in relative terms, but were expected to increase with the vesting of formal recording of losses due to process errors which had not been reported separately in the past.

Losses due to robberies were only slightly higher than last year. Losses due to burglaries at branches were markedly higher. The Bank is implementing an upgrade of its alarm systems and response procedures to counter the threat of criminal gangs which focus on the latter.

Process errors were higher mainly due to a payment process control error, which occurred following the installation of new software.

Losses due to criminal activities and process errors (Index Total Losses 2000 = 100) Financial Year to 30 June

Loss category	**2004**	2003	2002	2001	2000
Banking fraud and forgery	**21**	30	29	37	67
Robberies and burglaries	**32**	12	15	19	12
Card fraud	**19**	15	11	16	11
Transit losses	**1**	–	–	2	1
Money differences	**2**	3	7	7	7
Other	**–**	–	–	–	1
International fraud	**–**	–	–	14	1
Credit fraud	**7**	11	16	–	–
Losses due to criminal activities	**82**	72	78	95	100
Process losses	**40**	20	9	–	–
Total operational losses	**122**	92	88	95	100

Risk management / *continued*

Information risk:

The risk of breakdown in the confidentiality, integrity and availability of systems and data

Information security and risk management in the Bank

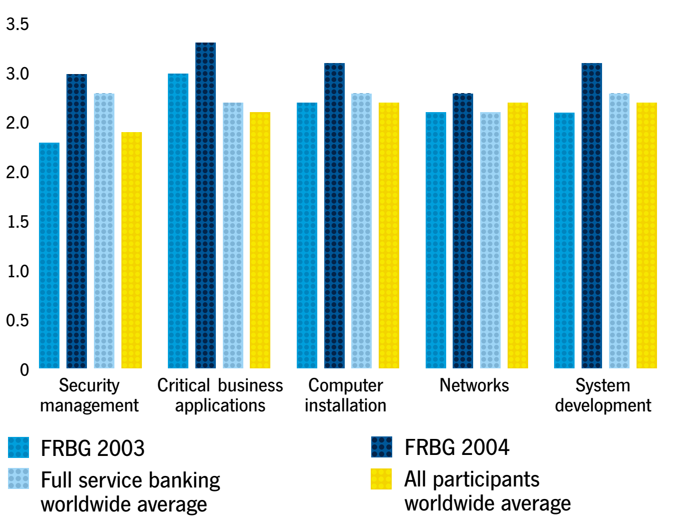
Information risk management processes

The Information Security Forum (ISF) survey resulted in an improved global ranking (to 16th out of 98)	Much improved
Policy and standards	In place
Awareness	Ongoing training
Control status in respect of: Baselines on UNIX/Windows servers, network perimeter, general access controls, virus controls, patch management, application controls	Formal policies and standards in place, continuous awareness training, continuous monitoring, internal audits, continuous enhancement
Change management	Continuous enhancement
Availability of main banking and payment systems	Acceptable
Availability of electronic banking systems	Acceptable

Key initiatives

- Integration of information security reporting into the operational risk management framework.
- Ongoing policy and standards update.
- Awareness campaign.
- Emphasis on access controls through the information security officers.
- Major review of Hogan Access Control System (HACS).
- Change management controls.
- Project to evaluate identity management as a strategic IT architecture issue.

The following graph compares the results of the ISF survey for the Bank with the worldwide averages. It demonstrates that the Bank compares favourably with similar organisations.



Legal risk:

The risk of loss due to defective contractual arrangements, legal liability, both criminal and civil, incurred during operations or by the inability of the organisation to enforce its rights

Legal risk management in the Bank

Legal Risk Management Framework implemented	Yes
Identification of the sources of legal risk by business units	In progress
Implementation of action plans by business units to monitor legal risks and to ensure that these are obviated or appropriately managed	In progress
Remedial actions by business units where legal defect is detected	Yes
Litigation database maintained	Yes
Adequate management of claims and litigation	Yes

Key initiatives

- Development of a contract management system.
- Development of an intellectual property management framework and management system.

Insurance risk:

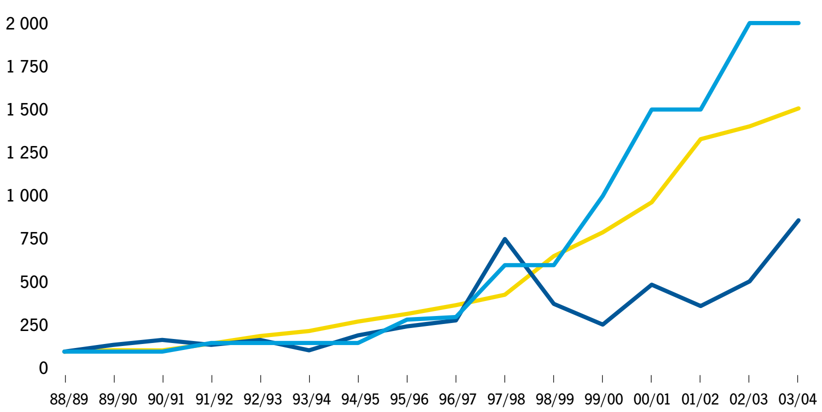
The risk that unexpected losses which are not business related losses, are not adequately covered by insurance

Insurance risk management in the Bank

Appropriate financial institutions, professional indemnity, directors and officers' liability, assets and liability insurance covers in place	Yes
Cost effective self-insurance, insurance and first loss structures in place	Yes
Insurance cover readily available in the market	Yes
Regular review of insurance policies and insurance cover by brokers and independent consultants	Yes

Key initiatives

- Continued assessment of insurance risk financing programmes and structures to ensure cover is cost effective and remain current with developments in the Bank.



Group financial institutions insurance programme – Insurance cover and cost (including claims) relative to assets (indexed) (R million)

Assets Insurance cost Cover

The financial institutions insurance programme is the largest placement of the Group's own insurance portfolio. The increase in cost in 2003/04 was mainly due to the difficult conditions over the past few years that prevailed in the international insurance and reinsurance markets, particularly since the catastrophe which occurred on 11 September 2001.

All the Bank's own insurance requirements have been successfully renewed on acceptable terms.

Business continuation and disaster recovery risk:

The risk of loss of data or the ability to continue business processes or activities due to unforeseen events

Business continuity and disaster recovery risk management

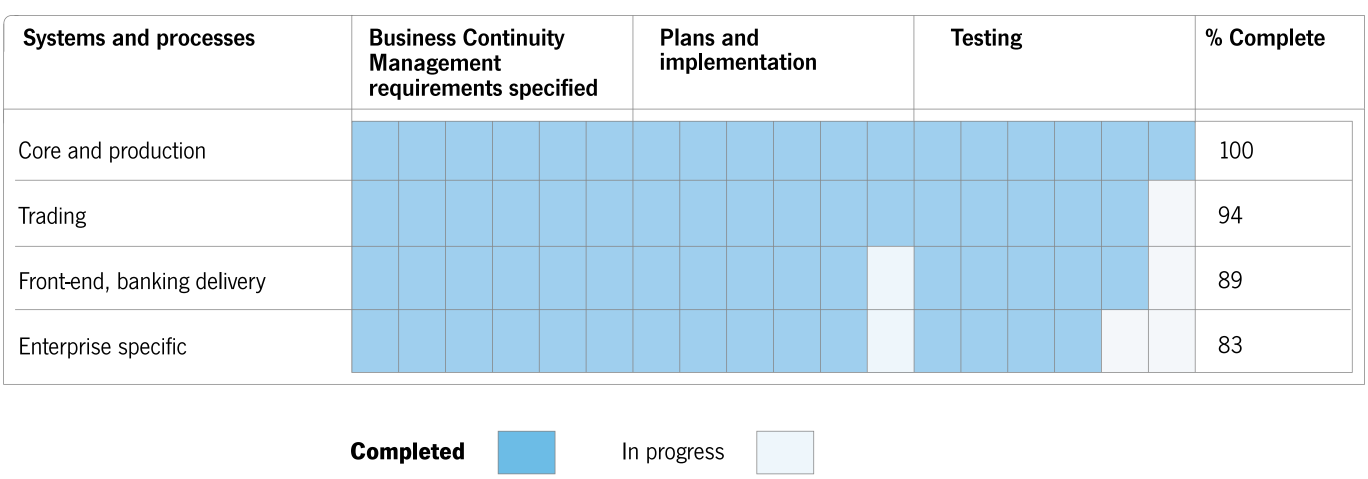
Business continuity management activity cycle implemented – Adequacy of plans assessment (annually) – Plan update and facility review (bi-annually) – Full testing (annually)	Yes
Test objectives for previous financial year met	Yes (90%)
Core systems disaster recovery facility improved – remote site implemented	Yes

Key initiatives

- Rigid and clear quarterly status reporting mechanism.
- Training of staff that are responsible for business continuity planning.

The challenge in the Bank's business continuity management programme is to maintain the effectiveness of plans amidst constant change of business profiles, system growth and changes, as well as the occasional physical transfer of units to new or alternative sites. In addition, embedding a culture of continuity planning as part of the overall risk and business management framework is given ongoing attention and is proving effective. Successful tests carried out during the past year have had positive effects on staff morale resulting in a more positive outlook regarding managing and exercising recovery strategies in the new financial year.

Business continuity status (systems and processes)



Enterprise-wide risk management processes

Enterprise-wide Risk Management Framework documented, communicated and implemented	Yes
Risk and sub-risk committees in place and effective	Yes
Effectiveness of risk management self-assessments performed by business units and confirmed by risk managers, advised to and monitored by the risk committee and sub-committees	Quarterly by business units
Effectiveness of risk management self-assessments performed by senior executives and advised to the risk committee and the relevant boards	Annually
Independent risk managers represented at risk committees of business units	Yes
Did the risk management processes succeed in assisting the various businesses to achieve their desired outcomes and to avoid adverse outcomes?	Yes
Internal audit	
Branch audits conducted according to plan	Yes, at least once per annum
Business and systems audits performed according to plans	Yes
Significant audit findings communicated to relevant audit committees	Yes
Internal audit representation at main and sub-risk committees	Yes
Corrective actions identified and monitored	Yes

Key initiatives

- Alignment of audit programmes with key risk factors.
- Automation of tracking of corrective actions.

Financial risk:

The risk of inappropriate accounting policies, sub-optimal financial performance and breakdown of financial controls

Financial risk management

Return on equity	Above target
Cost to income ratio	Satisfactory, in target range
Formal accounting policies	Yes
Indirect tax management	Formal processes in place
Direct tax management	Formal processes in place
Financial Risk Management Framework in place	Consolidated policy implemented
Quality of financial controls	Good

Key initiatives

- Embedding the implementation of the Consolidated Financial Risk Management Framework throughout the Bank.
- Planning for conversion to International Financial Reporting Standards.

Credit risk management processes:

Corporate sector / (Please refer to the section on risk effectiveness under "Credit Risk: Large and medium corporate")

Retail sector / The approach to lending in the consumer sectors is characterised by a separation between credit initiation and the credit approval and management processes, which are centralised in each credit product house.

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

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

Significant progress has been made in automating credit application processes across all product offerings. This provides for fast and consistent decision-making as well as systems driven risk rating, pricing and fee generation, which creates significant credit efficiencies for the Bank.

The requirements of AC 133 were again applied to the provisioning process. The model takes the following into account:

- the expected default rate of each counterparty;
- the rate which the Bank earns on the transaction;
- the expected recoveries; and
- the aggregated results for each product portfolio.

The value of an asset in the credit portfolio is expressed as a present value and any shortfall relative to the face value is regarded as an impairment and is provided for as a portfolio impairment.

Default on an individual account occurs when payment arrears exceed defined triggers. Such accounts are then classified as non-performing, with specific impairments made against them.

Collection of non-performing debts is clustered around centres of excellence in either WesBank or FNB HomeLoans.

Liquidity risk management

Objective of liquidity risk management / The aims of liquidity risk management are twofold. Firstly, the Bank's liquidity risk management framework aims to ensure that there are sufficiently diversified funding sources to meet obligations when they fall due. This is achieved by ensuring the Bank is able to fund ongoing lending and trading activity under increasing levels of stress at a maximum acceptable level of cost. Secondly, liquidity risk management serves to facilitate appropriate decision making around funding mix and cost optimisation for the Bank.

Management structure / The Bank has a Group-wide funding and liquidity management process in place. The liquidity positions are managed at currency level and across all jurisdictions in which the Bank operates.

Use of liquidity risk limits / The Bank's liquidity risk management framework requires that each legal entity in the Banking Group set liquidity risk limits and monitors their liquidity position against those limits. Specific divisional limits are in place within each legal entity. Where divisional limits are not in place the cash flows and balance sheet positions giving rise to liquidity risk in those divisions are monitored and managed through balance sheet analysis models.

Cash and collateral management / The funding desks of the Bank take care of all daily cash flow requirements arising from the various operating divisions. The payment streams of the Bank are isolated and monitored separately to add efficiency in the sourcing and application of funds throughout the Bank's operations. Collateral requirements are monitored and actively managed on the appropriate lending and trading portfolios as well as in the funding portfolios.

Contingency planning / Contingency planning takes place around the size and mix of the Bank's balance sheet position. Product behaviour assumptions are assessed and stress analysis is performed on the current liquidity position in order to assess cash flow at risk. Consideration is given to a variety of appropriate contingency funding mechanisms aimed at ensuring the Bank remains solvent during stress conditions.

Current liquidity position / No significant changes to the Bank's liquidity position have been noted during the current financial period. Based on local and international benchmarks the Bank is adequately funded and able to meet all its current and future obligations.

Market risk management / Trading in the financial, equity and commodity markets is undertaken in terms of the Market Risk Management Framework which is a policy of the board.

Market risk exposures are controlled by means of stress loss limits which are approved by the relevant business and risk management functions, the market risk committee (RMB risk committee), the Group risk committee and the board.

Market risk exposures are quantified daily across all trading activities of the Bank and monitored by the business risk managers and the business unit heads. The daily market risk committee at RMB monitors limit excesses, the causes of any excesses and the correction thereof for the main trading activities namely Treasury and Equity Trading. This committee also tracks the daily profits and losses against risk exposures and monitors the attribution of profits and losses by risk factor to ensure that risk exposures do not go undetected and that profits and losses are explained.

The market risk management processes are well vested and have functioned effectively over the past five years. The daily risk monitoring and internal audit processes have not identified significant process deficiencies. Process shortcomings which may be identified are corrected and the progress with corrective actions are monitored by the risk managers and the market risk committee.

The market risk control processes are being strengthened by the implementation of continuous audits and ongoing daily auditing of selected trade types and changes to counterparty, settlement, transaction and accounting records.

Implementation of the Basel II requirements for the calculation of capital adequacy in the Bank

General:	
• Qualitative and quantitative impact assessment	Ongoing
• Documentation	On track
Credit risk:	
• Credit rating models implemented	Yes
• Economic capital allocation methodology implemented	Yes
• Systems refinement	Ongoing
• Model validation	On track
Operational risk:	
• Framework documented and implemented	Yes
• Operational risk processes and systems refinement	On track
Other (market risk, investment risk, Basel Pillar II and III issues)	On track

The Bank aims to comply with the Foundation Internal Ratings based approach for credit risk for corporate exposures and the Advanced Internal Rating Based approach for credit risk for retail exposures at the common implementation date of Basel II – currently set for 1 January 2008.

The Bank is conducting a cost-benefit analysis to finalise its decision on the advanced measurement approach versus the standardised approach for operational risk.

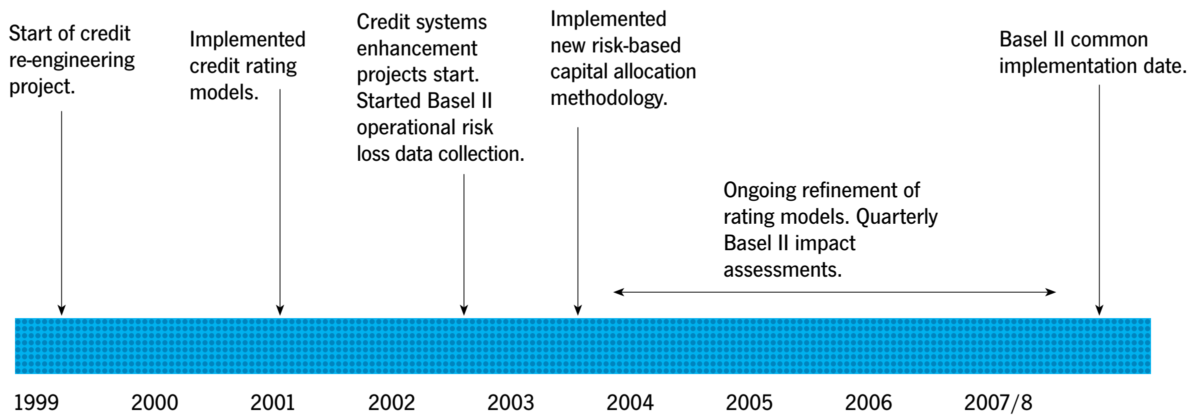
Preparations for Basel II compliance started as far back as 1999, when the Bank embarked on an extensive credit re-engineering project under the sponsorship of the Group CFO to develop appropriate rating models and associated probability of default estimates across the Bank, as well as the required supporting processes.

In 2001 the FirstRand master FR rating scale was implemented, as well as the corporate and retail credit rating approaches and supporting credit rating models. The following segments are covered:

- large corporates (listed and unlisted);
- medium corporates (SMEs);
- banks;
- sovereigns;
- project and structured finance;
- credit card;
- revolving credit facilities;
- instalment sales and asset finance; and
- mortgages.

The Framework for operational risk management is implemented throughout the organisation. This includes the allocation of accountability and responsibility for operational risk management, continuous improvement of operational systems and processes and internal controls and operational loss and breakdown reporting. Operational risk loss data collection, which started more than 10 years ago in areas such as fraud data collection, was extended and aligned with the Basel II loss data categories in 2002.

The diagram below illustrates the key milestones in the Basel II preparations:



The Bank's ongoing Basel II project focus is to facilitate ongoing qualitative and quantitative impact assessments, strategic analysis of Basel II impacts and enhancements of credit rating models operation, calibration and validation, as well as credit and operational risk processes for purposes of Basel II compliance.

The project is coordinated by the Capital Management unit, in close collaboration with the various risk and business owners. Oversight on this process is provided by the Bank's Basel II steering committee, chaired by the Group CFO, supported by a number of specific business unit Basel II steering committees.

Quarterly Basel II quantitative impact assessments have been performed across the Bank since March 2003, in order to assess the Basel II impact at a point in time for the Group as well as specific business units and business lines, and to determine the sensitivity of Basel II capital estimates across a period where the balance sheet composition and asset profile, as well as market conditions, are changing.

The quantitative impact assessments have been complemented by ongoing qualitative gap analyses to monitor the progress made in those areas where there are gaps relative to the Basel II requirements.

An ongoing focus area for the Bank is improvements in exposure and management information systems and processes relating to corporate exposures. To this end, an Exposure and Limit Management System (ELMS) as well as a Credit Datamart project was launched during 2003. These multi-year projects are expected to yield substantial enhancements on the automation of management information and reporting for corporate exposures.

Capital adequacy

Capital adequacy FirstRand Bank Limited

At 30 June 2004, the capital held against the trading assets of the Bank was R359 million (2003: R372 million).

R million	2004	2003
Regulatory capital		
Tier 1	**13 101**	9 555
Share capital	**4**	4
Share premium	**2 490**	2 490
Reserves	**10 692**	7 378
Less: Impairments	**(85)**	(317)
Tier 2	**5 203**	3 392
Subordinated debt instruments	**3 564**	2 471
Qualifying provisions	**1 639**	921
Total regulatory capital	**18 304**	12 947
Capital adequacy ratios		
Tier 1 (%)	**9.7%**	7.6%
Tier 2 (%)	**3.8%**	2.7%
Total	**13.5%**	10.3%

Calculation of risk weighted assets

				Risk weighted assets	
	2004	2003	Risk weighting	**2004**	2003
Banking book	**393 859**	351 265		**132 690**	122 473
Cash, own bank, and central government advances	**75 439**	77 648	0%	**–**	–
Central Securities Depository Participation	**137 967**	105 875	0%	**–**	–
Public sector body advances	**2 134**	2 932	10%	**213**	293
Other bank advances and letters of credit	**21 114**	26 172	20%	**4 223**	5 234
Mortgage advances, remittances in transit and performance related guarantees	**57 904**	43 384	50%	**28 952**	21 692
Other advances and lending related guarantees	**94 889**	87 532	100%	**94 889**	87 532
Counterparty risk exposure	**4 412**	7 722	100%	**4 412**	7 722
Large exposures	**–**	–	100%	**–**	–
Trading book	**2 788**	2 935		**2 788**	2 935
Position risk	**2 178**	1 067	100%	**2 178**	1 067
Counterparty risk exposure	**554**	1 617	100%	**554**	1 617
Large exposures	**56**	251	100%	**56**	251
	396 647	354 200		**135 478**	125 408

* *In terms of a directive from the South African Reserve Bank (SARB), the results of Saambou Bank Limited are consolidated with those of FirstRand Bank Limited when reporting to SARB. The information above includes the Saambou Bank Limited figures.*

Directors' responsibility statement

The directors of FirstRand Bank Limited are required by the Companies Act to maintain adequate accounting records and to prepare financial statements for each financial year that fairly present the state of affairs of the Bank at the end of the financial year, and of the results and cash flows for the year. In preparing the accompanying financial statements, South African Statements of Generally Accepted Accounting Practice have been followed. 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 FirstRand Bank's philosophy on corporate governance. The external auditors, PricewaterhouseCoopers Inc. and Deloitte & Touche, have audited the financial statements and their unqualified report appears below.

The directors have reviewed the Bank's budget and cash flows for the year to 30 June 2005. On the basis of this review, and in the light of the current financial position, the directors have no reason to believe that the Bank will not be a going concern for the foreseeable future. The going concern basis has therefore been adopted in preparing the financial statements.

The financial statements for the year ended 30 June 2004, which appear on pages 3 to 5 and 23 to 68, have been approved by the board of directors and are signed on its behalf by:

JP Burger
Financial Director

PK Harris
Chief Executive Officer

Sandton
13 September 2004

Report of the independent auditors

To the shareholders of FirstRand Bank Limited / We have audited the annual financial statements of FirstRand Bank Limited, set out on pages 3 to 5 and 23 to 68, for the year ended 30 June 2004. 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 statement presentation.

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

Audit opinion / In our opinion, the financial statements fairly present, in all material respects, the financial position of the FirstRand Bank Limited at 30 June 2004 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 the South African Companies Act of 1973.

PricewaterhouseCoopers Inc.

PricewaterhouseCoopers Incorporated
Chartered Accountants (SA)
Registered Accountants and Auditors

Deloitte & Touche

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

Sandton
13 September 2004

Directors' report / for the year ended 30 June 2004

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

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

Dividends / Ordinary cash dividends of R1 784 million were paid during the 2004 financial year (2003: R1 021 million).

Ownership of the Bank / The Bank is a wholly owned subsidiary of FirstRand Bank Holdings Limited.

Profit after tax / Profit after tax amounted to R4 256 million (2003: R2 380 million).

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

Directorate / The following directors were appointed to the board on 21 January 2004:

I Charnley
WR Jardine
SE Nxasana
BJ van der Ross

Mr SR Maharaj's resignation from the board of directors, effective from 31 August 2003, was accepted by the board on 13 August 2003. Mr MPC Brogan and Mr AS Vahed's resignation from the board were accepted on 17 February 2004. Mr JW Gafney, having reached retirement age, retired from the board on 12 February 2004.

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

Post-balance sheet events / No material matters which adversely affect the financial position of the Bank have arisen subsequent to the year end.

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

	FNB scheme 2004	**RMB scheme 2004**	FNB scheme 2003	RMB scheme 2003
Number of options in force at the end of year (millions)	**21.9**	**2.7**	45.2	26.5
Granted at prices ranging between (cents)	**325 – 1 069**	**300 – 1 350**	225 – 1 069	250 – 1 450
Number of options granted during year (millions)	**–**	**–**	–	–
Number of options exercised/released during year (million)	**(23.1)**	**(15.5)**	(7.9)	(5.0)
Market value range at date of exercise/release (cents)	**225 – 1 037**	**1 194 – 1 617**	617 – 807	910 – 1 142
Number of unallocated shares available for future options (millions)	**–**	**–**	0.4	–
Number of options cancelled/lapsed during the year (millions)	**(0.2)**	**(8.3)**	–	–
Value of company loan to share option trust (R million)	**259.2**	**46.3**	375.6	315.4

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

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

BW Unser

Company Secretary

Accounting policies

The Bank adopts the following accounting policies in preparing its annual financial statements.

1. Basis of presentation / The Bank prepares its audited annual financial statements on a going concern basis using the historical cost basis, except for certain financial assets and liabilities where it adopts the fair value basis of accounting.

These financial assets and liabilities include:

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

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

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

All monetary information and figures presented in these financial statements are stated in millions of Rand (R million), unless otherwise indicated.

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

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

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

4. Joint ventures / The Bank accounts for interests in jointly controlled entities at cost less amounts written off.

5. Revenue recognition

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

From an operational perspective, it suspends the accrual of contractual interest on the non-recoverable portion of an advance, when the recovery of the advance is considered doubtful. However, in terms of AC 133, interest income on impaired advances is thereafter recognised based on the original effective interest rate used to determine the recoverable amount of the advance. The difference between the recoverable amount and the original carrying value is released to interest income over the expected collection period of the advance.

5.2 Trading income / The Bank includes profits, losses and fair value adjustments on trading financial instruments (including derivative instruments which do not qualify for hedge accounting in terms of AC 133), both realised and unrealised, in income as incurred.

5.3 Fee and commission income / The Bank recognises fee and commission income on an accrual basis as and when the service is rendered.

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

5.4 Services rendered / The Bank recognises revenue for services rendered to customers based on the estimated outcome of the transactions.

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

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

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

6. Foreign currency translation / The Bank presents its annual financial statements in South African Rand, the measurement currency of the holding company ("the reporting currency").

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

Profits and losses from forward exchange contracts used to hedge potential exchange rate exposures are offset against gains and losses on the specific transaction being hedged, to the extent that the hedging transaction qualifies for hedge accounting in terms of AC 133.

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

Other borrowing costs are expensed when incurred.

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

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

Indirect taxes are disclosed separately from direct tax in the income statement.

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

9. Recognition of assets, liabilities and provisions

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

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

9.3 Liabilities and provisions / The Bank recognises liabilities, including provisions, when:

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

9.4 Contingent liabilities / The Bank discloses a contingent liability where:

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

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

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

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

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

11. Offsetting financial instruments / The Bank offsets financial assets and liabilities and reports the net balance in the balance sheet where:

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

12. Cash and cash equivalents / In the cash flow statement, cash and cash equivalents comprise:

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

13. Financial instruments

13.1 General / Financial instruments carried on the balance sheet include all assets and liabilities, including derivative instruments, but exclude investments in associated companies, fixed assets, deferred taxation, taxation payable and intangible assets.

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

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

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

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

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

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

13.2 Advances and impairments for credit losses

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

All advances are recognised when cash is advanced to borrowers.

13.2.2 Purchased advances and receivables and investment securities / The Bank classifies purchased advances and receivables and investment securities as held-to-maturity, available-for-sale or elected fair value assets.

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

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

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

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

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

The Bank recognises fair value adjustments on loans and advances classified as elected fair value in trading income. Interest income on these assets is included in the fair value adjustment.

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

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

13.3 Impairments for credit losses

13.3.1 General / A financial asset is impaired if its carrying amount is greater than its estimated recoverable amount. Financial assets are assessed on an annual basis to determine whether there is objective evidence of impairment.

13.3.2 Impairment of originated advances / The Bank creates a specific impairment in respect of non-performing advances when there is objective evidence that it will not be able to collect all amounts due. The impairment is calculated as the difference between the carrying amount and the recoverable amount, calculated as the present value of expected future cash flows, including amounts recoverable from guarantees and collateral, discounted at the original effective interest rate at inception of the advance.

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

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

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

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

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

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

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

13.4 Trading securities / The Bank includes in "Trading securities", securities that are:

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

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

The Bank determines the fair value of listed trading instruments by reference to quoted bid prices, which may be adjusted where the bid/offer spreads for long-dated financial instruments are considered to be significant.

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

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

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

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

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

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

The transitional adjustment as at 1 July 2002 in respect of the un-hedged portion of available-for-sale equity securities remains in equity until the disposal of the instrument.

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

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

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

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

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

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

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

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

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

15. Property and equipment / The Bank carries property and equipment at cost less accumulated depreciation.

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

The periods of depreciation used are as follows:

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

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

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

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

16. Accounting for leases – where a group company is the lessee / The Bank classifies leases of property and equipment where it assumes substantially all the benefits and risks of ownership as finance leases.

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

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

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

17. Accounting for leases – where a group company is the lessor

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

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

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

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

18. Intangible assets

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

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

18.2 Other intangible assets / The Bank does not attribute value to internally developed trademarks, concessions, patents and similar rights and assets, including franchises and management contracts.

The Bank generally expenses the costs incurred on trademarks, concessions, patents and similar rights and assets, whether purchased or created by it, to the income statement in the period in which the costs are incurred.

However, the Bank capitalises material acquired trademarks, patents and similar rights where it will receive a benefit from these intangible assets in more than one accounting period.

The Bank carries capitalised trademarks, patents and similar assets at cost less amortisation and any impairments. It amortises these assets at a rate applicable to the expected useful life of the asset, but not exceeding 20 years. Management reviews the carrying value on an annual basis. Carrying value is written down to estimated recoverable amount when a permanent decrease in value occurs. Any impairment is recognised in the income statement when incurred.

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

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

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

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

20. Employee benefits

20.1 Post-employment benefits / The Bank operates defined benefit and defined contribution schemes, the assets of which are held in separate trustee-administered funds. The pension plans are generally funded by payments from employees and the 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. Qualified actuaries perform annual valuations.

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

20.2 Post-retirement medical benefits / In terms of certain employment contracts, the Bank provides for post-retirement healthcare benefits to qualifying employees and retired personnel by subsidising a portion of their medical aid contributions. The Bank created an independent fund in 1998 to fund these obligations. AC 116 requires that the assets and liabilities in respect thereof be reflected on the balance sheet. The Bank recognises all expenses for post-retirement medical benefits, as well as all investment income of the fund, in the income statement.

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

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

20.4 Leave pay provision / The Bank recognises in full employees' rights to annual leave entitlement in respect of past service.

20.5 Recognition of actuarial gains and losses / Actuarial gains or losses occur as a result of:

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

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

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

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

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

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

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

23. Restatement of prior year numbers / The following line items on the face of the balance sheet, income statement and in the statement of changes of equity have been restated to conform with the presentation in the year under review. These restatements affect classifications only.

Item	As previously reported R million	As restated R million	Reason for restatement
Balance sheet			
Investment securities and other investments	23 992	23 827	Commodities have been separately disclosed – previously disclosed as part of financial instruments held for trading, a sub-section of investment securities
Commodities	–	165	Refer above
Statement of changes in equity			
Share capital and share premium	4 and 2 490	2 494	These items have been combined
Other non-distributable reserves	704	703	Currency translation reserve disclosed separately

Income statement / for the year ended 30 June

R million	Notes	**2004**	2003
Interest income	3	**18 187**	18 764
Interest expenditure	4	**(10 895)**	(11 843)
Net interest income before impairment of advances		**7 292**	6 921
Impairment of advances	11	**(436)**	(1 304)
Net interest income after impairment of advances		**6 856**	5 617
Non-interest income	5	**8 067**	6 201
– fee and commission income		**5 471**	4 392
– trading income		**534**	874
– investment income		**1 124**	103
– other non-interest income		**1 019**	889
– loss on sale of fixed assets		**(81)**	(57)
Net income from operations		**14 923**	11 818
Operating expenditure	6	**(9 073)**	(8 268)
Income from operations		**5 850**	3 550
Indirect taxation	7	**(309)**	(310)
Income before direct taxation		**5 541**	3 240
Direct taxation	7	**(1 285)**	(860)
Earnings attributable to ordinary shareholders		**4 256**	2 380

Balance sheet / as at 30 June

R million	Notes	2004	2003
ASSETS			
Cash and short-term funds	8	**13 123**	19 333
Derivative financial instruments	9	**17 480**	21 827
– qualifying for hedging		**268**	293
– trading		**17 212**	21 534
Advances	10	**178 122**	152 276
– originated		**124 042**	108 470
– held-to-maturity		**7 003**	8 647
– available-for-sale		**418**	351
– fair value		**46 659**	34 808
Investment securities and other investments	12	**21 861**	23 827
– available-for-sale		**11 507**	12 661
– fair value		**10 354**	11 166
Commodities	12.1	**418**	165
Accounts receivable	13	**1 586**	1 724
Investment in associated companies	14	**343**	777
Interest in subsidiary companies	15	**18**	24
Holding and fellow subsidiary companies	16	**20 208**	24 532
Property and equipment	17	**1 726**	1 472
Retirement benefit assets	18.3	**1 932**	1 628
Intangible assets	19	**26**	21
Total assets		**256 843**	247 606
LIABILITIES AND SHAREHOLDERS' FUNDS			
Liabilities			
Deposit and current accounts	20	**179 102**	150 829
Short trading positions	21	**19 471**	34 585
Derivative financial instruments	9	**14 120**	22 451
– qualifying for hedging		**30**	24
– trading		**14 090**	22 427
Creditors and accruals	22	**2 616**	2 528
Provisions	23	**1 269**	978
Taxation		**914**	607
Post-retirement medical liability	18.2	**1 020**	942
Deferred taxation liability	7	**1 558**	1 557
Holding and fellow subsidiary companies	16	**20 974**	19 697
Long-term liabilities	24	**3 349**	3 111
Total liabilities		**244 393**	237 285
Shareholders' equity			
Ordinary shares	25	**4**	4
Share premium		**2 490**	2 490
Non-distributable reserves	26	**2 337**	1 522
Distributable reserves		**7 619**	6 305
Total shareholders' equity		**12 450**	10 321
Total liabilities and shareholders' funds		**256 843**	247 606
Contingencies and commitments	27	**21 257**	20 982

Cash flow statement / for the year ended 30 June

R million	Notes	**2004**	2003
Cash flows from operating activities	28.1	**5 704**	5 356
Cash received from customers		**25 304**	24 794
Interest income		**18 330**	18 639
Fee and commission income		**5 471**	4 392
Other income		**1 503**	1 763
Cash paid to customers and employees		**(18 232)**	(18 101)
Interest expenditure (excluding debenture interest)		**(10 462)**	(11 374)
Total other operating expenditure (excluding depreciation)		**(7 770)**	(6 727)
Cash flows from returns on investments and servicing of finance		**(1 368)**	(1 337)
Debenture interest paid		**(438)**	(473)
Dividends from other investments		**804**	157
Dividends from associated companies		**50**	–
Dividends paid	28.2	**(1 784)**	(1 021)
Taxation paid	28.3	**(1 218)**	(451)
Cash flows from banking activities		**(10 796)**	2 861
(Increase)/decrease in income-earning assets		**(18 257)**	(17 545)
Liquid assets and trading securities		**2 265**	(3 823)
Advances		**(26 123)**	(16 130)
Funding from/(of) fellow subsidiary companies		**5 601**	2 408
Increase/(decrease) in deposits and other liabilities		**7 461**	20 406
Term deposits		**17 989**	(2 068)
Current deposit accounts		**(2 547)**	16 539
Deposits from banks		**5 930**	3 102
Negotiable certificates of deposit		**12 907**	1 235
Savings accounts		**78**	(1 775)
Short trading positions		**(15 114)**	19 566
Creditors net of debtors (including derivatives)		**(4 635)**	(3 593)
Other liabilities and assets		**(7 147)**	(12 600)
Net cash inflow from operating activities		**(6 310)**	7 766
Cash flows from investment activities			
Acquisition to increase operations		**–**	(206)
Capital expenditure to maintain operations		**(834)**	(678)
(Acquisition)/sale of associates		**434**	(162)
Sale of investments in subsidiaries		**7**	–
Acquisition of subsidiaries		**–**	(1)
Proceeds from sale of plant and equipment		**40**	62
Net cash outflow from investment activities		**(353)**	(985)
Cash flows from financing activities			
Net repayment of long-term liabilities		**453**	–
Proceeds from the issue of ordinary shares		**–**	988
Net cash flow from financing activities		**453**	988
Net (decrease)/increase in cash and cash equivalents		**(6 210)**	7 769
Cash and cash equivalents at beginning of the year		**19 333**	11 564
Cash and cash equivalents at end of the year	8	**13 123**	19 333

Statement of changes in equity / for the year ended 30 June

R million	Share capital and share premium	General risk reserve (impaired capital reserve)	Cash flow hedge reserve	Available-for-sale reserve	Currency translation reserve	Other non-distributable reserves (Note 26)	Distributable reserves	Total shareholders' equity
Balance at 1 July 2002	1 506	431	–	(187)	21	702	4 974	7 447
Currency translation differences	–	–	–	–	(20)	–	–	(20)
Earnings attributable to ordinary shareholders	–	–	–	–	–	–	2 380	2 380
Final dividend – 4 November 2002	–	–	–	–	–	–	(500)	(500)
Interim dividend – 31 March 2003	–	–	–	–	–	–	(521)	(521)
Transfer to general risk reserve	–	28	–	–	–	–	(28)	–
Revaluation of available-for-sale assets	–	–	216	330	–	–	–	546
New share issue	988	–	–	–	–	–	–	988
Other	–	–	–	–	–	1	–	1
Balance as at 30 June 2003	2 494	459	216	143	1	703	6 305	10 321
Correction AC 133 transitional adjustments*	**–**	**160**	**342**	**46**	**–**	**–**	**(388)**	**160**
Currency translation differences	**–**	–	**–**	**–**	**(1)**	**–**	**–**	**(1)**
Earnings attributable to ordinary shareholders	**–**	**–**	**–**	**–**	**–**	**–**	**4 256**	**4 256**
Final dividend – 4 November 2003	**–**	**–**	**–**	**–**	**–**	**–**	**(595)**	**(595)**
Interim dividend – 31 March 2004	**–**	**–**	**–**	**–**	**–**	**–**	**(1 189)**	**(1 189)**
Transfer to general risk reserve	**–**	**130**	**–**	**–**	**–**	**–**	**(130)**	**–**
Revaluation of available-for-sale assets	**–**	**–**	**–**	**(21)**	**–**	**–**	**–**	**(21)**
Revaluation of cash flow hedge	**–**	**–**	**(481)**	**–**	**–**	**–**	**–**	**(481)**
Transfer to capital redemption reserve	**–**	**–**	**–**	**–**	**–**	**640**	**(640)**	**–**
Balance as at 30 June 2004	**2 494**	**749**	**77**	**168**	**–**	**1 343**	**7 619**	**12 450**

* *The R388 million reduction in distributable reserves comprises a re-allocation within equity to the cash flow and available-for-sale reserves on adoption of AC 133 on 1 July 2002.*

The increase in the general risk reserve and total equity arising from the adoption of AC 133 on 1 July 2002 comprises a R228 million decrease in the portfolio provision (see note 11) less deferred tax thereon of R68 million (see note 7).

These adjustments had no effect on the 2003 reported income.

R million	2004	2003
1. Accounting policies		
The accounting policies of the bank are set out on pages 24 to 31.		
2. Turnover		
Turnover is not relevant to the business of banking.		
3. Interest income		
Interest on:		
Advances	**16 301**	17 289
– originated	**14 105**	15 659
– held-to-maturity	**934**	1 586
– available-for-sale	**–**	44
– fair value	**1 262**	–
Cash and short-term funds	**269**	161
Holding and fellow subsidiaries (net)	**1 215**	925
Accrued on impaired advances	**86**	106
Other	**316**	283
	18 187	18 764
4. Interest expenditure		
Interest on:		
Deposits from banks and financial institutions	**(91)**	(654)
Current accounts	**(2 193)**	(5 321)
Savings accounts	**(40)**	(73)
Term deposits	**(7 493)**	(4 899)
Debentures	**(438)**	(473)
Other	**(640)**	(423)
	(10 895)	(11 843)
5. Non-interest income		
Fee and commission income		
Fees and commissions		
– banking	**4 922**	3 984
– knowledged based	**128**	4
– non-banking fee income	**144**	72
– banking other income	**277**	332
	5 471	4 392

R million	2004	2003
5. Non-interest income *(continued)*		
Trading income		
– trading dividends received	**152**	250
– currency trading	**702**	607
– trading (loss)/profit	**(320)**	17
	534	874
Investment income		
– profit/(loss) on sale of investments	**190**	(54)
– revaluation gain transferred on sale of available-for-sale securities	**130**	–
– other dividends received	**804**	157
	1 124	103
Other non-interest income		
– recoveries from subsidiaries	**335**	304
– other	**684**	585
	1 019	889
Loss on sale of fixed assets	**(81)**	(57)
Total non-interest income	**8 067**	6 201
6. Operating expenditure		
Auditors' remuneration		
– audit fees	**(44)**	(34)
– fees for other services	**(7)**	(5)
– prior year over provision	**–**	2
	(51)	(37)
Amortisation of intangible assets		
– software	**(15)**	(13)
– development costs	**(1)**	(1)
	(16)	(14)
Depreciation		
– property	**(85)**	(130)
Freehold buildings	**(20)**	(81)
Leasehold premises	**(65)**	(49)
– equipment	**(348)**	(351)
Computer equipment	**(202)**	(221)
Furniture and fittings	**(109)**	(97)
Motor vehicles	**(8)**	(15)
Office equipment	**(29)**	(18)
	(433)	(481)

R million	2004	2003
6. Operating expenditure *(continued)*		
Operating lease charges		
– land and buildings	**(297)**	(388)
– equipment	**(158)**	(13)
– motor vehicles	**(23)**	(25)
	(478)	(426)
Directors' emoluments paid		
– salaries, pension and medical contributions	**(25)**	(21)
– fees for services as directors/consultants	**(3)**	(2)
	(28)	(23)
Professional fees		
– managerial	**(25)**	(22)
– technical	**(105)**	(68)
– other	**(183)**	(118)
	(313)	(208)
Staff costs		
– salaries, wages and allowances	**(3 586)**	(3 166)
– contributions to employee benefit funds	**(576)**	(470)
– social security levies	**(32)**	(34)
– other	**(395)**	(241)
	(4 589)	(3 911)
– staff related costs	**(429)**	(408)
	(5 018)	(4 319)
Net transfer to provisions		
– transfers to provisions (excluding audit fees)	**(452)**	(457)
	(452)	(457)
Other operating costs	**(2 284)**	(2 303)
– insurance	**(123)**	(87)
– advertising and marketing	**(354)**	(352)
– maintenance	**(356)**	(384)
– other	**(1 451)**	(1 480)
Total operating expenditure	**(9 073)**	(8 268)

R million	2004	2003
7. Taxation		
Charge for the year		
– normal	**(1 216)**	(707)
Current year	**(1 341)**	(925)
Prior year adjustment	**125**	218
– deferred	**(69)**	(153)
Current year	**40**	79
Prior year adjustment	**(109)**	(232)
Total direct taxation	**(1 285)**	(860)
Value-added taxation (net)	**(245)**	(249)
Regional services levy	**(49)**	(39)
Stamp duties	**2**	(17)
Other	**(17)**	(5)
Total indirect taxation	**(309)**	(310)
		–
Total taxation	**(1 594)**	(1 170)
Taxation rate reconciliation	**%**	%
Effective rate of taxation	**27.3**	33.0
Total taxation has been affected by:		
Miscellaneous taxes	**(4.8)**	(8.7)
Non-taxable income	**5.7**	4.4
Prior year adjustments	**0.3**	(0.4)
Other permanent differences	**1.5**	1.7
Standard rate of taxation	**30.0**	30.0
Deferred taxation		
The movement on the deferred taxation account is as follows:		
At beginning of the year	**1 557**	1 167
– correction of AC 133 transitional adjustments (See note 11)	**68**	–
– present value adjustment for off-market loans	**–**	(37)
– present value adjustment for specific loan provisions	**–**	(73)
– present value adjustment for general loan provisions	**–**	345
– creation of portfolio provision	**–**	(160)
– revaluation of held for trading portfolios	**–**	52
– revaluation of available-for-sale portfolios	**–**	(80)
– charge to the income statement	**69**	153
– fair value revaluation	**(112)**	–
– other	**(24)**	190
At end of the year	**1 558**	1 557

7. Taxation *(continued)*

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

R million	Opening balance	Taxation charge	Other	Closing balance
Deferred tax				
Provision for loan impairment	(104)	16	145	57
Other provisions	151	19	(220)	(50)
On fair value adjustments of financial instruments	(11)	–	11	–
Instalment credit agreements	1 129	145	(8)	1 266
Accruals	243	19	(16)	246
Revaluation of available-for-sale securities to equity	(80)	–	65	(15)
Other	229	(130)	(45)	54
Total deferred taxation	**1 557**	**69**	**(68)**	**1 558**

R million	2004	2003
8. Cash and short-term funds		
Coins and bank notes	2 083	1 926
Money at call and short notice	513	116
Balances with central banks	3 495	3 272
Balances guaranteed by central banks	99	–
Balances with other banks	6 933	14 019
	13 123	19 333
Mandatory reserve balances included in above:	2 047	2 494

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

9. Derivative financial instruments

The Bank uses the following financial instruments for hedging purposes:

Forward rate agreements are negotiated interest rate futures that call for cash settlement at a future date for the difference between the contractual and market rates of interest, based on a notional principal amount.

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

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

9. Derivative financial instruments *(continued)*

Strategy in using hedging instruments

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

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

The Bank's detailed risk management strategy is set out on in the Risk Management Report on pages 3 to 20 of the annual report.

Further information pertaining to the risk management of the Bank is set out in note 29 below.

The Bank utilises the following derivatives for hedging and trading purposes:

	2004			
	Assets		Liabilities	
R million	Notional	Fair value	Notional	Fair value
Qualifying for hedge accounting				
Cash flow hedges				
Interest rate derivatives				
– forward rate agreements	**500**	**–**	**1 100**	**–**
– swaps	**22 828**	**268**	**7 497**	**30**
Total cash flow hedges	**23 328**	**268**	**8 597**	**30**
Held for trading				
Currency derivatives				
– forward rate agreements	**33 001**	**2 993**	**34 326**	**2 790**
– swaps	**53 833**	**5 168**	**50 246**	**3 478**
– options	**618**	**38**	**1 358**	**69**
– other	**–**	**–**	**464**	**3**
Total currency derivatives	**87 452**	**8 199**	**86 394**	**6 340**
Interest rate derivatives				
– forward rate agreements	**75 390**	**68**	**88 150**	**76**
– swaps	**125 792**	**4 307**	**149 994**	**4 074**
– options	**5 495**	**7**	**2 497**	**16**
– other	**82**	**–**	**52**	**–**
Total interest rate derivatives	**206 759**	**4 382**	**240 693**	**4 166**

	2004			
	Assets		Liabilities	
R million	Notional	Fair value	Notional	Fair value
9. Derivative financial instruments *(continued)*				
Equity derivatives				
– options	14 108	1 219	4 053	650
– other	129	2	61	–
Total equity derivatives	14 237	1 221	4 114	650
Commodity derivatives				
– forward rate agreements	5 649	370	5 299	875
– swaps	146	4	453	19
– options	5 606	1 527	5 540	889
– other	250	16	384	43
Total commodity derivatives	11 651	1 917	11 676	1 826
Credit derivatives	2 451	1 493	1 263	1 108
Total held for trading	322 550	17 212	344 140	14 090
Total derivative financial instruments	345 878	17 480	352 737	14 120

	Assets: Derivative instruments					
	Exchange traded		Over the counter		Total	
	Notional	Fair value	Notional	Fair value	Notional	Fair value
Qualifying for hedge accounting						
Cash flow hedges						
Interest rate derivatives	–	–	23 328	268	23 328	268
Fair value hedges	–	–	–	–	–	–
Currency derivatives	–	–	–	–	–	–
Interest rate derivatives	–	–	–	–	–	–
Held for trading	2 204	1 193	320 346	16 019	322 550	17 212
Currency derivatives	(321)	(300)	87 773	8 499	87 452	8 199
Interest rate derivatives	110	1	206 649	4 381	206 759	4 382
Equity derivatives	64	–	14 173	1 221	14 237	1 221
Commodity derivatives	–	–	11 651	1 917	11 651	1 917
Credit derivatives	2 351	1 492	100	1	2 451	1 493
Total derivative financial instruments	2 204	1 193	343 674	16 287	345 878	17 480

	Liabilities: Derivative instruments					
	Exchange traded		Over the counter		Total	
	Notional	Fair value	Notional	Fair value	Notional	Fair value
9. Derivative financial instruments *(continued)*						
Qualifying for hedge accounting						
Cash flow hedges						
Interest rate derivatives	**–**	**–**	**8 597**	**30**	**8 597**	**30**
Held for trading	**1 388**	**10**	**342 752**	**14 080**	**344 140**	**14 090**
Currency derivatives	**554**	**4**	**85 840**	**6 336**	**86 394**	**6 340**
Interest rate derivatives	**771**	**4**	**239 922**	**4 162**	**240 693**	**4 166**
Equity derivatives	**63**	**2**	**4 051**	**648**	**4 114**	**650**
Commodity derivatives	**–**	**–**	**11 676**	**1 826**	**11 676**	**1 826**
Credit derivatives	**–**	**–**	**1 263**	**1 108**	**1 263**	**1 108**
Total derivative financial instruments	**1 388**	**10**	**351 349**	**14 110**	**352 737**	**14 120**

	2003			
	Assets		Liabilities	
R million	Notional	Carrying value	Notional	Carrying value
Qualifying for hedge accounting				
Cash flow hedges				
Interest rate derivatives				
– forward rate agreements	500	1	–	–
– swaps	19 385	292	2 850	24
Total cash flow hedges	19 885	293	2 850	24
Held for trading				
Currency derivatives				
– forward rate agreements	62 563	4 256	64 912	3 527
– swaps	115 894	8 283	107 548	8 224
– options	3 492	401	2 203	139
Total currency derivatives	181 949	12 940	174 663	11 890
Interest rate derivatives				
– forward rate agreements	84 533	243	52 460	155
– swaps	131 643	5 001	112 845	4 392
– options	2 582	80	3 168	141
– other	683	–	688	13
Total interest rate derivatives	219 441	5 324	169 161	4 701
Equity derivatives				
– options	106	1 110	793	426
– other	28	–	–	–
Total equity derivatives	134	1 110	793	426

R million	2003 Assets Notional	Assets Carrying value	Liabilities Notional	Liabilities Carrying value
9. Derivative financial instruments *(continued)*				
Commodity derivatives				
– forward rate agreements	204	1 041	172	1 772
– swaps	–	2	–	21
– options	4 939	1 004	5 003	701
– other	279	111	54	68
Total commodity derivatives	5 422	2 158	5 229	2 562
Credit derivatives	–	2	3 198	2 848
Total held for trading	406 946	21 534	353 044	22 427
Total derivative financial instruments	426 831	21 827	355 894	22 451

R million	**2004** **Originated**	**Held-to-maturity**	**Available-for-sale**	**Fair value**	**Total**	2003 Total
10. Advances						
Sector analysis						
Agriculture	**4 828**	**–**	**418**	**207**	**5 453**	3 909
Banks and financial services	**5 805**	**–**	**–**	**29 165**	**34 970**	33 041
Building and property development	**5 057**	**–**	**–**	**8**	**5 065**	4 472
Government, Land Bank and public authorities	**368**	**–**	**–**	**10 691**	**11 059**	5 023
Individuals	**80 992**	**7 025**	**–**	**–**	**88 017**	73 170
Manufacturing and commerce	**21 617**	**–**	**–**	**5 902**	**27 519**	25 602
Mining	**1 810**	**–**	**–**	**10**	**1 820**	1 825
Transport and communication	**2 821**	**–**	**–**	**157**	**2 978**	2 154
Other services	**3 207**	**–**	**–**	**519**	**3 726**	6 182
Notional value of advances	**126 505**	**7 025**	**418**	**46 659**	**180 607**	155 378
Contractual interest suspended	**(437)**	**(22)**	**–**	**–**	**(459)**	(530)
Gross advances	**126 068**	**7 003**	**418**	**46 659**	**180 148**	154 848
Impairment of advances (note 11)	**(2 026)**	**–**	**–**	**–**	**(2 026)**	(2 572)
Net advances	**124 042**	**7 003**	**418**	**46 659**	**178 122**	152 276
Net advances – 2003	108 470	8 647	351	34 808	152 276	

	2004					2003
R million	**Originated**	**Held-to-maturity**	**Available-for-sale**	**Fair value**	**Total**	Total
10. Advances *(continued)*						
Geographic analysis (based on credit risk)						
South Africa	**126 231**	**7 025**	**418**	**11 494**	**145 168**	136 257
Other Africa	**46**	**–**	**–**	**163**	**209**	276
Europe	**98**	**–**	**–**	**4 701**	**4 799**	14 756
United Kingdom	**22**	**–**	**–**	**3 823**	**3 845**	8 592
Ireland	**2**	**–**	**–**	**331**	**333**	617
Other Europe	**74**	**–**	**–**	**547**	**621**	5 547
North America	**84**	**–**	**–**	**14**	**98**	3 876
South America	**1**	**–**	**–**	**31**	**32**	61
Australasia	**33**	**–**	**–**	**–**	**33**	52
Other	**12**	**–**	**–**	**30 256**	**30 268**	100
Notional value of advances	**126 505**	**7 025**	**418**	**46 659**	**180 607**	155 378
Contractual interest suspended	**(437)**	**(22)**	**–**	**-**	**(459)**	(530)
Gross advances	**126 068**	**7 003**	**418**	**46 659**	**180 148**	154 848
Impairment of advances (note 11)	**(2 026)**	**–**	**–**	**–**	**(2 026)**	(2 572)
Net advances	**124 042**	**7 003**	**418**	**46 659**	**178 122**	152 276
Net advances – 2003	108 470	8 647	351	34 808	152 276	
Category analysis						
Overdrafts and managed account debtors	**20 544**	**–**	**–**	**–**	**20 544**	25 139
Card loans	**5 325**	**–**	**–**	**–**	**5 325**	4 321
Instalment sales	**27 061**	**–**	**418**	**246**	**27 725**	24 074
Lease payments receivable	**13 357**	**–**	**–**	**965**	**14 322**	11 357
Home loans	**41 996**	**7 025**	**–**	**–**	**49 021**	43 966
Commercial property finance	**3 015**	**–**	**–**	**–**	**3 015**	
Collateralised debt obligations	**60**	**–**	**–**	**40**	**100**	141
Preference share advances	**659**	**–**	**–**	**–**	**659**	45
Personal loans	**5 164**	**–**	**–**	**–**	**5 164**	4 233
Assets under agreement to resell	**339**	**–**	**–**	**19 988**	**20 327**	8 387
Other	**8 985**	**–**	**–**	**25 420**	**34 405**	33 715
Notional value of advances	**126 505**	**7 025**	**418**	**46 659**	**180 607**	155 378
Contractual interest suspended	**(437)**	**(22)**	**–**	**–**	**(459)**	(530)
Gross advances	**126 068**	**7 003**	**418**	**46 659**	**180 148**	154 848
Impairment of advances (note 11)	**(2 026)**	**–**	**–**	**–**	**(2 026)**	(2 572)
Net advances	**124 042**	**7 003**	**418**	**46 659**	**178 122**	152 276
Net advances – 2003	108 470	8 647	351	34 808	152 276	

R million	2004 Within 1 year	2004 Between 1 and 5 years	2004 More than 5 years	2004 Total	2003 Total
10. Advances *(continued)*					
Analysis of instalment sales and lease payments receivable					
Instalment sales	**2 332**	**31 315**	**288**	**33 935**	31 000
Lease payments receivable	**1 769**	**12 417**	**114**	**14 300**	15 685
	4 101	**43 732**	**402**	**48 235**	46 685
Less: Unearned finance charges	**(347)**	**(5 788)**	**(53)**	**(6 188)**	(11 254)
	3 754	**37 944**	**349**	**42 047**	35 431

A maturity analysis of advances is set out in paragraph 29.7 on page 66 of this annual report, and is based on the remaining periods to contractual maturity from the year end.

R million	2004 Total Impairment	2004 Specific impairment	2004 Portfolio impairment	2004 General provision	2004 Income statement
11. Impairment of advances					
Analysis of movement in impairment of advances					
Opening balance	**2 572**	**1 912**	**660**	**–**	**–**
Correction of AC 133 transitional adjustments*	**(228)**	**–**	**(228)**	**–**	**–**
Amounts written off	**(986)**	**(860)**	**(126)**	**–**	**–**
Unwinding of discounted present value on non-performing loans	**(91)**	**(91)**	**–**	**–**	**–**
Reclassifications	**–**	**(13)**	**13**	**–**	**–**
Net new provisions created	**759**	**634**	**125**	**–**	**(759)**
Provisions created	**1 325**	**1 077**	**248**	**–**	**(1 325)**
Provisions released	**(566)**	**(443)**	**(123)**	**–**	**566**
Recoveries of bad debts	**–**	**–**	**–**	**–**	**312**
Other	**–**	**–**	**–**	**–**	**11**
Closing balance	**2 026**	**1 582**	**444**	**–**	**(436)**

** Comprises the overstatement of the portfolio impairment created on adoption of AC 133 on 1 July 2002 of R660 million and the corresponding understatement of the general risk reserve and deferred tax of R160 million and R68 million respectively.*

R million	2003 Total impairment	Specific impairment	Portfolio impairment	General provision	Income statement
11. Impairment of advances *(continued)*					
Opening balance	2 879	1 728	–	1 151	–
Present value adjustment on adoption of AC 133	242	242	–	–	–
Transfer of general provision to general risk reserve	(616)	–	535	(1 151)	–
Amounts written off	(1 183)	(1 183)	–	–	–
Unwinding of discounted present value on non-performing loans	(106)	(106)	–	–	–
Reclassifications	(187)	(176)	(11)	–	–
Net new provisions created	1 524	1 388	136	–	(1 524)
Provisions created	1 976	1 840	136	–	(1 976)
Provisions released	(452)	(452)	–	–	452
Recoveries of bad debts	–	–	–	–	210
Other	19	19	–	–	10
Closing balance	2 572	1 912	660	–	(1 304)

R million	**2004** Gross advances	Credit risk	Security held	Contractual interest suspended	Contractual specific impairments	2003 Specific impairments
Non-performing lendings by sector						
Agriculture	**135**	**156**	**38**	**21**	**40**	25
Banks and financial services	**32**	**49**	**–**	**17**	**203**	32
Building and property development	**45**	**53**	**9**	**8**	**14**	139
Government, Land Bank and public authorities	**231**	**231**	**–**	**–**	**3**	3
Individuals	**976**	**1 178**	**518**	**202**	**730**	962
Manufacturing and commerce	**924**	**1 124**	**175**	**200**	**581**	652
Mining	**28**	**30**	**2**	**2**	**5**	1
Transport and communication	**27**	**30**	**1**	**3**	**6**	4
Other services	**53**	**59**	**8**	**6**	**–**	94
Total	**2 451**	**2 910**	**751**	**459**	**1 582**	1 912
2003 Total non-performing lendings	3 745	6	1 345	530	1 912	
Non-performing lendings by category						
Overdrafts and managed account debtors	**848**	**1 083**	**239**	**235**	**526**	715
Card loans	**255**	**287**	**–**	**32**	**211**	194
Instalment sale	**141**	**169**	**36**	**28**	**114**	139
Lease payments receivable	**195**	**217**	**24**	**22**	**133**	60
Commercial property finance	**1**	**1**	**1**	**–**	**–**	
Home loans	**512**	**616**	**426**	**104**	**281**	440
Other	**499**	**537**	**25**	**38**	**317**	364
Total	**2 451**	**2 910**	**751**	**459**	**1 582**	1 912
2003 Total non-performing lendings	3 745	6	1 345	530	1 912	

	2004			2003
R million	**Available-for-sale**	**Fair value**	**Total**	Total
12. Investment securities and other investments				
Total				
Negotiable certificates of deposit	**–**	**450**	**450**	417
Treasury bills	**–**	**1 517**	**1 517**	883
Other government and government guaranteed stock	**11 224**	**3 020**	**14 244**	14 773
Other dated securities	**1**	**1 398**	**1 399**	2 215
Other undated securities	**–**	**81**	**81**	–
Other	**282**	**3 888**	**4 170**	5 539
	11 507	**10 354**	**21 861**	23 827
Total – 2003	12 661	11 166	23 827	
Listed				
Treasury bills	**–**	**–**	**–**	883
Other government and government guaranteed stock	**11 224**	**1 980**	**13 204**	14 772
Other dated securities	**–**	**79**	**79**	652
Other	**–**	**404**	**404**	639
	11 224	**2 463**	**13 687**	16 946
Listed – 2003	10 756	6 190	16 946	
Unlisted				
Negotiable certificates of deposit	**–**	**450**	**450**	417
Treasury bills	**–**	**1 517**	**1 517**	–
Other government and government guaranteed stock	**–**	**1 040**	**1 040**	1
Other dated securities	**1**	**1 319**	**1 320**	1 563
Other undated securities	**–**	**81**	**81**	–
Other	**282**	**3 484**	**3 766**	4 900
	283	**7 891**	**8 174**	6 881
Unlisted – 2003	1 905	4 976	6 881	

R9 775 million (2003: R9 027 million) of the financial instruments form part of the Bank's liquid asset portfolio in terms of the South African Reserve Bank requirements.

R million	2004	2003
12. Investment securities and other investments *(continued)*		
Analysis of investment securities		
Listed	**13 687**	16 946
Equities	**404**	609
Debt	**13 283**	16 337
Unlisted	**8 174**	6 881
Equities	**3 135**	3 927
Debt	**5 039**	2 954
	21 861	23 827
Aggregate market value of listed securities	**13 687**	16 972
Aggregate directors' valuation of unlisted investments	**8 174**	7 227
	21 861	24 199

Held -to-maturity securities are carried at amortised cost in both years. Available-for-sale securities are carried at fair value.

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

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

R million	2004	2003
12.1 Commodities	**418**	165
Agricultural stock	**418**	165
13. Accounts receivable		
Items in transit	**–**	74
Accrued interest	**22**	165
Accounts receivable	**683**	219
Other debtors	**881**	1 266
	1 586	1 724
14. Investment in associated companies		
Listed investments		
Equity investments	**190**	636
Total cost less amounts written off	**190**	636
Unlisted investments		
Equity investments	**153**	141
Total cost less amounts written off	**153**	141
Total carrying value	**343**	777
Valuation		
Listed investments at market value	**394**	698
Unlisted investments at directors' valuation	**161**	146
	555	844

	Nature of business	Issued ordinary share capital R	Number of ordinary shares held	Year end
14. Investment in associated companies *(continued)*				
Listed				
Relyant Retail Limited	Retail	239 819 570	254 004 433	30-Jun
Unlisted				
Natal Lands (Pty) Limited	Property holding	240 000	60 000	31-Dec
Mobile Acceptances (Pty) Limited	Leasing	700 000	182 000	31-Dec
Toyota Financial Services (Pty) Limited	Vehicle finance	4 500	1 499	31-Mar

	Effective holding %		Market value or directors' valuation		Bank costs less amounts written off	
R million	**2004**	2003	**2004**	2003	**2004**	2003
Listed						
McCarthy Limited	**–**	48	**–**	444	**–**	444
Relyant Retail Limited	**26**	26	**394**	254	**190**	192
Total listed			**394**	698	**190**	636
Unlisted						
Natal Lands (Pty) Limited	**50**	50	**3**	9	**1**	1
Infrastructure Finance Corp Limited	**–**	18	**–**	–	**–**	–
Mobile Acceptances (Pty) Limited	**26**	26	**4**	2	**–**	–
Toyota Financial Services (Pty) Limited	**33**	33	**67**	106	**150**	120
Other			**87**	29	**2**	20
Total unlisted			**161**	146	**153**	141
Total listed and unlisted			**555**	844	**343**	777

	Mobile Acceptances (Pty) Limited		Toyota Financial Services (Pty) Limited	
R million	**2004**	2003	**2004**	2003
Summarised financial information of associated companies:				
Balance sheet				
Non-current assets	**7**	31	**3 584**	2 490
Current assets	**16**	20	**1 261**	1 056
Current liabilities	**(2)**	(11)	**(173)**	(187)
Non-current liabilities	**(5)**	(26)	**(4 233)**	(3 041)
Equity	**16**	14	**439**	318
Loans to associates	**–**	27	**3 444**	3 041

R million	McCarthy Limited 2004	McCarthy Limited 2003	Natal Lands (Pty) Limited 2004	Natal Lands (Pty) Limited 2003	Relyant Retail Limited 2004	Relyant Retail Limited 2003
14. Investment in associated companies *(continued)*						
Balance sheet						
Non-current assets	**–**	405	**5**	5	**501**	536
Current assets	**–**	1 807	**2**	1	**1 846**	2 466
Current liabilities	**–**	(1 472)	**(1)**	(2)	**(695)**	(1 886)
Non-current liabilities	**–**	(34)	**–**	–	**(337)**	–
Equity	**–**	706	**6**	4	**1 315**	1 116
Loans to associates	**–**	–	**–**	–	**–**	–

R million	2004	2003
15. Interest in subsidiary companies		
Shares at cost less amounts written off	**18**	24

	Nature of business	Issued capital Rand	Effective holding %	Investment in subsidiaries Rand
30 June 2004				
Direct Axis (Pty) Limited	**Financial services**	**13 333**	**51.0**	**11 000 000**
Comcorp Online (Pty) Limited	**Technology**	**200**	**80.0**	**5 000 160**
RMB Corporate Finance (Pty) Limited	**Investment**	**1 000**	**100.0**	**1 282 762**
Other				**506 078**
				17 789 000
30 June 2003				
Direct Axis (Pty) Limited	Financial services	13 333	51.0	11 000 000
Comcorp Online (Pty) Limited	Technology	200	80.0	5 000 160
Premium Credit (Pty) Limited	Finance	1 000	100.0	4 161 859
RMB Corporate Finance (Pty) Limited	Investment	1 000	100.0	1 282 762
Property Consultants Services (Pty) Limited	Services	1 749 004	57.1	999 000
Other				1 268 148
				23 711 929

R million	2004	2003
16. Holding and fellow subsidiary companies		
Amounts due to holding company	**(344)**	(372)
Amounts due to fellow subsidiary companies	**(20 630)**	(19 325)
Amounts due to holding and fellow subsidiary companies	**(20 974)**	(19 697)
Amounts due by holding company	**941**	938
Amounts due by fellow subsidiary companies	**19 267**	23 594
Amounts due by holding and fellow subsidiary companies	**20 208**	24 532
Net amounts due by/(to) holding and fellow subsidiary companies	**(766)**	4 835

These loans have no fixed terms of repayment and carry varying rates of interest. Loans to subsidiary companies amounting to R27 million are subject to subordination agreements until such time that their assets fairly valued, exceed their liabilities.

	2004			2003		
R million	**Cost**	**Accumulated depreciation and impairments**	**Net book value**	Cost	Accumulated depreciation and impairments	Net book value
17. Property and equipment						
Property						
Freehold land and buildings	**690**	**368**	**322**	762	385	377
Leasehold premises	**421**	**224**	**197**	342	181	161
	1 111	**592**	**519**	1 104	566	538
Equipment						
Computer equipment	**1 873**	**1 170**	**703**	1 955	1 451	504
Furniture and fittings	**683**	**334**	**349**	765	471	294
Motor vehicles	**63**	**31**	**32**	60	35	25
Office equipment	**213**	**90**	**123**	193	82	111
	2 832	**1 625**	**1 207**	2 973	2 039	934
Total	**3 943**	**2 217**	**1 726**	4 077	2 605	1 472

R million	Freehold land and buildings	Leasehold premises	Computer equipment	Furniture and fittings	Motor vehicles	Office equipment
17. Property and equipment *(continued)*						
Movement in property and equipment – net book value						
Net book value at 1 July 2002	451	172	353	341	57	21
Additions	66	49	375	57	19	112
Depreciation charge for period	(81)	(49)	(221)	(97)	(15)	(18)
Disposals	(59)	(11)	(3)	(7)	(36)	(4)
Net book value at 30 June 2003	**377**	**161**	**504**	**294**	**25**	**111**
Additions	**45**	**103**	**458**	**168**	**18**	**42**
Depreciation charge for period	**(20)**	**(65)**	**(202)**	**(109)**	**(8)**	**(29)**
Impairments	**(6)**	**–**	**–**	**–**	**–**	**–**
Disposals	**(65)**	**(8)**	**(22)**	**(15)**	**(3)**	**(8)**
Other	**(9)**	**6**	**(35)**	**11**	**0**	**7**
Net book value at 30 June 2004	**322**	**197**	**703**	**349**	**32**	**123**

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

R million	2004	2003
18. Pension and post-retirement benefits		
The Bank has incurred a liability to subsidise the post-retirement medical expenditure of certain of its employees.		
At 30 June 2004, the present value of the actuarially determined liability of the Bank in respect of such liabilities was R1 099 million (2003: R986 million).		
18.1 Post-retirement pension fund liability		
Present value of funded liability	**9 816**	8 802
Fair value of plan assets	**(9 643)**	(8 346)
Pension fund deficit	**173**	456
Unrecognised actuarial losses	**(173)**	(456)
Retirement benefit asset	**–**	–
The amounts recognised in the income statement are as follows:		
Current service cost	**248**	212
Interest cost	**978**	1 033
Expected return on plan assets	**(935)**	(1 080)
Other	**(43)**	267
Total included in staff costs	**248**	432

R million	2004	2003
18. Pension and post-retirement benefits *(continued)*		
18.1 Post-retirement pension fund liability *(continued)*		
Movement in liability recognised in pension fund surplus		
Present value at the beginning of the year	**–**	(430)
Amounts recognised in the income statement as above	**248**	432
Contributions paid	**(248)**	(2)
Present value at the end of the year	**–**	–
The principal actuarial assumptions used for accounting purposes were:		
Discount rate (%)	**10.0**	11.5
Expected return on plan assets (%)	**10.0**	11.5
Salary inflation (%)	**6.0**	6.3
Net interest rate used to value pensions, allowing for pension increases (%)	**5.0**	5.0
18.2 Post-retirement medical liability		
Present value of unfunded liability	**1 099**	986
Unrecognised actuarial losses	**(79)**	(44)
Post-retirement medical liability	**1 020**	942
The amounts recognised in the income statement are as follows:		
Current service cost	**27**	25
Interest cost	**99**	98
Total included in staff costs	**126**	123
Movement in liability recognised in the balance sheet		
Liability at the beginning of the year	**942**	861
Amounts recognised in the income statement as above	**126**	123
Contributions paid	**(48)**	(42)
Liability at the end of the year	**1 020**	942
The principal actuarial assumptions used for accounting purposes were:		
Discount rate (%)	**10.0**	10.3
Long-term increase in medical subsidies (%)	**8.0**	8.3
18.3 Employee benefits assets		
Leave pay insurance policy	**650**	550
Post-retirement medical asset	**1 282**	1 078
	1 932	1 628

R million	2004	2003
19. Intangible assets		
Intangible assets		
Gross amount	**65**	47
Less: Accumulated amortisation and impairment losses	**(39)**	(26)
	26	21
Movement in intangibles – book value		
Opening balance	**21**	23
Additions	**21**	12
Amortisation charge and impairment losses	**(16)**	(14)
	26	21
Software		
Gross amount	**62**	46
Less: Accumulated amortisation and impairment losses	**(38)**	(25)
	24	21
Movement in software – book value		
Opening balance	**21**	22
Additions	**18**	12
Amortisation charge and impairment losses	**(15)**	(13)
	24	21
Development costs		
Gross amount	**3**	1
Less: Accumulated amortisation and impairment losses	**(1)**	(1)
	2	–
Movement in development costs – book value		
Opening balance	**–**	1
Additions	**3**	–
Amortisation charge and impairment losses	**(1)**	(1)
	2	–
Total intangible assets		
Software	**24**	21
Development costs	**2**	–
	26	21

R million	2004	2003
20. Deposits and current accounts		
From banks and financial institutions	**18 187**	12 257
– in the normal course of business	**4 526**	4 137
– under repurchase agreements	**13 661**	8 120
From customers	**120 534**	105 014
– current accounts	**52 200**	54 747
– savings account	**1 663**	1 585
– term deposits	**66 671**	48 682
Other deposits	**40 381**	33 558
– negotiable certificates of deposit	**23 925**	11 018
– other deposits	**16 456**	22 540
	179 102	150 829
Geographic analysis (based on counterparty risk)		
South Africa	**172 736**	144 856
Other Africa	**972**	528
United Kingdom	**3 498**	2 838
Other	**1 896**	2 607
	179 102	150 829
Deposits include amounts raised under repurchase agreements with a carrying value of R13 661 (2003: R8 120), which agreements mature within 12 months of the balance sheet date.		
21. Short trading positions		
Government and government guaranteed	**13 251**	8 452
Other dated securities	**2 599**	24 511
Undated securities	**3 621**	1 622
	19 471	34 585
Analysed as follows:		
Listed	**16 856**	5 273
Unlisted	**2 615**	29 312
	19 471	34 585
22. Creditors and accruals		
Accrued interest	**107**	19
Accounts payable	**476**	200
Short-term portion of long-term liabilities (note 24)	**122**	–
Other creditors	**1 911**	2 309
	2 616	2 528

R million	2004	2003
23. Provisions		
Leave pay		
Opening balance	**581**	514
Charge to the income statement	**112**	98
Utilised	**(83)**	(31)
Closing balance	**610**	581
Audit fees		
Opening balance	**28**	16
Charge to the income statement	**44**	34
Utilised	**(54)**	(22)
Closing balance	**18**	28
Other		
Opening balance	**369**	–
Additions	**–**	10
Charge to the income statement	**340**	359
Utilised	**(68)**	–
Closing balance	**641**	369
Total provisions	**1 269**	978
24. Long-term liabilities		
Debentures		
Unsecured debt securities amortising over the period to 2005	**122**	122
Less: Portion payable within 12 months transferred to current liabilities (note 22)	**(122)**	–
	–	122
Preference shares		
Authorised		
5 000 000 000 (2003: 5 000 000 000) cumulative preference shares with a par value of R0.0001		
Issued		
(2003: 6 403) cumulative redeemable shares with a par value of R0.0001 at a premium of R99 999.9999 per share	**–**	640
	–	640

R million	2004	2003
24. Long-term liabilities *(continued)*		
Other long-term liabilities		
Subordinated convertible loans		
Unsecured debt security amortising over the period to 2007[a]	**2 349**	2 349
Fixed rate bonds[b]	**700**	–
Floating rate bond[c]	**300**	–
	3 349	2 349
Total long-term liabilities	**3 349**	3 111

a The subordinated convertible loans are redeemable in 2009 and bear interest at 16.5% semi-annually. These loans are convertible into ordinary shares at the option of the holder at any time prior to redemption

b The fixed rate bonds mature 31 August 2010 and bear interest at 1.2% above the R153 bond rate

c The floating rate bonds mature 31 August 2010 and bear interest at 0.715% above the three month JIBAR rate

R million	2004	2003
25. Ordinary shares		
Authorised		
2 000 000 ordinary shares of R2 each	**4**	4
Issued		
1 758 305 (2003: 1 758 305) ordinary shares of R2 each	**4**	4
26. Non-distributable reserves		
Currency conversion reserve	**–**	1
Cash flow hedging reserve	**77**	216
Revaluation reserve – available-for-sale instruments	**168**	143
General risk reserve (impaired capital reserve)	**749**	459
Capital redemption reserve fund	**1 345**	705
Other	**(2)**	(2)
	2 337	1 522

A detailed reconciliation of the movements in the respective non-distributable reserve balances is set out in the statement of changes in equity.

R million	2004	2003
27. Contingencies and commitments		
Contingencies		
Guarantees	**12 737**	17 389
Acceptances	**21**	215
Letters of credit	**8 499**	3 378
	21 257	20 982
There are a number of legal or potential claims against the Bank, the outcome of which cannot at present be foreseen. These claims are not regarded as material either on an individual or aggregate basis. Provision is made for all liabilities which are expected to materialise.		
Employee benefit contingent liability		
A contingent liability has been raised in respect of pension fund holidays taken since 15 December 2001	**315**	315
Interest claim contingent liability		
Contingent liability in respect of interest claims	**150**	–
Interest claim contingent asset		
Contingent asset in respect of interest claims	**150**	–
Commitments		
Commitments in respect of capital expenditure and long-term investments approved by directors		
Contracted for	**66**	56
Not contracted for	**184**	242

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

	2004		
R million	**Next year**	**2nd to 5th year**	**After 5th year**
Bank commitments under operating leases			
Office premises	**450**	**1 184**	**40**
Equipment and motor vehicles	**27**	**26**	**–**
	477	**1 210**	**40**

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

R million	**2004**	2003
28. Cash flow information		
28.1 Reconciliation of operating profit to cash flow from operating activities		
Income from operations	**5 850**	3 550
Adjusted for:		
– depreciation and amortisation costs	**449**	495
– impairment of advances	**436**	1 304
– provision for post-employment benefit obligations	**374**	555
– other non-cash provisions	**618**	362
– (profit)/loss on sale of property and equipment and investments	**(109)**	111
– revaluation (gain)/loss transferred to available-for-sale securities	**(130)**	–
– dividends paid	**(1 784)**	(1 021)
Cash flows from operating activities	**5 704**	5 356
28.2 Dividends paid		
Amounts unpaid at beginning of the year	**–**	–
Charged to distributable reserves	**(1 784)**	(1 021)
Amounts unpaid at end of the year	**–**	–
Total dividends paid	**(1 784)**	(1 021)
28.3 Taxation paid		
Amounts unpaid at beginning of the year	**(607)**	(356)
Taxation charge per income statement	**(1 285)**	(860)
Deferred taxation included in tax charge	**69**	153
Other movements	**–**	315
VAT and other tax charges	**(309)**	(310)
Amounts unpaid at end of the year	**914**	607
Total taxation paid	**(1 218)**	(451)

29. Risk management

29.1 General

The comprehensive risk management report of the Bank is contained on pages 3 to 20. The report sets out in detail the various risks the Bank is exposed to, as well as the strategy, methodology and instruments used to mitigate these risks.

Risk control policies and exposure limits for the key risk areas of the Bank are approved by the board, while operational policies and control procedures are approved by the relevant risk committees. Pages 3 to 5 form part of the annual financial statements. Details of the committees are found on pages 3 and 4 of the annual report.

Strategy in using financial instruments

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

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

29.2 Strategy in using hedges

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

29.3 Credit risk management

Credit risk

Credit risk is the risk that a counterparty will be unable to repay amounts when they fall due. In general, the Bank manages its credit risk exposure by placing limits on the acceptable risk exposure to individual borrowers or groups of borrowers, and within geographic and industry segments. Credit risk is monitored on an ongoing basis. Further details on credit risk management is contained in the risk management report on pages 6 to 9 and 18 of the annual report.

R million	South Africa	Other Africa	United Kingdom	Ireland	Other Europe	North America	South America	Austral-asia	Other	Total
Significant credit exposures at 30 June 2004 were:										
Assets										
Advances	**161 377**	**209**	**13 459**	**1 230**	**3 779**	**481**	**33**	**33**	**6**	**180 607**
Contingencies	**18 818**	**1 004**	**173**	**479**	**177**	**1**	**17**	**2**	**586**	**21 257**
	180 195	**1 213**	**13 632**	**1 709**	**3 956**	**482**	**50**	**35**	**592**	**201 864**

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

29. Risk management *(continued)*

29.3 Credit risk management

Significant credit exposures at 30 June 2003 were:

Assets

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

29.4 Market risk

The Bank takes on exposure to market risk. Market risks arise from open positions in interest rate, currency and equity products, all of which are exposed to general and specific market movements. The Bank applies a "value at risk" methodology to estimate the market risk positions held and the maximum losses expected, based upon a number of assumptions for various changes in market conditions. The board of directors sets limits on the value of risk that may be accepted, which is monitored on a daily basis. Further details on the market risk management is set out in the Risk Management report on pages 12 and 18 of the annual report.

29.5 Currency risk management

The Bank takes on exposure to effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows. The Bank manages foreign currency exposures in terms of approved limits. The currency position at 30 June 2004 is set out below:

R million	Rand	UK£	US$	Eur	Other	Total
Assets						
Cash and short-term funds	11 585	19	1 370	75	74	13 123
Derivative financial instruments	9 875	264	6 629	481	231	17 480
– qualifying for hedging	268	–	–	–	–	268
– trading	9 607	264	6 629	481	231	17 212
Advances	167 235	335	9 148	1 362	42	178 122
– originated	124 023	–	16	–	3	124 042
– held-to-maturity	7 003	–	–	–	–	7 003
– available-for-sale	418	–	–	–	–	418
– fair value	35 791	335	9 132	1 362	39	46 659
Investment securities and other investments	21 861	–	–	–	–	21 861
– available-for-sale	11 507	–	–	–	–	11 507
– fair value	10 354	–	–	–	–	10 354
Commodities	418	–	–	–	–	418
Accounts receivable	1 545	–	41	–	–	1 586
Investment in associated companies	343	–	–	–	–	343
Interest in subsidiary companies	18	–	–	–	–	18
Holding and fellow subsidiary companies	19 053	328	820	7	–	20 208
Property and equipment	1 726	–	–	–	–	1 726
Retirement benefit asset	1 932	–	–	–	–	1 932
Intangible assets	26	–	–	–	–	26
	235 617	946	18 008	1 925	347	256 843

R million	Rand	UK£	US$	Eur	Other	Total
29. Risk management *(continued)*						
29.5 Currency risk management						
Liabilities						
Deposit and current accounts	**174 058**	**333**	**3 710**	**955**	**46**	**179 102**
Short trading positions	**19 471**	**–**	**–**	**–**	**–**	**19 471**
Derivative financial instruments	**8 594**	**209**	**4 648**	**173**	**496**	**14 120**
– qualifying for hedging	**30**	**–**	**–**	**–**	**–**	**30**
– trading	**8 564**	**209**	**4 648**	**173**	**496**	**14 090**
Creditors and accruals	**2 614**	**–**	**2**	**–**	**–**	**2 616**
Provisions	**1 269**	**–**	**–**	**–**	**–**	**1 269**
Taxation	**914**	**–**	**–**	**–**	**–**	**914**
Post-retirement medical liability	**1 020**	**–**	**–**	**–**	**–**	**1 020**
Deferred taxation liability	**1 558**	**–**	**–**	**–**	**–**	**1 558**
Holding and fellow subsidiary companies	**15 453**	**99**	**5 274**	**30**	**118**	**20 974**
Long-term liabilities	**3 349**	**–**	**–**	**–**	**–**	**3 349**
Shareholders' equity	**12 450**	**–**	**–**	**–**	**–**	**12 450**
	240 750	**641**	**13 634**	**1 158**	**660**	**256 843**

29.6 Interest rate risk management

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

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

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

29. Risk management *(continued)*

29.6 Interest rate risk management *(continued)*

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

R million	2004 Carrying amount	Interest earning/bearing – Term to repricing: Demand	1 – 12 months	1 – 5 years	Over 5 years	Non-interest earning/bearing
Assets						
Cash and short-term funds	13 123	11 049	10	2	–	2 062
Derivative financial instruments	17 480	–	6 558	6 267	4 655	–
– qualifying for hedging	268	–	114	150	4	–
– trading	17 212	–	6 444	6 117	4 651	–
Advances	178 122	110 948	42 834	22 701	920	719
– originated	124 042	96 959	7 211	18 521	756	595
– held-to-maturity	7 003	6 879	–	–	–	124
– available-for-sale	418	–	152	260	6	–
– fair value	46 659	7 110	35 471	3 920	158	–
Investment securities and other investments	21 861	1 454	5 537	10 635	3 097	1 138
– available-for-sale	11 507	1	2 504	9 001	–	1
– fair value	10 354	1 453	3 033	1 634	3 097	1 137
Commodities	418	–	–	–	–	418
Accounts receivable	1 586	76	454	–	–	1 056
Investment in associated companies	343	–	–	–	–	343
Interest in subsidiary companies	18	–	–	–	–	18
Holding and fellow subsidiary companies	20 208	17 111	1 680	1 089	199	129
Property and equipment	1 726	–	–	–	–	1 726
Retirement benefit asset	1 932	–	–	–	–	1 932
Intangible assets	26	–	–	–	–	26
	256 843	140 638	57 073	40 694	8 871	9 567

R million	Carrying amount	Interest earning/bearing – Term to repricing: Demand	1 – 12 months	1 – 5 years	Over 5 years	Non-interest earning/ bearing
	2004					
29. Risk management *(continued)*						
29.6 Interest rate risk management *(continued)*						
Liabilities						
Deposit and current accounts	179 102	100 054	76 304	2 312	429	3
Short trading positions	19 471	–	13 631	1 716	503	3 621
Derivative financial instruments	14 120	1 378	7 803	3 609	1 330	–
– qualifying for hedging	30	–	23	6	1	–
– trading	14 090	1 378	7 780	3 603	1 329	–
Creditors and accruals	2 616	426	232	–	–	1 958
Provisions	1 269	–	–	–	–	1 269
Taxation	914	–	–	–	–	914
Post-retirement medical liability	1 020	–	–	–	1 020	–
Deferred taxation liability	1 558	–	–	–	–	1 558
Holding and fellow subsidiary companies	20 974	8 722	6 034	1 914	540	3 764
Long-term liabilities	3 349	–	–	2 256	1 093	–
Shareholders' equity	12 450	–	–	–	–	12 450
	256 843	110 580	104 004	11 807	4 915	25 537
Net interest sensitivity gap	–	30 058	(46 931)	28 887	3 956	(15 970)

29. Risk management *(continued)*

29.7 Liquidity risk management

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

	2004				
		Term to maturity			
R million	Carrying amount	Demand	1 – 12 months	1 – 5 years	Over 5 years
Assets					
Cash and short-term funds	13 123	12 603	518	2	–
Derivative financial instruments	17 480	–	7 114	5 710	4 656
– qualifying for hedging	268	–	114	150	4
– trading	17 212	–	7 000	5 560	4 652
Advances	178 122	18 538	63 742	72 333	23 509
– originated	124 042	15 528	29 642	62 855	16 017
– held-to-maturity	7 003	1	534	3 546	2 922
– available-for-sale	418	1	152	–	265
– fair value	46 659	3 008	33 414	5 932	4 305
Investment securities and other investments	21 861	1 504	6 156	11 073	3 128
– available-for-sale	11 507	1	2 474	9 001	31
– fair value	10 354	1 503	3 682	2 072	3 097
Commodities	418	418	–	–	–
Accounts receivable	1 586	331	1 251	–	4
Investment in associated companies	343	–	–	–	343
Interest in subsidiary companies	18	–	–	–	18
Holding and fellow subsidiary companies	20 208	16 053	2 323	1 541	291
Property and equipment	1 726	–	17	229	1 480
Retirement benefit asset	1 932	–	–	–	1 932
Intangible assets	26	–	12	11	3
	256 843	49 447	81 133	90 899	35 364

R million	Carrying amount 2004	Demand	1 – 12 months	1 – 5 years	Over 5 years
	2004	Term to maturity			
29. Risk management *(continued)*					
29.7 Liquidity risk management *(continued)*					
Liabilities					
Deposit and current accounts	179 102	87 710	87 342	2 314	1 736
Short trading positions	19 471	–	17 252	1 716	503
Derivative financial instruments	14 120	–	7 803	3 609	2 708
– qualifying for hedging	30	–	23	6	1
– trading	14 090	–	7 780	3 603	2 707
Creditors and accruals	2 616	292	2 323	1	–
Provisions	1 269	1 076	181	–	12
Taxation	914	93	821	–	–
Post-retirement medical liability	1 020	–	–	–	1 020
Deferred taxation liability	1 558	–	1 542	–	16
Holding and fellow subsidiary companies	20 974	7 574	3 343	1 914	8 143
Long-term liabilities	3 349	–	–	2 256	1 093
Shareholders' equity	12 450	–	–	–	12 450
	256 843	96 745	120 607	11 810	27 681
Net liquidity gap	–	(47 298)	(39 474)	79 089	7 683

29.8 Fair value of financial instruments

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

R million	Carrying amount	Fair value	Unrecognised gain/(loss)
	2004		
Assets			
Advances	178 122	178 122	–
Investment securities	21 861	21 861	–
	199 983	199 983	–
Liabilities			
Deposit and current accounts	179 102	179 102	–
Long-term liabilities	3 349	3 349	–
	182 451	182 451	–

Fair value has been determined as follows:

- advances – based on the discounted value of estimated future cash flows, determined based on current market rates;
- held-to-maturity investment securities – market/dealer quotations, if available, or fair value estimations based on market prices for similar instruments with similar credit risks;

29. Risk management *(continued)*

29.8 Fair value of financial instruments *(continued)*

- deposits and current accounts – where there is no stated maturity, the amount repayable on demand – in respect of interest bearing liabilities with a fixed maturity, based on discounted cash flow value using market rates on new liabilities with a similar maturity;
- long-term liabilities – quoted market prices, if available, or based on the discounted cash flow values using market rates for similar instruments with a comparable term to maturity.

30. Trust activities

The market value of assets held or placed on behalf of customers in a fiduciary capacity amounts to R6 713 million (2003: R5 144 million).

31. Segment information

31.1 Primary segments (business)

Cluster	Segment	Brands	Target segment	Description
Retail Cluster	Retail banking	First National Bank FNB Card, BOB, FNB Homeloans	Small businesses and individuals	Retail banking, wholesale banking and support services
	Instalment finance	Wesbank	Corporates and individuals	Motor vehicle and instalment finance
Corporate Cluster	Investment banking	Rand Merchant Bank, RMB Resources	Large corporates, parastatals and government	Merchant and investment banking services
	Corporate	FNB Corporate, Hyphen	Medium and large corporates	Corporate banking
Wealth Cluster	Wealth management	RMB Private Bank	High net worth individuals	Wealth management Trust services
Capital centre	Capital centre	FirstRand Bank		Owns the capital of the Bank

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

32. Related party transactions

Related party information is not presented as the Bank is a wholly owned subsidiary of FirstRand Bank Holdings Limited.

Administration

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(Registration No. 1929/001225/06)

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