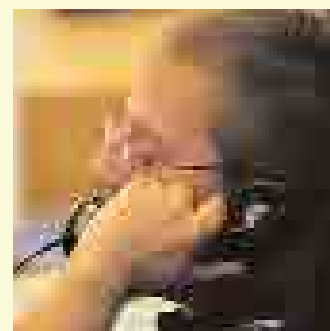
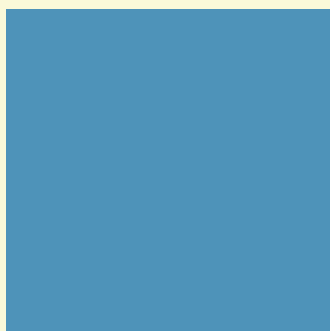




FIRSTRAND

integrated
financial services





FIRSTRAND

1966/010753/06 Share code: FSR ISIN code: ZAE 000014973 ("FSR")

FirstRand is an integrated financial services group structured with critical mass to take advantage of the blurring of boundaries in the financial services industry and the convergence of products and services. The group provides a comprehensive range of products and services to the South African market and niche products in certain international markets. These products include:

Banking

Retail banking
Investment banking
Corporate banking
Private banking

Insurance

Life Insurance
Health Insurance
Asset management
Employee Benefits
Short-term Insurance

FirstRand is differentiated by its unique business philosophy, de-centralised structure, owner-manager culture and portfolio branding strategy.

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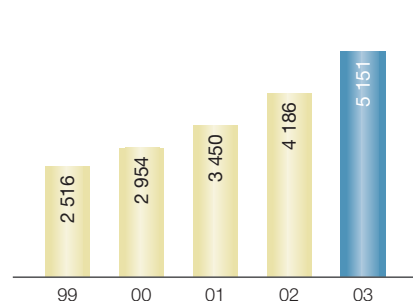
An separate abridged Sustainability Report is published as part of these financial statements and contains additional information relating to stakeholder relationships.

5th consecutive year of superior growth

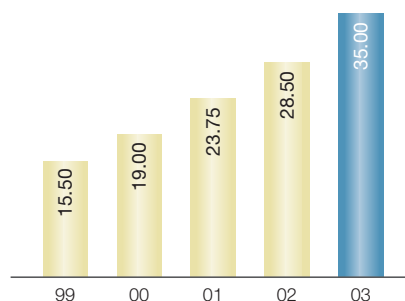
Since the creation of FirstRand in 1998 the diversified earnings base of the Group has delivered core headline earnings growth at a compound rate of 20% per annum, to double from R2.5 billion in 1999 to R5.1 billion in 2003.

	Post-AC133	Pre-AC133
Headline earnings (%)	+3	-4
Core headline earnings (%)	+30	+23
Dividend per share (%)	+23	+23
Total assets under management or administration (R billion)	490.3	489.2

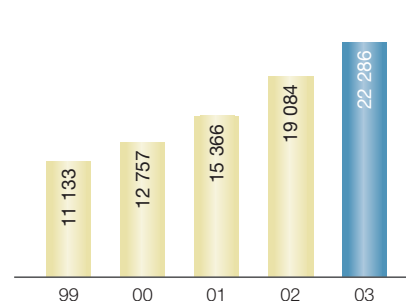
Core headline earnings (R million)
Compound annual growth
in core headline earnings: 20%



Dividends per share (cents)
Compound annual growth
in dividends per share: 23%



Net asset value (R million)
Compound annual growth
in net asset value: 19%



Rudolf Gouws
*Chief economist,
Rand Merchant
Bank*



Over the past year, the world economy recovered only slightly from the downswing of 2001. The United States ("US") economy grew well below trend, and the economies of South Africa's major European trading partners, as well as Japan, remained deeply troubled. The build-up to and the outbreak of the US-led war in Iraq impacted on consumer and business confidence worldwide, and created uncertainties that will influence global economic activity for some time to come. The lingering weakness in the US economy was such that, by June 2003, interest rates had been cut to levels not seen in 45 years. These interest rate cuts, coupled with the impact of tax reductions, should revive the US economy, but the necessity to adapt to major imbalances (such as a large current account deficit and high household and corporate debt levels) may mean that the US economy will be growing below its potential for some years.

Fortunately for South Africa, the monetary and fiscal discipline of the last decade, coupled with the much greater competitiveness of domestic industry following the opening up of the economy to international competition, has made the domestic economy less vulnerable to adverse external developments. These policy strides have been recognised by international credit rating agencies and, in May 2003, two agencies revised upwards South Africa's sovereign international credit ratings. In the same month, Government was also able to raise long-term foreign capital at very favourable interest rates. Previous economic upswings were often brought to a halt by the rapid emergence of balance of payments constraints that prompted tightening of policy and reining in of domestic demand.

Nevertheless, South Africa could not completely escape the influence of international developments. Weakening exports contributed to the reappearance of a current account deficit in the first half of 2003 after more than a year of surpluses. Weaker exports also contributed to economic growth slowing down throughout the year under review. The weaker growth, as well as the slowdown in the demand for credit which accompanied it, also stemmed from the four increases in the Reserve Bank's repo rate in the course of 2002. This tightening in monetary policy was triggered by the rise in inflation that followed the sharp decline in the Rand exchange rate during the second half of 2001.

The four interest rate hikes, coupled with the current account surpluses that prevailed throughout 2002, as well as the fall of the Reserve Bank's net open foreign currency position, contributed to a sharp reversal in the Rand's fortunes. It rose by 25% in trade-weighted terms through 2002, and by a further 15% through the first half of 2003. The Rand appreciation, in turn, unfortunately compounded the adverse impact of the world economy on South African exports and the domestic economy.

However, the sharp rise in the value of the Rand had the beneficial effect, midway through FirstRand's past financial year, of helping to reverse the uptrend in inflation. By June 2003 the prospects for further falls had improved to such an extent that the way was cleared for the Reserve Bank to cut its repo rate by 150 basis points. Two further cuts of 100 basis points each followed in August and September. Lower interest rates, along with the improvement in real disposable incomes of households brought about by falling inflation, should help the economy to regain vigour.

FirstRand views the slowdown of late 2002 and the first half of 2003 as a pause in what had, by mid-2003, already become the longest upward phase of any business cycle in the more than five decades since the end of the Second World War. While a range of policy-, political-, social- and skills-related factors will continue to constrain South Africa's growth (and with it the economy's ability to create sufficient jobs and alleviate poverty), longer-term prospects for more sustainable growth of above 3% have improved considerably.



The relative performance of key sectors in the South African economy changed greatly during the 2003 financial year, as export performances weakened and domestic activity continued to be favoured.

Early in 2003, the economy was supported by a weak Rand averaging R10:\$1. This induced strong profit growth and business confidence, with the RMB/BER Business Confidence Index recording high readings of 68 in two consecutive quarters.

As 2003 progressed, the Rand steadily appreciated, reaching R7:\$1. This firming of the Rand, along with slowing global trade, bit deeply into export performances and some company profits in the second half of the 2003 financial year. Mining and manufactured exports particularly suffered, slowing GDP growth.

This externally induced slowing of GDP growth was only partly neutralised by sustained growth in domestic demand, made possible by a widening budget deficit. In the course of the 2003 financial year, the budget was allowed to become more expansionary, mainly through a planned increase in public spending. This boost was reinforced by unplanned tax revenue losses as export profitability suffered. The consequent increase in the budget deficit by some 1% of GDP neutralised, to a large extent, the fall-off in external demand. The main beneficiary of this change was domestic consumer spending, favouring retail and manufacturing activity. Investment spending also kept up well, mainly linked to long-term mining projects.

The increasing strain experienced by exporters and import-competing businesses during 2003 led to renewed labour shedding,

but this may have been partly neutralised by activity gains in the services sector of the economy.

The 2004 financial year is expected to see further change in relative sector performance, as falling interest rates become the main booster of economic activity.

The budget deficit can be expected to reach its maximum expansionary influence, and will start shrinking anew relative to GDP, reducing its support for domestic demand. Meanwhile the Rand could still firm more before peaking out. Though stronger global growth should favour mining commodity prospects, a firm Rand could restrain manufactured exports for some while longer. Notwithstanding these conditions further slowing GDP growth, the greatest single booster of economic activity during the 2004 financial year is likely to be falling interest rates. This will be particularly positive for domestically oriented activity.

The fall in interest rates has already had the effect of boosting new car purchases and supporting property market and new construction activity early in the 2004 financial year. Durable and semi-durable consumption spending is expected to be well supported as falling inflation and interest rates boost consumer purchasing power. This expectation is widely prevalent in the higher income group, which increasingly considers the present "a time to buy consumer durables", according to the FNB/BER Consumer Confidence Survey.

In contrast, lower income groups may be expected to benefit less from these trends, as labour shedding is likely to continue. Non-durable consumer spending may as a consequence remain relatively constrained.

The overall fall-off in the FNB/BER Consumer Confidence Index in early financial 2004 is a cause for concern. It reflects the growing strain experienced by exporters and import-competing businesses caused by the Rand's strength and the manner in which this has started to influence consumers.

On balance, the positive and negative influences are expected to largely even out during the 2004 financial year, allowing moderate GDP growth to be achieved. The sectors gaining most from these influences should continue to rotate, increasingly favouring consumer durables and semi-durables, new car purchases, property and new construction, and the services sectors supporting such domestic activity.

Chairman's report

“In the face of some significant challenges, FirstRand produced excellent results with core headline earnings increasing by close on a billion Rand.”



Five years of sustained growth

In the five years since the creation of FirstRand:

- Our business philosophy has been inculcated throughout the organisation;
- Our vision of a fully integrated financial services group has been attained; and
- We have created a potent franchise of some of South Africa's most well recognised and respected brands.

This enabled us to achieve five years of sustained growth, with the following compound growth rates being achieved:

- | | |
|--------------------------|---------|
| • Core headline earnings | +20% pa |
| • Dividends | +23% pa |
| • Net asset value | +19% pa |

Our philosophy, people and brands should ensure another five years of sustained value delivery.

Dear Shareholder

The year to 30 June 2003 was characterised by high interest rates, extreme directional volatility in the Rand exchange rate and poor investment markets. Notwithstanding such challenging market conditions, FirstRand once more produced excellent results, with core headline earnings per share increasing by 23% over the prior year.

This year's performance

FirstRand is the first major South African financial services group to present a full year's financial results in accordance with the requirements of a new statement of South African Generally Accepted Accounting Practice "AC133 – Financial Instruments: Recognition and Measurement". The impact of this new accounting standard on your group's results are analysed in detail elsewhere in this report. To facilitate comparison between years I have, except where indicated, consistently made use of results produced on a "Pre-AC133" basis in the analysis that follows.

As stated, the Group produced excellent results, benefiting from diverse income sources, strong organic growth, benefits of scale crystallised from prior year acquisitions, and lower bad debts. To some extent, such gains were muted by the negative effects of a strengthening Rand on international income and poor equity investment markets.

The convergence of the positive factors is reflected in the excellent 28% increase in core headline earnings reported by the Banking Group. While the negative factors manifested themselves in subdued demand for retail investment products, Momentum Group continued to produce solid results with a 9% growth in core headline earnings. This performance is pleasing when weighed against that of its peer group.

Core headline earnings, which exclude translation gains and losses, increased by close on a billion Rand (23%), from R4 186 million (76,9 cents per share) to R5 151 million (94,5 cents per share). After incorporating AC133, the increase amounted to 30% (99,6 cents per share).

We have declared a final dividend of R1 010 million (18,5 cents per share), bringing the total dividend for the year to R1 909 million, or 35 cents per share (2002: 28,5 cents per share). This represents an increase of 23% in the total dividend per share over the prior year and is in line with the growth in core headline earnings.

Some significant challenges

This excellent performance was produced in the face of some significant challenges, two of which have been particularly vexing.

During the year we attracted further negative publicity relating to Ansbacher (UK) and the "Irish tax matter". Since our last report, progress has been slow. The Irish tax authorities contacted us for the first time in November 2002, after which our independent advisors submitted a detailed reply to the authorities in May 2003. We acknowledge that the Irish tax authorities believe there is a claim, however, the submission further substantiates our initial contention that there is little or no exposure to tax in Ireland in relation to this matter. We will continue to keep shareholders updated as the matter progresses.

The second difficult issue the Group faced during the year was the press allegations of corruption levelled at one of our directors, Mac Maharaj. These allegations related to his tenure as Minister of Transport prior to him joining the FirstRand Group. Following

FirstRand benefited from diverse income sources, strong organic growth, benefits of scale from prior year acquisitions, the strong interest rate environment and lower bad debts.

the initial allegations in the *Sunday Times* during February 2003, Mr Maharaj offered to either resign, or take leave of absence while he addressed the matter. The Board felt that to accept his resignation at that point would have led to a presumption of guilt, and therefore granted Mr Maharaj leave of absence, in order to give him time to prove his innocence.

Given the serious corporate governance issues the allegations raised, together with the particularly rigorous requirements regarding directors set out in the Banks and Long-term Insurance Acts, FirstRand needed to satisfy itself and the regulators that it was not in breach of the governing legislation. To this end, we allocated significant resources to an independent enquiry into the allegations by accountancy firm Deloitte & Touche and attorneys Hofmeyr Herbstein & Gihwala. This was done not only to ensure a fair hearing for Mr Maharaj, but also to protect the reputation and interests of FirstRand, its shareholders, and the various communities it serves.

The final report on that enquiry was submitted to the Board during July 2003. We accepted the investigative team's finding that there was not any evidence to substantiate the allegations of corruption against Mr Maharaj. However, there were still certain questions which remained unanswered.

Given the emotional debate being publicly waged around his personal affairs, Mr Maharaj believed that his continued association with FirstRand may lead to further negative publicity for the Group and therefore submitted his resignation, effective 31 August 2003. Under the circumstances the Board accepted his resignation as a director and employee of the FirstRand Group.

The Group continues to focus on corporate governance. We have adopted the recommendations of the King II report on corporate governance and all companies in the Group remain committed to the highest standards of corporate governance. Elsewhere in this report we have presented a detailed analysis of the ongoing steps being taken to ensure consistency and best corporate governance practice throughout FirstRand.

Five years of sustained growth

It is now five years since the formation of FirstRand through the merger of our interests in Rand Merchant Bank and Momentum

with First National Bank and Southern Life, then controlled by the Anglo American group.

While I do not intend dwelling on the rationale for the merger nor the details of the last five years as this is now well documented history, I would like to reflect upon what has been created during this period. In particular:

- The merged Group has undergone fundamental change as the FirstRand business philosophy has been implemented throughout the organisation.
- The aim of creating an integrated financial services group structured with critical mass to take advantage of the blurring of boundaries in financial services and the convergence of products and services between banking, insurance and asset management has been achieved.
- We have a potent franchise of some of South Africa's most well recognised and respected brands, each one strongly positioned in its own market space.

The Group has produced five years of sustained growth. This translates into compound annual growth in core headline earnings of 20%, in dividends per share of 23% and in NAV of 19% over the five-year period. This excellent track record is, I believe, testament to the quality of our people and the commitment and energy they have displayed in every area of our business.

Going forward, our philosophy, people and brands remain the pillars on which the Group relies to maintain its minimum targeted 10% real growth rate.

There are challenges ahead

The year ahead is not without significant challenges. The start of our second five year growth path also signals the end of the first ten years of our new democracy. Government is under increasing pressure to demonstrate that it is delivering on its promise to create a better life for all.

Broad-based Black Economic Empowerment ("BEE") is a critical process to ensure the full participation of all South Africans in the economy. The financial services industry voluntarily engaged with government to evaluate how it can best contribute to this process, the result of which will be a BEE Charter for the Financial Services Sector ("The Charter").

The publication of The Charter, which is expected to be towards the end of 2003, will represent the culmination of months of proactive and rigorous discussion between the financial services players (FirstRand included) and government representatives. To ensure broad-based black empowerment The Charter will focus on the following key areas:

- Ownership
- HR development
- Empowerment financing
- Procurement
- Enterprise development
- Access to financial services.

I believe that The Charter is an extremely positive development and that the financial services industry's commitment will ensure that genuine and broad-based empowerment will be created. FirstRand continues to make significant progress in most of the areas under consideration. We are proactively working towards the targets being envisaged in the proposed charter.

As regards BEE share ownership initiatives for FirstRand, we are vividly aware of the unique position that FirstRand, as one of South Africa's "big four" banking groups, occupies within the South African community. All of our business units operate under some form of regulatory dispensation, including the Banks Act and the Insurance Acts (both long- and short-term). As a result of our deposit taking activities and the life assurance/investment products that we market, FirstRand may rightly be regarded as a major and important custodian of "the nation's savings". Such realisation is playing a significant role in shaping our approach to the proposed FirstRand BEE ownership initiative that we are developing. Specifically, we believe that:

- Such a BEE ownership structure should be broad based, to reflect our diverse stakeholders;

- The BEE ownership structure should enhance our operational ability. All of FirstRand's operating units are adequately capitalised at present. However, structures that utilise the Group's capital or result in an economic or statutory impairment of FirstRand's capital base will stunt its ability to fund future growth from internal resources;
- The BEE initiative should bring about active and constructive Black economic participation in FirstRand's management processes;
- The BEE ownership structure must be sustainable.

FirstRand's group structure is unique in the South African financial services sector in that it is the only group where substantially all of the operating entities are wholly-owned. The operational freedom/value that the Group derives from this structure – through elements such as the ability to move manpower and capital resources to where best applied, cross selling and economies of scale – are part of our strategic differentiation relative to our competitors. Against this background we have spent significant time debating whether the envisaged BEE share ownership structure should take place at divisional, subsidiary or holding company level.

At the outset we believed that BEE share ownership should take place at divisional or subsidiary level, this being where specific BEE partners could have the greatest direct impact on the Group's operational approach. In addition, such an approach exposes the BEE partner to a smaller funding strain. This had to be weighed against the fragmented group structure that would come about – with potentially up to one hundred distinct minority shareholders at various levels within FirstRand. In addition, the potential strategic input from BEE shareholders would be foregone at group level. Consequently, we have concluded that it

I believe the BEE charter will be an extremely positive development. At FirstRand we continue to make significant progress in most of the areas under consideration and are proactively working towards meeting the targets envisaged.

will be in our best interest to launch a BEE initiative at the FirstRand (holding company) level.

I recognise that by introducing the BEE shareholding at the top of the Group structure, the Group's absolute size becomes an impediment to the initiative (in the sense of the amounts of capital/funding required), but we believe that the ultimate sustainability of both the BEE initiative and the Group itself is enhanced in the longer term. We will keep shareholders informed as we crystallise our initiatives in this area.

Of growing importance is the impact of HIV/Aids on the workforce and the South African economy in general. FirstRand has adopted an HIV/Aids policy that is based on education, communication, prevalence testing, counselling and confidentiality. A group-wide HIV/Aids project is currently being conducted to ensure that the present strategy is effective relative to the incidence of HIV/Aids within the Group.

Prospects

We are cautiously optimistic about the prospects of an improved economic outlook in the year ahead. A lower interest rate environment will benefit growth and increase the likelihood of a favourable movement in the stock market. This will be conducive to good new business growth across all units in the year ahead. In addition, the benefits of a lower interest rate environment include an anticipated increase in the demand for credit and a lower level of bad debt provisioning. However, this will, to an extent, be offset by lower margins. Fortunately, the Group implemented hedging strategies to protect the endowment margins over the short to medium term.

Significantly improved results are expected from the Group's local and international asset management activities after a disappointing year. The proposed disposal of Ansbacher (UK), in whole or in part, is expected to free underperforming capital currently held offshore.

Companies such as Discovery, OUTsurance, eBucks.com and RMB Private Bank, which are all entrepreneurial, new ventures

started in the last ten years, are expected to continue to grow strongly and provide a meaningful enhancement to the Group's overall earnings growth rate.

Finally, I believe that our strong brands, our talented people and our proven business philosophy should ensure that FirstRand continues to deliver superior returns for all our stakeholders.

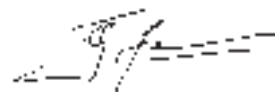
A word of thanks

No one outside FirstRand can truly appreciate what has been achieved in the last five years. This period encompassed both the integration of the new Group and possibly the most turbulent financial market cycles ever experienced by our generation.

FirstRand achieved the sustained and excellent results that it did over the period only as a result of a superhuman effort from our management and staff. On behalf of the board of directors and the shareholders, I thank them most sincerely for their contribution.

We are at present re-evaluating the composition of our Boards, at group level as well as subsidiary level, and announcements in this regard can be expected shortly. I would like to thank Mr Maharaj for his contribution to the Group whilst he was a director. To our other directors, thank you for your wise counsel, patience and support.

Finally, a special word of thanks to you, our shareholders. Without your support, FirstRand cannot grow and prosper. We shall endeavour to reward your faith by ensuring that you receive the best possible returns on your investment.



GT Ferreira
Chairman

Sandton
15 September 2003

“Our unique business philosophy and structure will ensure that FirstRand is better positioned than most to continue delivering superior returns to shareholders.”



Paul Harris and Laurie Dippenaar

Unpacking FirstRand's unique value proposition

During the year we decided to benchmark how effective we have been at communicating to our shareholders. We commissioned two surveys amongst analysts, investors, media, and other opinion formers in the broad investment community. We learnt a great deal.

Of interest was a frequent comment that FirstRand's proposition appeared somewhat complex and confusing.

The fact is that FirstRand is actually a very different proposition to its peers in the financial services arena and the perception of complexity is probably a result of the unique way we structure and run our business.

In an attempt to bring clarity we have therefore utilised this year's communiqués to our shareholders to proactively address these perceptions.

We acknowledge that for a listed company to be significantly different to its peers makes the professional analyst and investor's life difficult in so far as conventional models are no longer applicable, and it seems to have put FirstRand at a disadvantage. And yet, to be 'differentiated' in a traditional marketing sense, is considered to be a significant competitive advantage.

We intend to use this year's report to explain how the very "difference" in FirstRand is its biggest strength and why we believe it will enable this group to continue to deliver superior growth going forward.

Integrated Financial Services – what does it mean?

FirstRand is the only fully integrated financial services group in South Africa.

It means that we have access to all the building blocks such as brands, client bases, distribution networks, IT systems, etc. required to play in the financial services arena and we are able to arrange and leverage off those building blocks in any way we can so as to get the maximum business advantage.

Why a federal structure versus a monolith?

Now let's deal with that unique structure, which we describe as a confederation of profit centres that serve various parts of the financial services market. This structure is successful because it allows FirstRand to function as a number of small focused businesses that can find and swiftly exploit profitable niches, whilst at the same time enjoy the financial muscle and operational critical mass of the Group.

Each profit centre has its own strategy and its own highly motivated management team, unburdened by bureaucracy or corporate red tape, empowered to drive the business forward. In addition these separate businesses are focused on their particular niche, with all the necessary expertise and judgement to formulate an appropriate strategy. Each business is often supported by its own individual brand, designed and positioned to service that specific customer base.

FirstRand therefore does not have a centralised command and control structure that seeks to force strategies from the centre. The Group ensures that the individual strategies are co-ordinated and compliment each other, that the necessary resources such as capital and skills are appropriately allocated, that there is no duplication and that all possible synergies are identified and maximised.

However, size does matter in the financial services market. There are considerable advantages to being big. The significant balance sheet of the Group provides financial credibility that is essential in the financial services arena. In addition, the infrastructure provides significant leverage opportunities to the various businesses.

What are these things called clusters?

The research that we undertook fed back to us that the cluster structure was a difficult concept to evaluate – particularly as it had blurred the lines between the traditional financial services silos of Corporate Banking, Retail Banking, Insurance and Asset

Management. We want to stress here that the FirstRand view of the world is market segments and we believe that the clusters are the most appropriate way to co-ordinate the segment approach and we will explain in more detail why this is key. However, we are cognisant that the professional analyst and investor have to model this business against our peer groups. Therefore we have provided detailed disclosure of the results of the operating businesses that form the clusters.

The segment approach

Going back to the clusters, whilst the individual profit centres are in the main independent operators, they are also interdependent with other profit centres and where they are serving the same customer base, i.e. retail customers, they need to be strategically aligned. This is where the clusters come in. We have segmented our markets into the four areas of Retail, Corporate, Wealth and Health.

The clusters provide the strategic framework for the businesses servicing each of those markets. This structure facilitates the right level of focus on a market and is skilled-up appropriately. It also facilitates collaboration, which at FirstRand is not a narrow concept. Cross selling is just one aspect of the capability of the clusters. Because we are fully integrated each profit centre can leverage off the entire infrastructure of the Group.

Collaboration also happens across clusters. Examples such as WesBank's penetration of the FNB Corporate customer base to grow its book by a further R2.3 billion over two years demonstrates that significant growth can be created through leveraging off the infrastructure of this Group.

A different structure created by a special business philosophy and culture

The FirstRand business philosophy has been home-grown, developed and ingrained into all the Group's businesses over the past 25 years. It has its roots in an entrepreneurial culture.

At its heart is the understanding that people are the single most important resource and FirstRand aspires to create an environment that attracts and retains entrepreneurial self-starters.

Although there is a bias for action, the Group aspires to act within the context of clearly thought-through strategic and operational plans, hallmarked by new paradigm and innovative thinking, but which makes bottom-line sense. Structure follows strategy.

Participative, non-hierarchical decision-making in the context of vigorous debate of the business case, with no holy cows and no

barriers to communication, lies at the core of the way it does business.

This is the common value system on which the entire Group operates. This philosophy creates a liberating owner-manager culture. Strategies are owned and delivered on by the profit centre leaders because they conceived them.

The Group's approach to branding is directly related to our decentralised owner/manager philosophy and now comprises a portfolio of complementary, best of breed brands within all the markets the Group serves.

So how does all this help us grow?

We are constantly faced with the question "how can FirstRand sustain its performance?" The answer to this question in a FirstRand context is not that simple. Why? Because there is no single, easily articulated or quantifiable theme we can offer investors.

The growth story is at the individual business level, however FirstRand, at the centre, does provide certain generic guidelines going forward and we see five key ingredients to our growth strategy.

Classic **organic growth**, which means doing the same things more efficiently and smarter than the year before – a case of continuous improvement.

Through **acquisitions**, which is a core competency of the FirstRand Group, whether mega acquisitions or, as we have favoured lately, small bolt-on acquisitions that provide us with load for our existing infrastructure.

Another core competency of the Group is **starting entrepreneurial new ventures**, such as OUTsurance, Discovery, eBucks.com and RMB Private Bank. The impact of these businesses is often under-estimated, however in the year under review these four businesses, started in the last five to ten years, delivered 4% of the Group's 23% core earnings per share growth. Put differently, without them, our growth would have been only 19%. Although they contribute a relatively small percentage of total profit, the phenomenal growth rates resulted in them contributing a disproportionate share of our total growth.

Looking to new markets, whether in Africa or abroad and whilst on the subject of international operations, we would like to clarify the FirstRand international strategy.

A group as diverse as FirstRand cannot be replicated in any one country. Therefore we have a 'rifle shot' approach to international expansion. We are a "Rand Specialist" and we do not have a specific target for off-shore income which we wish to achieve. More importantly our off-shore strategy whilst prioritised and co-ordinated at the centre is driven at business unit level. Any proposed off-shore expansion must have a strategic fit with the business unit's domestic strategy and the business unit expanding overseas must be able to demonstrate a substantial competitive advantage.

An example of this is FNB Retail's strategy in Africa. There are compelling reasons for focusing on Africa. Our current retail banking operations deliver ROE's in the mid thirties and have achieved excellent compound annual growth rates in earnings. We plan to expand further into Africa, focusing on selective jurisdictions. We have an open mind in terms of whether we take a grassroots approach or acquire either a single branch or a network of banks.

Finally, **collaboration**, which we have already covered.

Within these broad parameters every one of the Group's many profit centres has a strategy to grow market share, revenues and earnings. Each CEO is empowered and incentivised to deliver better than his/her budget at the end of the year. Our structure and business philosophy means that FirstRand has many growth stories for 2004 and onwards.

Our growth record

Has FirstRand's unique value proposition delivered results? A leading stockbroking firm did an analysis of earnings per share growth rates of the top 100 companies, by market capitalisation, listed on the Johannesburg Securities Exchange South Africa which have a ten year profit history. The analysis showed that FirstRand (formerly Momentum) ranked first, with a ten-year compound earnings per share growth of 40% per annum.

The past year's big agenda items

Moving on to some of the more important strategic initiatives that occupied us in the past year.

During the year we announced our decision to disengage from Ansbacher (UK). Following a strategic assessment of our international operations, we came to the conclusion that certain businesses in the Ansbacher Group have become increasingly non-core to our overall strategy. Furthermore we believe that Ansbacher requires a strategic shareholder to support its need to

pursue an international expansion strategy to develop critical mass in its distribution channels.

The successful conclusion of Destiny Health's joint ventures with Guardian and Tufts in the USA is, we believe, a turning point in Discovery's international strategy.

Discovery has pursued a brave and aggressive international strategy in the most competitive and sophisticated health insurance market in the world, the United States ("US") and these joint ventures will provide the brand credibility and distribution reach which Destiny has lacked so far. Destiny is making steady progress to the magical mark of 30 000 lives covered which is the number of lives it believes is required to break even which is targeted for early 2004. To support the roll out of the US joint ventures, Discovery embarked on a capital raising initiative and successfully raised R875 million by way of a claw-back offer, underwritten by FirstRand.

Next year?

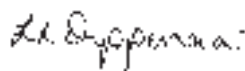
A positive picture is emerging for next year. The macro picture is looking more positive with the prospects of an improved economic outlook in the year ahead. Lower interest rates will benefit growth and increase the likelihood of a favourable movement in the stock markets. The benefits of a lower interest rate environment should improve credit demand.

The micro picture is also looking good. In terms of this year's problem areas, we are expecting significantly improved results

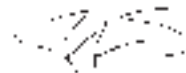
from RMB Asset Management in 2004. Investment markets appear more promising, relative investment performance is looking good and we do not expect to have the one-off knocks that we had in 2003. We are working hard at finding new shareholders for the whole or parts of Ansbacher.

The rest of our businesses are in good shape, the details of which are covered in a significantly 'beefed up' review of operations, which follows this report and we expect our greenfields businesses, eBucks.com, Discovery, RMB Private Bank and OUTsurance, to continue growing very strongly.

In conclusion, we hope we have illustrated how our unique business philosophy and structure will ensure that FirstRand is better positioned than most to continue delivering superior returns to shareholders.



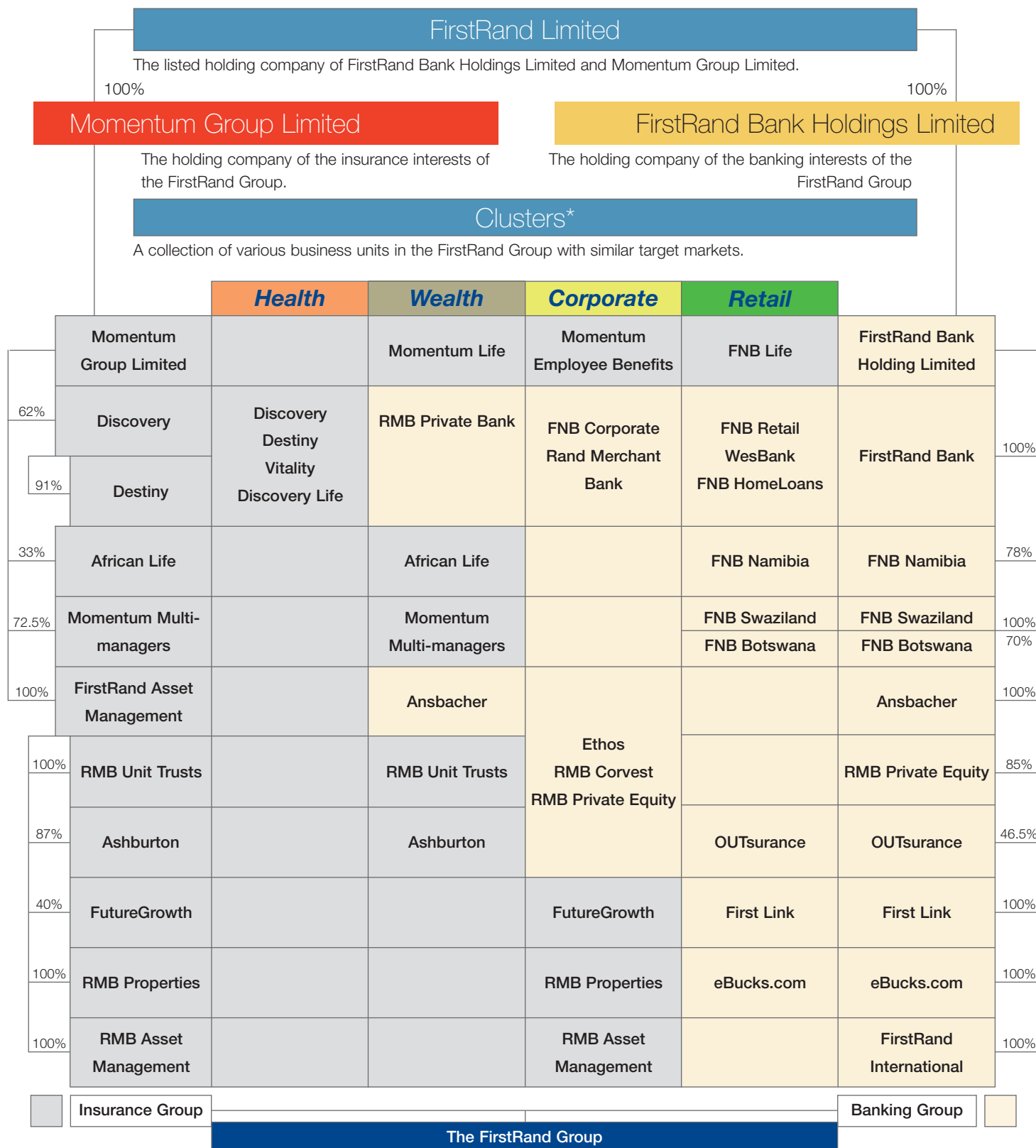
Laurie Dippenaar
Chief Executive
FirstRand Limited



Paul Harris
Chief Executive
FirstRand Bank Limited

Sandton
15 September 2003

Group structure



* The cluster representation is non-hierarchical

CFO's
report

FirstRand acts as a strategic enabler to various businesses within the Group.



Johan Burger

The Group once again produced excellent results continuing a five-year trend which began with its formation.

Introduction

The FirstRand Limited Group of companies ("FirstRand" or "the Group") once again produced excellent results continuing a five-year trend which began with the formation of the Group in May 1998. Since 30 June 1999, the first full year after the merger, FirstRand has grown core headline earnings by 20% on a compound basis, from R2 516 million in 1999 to R5 151 million in 2003.

The relative contributions of the components of the Group on a pre-AC133 basis, are set out in the table below:

	2003		2002	
	R million	%	R million	%
Banking Group	4 068	79	3 223	77
Momentum Group	956	19	907	22
Discovery	166	3	117	3
FirstRand Limited	(39)	(1)	(61)	(2)
Total	5 151	100	4 186	100

The impact of the strengthening Rand against the US Dollar is reflected in currency translation losses of R605 million (2002: gains of R548 million). As in the prior year, these gains and losses are excluded in the calculation of core headline earnings. The table below illustrates why the Group believes that core headline earnings have been a more sustainable measure of operational performance.

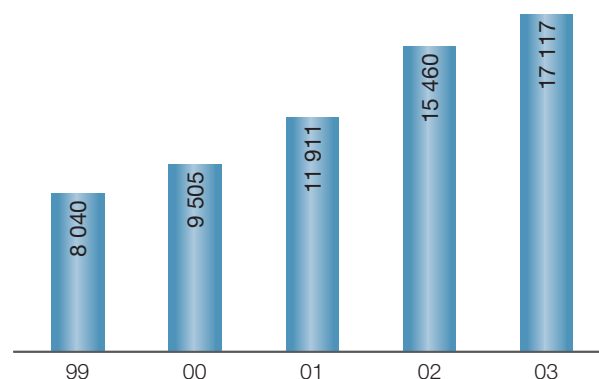
R million	Cumulative	2003	2002	2001
Headline earnings	12 969	4 546	4 734	3 689
Core headline earnings	12 787	5 151	4 186	3 450

In the era of AC133, there is likely to be an increased focus on Net Asset Value ("NAV") and Return on Equity ("ROE"). The graphs that follow illustrate the Group's strong growth in NAV

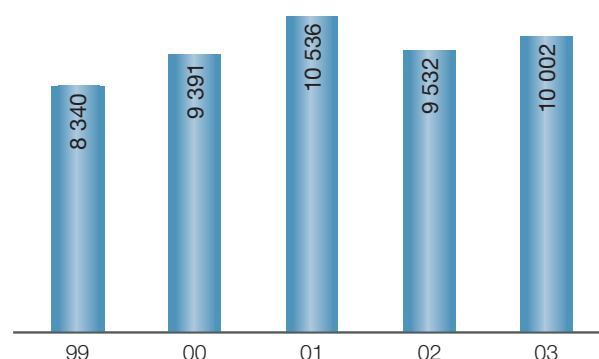
and its consistently high ROE. FirstRand will continue to target these measures as the most reliable indicators of shareholder value creation.

FirstRand covers the spectrum of financial service offerings and is, as a consequence, not an easy group to measure. The first graph measures NAV growth in the Banking Group. The second graph illustrates embedded value growth in the Momentum Group. These measures are considered reliable proxies for measuring the creation of shareholders' wealth in the respective industries.

Banking Group NAV



Momentum Group embedded value



The Momentum Group's embedded value was negatively impacted in 2002 and 2003 by poor equity markets and high dividend payouts.

Group reporting structure

Internally, FirstRand's management structure is aligned in accordance with target markets which groups the various businesses into four core clusters, targeting the Corporate, Retail, Wealth and Health markets.

Detailed reports relating to the performance of each of these businesses are set out on pages 28 to 55.

FirstRand is subject to regulation by the South African Reserve Bank and the Financial Services Board. To better comply with the legal requirements of each of these separate regulatory authorities, the Group's legal structure closely follows the mandate of each of the separate authorities. Consequently, the legal structure of the Group comprises distinct banking and insurance operations. As in prior years, the Banking and Insurance Group's results are dealt with in detailed CFO reports set out on pages 113 to 121 and 200 to 214 respectively. An overview of their results is set out on pages 19 to 21.

A comprehensive group structure is reflected on page 15.

Role of FirstRand

FirstRand has, at its core, a philosophy which fosters entrepreneurial thinking and action. At the heart of this philosophy are empowered and independent business units which are niche operators in their chosen markets. These businesses have the benefit of being backed by a large balance sheet and capital base, while simultaneously retaining all the benefits of being small and responsive.

This structure poses some unique risk challenges. The central finance and risk function provides the framework within which

each of these business units must operate, and which is designed to maximise each unit's freedom of action while maintaining risk within the Board's established tolerance levels. The framework, which was put in place during the previous financial year, and refined during the current year, has been implemented across the Group and is designed to cover all business and financial management issues affecting business risks. The Group accepts that losses are inevitable within a financial services environment, and sets out to manage the risk factors within their desired outcomes.

FirstRand acts as the strategic enabler for the various entities within the greater Group. The central financial function has the following primary functions:

- capital optimisation;
- structural optimisation;
- risk management;
- corporate reporting; and
- investor communications.

FirstRand also co-ordinates the financial and risk management functions of the Group to optimise the use of resources and ensure that best practices are adhered to.

AC133 Financial Instruments: Recognition and Measurement – Overview

FirstRand adopted the new accounting statement on recognition and measurement of financial instruments (AC133) on 1 July 2002. The statement is the South African equivalent of IAS39, the International Financial Reporting Standard dealing with this issue.

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

FirstRand co-ordinates the financial and risk functions to ensure optimal returns and best practices.

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

There are four primary asset categories:

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

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

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

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

Overview of results

Banking Group results

Introduction

The Banking Group produced excellent results, benefiting from diverse income sources, strong organic growth, benefits of scale achieved from the acquisitions made in the previous year, the higher interest rate environment which favoured bank deposits and the resultant endowment benefits thereof as well as lower bad debts.

Core operational headline earnings, which exclude translation gains and losses, increased by 26.2% from R3 223 million to R4 068 million, on a pre-AC133 basis. On a post-AC133 basis, earnings attributable to ordinary shareholders increased by 0.9% to R3 774 million (2002: R3 740 million).

Drivers of growth

Net interest income and interest margin

Net interest income before impairment of advances increased by 36.1% in the period under review. This can be attributed to a higher average interest rate environment and higher levels of average advances than in the prior period.

The interest margin based on average advances strengthened relative to the previous year to 4.81%, in spite of continued long-term pressure on margins. The retail banking operations benefited from above budgeted margins in the current year as a result of strong organic growth in advances and deposits, as well as the higher average interest rates. Corporate margins continue to reflect the pressure of a highly competitive and sophisticated market, and once again reflect a small decline.

The Banking Group has significant hedge structures in place in anticipation of the decline in interest rates, which should limit the negative endowment impact of a declining interest rate environment going forward. This strategy had the effect of lowering potential interest income in the period under review.

Non-interest revenue

Core non-interest revenue (excluding currency translation profits or losses) decreased by 3.3% to R7 518 million (2002: R7 771 million). Total non-interest revenue, including currency translation gains and losses, decreased by 16.9% to R6 913 million (2002: R8 319 million). Non-interest revenue represents 44.9% of the Banking Group's total income.

Banking fee and commission income increased by 22.7% to R5 116 million. Trading income as a component of total non-interest revenue reduced to 19.2% (2002: 22.8%). The decrease must be seen in context of the exceptional trading opportunities in the 2002 financial year resulting from extreme currency volatility.

Total non-interest revenue was further negatively affected by the currency translation loss of R605 million (2002: R548 million gain).

Balance sheet growth

Total gross advances grew by 8.0% in the 12 months ended 30 June 2003. Net advances increased by 8.2%. Compounded annual growth rate of net advances since the creation of FirstRand was 19.2%.

Total advances growth during the current year was satisfactory given the high interest rate environment. WesBank and FNB Card have shown exceptional growth with WesBank once again achieving record new production levels.

Non-performing loans and credit impairment charge

The credit quality of the advances book showed further improvement in the year under review. Non-performing loans as a percentage of gross advances decreased from 3.0% in 2002 to 2.4%. The total provision reflected in the balance sheet on a pre-AC133 basis, represents a conservative 2.3% of advances (2002: 2.5%).

The income statement charge for impairment of advances reflects a 19.8% decrease to R1 367 million.

The present value methodology prescribed by AC133 results in an additional R116 million impairment charge to the income statement and a R360 million increase in specific impairments in the balance sheet on a post-AC133 basis in the 2003 financial year.

Operating expenditure and efficiency

Non-interest expenditure increased by 13.8% in the current year.

Staff costs were limited to an increase of 11.3%. Other operating costs increased by a disappointing 16.6%, mainly as a result of a 40.0% increase in marketing expenditure and a 40.4% increase in depreciation. Marketing costs increased as the Banking Group aggressively moved to promote itself through increased media and sponsorship presence and new product launches. The increase in depreciation includes accelerated depreciation of property assets.

Continued strict management of costs together with the growth in income contributed to the improvement in the cost to income ratio from 57.6% to 57.0%. On a post-AC133 basis, the cost to income ratio in the current period was 55.3%.

Momentum Group results

Introduction

The Momentum Group produced solid headline earnings growth, despite challenging market conditions. Headline earnings increased by 9% to R1 116 million, subsequent to the implementation of AC133. The environment in which Momentum operates was affected by subdued demand for retail investment products, especially single premium products.

Drivers of growth

New business growth

The new recurring premium business of the Momentum Group increased by 30% to R3 940 million. The growth in new recurring

The Group has grown dividends at a compound rate of 23% over the past five financial years.

premiums generated by Momentum and Discovery Life of 27% and 33% respectively were especially pleasing. Lump sum inflows came under pressure due to the decline in investment markets.

The embedded value of Momentum's new insurance business increased by an excellent 33%, mainly as a result of the increased new business volumes and improved profit margins.

Growth in assets under management

Total assets under management or administration of the Momentum Group declined by 2% to R186.4 billion. This decline is mainly due to the weak investment markets and the negative effect of the strengthening Rand on offshore asset values.

Retention of funds

The Momentum Group improved its retention of client funds by reducing payments to clients by 13% during the year. It is also encouraging to note that Momentum now retains 28% of matured policy proceeds by value.

Expenses

The marketing and administration expenses of the Momentum Group increased by 20% from R2.6 billion to R3.1 billion. The main contributor to this rise was the 27% increase in the expenses of Discovery Holdings, which was negatively affected by the start-up costs of its US health initiative, Destiny Health.

Dividend policy

As indicated at the end of the previous financial year, the Group based its dividend declaration on pre-AC133 core headline earnings. On this basis, the Group maintained its dividend cover of 2.7.

The Group has grown dividends at a compound rate of 23% over the past five financial years. The Group will not be presenting pre-AC133 numbers in the future, and future dividends will therefore have to be based on post-AC133 numbers. The Group will

however make adjustments, where necessary, for anomalies in the income statement arising from AC133. The table below sets out such issues as are relevant to the 2003 financial year:

R million	2003	
	Post-AC133	Pre-AC133
Core headline earnings	5 429	5 151
Principal AC133 anomalies		
– Profit on non-qualifying hedges	(398)	–
– Additional bad debt provisions	133	–
– Taxation on the above	80	–
Headline earnings for dividend calculation purposes	5 244	5 151

As reflected above, AC133 results in an upward adjustment in base earnings which, subject to the anomalies such as those highlighted above, is expected to be maintained into the future. Consequently, the Groups dividend cover has been changed going forward to reflect this change in base, from the current cover of 2.7 to 2.75.

Group restructure

Discovery funding transaction

Discovery's growth, together with its commitment to Destiny Health, necessitated a rights offer by Discovery during the latter part of the 2003 financial year to meet the company's capital requirements. The offer, structured as a claw back offer, was executed in two steps with an initial offer taken up by the underwriter and majority shareholder, Momentum, on 25 June 2003. The second step, executed on 26 July 2003, was successful. Simultaneously, R1.4 billion in preference share capital was raised by the FirstRand Group. This cumulative preference share capital is redeemable at the option of FirstRand, with dividends payable at a rate linked to the prime overdraft rate. The proceeds on the issue of the preference share capital were used to acquire Discovery from Momentum at its

book value on 1 July 2003. The acquisition effectively consisted of two tranches:

- the acquisition of Momentum's original shareholding in Discovery, acquired for R126 million and supplemented by consolidated earnings of R614 million; and
- the acquisition of Momentum's share of the rights offer of R586 million.

The final effect of the transaction is as follows:

- Discovery now has capital of R2 068 million. This should meet all the ongoing capital requirements of Discovery into the foreseeable future;
- Discovery has targeted a return on the new capital of 25%;
- FirstRand holds 62% of Discovery, which will in future be reported separate of the Momentum Group; and
- Momentum has swapped its investment in Discovery for cash of R740 million. In line with its capital investment strategy, this will be invested in cash and near cash instruments with a benchmark return approximating cost of capital.

Outperformance Share Scheme

During the year under review, the first tranche of the outperformance share scheme became due. Shares in FirstRand outperformed the FINI 15 index by 18%, resulting in a conversion ratio of 0.51 ordinary shares for every preference share. As a consequence, 29 282 500 preference shares were converted into 15 017 941 new FirstRand shares on 23 April 2003. This had the

effect of diluting the earnings per share of the FirstRand Group as set out in the table below:

Cents per share	Earnings	Headline earnings
If Outperformance share scheme did not exist		
	84.4	89.9
Dilution due to shares issued in the current year		
	84.3	89.9
Dilution in future years		
	83.2	88.6

Capital Management

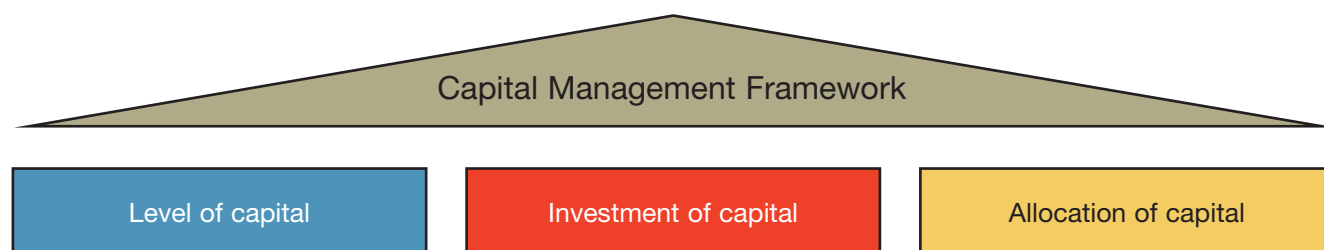
The Group's capital strategy plays an important role in growing shareholder value, and has contributed significantly to growth in the current year.

Active capital management

The objective of active capital management is to:

- enable growth in shareholder value; and
- protect the capital base.

FirstRand has a dedicated capital management function with the responsibility of the formulation, implementation and maintenance of the Group's capital management framework in order to achieve the above objectives. The capital management framework consists of three pillars, namely:



The Group's capital strategy plays an important role in growing shareholder value.

- Optimal capitalisation of the Group
 - The Group is committed to being an organisation with sound capital ratios and strong debt ratings.
 - FirstRand's overall capital needs are continually reviewed to ensure that its capital base appropriately supports its current and planned business and regulatory capital requirements.
 - The Group is always capitalised at the higher of economic or regulatory capital.
 - The Group ensures that the optimal capitalisation level and structure is maintained to ensure an efficient cost of capital.
- Investment of capital of the Group
 - The capital of the Group is invested in AAA rated asset categories.
 - The interest profile of a three-year rolling period is obtained, by using interest rate derivative instruments, dependent on the interest rate forecast. In such cases, the counter parties are AA rated financial institutions.
- Allocation of capital within the Group
 - The capital management function is responsible for the development and implementation of an economic capital allocation framework throughout the Group in collaboration with the various risk and business owners. An enhanced economic capital framework has been implemented in 2003 across the Group. This framework aligns closely with the requirements of the proposed new Basel Capital Accord ("Basel II").

The Basel Capital Accord

Basel II consists of three mutually reinforcing pillars:

- Pillar 1 sets capital requirements for credit risk, market risk and operational risk. Existing rules for market risk capital are substantially unchanged. The rules for credit risk capital will be more risk-sensitive than at present and banks will be permitted to use some of their own internal risk assessments to determine regulatory capital. The regulatory capital charge for operational risk is new.
- Pillar 2 involves regulatory assessment of models, controls, standards and processes in the organisation. Effectively it is a qualitative assessment to complement the quantitative assessment under Pillar 1.
- Pillar 3 requires enhanced disclosure by banks.

In 2002, the Banking Group launched a project to implement Basel II. The overall goals of Basel II are clearly compatible

with the Group's ambition and past strategic decision to be among the leading institutions in risk management and control in South Africa, particularly in the areas of portfolio credit risk measurement, sophisticated internal models are indispensable.

FirstRand is well advanced to meet the requirements of Basel II. The implementation costs of Basel II will not be material as such costs have been absorbed for AC133 and other best practices initiatives.

The final proposed Basel II Capital Accord is expected to be published in 2004, for global implementation from 1 January 2007.

Capital initiatives in the current year

The Banking Group is investigating the creation of tertiary capital as well as the possibility of additional secondary capital issues for its African Subsidiaries. These instruments are attractive because of their relatively low cost, which means that, even if the proceeds are placed on overnight call, they will be neutral on the earnings.

The resolution of the final Ansbacher (UK) structure is anticipated to free up capital of the Group towards the end of the 2004 financial year.

The capital raising recently completed by Discovery should ensure that it is appropriately capitalised going forward, while the positive impact on the Momentum Group's capital ratios of the Discovery buyout places it in a strong capital position.

During the course of 2004, the Group will continue to look at ways of optimising its overall capital structure. This may involve the re-issuing of existing capital instruments in addition to other options set out above. The Group is however confident that it does not need to raise additional tier 1 equity.

Momentum shareholders' portfolio

FirstRand is currently in the process of implementing a major restructuring of the assets of Momentum's shareholder portfolio, with the objective of enhancing the return on equity, without compromising the security of policyholders' interests.

Investment of capital

Banking Group

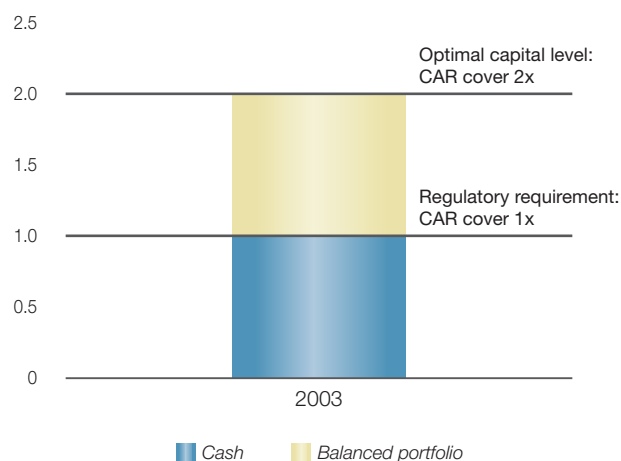
In terms of the investment of capital, and the objective to protect the capital base, the Banking Group entered into hedging structures to protect the endowment effect of the capital base in a low interest rate environment.

These hedging strategies have lessened the benefit achieved from the endowment margins in the current period, but which will protect the Banking Group from a reduction in margin on the retail deposit base and capital in a declining interest rate environment in the coming year.

Momentum Group

It is the stated objective to have a targeted Capital Adequacy Ratio ("CAR") cover of two times. The shareholders' portfolio, to meet the regulatory CAR cover of 1, will be held in cash or near cash instruments, which will result in a reduced CAR. The remaining shareholders' capital will be invested in a combination of strategic assets and a managed portfolio with a significant equity exposure.

The following diagram shows this strategy:



Research has shown that the strategy above is optimal for enhanced return on equity, without compromising, but rather strengthening the policyholder interest. The Momentum Group has a more robust capital structure, with reduced concentration risk and volatility inherent in the shareholders' portfolio.

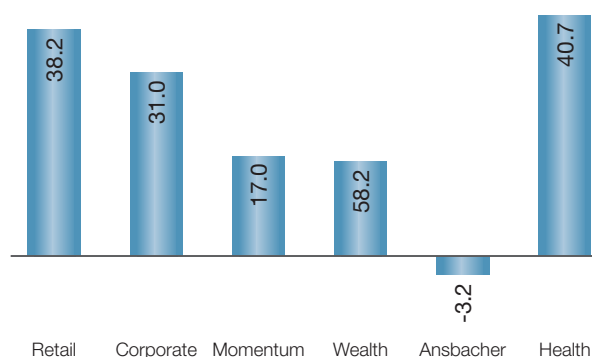
Allocation of capital within the Group

The objectives of allocating capital to the various business units are to:

1. allow business to price and reserve for risk;
2. assist in the strategic decision-making process;
3. align shareholders' interest with that of management;
4. provide performance measurement against benchmarks.

FirstRand enhanced its economic capital framework, in terms of which it allocates capital to the business units on economic capital principles. The following diagram reflects the return on some of the business units that have been achieved for the period under review.

Return on capital allocated (%)



FirstRand's risk grading and pricing ensures the Group an appropriate return for the credit risks it takes.

Risk Management

The Finance, Risk and Audit Division manages and monitors the risk management processes for FirstRand across the broad spectrum of business risks including:

- business strategy;
- quality of the workforce;
- product composition and delivery;
- return on capital;
- return on investment;
- tax;
- financial control;
- liquidity;
- sensitivity to changes in interest rates;
- credit exposures;
- market trading;
- legal;
- information security;
- compliance;
- business continuation;
- criminal activities; and
- process and systems

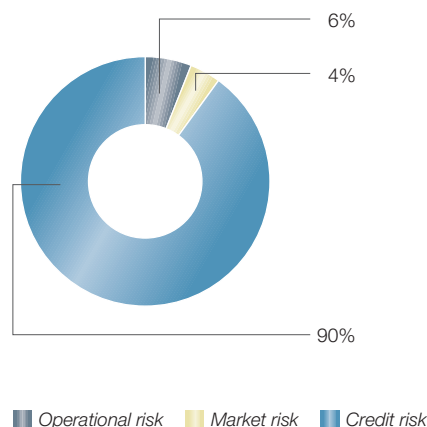
The strategic objective of risk management is to support the business units to achieve their desired objectives and to avoid adverse outcomes through determining:

- the appropriate degree of risk exposure and the pricing thereof;
- integrating risk management with the management processes;
- providing appropriate and innovative risk management solutions to business activities;
- allocating economic capital according to risk profile; and
- monitoring the return on capital to ensure an adequate reward for risk.

Banking Group

The main risk exposures in the Banking Group are business risks, credit risk (that is the exposure to counterparties in respect of their obligations to the Banking Group) and sensitivity of income to changes in interest rates and liquidity. The implementation of the Banking Group's interest rate hedging strategy is one of the key components of its strategy to protect its interest margin going forward. The Banking Group is also exposed to operational and market risk, but to a lesser extent.

Risk exposures



The credit risk and management process needs to identify all risk factors to enable such risks to be quantified and their impact on the pricing of credit risk to be taken into account. As risk takers, business units must align the rewards with the extent and nature of risk taken. Thus pricing for credit risk is a critical component of the risk management framework. Pricing for credit risk, once determined, should be aggregated with the risk premiums for all other risks to make up the total price for any given transaction.

Furthermore, measurement of credit risk should continue through the life of the exposure to monitor changes in the portfolio. The measurement of credit risk must take place on two levels: at an individual risk level, and at portfolio level.

Pricing should occur on a full cost of risk basis, including:

- the pure cost of credit in terms of bad debts;
- the cost of economic capital to support the variability inherent in bad debt experience, as well as the regulatory capital required;
- a profit margin to support returns required on capital employed; and
- any costs attributable to accepting and administering the particular credit risk.

The Banking Group managed its liquidity requirements well and was able to fund its obligations at market rates at all times. Operational losses were exceptionally well contained at levels

which are of no significance relative to net income. The market trading activities produced very good results while controlling their market and counterparty risk well.

More details of the risk management processes and the effectiveness thereof are contained in the risk report of the Banking Group on pages 122 to 133.

Momentum Group

The main risk exposures in the Momentum Group are mismatch risks between assets and liabilities to policyholders, returns generated by the income, property and equity portfolios versus expected actuarial returns, credit risk, liquidity risk and legal risk embedded in the contractual arrangements with clients.

Risk management within the Momentum Group focuses on four primary risk areas, namely business, operational, market and credit.

Business risk relates to the strategic decision making processes and is managed by the various executive committees in the profit centres.


Operational risk is defined as the risk of direct or indirect losses resulting from inadequate or failed internal processes, people or technology. Operational risks incorporate fraud, information security, business continuity, regulatory, legal and underwriting

risks. These risks are managed centrally through the group actuarial, risk and audit functions.

Business units manage market risk returns within conservative, centrally monitored limits. Specific contractual guarantees are hedged by investing in assets which match the liability profile.

The Momentum Group has an internal credit risk function that performs ongoing management of the credit portfolio. This is overseen by a Group credit committee.

A more detailed overview of these risks is provided in the report of the chief financial officer of the Momentum Group on pages 200 to 214.



JP Burger
Chief Financial Officer

Sandton
15 September 2003

for the year ended 30 June

R million	2003				2002			
	FirstRand Banking Group	Momentum Group	FirstRand Limited	Total	FirstRand Banking Group	Momentum Group	FirstRand Limited	Total
Retail				2 301				1 809
FNB Retail (including eBucks.com)	922	–	–	922	805	–	–	805
FNB HomeLoans	417	–	–	417	157	–	–	157
WesBank	535	–	–	535	503	–	–	503
FNB Africa	312	–	–	312	288	–	–	288
OUTsurance and FirstLink	115	–	–	115	56	–	–	56
Corporate				1 607				1 415
Rand Merchant Bank	803	–	–	803	677	–	–	677
FNB Corporate	549	–	–	549	424	–	–	424
FirstRand Asset Management	–	126	–	126	–	207	–	207
Momentum Employee Benefits	–	129	–	129	–	107	–	107
Wealth				442				481
Momentum Retail Insurance	–	464	–	464	–	382	–	382
Asset Management	–	21	–	21	–	51	–	51
RMB Private Bank	27	–	–	27	16	–	–	16
FNB Trust Services	20	–	–	20	24	–	–	24
Ansbacher (UK)	(90)	–	–	(90)	8	–	–	8
Discovery	–	166	–	166	–	117	–	117
Capital				635				364
Capital centre – Banking Group	458	–	–	458	265	–	–	265
Investment income on shareholders' portfolio – Momentum	–	261	–	261	–	190	–	190
FRI – interest on loan to acquire Ashburton	–	(45)	–	(45)	–	(30)	–	(30)
FirstRand Limited	–	–	(39)	(39)	–	–	(61)	(61)
Core headline earnings	4 068	1 122	(39)	5 151	3 223	1 024	(61)	4 186
(Less)/add: Currency translation (losses)/gains	(605)	–	–	(605)	548	–	–	548
Headline earnings	3 463	1 122	(39)	4 546	3 771	1 024	(61)	4 734

Note: Taxation relating to the Banking Group has been allocated across the bank's operating divisions on a pro rata basis.

Retail businesses



Overview

The retail businesses of the Banking Group (“Retail”) are managed through the Retail Cluster, with Wendy Lucas-Bull as CEO.

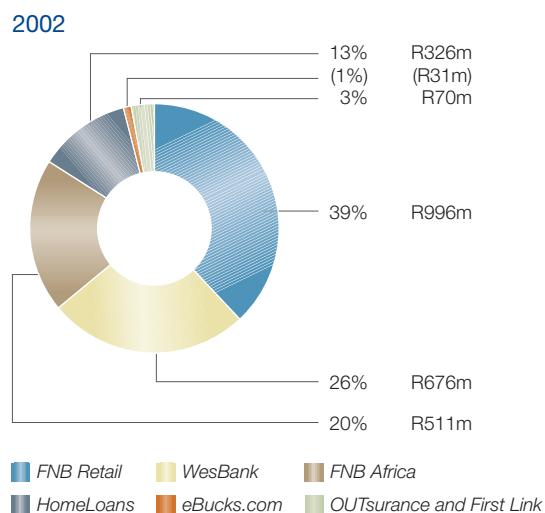
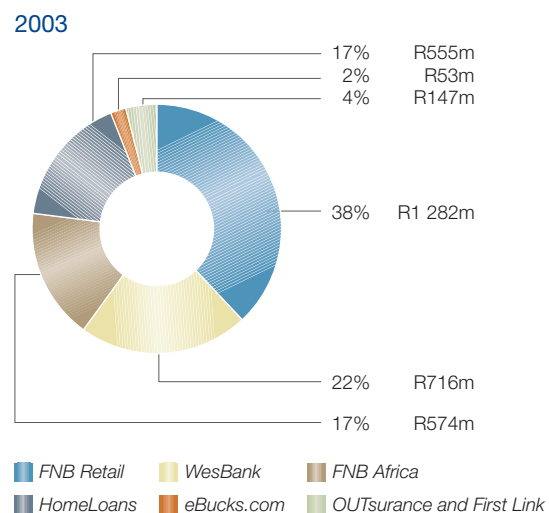
Retail provides a comprehensive range of banking and insurance products to retail and small business clients through various delivery channels.

Wendy Lucas-Bull, **CEO, Retail Cluster**

The main businesses are:

- **FNB Retail**
- **FNB HomeLoans**
- **WesBank**
- **FNB Africa**
- **eBucks.com**
- **OUTsurance and First Link**

The contributions based on profit before tax of the various operations are set out below:



All the operating businesses performed well during the year. Overall, margins were positively influenced by a higher interest rate environment.

Our business

The retail component of First National Bank ("FNB Retail") provides financial services to the consumer, small business and rural corporate market segments under the FNB brand. FNB Retail produces and manages most of the Group's core banking products and solutions, and incorporates the FNB distribution channels, through the branch network, ATMs, call centres and Internet channels. FNB Retail also houses various centralised back-office services, including some centralised information technology functions.



Michael Jordaan, CEO,
Customer Solutions

Peet van der Walt, CEO, Delivery

Our results

	2003	2002	% change
Profit before tax (Rm)	1 282	996	28.7
Profit after tax (Rm)	922	805	14.5
Advances (Rm)	13 438	12 256	9.6
Total deposits (Rm)	54 077	50 622	6.8
Cost to income ratio (%)	69.5	70.8	1.8
Non-performing loans (%)	5.8	9.5	(38.9)

The 2002 comparatives have been restated to include Saambou deposits, which were included under the Capital Centre in the prior year, and to exclude rural homeloans (which now forms part of FNB HomeLoans).

FNB Retail had an exceptional year, benefiting in the higher interest rate environment from higher than anticipated margins on transactional deposits, good credit quality and organic growth across all business areas.

FNB Retail increased its relative market share in deposits from 15.6% to 19.8% as a result of the Saambou acquisition in the prior financial year and has managed to maintain this market share.

Year-on-year, total deposits grew by 6.8%.

The growth in deposits resulted from a combination of factors including the demise of the second-tier banks over the past 12 to 18 months, competitive rates being offered to clients, customers' reduced appetite for risky investments

given volatile equity markets and improved marketing and sales functions. Growth in new deposits was somewhat offset by the natural run-off on the acquired Saambou book.

Overall deposit margins improved from 3.3% in the prior year to 3.6% mainly due to the endowment impact of higher average interest rates and growth of transactional accounts with credit balances.

Satisfactory advances growth of 9.6% was recorded, with FNB Card (20.1%) and FNB Loans (52.3%) the main contributors.

Credit quality improved, with non-performing loans as a percentage of gross advances reducing from 9.5% to 5.8%. This is a reduction of R379 million in non-performing loans. Significant improve-

ments were experienced in FNB Card and Overdrafts. A portion of the improvement in non-performing loans in FNB Card was as a result of a more conservative provisioning policy in recognising actual write-offs earlier.

Additional write-offs of R130 million were made on micro loans.

Non-interest revenue grew by 13.9%, primarily as a result of growth in customers and per customer transactional volumes while price increases were held below the inflation rate.

Our achievements

- Successful reorganisation of the business into two main focus areas:
 - Delivery Business Unit, focusing on the sale and service of FNB branded

FNB Retail continued

products to customers. This is underpinned by an integrated delivery strategy in order to maximise customer relationships, resulting in sales volumes being 51% ahead of the prior year.

- Customer Solutions division, focusing on the development and management of products, product packages and integrated solutions for targeted customer segments.
- Successful conversion and retention of the acquired Saambou deposit book.
- Introduction of a simplified pricing structure associated with transactional products in November 2002.
- The successful launch of the “inContact” SMS and e-mail messaging service, with more than 250 000 active users at June 2003.
- Telephone Banking achieved a 25% year-on-year increase in the registered customer base (June 2003: 30 000).
- Approximately 800 000 new cheque and transmission accounts were opened during the year.
- Strong account growth in FNB credit cards due to database sales initiatives – up 18% or 120 000 new accounts.
- Card fraud levels have been kept substantially below the market average.
- FNB Insurance successfully completed the take-on of the Saambou life book valued at R109 million in November 2002.
- The total number of self-service devices increased by 30% to 2 514.
- FNB Delivery won the ATMIA Best Practice Deployment Award, which recognises the efforts made to take ATMs to people in unusual ways, one example being the installation of an ATM at the Jeppe Men's Hostel. Also, as part of the process of improving network reach, FNB rolled out over 450 mini ATMs to deep rural areas.
- FNB maintained its leadership in the rural areas and has increased its market share to 32% in the consumer market (up from 30.5%).
- Banking Operations have continued to improve efficiencies and in particular have made great strides in reducing the costs associated with handling cash. Cash holdings decreased by 27% despite an increase in cash turnover.
- The day two processing cost per cheque moved from R1.01 (2001/2) to R1.04 (2002/3) (only a 3% increase) indicating a successful effort in containing costs in the operating environment despite declining cheque volumes.
- Rural Branch delivery and Banking Operations at first round of certification by “Investors in People”.
- BuyIT (in-house electronic procurement platform) recorded an annual increase in the number of purchase orders from 4 395 in 2002 to 15 863 in 2003 with a corresponding increase in value from R11.2 million to R247.6 million.

- FNB was the first bank to offer prepaid airtime purchases from all four of SA's telecommunications providers via its ATM network.

Prospects and focus areas

- The declining interest rate environment will put pressure on margins, but this will be offset by anticipated growth in advances, as well as hedges entered into during the prior year.
- The Metropolitan and Rural branch structures are being operationally aligned to facilitate the adoption of “best practices” across the entire branch delivery system, as well as cost reduction by eliminating some duplicate structures and the automation of certain key processes.
- Further organic growth in all major categories and targeted growth segments.
- Continued investment in our people via comprehensive product training and accreditation.
- Focusing on customer retention by introducing value-added product features and eBucks rewards.
- Leveraging off marketing and promotion spend through sport and community sponsorships and various media advertising.
- Investments to upgrade the delivery network.



Mini ATMs

The new mini-BOB ATM is a small electronic terminal that allows withdrawals or balance enquiries. They are installed in shops and retailers and instead of dispensing cash a receipt is issued which can be cashed in the store. The mass deployment of the mini-ATMs into rural areas boost local economies as money will be retained and spent in local communities instead of nearby towns. Holders of the *FNB Social Grant account* will also benefit, as their travelling time to cash their social grants will be reduced.



Our business

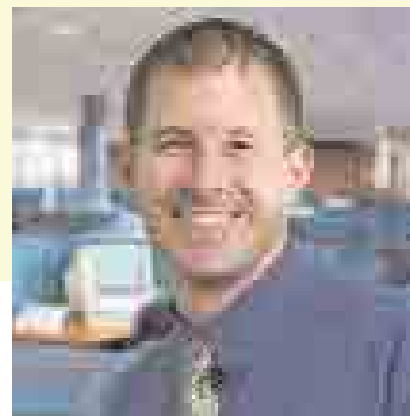
eBucks.com was launched in a tough economic climate in October 2000 and has emerged as the leader in its industry fulfilling three main roles, being:

- The Internet Banking channel for FNB and RMB Private Bank.
- A cross-sell vehicle for the FirstRand Group and MTN.
- The Rewards Programme for the FirstRand Group, MTN, Johnnic and Arthur Kaplan Jewellers.

Our results

In February 2003, eBucks.com announced that it was consistently achieving monthly profitability, significantly ahead of target.

	2003	2002	% change
Profit before tax (Rm)	53	(31)	>100.0



Angus Brown, CEO, eBucks.com

Our achievements

Internet banking

- R46.8 billion worth of financial transactions were processed over the Internet channel during the year, consisting of more than 9 million financial transactions.
- FNB Internet Banking (enabled by eBucks.com) achieved the following year-on-year increases:
 - 90% increase in the registered internet banking customer base (June 2003: 183 000).
 - 113% increase in the number of payments and transfers.
 - 98% increase in the value of payments and transfers.
- Internet banking was launched to the African subsidiaries.
- The ability to purchase FOREX online was launched in May 2003.

Sales unit

- A new division was established during the year to drive cross-selling opportunities into the eBucks membership base.

- Compound monthly growth rate of 19% for online applications of various FirstRand products was achieved.

Rewards programme

- eBucks rewards allocations have increased 86% over the year to new record monthly levels of R7.8 million in June 2003 (up from R4.2 million in July 2002).
- Registered members increased 56% to 582 000 in June 2003 (previously 373 000).
- Introduced Arthur Kaplan Jewellers as an Earn Partner in November 2002.
- Introduced earning of eBucks on FNB cheque accounts in July 2002 (the only South African bank to reward on cheque accounts).

- Introduced eBucks incentives for WesBank dealers.

- Relaunched eBucks incentives for estate agents through FNB HomeLoans.

- Partnered with British Airways, to allow eBucks to be converted into BA miles.

- Rated as the top rewards programme in the financial services industry in an independent survey.

Prospects and focus areas

- Grow the internet banking base by a target of 75 000 customers.
- Further the Internet Banking portal and rewards programme as established leaders in their fields in the next financial year.
- Increasing member activity by introducing new earn partners for the rewards programme.
- Maintain strong compound growth of online applications.

Our business

FNB HomeLoans provides funding to customers for mortgages secured by residential properties. Business is sourced from mortgage originators, estate agents and the FNB branch network.

Our results

	2003	2002	% change
Profit before tax (Rm)	555	326	70.2
Profit after tax (Rm)	417	157	>100
Advances (Rm)	39 682	38 781	2.3
Cost to income ratio (%)	49.1	52.4	6.3
Non-performing loans (%)	2.7	2.4	12.5

The 2002 figures have been restated to include rural homeloans, which was disclosed under FNB Retail previously, and Saambou and NBS, which were included under the Capital Centre in the previous year.



Ed Grondel
CEO, FNB HomeLoans

The core FNB HomeLoans business (before the impact of acquisitions), increased profit before tax by R54 million (20%). Profit from the acquired Saambou and NBS books amounted to R208 million. Gross advances on the FNB metropolitan book increased by R4.06 billion (21.4%) to R23 billion while the rural book increased by R377 million (10%) year-on-year.

Run-off on the acquired Saambou and NBS books was substantially slower than originally projected, contributing significantly to the profits for the year.

New business pay-out on the metropolitan book increased by R1.7 billion (26.9%) to R8.3 billion (2002: R6.54 billion). The rural book increased new business pay-outs by 8% to R1.3 billion for the same period. This had a positive impact on the market share with the new business market share in metropolitan loans reaching an historic high in June 2003 of 18.1%.

Re-advances for the division were R4.4 billion for the year, an all time high.

Non-performing loans as a percentage of gross advances increased from 2.4% to

2.7% for the book due to the high interest rate environment during the period.

Non-interest revenue increased by R55 million (98%) year-on-year. On the core FNB book, the increase was R31 million (55%). This was achieved through a reduction in revenue leakage and new revenue streams from existing clients.

The cost to income ratio improved significantly from 52.4% to 49.1% in the year under review.

Our achievements

- FNB HomeLoans was rated first by its peers as the best provider of home finance in the annual PricewaterhouseCoopers banking survey.
- The take-on and bedding-down of the NBS and Saambou books within 90 days of each other, increased the number of customer accounts from 157 040 to 295 400. The new acquisitions utilised existing capacity, resulting in improved efficiencies.
- Retention levels on the acquired books were better than anticipated due to active retention strategies.

- A number of relationship-building and brand-awareness activities were embarked upon. These include the launch of the eBucks Millionaires Club, which was received with wide acclaim in the estate agency market, as was the eBucks estate agent appreciation programme.
- Several innovative new products were launched into the market, including Maternity Choice, Repayment Choice and Education Choice.

Prospects and focus area

- The declining interest rate environment is expected to drive growth in the property market – significant new business growth is targeted through focused internal and external marketing initiatives and a continued focus to strengthen relationships with intermediaries.
- Declining interest rates will result in a margin squeeze, which will be exacerbated by market pricing pressures on new and re-financing business. The expected decrease in bad debts in a lower interest rate environment partially compensates for the margin squeeze.
- More emphasis will be placed on customer retention measures to combat increased levels of switching through the greater use of eBucks as a retention tool.



Ronnie Watson
CEO, WesBank

Our business

WesBank provides full-service instalment credit finance to both the retail and corporate market. It is a market leader in both asset-based finance and fleet-management solutions.

Our results

	2003	2002	% change
Profit before tax (Rm)	716	676	5.9
Profit after tax (Rm)	535	503	6.4
Advances (Rm)	39 468	33 925	16.3
Cost to income ratio (%)	52.8	47.5	(11.2)
Non-performing loans (%)	0.93	1.4	(33.5)

From an operational perspective, WesBank had a very successful year with gross advances showing significant growth for the year at R5.5 billion, the level of bad debts showing a reduction of 19% and non-performing loans as a percentage of gross advances decreasing from 1.4% to 0.93% as a result of further improvements in the credit process. Non-interest revenue grew by 15.1% to R537.1 million. Countering this, margins tightened in the higher interest rate environment in respect of both linked and fixed rate advances and remained under competitive pressure in respect of new business written. In this interest rate environment, WesBank showed a modest profit growth of 5.9% in the year under review.

New business written during the year was R24.1 billion, representing a 19.2% growth from the prior year. The WesBank Business Division had an exceptional year, with new business growth of 27.4% and advances growth of 29.1%. This was primarily as a result of the successful collaboration with FNB Corporate, the benefits derived from the acquisition of the Barloworld leasing book and successful new industry specific joint finance arrangements.

Our achievements

- For the fourth year in a row, WesBank was voted number one in vehicle finance in the PricewaterhouseCoopers banking survey in 2003.
- WesBank achieved seven-year lows in arrears through a team effort by Marketing, Risk and Collections.
- The successful acquisition and bedding-down of the R840 million Barloworld leasing book.
- WesBank achieved a first in the South African market with the launch of MotorOne, a product consultancy business selling car-care products through motor dealers.
- The successful launch of InspectaCar, an innovative and focused franchise used-car dealership business.
- A very successful year for the Wholesale Finance Division, with the value of new transactions written to the dealer network in excess of R42 billion.
- Collection Solutions took on collections for various other businesses in the retail segment, as well as taking on its first non-group customer.
- WesBank has successfully taken on the management of all instalment loan businesses from FNB Retail.

Prospects and focus areas

- The anticipated low interest rate environment is expected to stimulate growth in car sales, with a commensurate growth in advances.
- Expansion into the Australian market, with a few other global opportunities being considered.
- Expanded involvement in the fleet services market.
- Focus on improved collaboration with Group companies and the formation of new joint ventures.
- The outlook of further interest rate decreases in the next financial year will positively impact WesBank's interest turn through a reduction in cost of funding.
- Development of a private leasing market to stimulate growth in car sales is being actively pursued with representations made to the Department of Trade and Industry.
- The introduction of an innovative new product focused on mid-sized companies to drive job creation through rebates on finance charges in respect of new jobs created.



John Macaskill *CEO, FNB Africa*

Our business

FNB Africa provides a full range of banking services including retail, corporate, instalment finance (WesBank), home loans and commercial property finance, card issuing and acquiring, treasury and international services under the FNB brand in Swaziland, Botswana and Namibia.

Our results

	2003	2002	% change
Profit before tax (Rm)	574	511	12.3
Profit after tax (Rm)	312	288	8.3
Advances (Rm)	7 270	5 951	22.2
Total deposits (Rm)	8 074	7 099	13.7
Cost to income ratio (%)	43.3	44.0	1.6
Non-performing loans (%)	2.3	2.7	(14.8)

FNB Africa improved profit after tax by 30.5% year-on-year to R497.8 million (2002: R381.2 million). The significant increase in profit after tax was primarily as a result of the restructuring of the FNB Namibia Group and the recognition of a deferred tax asset relating to the First National Bank trademark. The asset will be amortised over a period of 25 years.

FNB Namibia experienced a difficult year with stagnant local economy growth. In spite of this, advances grew by 21.2% through increased focus on the corporate market. Deposits and current accounts increased by 20.8% year-on-year. Interest turn was negatively affected by the increased funding cost on a larger deposit base after a special dividend payout of R190 million in January 2003. Return on equity improved from 26.3% to 39.8%, due to the deferred tax asset and the lower capital base, with the cost to income ratio contained at 46.3% (2002: 44.0%).

FNB Botswana had a successful year, achieving profit before tax growth of 17.9% in local currency terms. Additional provisions were taken against consumer debt, which impacted negatively on performance. Notwithstanding these

provisions, which were taken in line with Group policy, the underlying advances portfolio remains sound. FNB Botswana achieved return on equity figures of 44.8% and improved its cost to income ratio to 39.3% (2002: 40.4%).

FNB Swaziland had an exceptional year despite difficult economic conditions and political turmoil in the country. The increase in profit before tax was mainly driven by a 29% increase in net interest revenue and a 23% increase in non-interest revenue. FNB Swaziland improved its cost to income ratio to 60.0% (2002: 64.2%).

Our achievements

- In March 2003, RMB and FNB Botswana successfully advised the Botswana Government on that country's first bond issue. Three bond issues have been made totalling P1.8 billion (R2.7 billion). All three issues were significantly over-subscribed.
- FNB Namibia entered into a merger with SWABOU with effect from 1 July 2003. The merger was subject to ratification by the regulators in both countries. The merged entity will be the biggest bank in Namibia.

- The development of effective programmes to assist those employees afflicted by HIV/Aids is continuously under review and refinement in all three countries.

Prospects and focus areas

- A new Africa Division has been established to support existing African operations and review more fully the opportunities in Africa.
- Further expansion of FNB's retail banking operations in Africa remains a focus, with several countries already identified as potential areas of expansion. A conservative incremental approach to expansion has been adopted, consistent with the Group's approach to new ventures and acquisitions.
- The ongoing roll-out of new products, eg internet banking, mini ATMs, etc. will continue in the new financial year.
- Expansion of market share in Namibia, primarily through entrance into the traditionally lower end of the market as a result of the merger with SWABOU.
- Exploiting the new cross-selling opportunities of banking and insurance products.

Short-term insurance



Our results

	June 2003	June 2002	% change
Attributable profit before tax – R million			
OUTsurance	85	47	80.9
First Link	62	23	>100.0
	147	70	>100.0
Profit after tax – R million	115	56	>100.0

OUTsurance



Howard Aron and Willem Roos
Joint CEOs, OUTsurance

Our business

OUTsurance is the FirstRand Group's direct short-term insurance provider, with a primary focus on personal lines. OUTsurance pioneered the OUTbonus concept, a cash bonus for good claims behaviour.

Our results

	2003	2002	% change
Gross premiums (Rm)	1 008	590	70.8
Net profit after tax for the year (Rm)	109	59	84.7
Banking Group attributable profit before tax (Rm)	85	47	80.9
Expense ratio (%)	31.8	24.8	(28.2)

Net profit after tax increased by 84.7% through significant new business written.

Gross premiums written increased by 70.8% to pass R1 billion for the first time.

Our achievements

- Claims ratio retained at levels below 60%, significantly better than industry standards.

- Significant collaboration success with R348 million in gross premiums sourced from FirstRand Group entities.
- OUTbonuses paid to customers in excess of R11 million, an increase of 45% from the previous year.
- Launch of a direct-marketing insurance model to selected small commercial customers.
- Further improvement of operational efficiencies through economies of scale.

Prospects and focus areas

- Strong organic growth in direct personal lines business.
- Good prospects for new commercial venture.
- Increased focus on collaboration with FirstRand Group companies and cross-selling opportunities with WesBank and FNB HomeLoans.



Our business

First Link offers short-term insurance broking solutions for personal lines, commercial and the agricultural sector. First Link has a joint venture in South Africa with Marsh Inc the world's largest insurance broker, for corporate insurance.

Our results

	2003	2002	% change
Profit before tax (Rm)	62	23	>100.0
Operating profit (Rm)	29	15	93.3
Operating profit ratio (%)	23.6	13.9	69.8



Keith Young
CEO, First Link

The attainment of an operating profit ratio of 23.6% and a profit before tax ratio of 43.7% represent milestones in the history of the company.

These milestones have been achieved through strategic focus on selected core business segments.

Our achievements

- Operating profit in the Commercial insurance segment grew by 82%.
- Collaboration with FirstRand Group entities resulted in gross premiums of R186 million. The majority of this premium was sourced through cross-

selling opportunities with RMB Private Bank and FNB Rural.

- Customer loyalty remains high. The attrition ratio in the personal lines business was 12% (market average 22 – 24%) and in the commercial segment 10% (market average 12 – 15%).
- Productivity was significantly increased as evidenced by an increase in operating profit per employee from R9 000 in 2000 to R77 000 in 2003.

Prospects and focus areas

- As part of First Link's acquisition strategy, two acquisitions were recently

concluded (premium R37 million) and an additional one is in an advanced stage of negotiation (premium R70 million).

- The high net worth market using the exclusive First Platinum product will continue to be targeted within and outside the Group.
- A strategic alliance was concluded with Afgri Capital. It will provide First Link with access to Afgri Capital's approximately 4 000 employees and facilitate introductions to group insurance schemes.
- Increased focus on BEE strategies and collaboration opportunities within the Group.

The Public Sector Banking Unit

FirstRand recognises that the public sector represents a significant customer segment, with service and product needs spread over a number of the Group's businesses. In response to this, the Public Sector Banking Unit ("PSU") was formed in November 2002 specifically mandated to address the requirements of the public sector.

The PSU is mandated to focus on the development of long-term customer relationships with national government departments, provincial and local government, state owned enterprises and quasi government agencies. It coordinates the efforts of Group companies to provide integrated and seamless solutions to the needs of the public sector.

During the financial year to June 2003, the unit coordinated and aligned a government strategy for divisions across the Banking Group and focused on building relationships with key players within the public sector. Since inception the focus has been on identifying customer needs and how to meet those needs. FirstRand's objective is to become a government partner of choice for financial services that add value, underpinning the Group's commitment to the challenges of the public sector.



Modise Moatlhodi
CEO, Public Sector Unit

Corporate businesses



Overview

The corporate businesses are aligned through the Corporate Cluster and provide a comprehensive range of financial services to the medium and large corporate markets, financial institutions, government and parastatals.

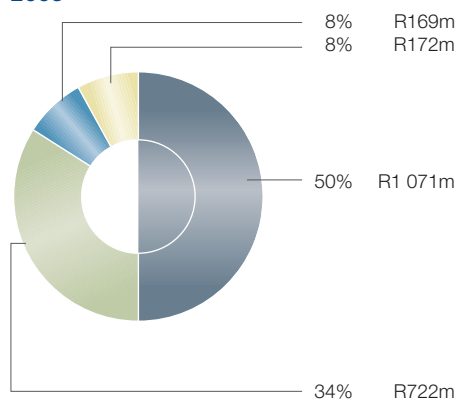
EB Nieuwoudt, **CEO, Corporate Cluster**

The main businesses are:

- **Rand Merchant Bank**
- **FNB Corporate**
- **FirstRand Asset Management**
- **Momentum Employee Benefits**

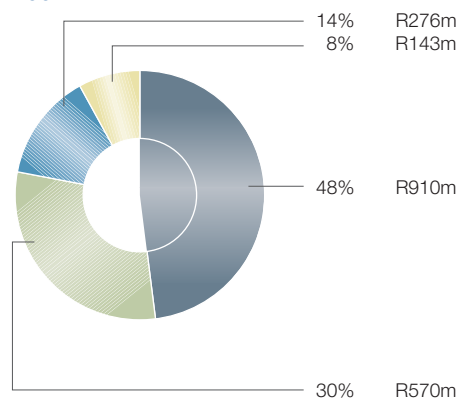
The contributions based on profit before tax of the various operations are set out below:

2003



■ Rand Merchant Bank ■ FNB Corporate
■ FirstRand Asset Management ■ Momentum Employee Benefits

2002



■ Rand Merchant Bank ■ FNB Corporate
■ FirstRand Asset Management ■ Momentum Employee Benefits

Rand Merchant Bank



RAND MERCHANT BANK

A division of FirstRand Bank Limited

Our business

Rand Merchant Bank ("RMB") offers specialist services, and takes principal positions in the fields of corporate finance, structured finance, project finance, private equity and commodities-, equity- and treasury trading.

Our results

	2003	2002	% change
Profit before tax (Rm)	1 071	910	17.7
Profit after tax (Rm)	803	677	18.6
Total assets (Rm)	109 480	94 115	16.3
Cost to income ratio (%)	35.9	36.1	0.6



Mike Pfaff
CEO, Rand Merchant Bank

RMB comprises a portfolio of very different, complex businesses all operating in rapidly changing environments. This diversity allows difficult conditions in some areas to create opportunities in others. This is clearly evident in the 2003 performance where in spite of low liquidity, high interest rates and difficult general market conditions, RMB increased profit before tax by 18% (and 51% over two years).

Our achievements

- Private Equity achieved outstanding earnings for the year, significantly increasing its contribution to RMB's earnings. The division's strategy of investing in a broadly spread portfolio is bearing fruit and the unrealised value of its book continued to improve to its current level of R807 million (post-AC133 R699 million).
- On the back of well-honed structuring skills and an excellent arbitrage trading capability, Equities Trading produced outstanding results in a weak and non-trending equities market.
- The Agricultural Desk produced an excellent performance. The drivers of

the performance were good positioning in volatile grain markets and a powerful structuring capability developed by the desk.

- In line with predictions, the principal markets in which Treasury Trading operates saw decreased liquidity and increased volatility. This arose due to continued consolidation in the banking sector and curtailed use of derivatives for economic hedging purposes due to the implementation of AC133. In spite of this, Treasury Trading produced a solid performance.
- The low levels of merger and acquisition ("M&A") activity and generally depressed market conditions affected Corporate Finance. Deal flow, especially in the Black Economic Empowerment ("BEE") and resources areas, resulted in good fee income. The team was, once again, rated as the top M&A team in the PricewaterhouseCoopers peer review.
- Structured Finance produced a good performance and retained its rating as the No 1 debt house in South Africa. The business has successfully been refocused to adjust for changes in legislation and amended accounting requirements.

- The Project Finance division achieved solid results in line with the prior year. The division was affected by low capital investment in the market, particularly the mining industry that was impacted by the proposed Mining Charter and Royalties Bill.
- Special Projects International experienced a welcome improvement in the health of its business. The shake-out and subsequent rally in the emerging markets resulting from the Brazilian political situation presented very favourable opportunities to realise profits and to expand the trading business. The continued improvement in the US economy after a peak in default rates early in the year allowed the high yield and collateralised debt obligations ("CDO") business to limit and claw back some of its prior year losses.
- RMB has a track record in public sector, infrastructure and development finance that has seen it become a market leader in this area. In the past five years RMB has been involved in 60 transactions with a value of approximately R58 billion. RMB continued to be active in this market in the current year. Significant deals implemented include:

Rand Merchant Bank continued

- Hospital and road construction – Inkosi Albert Luthuli Hospital and Chapman's Peak Toll Road concession with a total value of R5 billion.
 - Structuring of municipal loans – Cape Metropolitan Council and eThekweni with a total value of R1.4 billion.
 - Financing of projects – Kelvin Power Station with a total value of R375 million.
 - Over the past financial year RMB has been involved in a number of BEE transactions ranging from advisory work to providing lending facilities. These deals include:
 - The MTN Black Management staff trust – acquisition of 17.5% of MTN shares owned by Transnet.
 - The merger of ARMgold with Harmony to create the fifth largest gold producer in the world.
 - African Legend's acquisition of a 25% stake in Caltex SA.
 - Funding to Kagiso Ventures Limited for a stake in Prowalco.
 - Funding to Kgorong Investment Holdings and Sibilliant Investments for a stake in Alstom South Africa.
 - RMB led an in-depth risk analysis of the affordable housing market and embarked on a lending programme. Risks are shared with other market players including Government. At the end of the financial year the initiative included 33 000 home loans in this market with an average size of R60 000.
 - Strong commitment to BEE was recognised by Business Map Foundation who placed RMB second to the IDC in its Black Empowerment Award.
- Prospects and focus areas**
- Investment banking is an unpredictable business as evidenced by the varying fortunes of the individual businesses in the past year. Despite the difficulty in predicting the future prospects of these businesses, RMB is fortunate to have a large portfolio that is expected to result in a continuation of its historic sustained growth in income.
 - Some of the obvious areas of growth are:
 - Increased focus on equities – RMB has for some time been considered the top debt house in South Africa, and is aiming to be as highly regarded as an equities house. Increased focus on equities across the board has already started to pay dividends.
 - BEE – which results in advisory work for Corporate Finance, investment opportunities for Private Equity and structuring opportunities to develop innovative solutions for issues such as affordable housing.
 - Ongoing consolidation of the CDO and US high yield market.
 - Continued development of the collaboration with FNB Corporate.
 - RMB continues to believe that the key driver of growth for RMB is the calibre of the people it employs and the environment that stimulates them to excel.



Inkosi Albert Luthuli Central

Rand Merchant Bank's Project Finance Division acted as advisor, lead arranger and underwriter on this R4,5 billion project. The transaction, which is South Africa's largest ever Public-Private Partnership (PPP) was ranked as the *Africa PPP Deal of the Year – 2002* by Euromoney, and involved the equipping, maintenance and management of this 850 bed high-tech referral hospital in KwaZulu-Natal. The project is the most advanced hospital PPP in the world in terms of the extent of the facilities management services outsourced, as well as the sophistication of the IT systems and achieved an unprecedented 40% level of Black Economic Empowerment.



Our business

FNB Corporate ("FNBC") is a major provider of transactional banking services and credit facilities to large and medium size corporates, financial institutions, parastatals and government entities. Through interactive client relationships, FNBC provides services that utilise the full financial service offering of the FirstRand Group. These services include:

- Integrated transactional solutions:
 - Cash management and current account transacting
 - Electronic banking
 - Merchant acquiring
- Working capital finance:
 - Treasury (deposit taking and lending)
 - Debtor financing
 - Asset finance
- Property finance
- Specialised term finance
- International and cross-border solutions:
 - Foreign exchange services
 - Trade services
 - Custodial services
 - Correspondent bank Rand account services



Theunie Lategan
CEO, FNB Corporate

Our results

	2003	2002	% change
Profit before tax (Rm)	722	570	26.6
Profit after tax (Rm)	549	424	29.5
Net advances (Rm)	19 896	21 657	(8.1)
Total deposits (Rm)	36 343	30 656	18.6
Cost to income ratio (%)	55.4	58.5	5.3
Non-performing loans (Rm)	724	1 266	(42.8)

- In spite of weak demand for credit that impacted negatively on the large corporate market in particular, high interest rates and difficult general market conditions, net profit before tax increased to R722 million from R570 million.
- Income from advances decreased by 6.5% year on year due to pressure on margins and depressed demand for credit as evidenced by the decline in advance volumes of 8%. This highlighted the need to diversify revenue sources, resulting in a focus on generating fee-based revenue. The primary contributors to a 13% increase in non-interest revenue were Electronic Banking (52%) and Custodial Services (17%).
- Non-performing loans decreased from R1.266 billion at June 2002 to R724 million at June 2003, a reduction of 43% year on year, due to continuous focus on reducing non-performing exposures and streamlining of credit processes.
- Deposit margins and volumes increased by 18% during the year as a result of high interest rates and the demise of the second tier banks, favourably impacting on interest turn.
- The volatility in the exchange rate and higher than expected trade volumes resulted in an increase of 10% in foreign exchange profits from the previous year.
- The acquisition of additional market share led to an increase in profits of 86.5% in Merchant Acquiring.

Our achievements

- In spite of market conditions, the large corporate segment showed 7% revenue growth for the year. This follows the strategy of client retention and revenue replacement (acquisition), which in turn is necessitated by the loss of business associated with the strategy of aggressively managing non-performing loans.
- The medium corporate market showed 26% revenue growth for the year, on the back of the development of a new markets and acquisitions team. This team is focused on developing specific value propositions for niche market spaces. Their successes include the introduction of a new Franchise banking solution for clients setting up

FNB Corporate continued

new franchise operations, and the development of a BEE working capital fund. This, together with the re-engineering of the previous year, has positioned FNBC well to pursue this market in the future.

- Further competitive advantages have been introduced with a new electronic banking product, BANKit, as evidenced by the 1.1 million billable transactions, which well exceeded the initial target for the year.
- New standards introduced in the merchant acquiring industry known as EMV (smartcard technology) have resulted in Merchant Acquiring installing 13 000 new EMV compliant point-of-sale devices this year and a plan to roll out a further 15 000 in the new year.
- The asset financing collaboration with WesBank has been extremely successful

with new business written of R2,3 billion, 83% up on the previous year.

- Collaboration with RMB is increasingly successful.

Prospects and focus areas

- Key focus areas for the future are to retain market position in the large corporate and financial institutions segments, regain lost ground in the public sector segment and to aggressively grow business in the medium corporate segment.
- The main focus going forward will be on medium corporates. The segment is expected to show growth of 30% for the new financial year. Differentiated solutions, improved service, efficiency levels and leveraging off the FirstRand Group will enable FNBC to achieve this forecast. This

will include building on the group's asset finance and investment banking strengths as well as the bancassurance component.

- The falling interest rate scenario for the next financial year will place pressure on deposit margins and appropriate hedging strategies have been put in place to alleviate this.
- The Large Corporate market is mature and highly competitive and to achieve forecast growth of 10%, attention will be focused on quality niche businesses, improved service, operational efficiency and offering value-added services from business units in the FirstRand Group.
- The FirstRand Public Sector Banking Unit was formed during the year to address the requirements of the Public Sector to ensure that appropriate resources are aligned to ensure growth in this segment.

FirstRand Asset Management



Louis van der Merwe
CEO, RMB Asset Management
and RMB Unit Trusts

Bryan Jackson
CEO, RMB Properties

Paul Rackstraw
CEO, Futuregrowth Asset
Management

Our business

FirstRand Asset Management ("FRAM") is a global asset management group offering a complete range of domestic and international products to pension and provident funds, institutional and unit trust clients.

Companies include RMB Asset Management and RMB Unit Trusts ("RMBAM"), RMB Properties ("RMBP"), and 40% of Futuregrowth Asset Management ("FG").

Our results

	2003	2002	% change
Profit before tax (Rm)	169	276	(38.8)
Profit after tax (Rm)	126	207	(39.1)
Assets under management (Rm)	128 754	133 403	(3.5)
Cost to income ratio (%)	62	45	(37.7)

RMBAM

The decrease in profit before tax was caused by a combination of factors:

- Anticipated growth in fee income was not achieved due to tight industry conditions and lacklustre financial markets during the period. Net outflows of funds under management were experienced mainly due to the shrinking savings pool. Coupled with poor financial markets performance the result was a decrease in the value of assets under management of 3.5%.
- The strengthening of the Rand negatively impacted offshore-based fee income.
- Other income was significantly less than in the prior year and included an

abnormal loss of R33 million incurred on the Traded Policies Investments ("TPI") product, which was closed to new investors in February 2003.

RMBP

- Profit before tax increased to R42.7 million from R36.3 million.

FG

- Profit before tax increased by 17% to R24.0 million. The increase in profits was pleasing given the difficult trading environment.

Our achievements

RMBAM

- The asset management industry had a difficult year with volatility in the asset market and an uncertain political and economic environment globally.
- Despite this RMB Asset Management produced a good performance and achieved the following ratings by the Alexander Forbes Large Manager Watch (as at 30 June 2003).

	Month	Quarter	YTD	1 year	3 year	5 year
SA Manager Watch – Large	1	2	1	2	6	3
Global Manager Watch – Large	2	1	1	2	6	3

FirstRand Asset Management continued

- The success achieved is attributed to the business philosophy, the sound investment process, teamwork and the experience of the investment team.

RMBP

- Developments completed during the year include:

– MTN, Fairlands	25 000 m ²
– First Direct, Randburg	8 500 m ²
– General offices, Nelspruit	2 350 m ²
– FNB Corporate, La Lucia Ridge	5 800 m ²
– Faerie Glen, Pretoria	3 000 m ²

In addition the company secured six developments for completion in the new year.

FG

- The investment performance of the specialist mandates was excellent and every institutional mandate exceeded the specified benchmarks.
- The excellent investment performance of the development funds, infrastructure

bond fund and community property funds proved that social impact and investment performance are not mutually exclusive.

- The infrastructure bond fund of over R3 billion is the largest infrastructure fund in South Africa.

Prospects and focus areas

RMBAM

- The aim of the asset management business is to optimise returns in the core business of managing investments on behalf of third parties, within acceptable risk parameters.
- The asset management group plans to continue with the transformation process already in place with a strong emphasis on BEE.
- A strong client focus exists and the retail business (unit trusts) is identified as a targeted growth area.
- Leveraging from Group distribution channels and relationships is expected to further enhance value.

RMBP

- RMB Properties is in the process of launching its first listed vehicle. The expected listing date is by the end of December 2003. The anticipated market capitalisation and gross assets are expected to exceed R1.2 billion and R1.6 billion respectively.

FG

- An excellent investment performance track record of over 3.5 years across all its specialist mandates has been built.
- The challenge faced by many pension funds and asset consultants is accelerating the move from balanced funds to specialist mandates. The offering of quantitative equity funds, high yield fixed interest, development funds and alternative investments, together with the empowerment profile, means that the company is well positioned to take advantage of this movement.

Momentum Employee Benefits



Our business

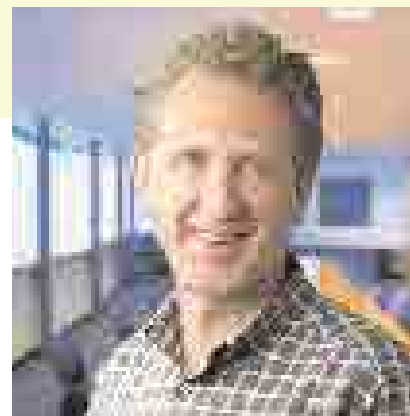
Momentum Employee Benefits ("MEB") offers insurance benefits, consulting, administration, risk and investment solutions to the corporate, union and broker market.

Our results

	2003	2002	% change
Profit before tax (Rm)	172	143	20.3
Profit after tax (Rm)	129	107	20.6
Risk profit margin (%)	14	6	>100

Don Brown

CEO, Momentum Employee Benefits



Our achievements

- Profits before tax increased by 20% for the year. This was achieved mainly by the improvement in the profitability of the risk business as reflected in the improvement in the risk profit margin to 14%.
- MEB achieved a net inflow of funds for the first time since the Momentum/Southern merger.
- Solid new business performance was achieved with an increase in new business of 11%.

Prospects and focus areas

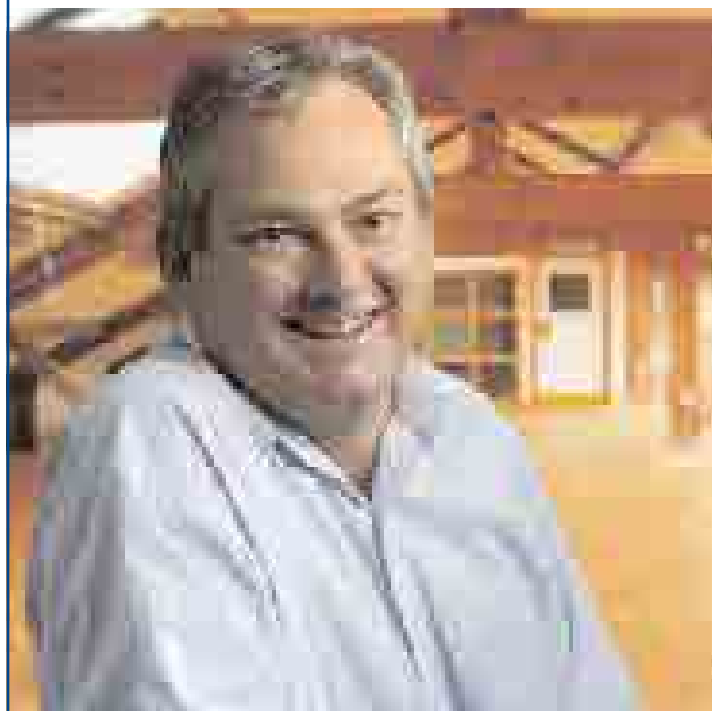
- MEB was restructured with effect from 1 July 2003. The restructuring creates more focused opportunities in each

area. It is believed that this will improve the Group's position in the future.

- The MEB broker business (Funds-AtWork) is moving closer to the Momentum Individual Life business. Benefits should arise due to synergies on product development and distribution.
- The corporate and union business (Momentum Actuaries and Consultants and Negotiated Retirement Fund Services) was sold to a BEE subsidiary, Lekana Employee Benefit Solutions, 70% of which is owned by FirstRand and 30% by the Mineworkers Investment Company. The direct corporate, parastatal and union markets will provide significant new business opportunities.

- The Collective Benefits risk business will focus on distribution and product development to grow market share. Synergies with individual life business will be exploited.

Wealth businesses



Overview

The businesses that form the Wealth Cluster provide products and services to the middle and upper income groups.

Hillie Meyer, **CEO, Wealth Cluster**

- **Momentum Retail Insurance**

- *Momentum Client and Products*
- *Momentum Distribution Services*
- *Corporate Advisory Services*
- *Financial and Actuarial Solutions*

- **Asset Management divisions**

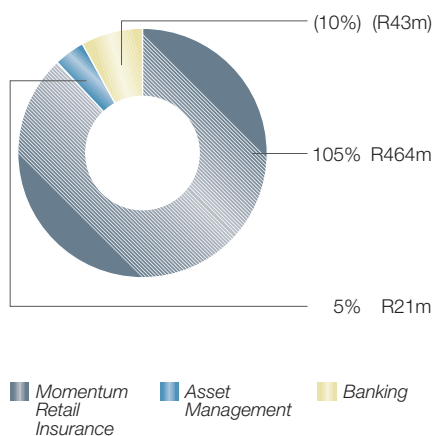
- *Momentum MultiManagers*
- *Momentum International*
- *Ashburton*

- **Banking divisions**

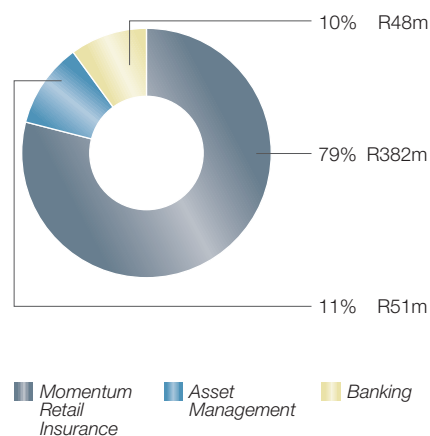
- *RMB Private Bank*
- *FNB Trust Services*
- *Ansbacher UK*

The contributions based on profit after tax of the various businesses comprising the wealth cluster are set out below:

2003



2002



Momentum Retail Insurance



Nicolaas Kruger
CEO, Financial and
Actuarial Solutions

Danie Botes
CEO, Momentum
Client and Products

Nigel Dunkley
CEO, Corporate
Advisory Services

Kobus Sieberhagen
CEO, Momentum
Distribution Services

Our business

Momentum is an intermediary-focused company that differentiates itself from its competitors through responsible product innovation, service excellence and partnerships with brokers.

Despite the changes in the industry relating to commission and regulation, Momentum believes that the role the intermediary plays in the target market will become even more prominent in future. Distribution trends in the UK support this observation. Service offerings are differentiated on a client and product level, as well as an intermediary level. A separate focus is created on the specialist investment broker market in order to provide a customised service and product offering. Similarly, separate focus is given to investment and risk products, taking cognisance of the significant differences in product design and marketing.

Our results

	2003	2002	% change
Profit after tax (Rm)	464	382	21.5
New recurring premium volumes (Rm)	737	582	26.6
Single premium volumes (Rm)	3 284	3 021	8.7
Value of new business (Rm)	273	206	32.5

The operating environment was affected by subdued demand for retail investment products, especially single premium products. Despite the challenging environment, Momentum increased new business volumes, and achieved a net cash inflow for individual life business of R1,6 billion for the year.

Our achievements

- The introduction of new products resulted in an excellent increase in new individual life recurring premium business

of 27%. Individual lump sum inflows increased by a more subdued 9%. This is a satisfactory performance given the uncertain outlook for investment markets and the relative attractiveness of more conservative investment products such as bank deposits. Momentum's overall market share of new recurring business increased from 9.1% to 9.9% during the year, whilst the single premium market share increased from 12.0% to 13.3%. Momentum's share of the broker new business market increased from 16.0%

to 18.0% for recurring business, and from 20.3% to 21.7% for single premium business.

- Linked product inflows, which are mostly correlated to equity markets, were hardest hit by the lower demand for investment products.
- The embedded value of new individual life business increased by an excellent 43% due to the solid increase in new recurring premium production, as well as improved margins on new business, especially risk business.

Momentum Retail Insurance continued

- The client service levels at Momentum continue to improve, while client retention efforts have resulted in 28% of the value of all policy maturities for the year being reinvested with Momentum.
- During June 2003, Momentum launched a new health offering, Pulz, which is distributed by Momentum Distribution Services. This product, with its unique features, will be a significant addition to the products Momentum offers.
- Subsequent to the year-end, Momentum embarked on a process of implementing a major restructuring of the assets in its shareholders' portfolio. The salient features of this restructuring include the transfer of Momentum's investment in Discovery to FirstRand Limited, and the investment of assets backing the statutory capital requirement in cash and near-cash instruments. Following

the restructuring, Momentum's capital has remained at two times the statutory minimum, and Momentum now has a more robust capital structure, with reduced concentration risk and volatility.

Prospects and focus

- Launch a number of new risk and investment products, including updates on the Myriad risk product.
- Focus on new business for the Pulz initiative.
- Integrate the FundsAtWork SME pension fund business into Momentum.
- Develop Simplicity, a joint venture between Momentum and RMB Private Bank, into a more significant contributor of new business.
- Develop Momentum's agency force capability utilising a franchised agent model, with a total of 250 agents (from

the current 100 agents) being targeted by June 2004.

- Continued focus on helping FNB Financial Consultants grow their business through providing innovative products and service.
- Successfully penetrate the black broker market.
- Develop second-tier brokers into a significant new business source.
- Finalise the restructuring of the shareholders' portfolio and ensure the return on capital is optimised.

Asset Management divisions



James Baudains
CEO, Ashburton

Peter Göbel
CEO, Momentum
International

Wayne McCurrie
CEO, Momentum
MultiManagers

Our business

Momentum MultiManagers' strategic objective is to build a high quality and successful multi-management business servicing institutional and retail clients.

Momentum International strives to gain recognition internationally as a multi-manager of quality and substance, based on a strong team, robust investment approach, competitive performance and a growing international client base.

Ashburton aims to be the preferred provider of international investment services for private clients globally through the preservation and creation of wealth.

Our results

	2003	2002	% change
Profit after tax (Rm)	21	51	(58.8)
Assets under management (Rm)	32 922	38 324	(14.1)

All asset management businesses experienced a decline in earnings due to the negative effect of weak global equity markets. Momentum International also incurred additional expenditure related to capacity-building.

Our achievements

- Momentum MultiManagers' retail fund performance exceeded the benchmark returns.
- Momentum MultiManagers was successful in building its institutional client base.
- Momentum International has established a solid multi-management platform with experienced senior management.

- The Momentum International investment team has been considerably strengthened and expanded.

Prospects and focus

- Momentum International will not be included in the proposed dis-engagement from the Ansbacher UK banking business recently announced by the FirstRand Group, and will in future operate under the RMB brand.
- Momentum MultiManagers continues to develop its product range for both retail and institutional investors, is now well established as one of the leading multi-managers in South Africa, and positioned for further expansion of its client base.

- Momentum International will be bringing a number of major initiatives to fruition. It will launch a Portfolio Bond product for retail and high net worth investors; it will launch a new multi-managed product range and begin to promote this for the first time in the UK and Europe; it will investigate opportunities to enter into distribution arrangements internationally; and administration processes will be further automated and streamlined to improve efficiencies.
- Ashburton aims to capitalise on its sound investment performance by an active marketing campaign, with the objective of lifting assets under management by 10%.

Banking divisions

RMB Private Bank



RMB PRIVATE BANK

A division of FirstRand Bank Limited

TRADITIONAL VALUES. INNOVATIVE IDEAS.

Our business

RMB Private Bank provides financial solutions to high income and high net asset value individuals and households.

Our results

	2003	2002	% change
Profit before tax (Rm)	35	16	>100
Profit after tax (Rm)	27	16	68.8
Total advances (Rm)	6 888	4 971	38.6
Total deposits (Rm)	2 799	2 191	27.7
Non-performing loans (%)	2.2	1.4	57.1
Cost to income ratio (%)	75	90	16.7



Willie Miller
CEO, RMB Private Bank

Profit before tax increased by 120% to R35 million. This was mainly as a result of increasing the loan book while not expanding the infrastructure and, therefore, the cost base.

Interest income increased by 64% whilst operating cost increased by only 10%.

The high interest rate environment and difficult market conditions had a positive effect on the interest margin but a negative effect on the income derived from investment assets under management. Despite this, non-interest income grew by 9.4% to R101 million. There was an increase in non-performing loans in the loan book from 1.4% in June 2002 to 2.2% in June 2003. This is mainly due to the sustained high interest rate environment.

Client numbers increased by 21%.

Our achievements

- In April 2003 RMB Private Bank was launched. The brand leverages off the overall RMB brand and is positioned as the only private bank with the heartbeat of a merchant bank.
- The loan book grew by 39% during the year mainly as a result of the quality of its structured lending team and the unique features offered by the Single Facility. The Private Bank pioneered the concept of a single bank account integrating transactional and lending products and services.
- Wealth Management advice to clients was established during the year.

Prospects and focus

- 2004 is expected to be another year of strong profit growth, stemming from growth in market share and growth in share of clients' spend in financial services.

- The newly established Wealth Management capability should increase the Private Bank's assets under management, using differentiated products from RMB Private Bank's internal portfolio management division, Momentum Multi-Managers and Ashburton.
- The loan book growth is targeted to exceed 30% as a result of continuous improvement in the quality of the Private Bank's structured lending team.
- It is expected that the RMB brand will continue to enhance business growth in the coming year.

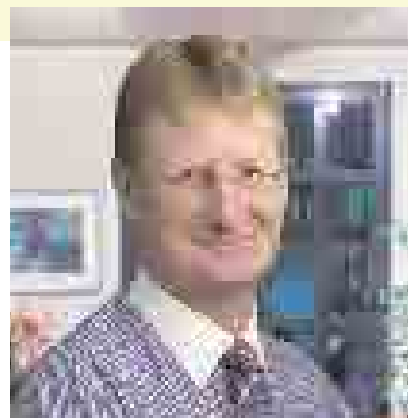
FNB Trust Services

FNB Trust Services is a provider of trust company services within South Africa.

Our results

	2003	2002	% change
Profit before tax (Rm)	28	31	(9.7)
Profit after tax (Rm)	20	24	(16.7)
Fiduciary funds under management (Rm)	6 967	7 844	(11.2)
Cost to income ratio (%)	78.5	75.4	(4.1)

Graham McPherson, CEO, FNB Trust Services



The long-term nature of the business results in financial benefits arising from acquired business written in any one year only coming on-stream in the future. Although significant new business was written during the year the results arising from this will only reflect in the following year and beyond.

Income was impacted by the effect of weak equity markets on asset values in trusts/managed accounts and estates (60% of income is generated from trusts/managed accounts and 35% from estate administration). The positive endowment effect on fiduciary balances helped reduce this effect.

Included in the results were several special project costs aimed at reducing

infrastructure costs (such as the closure of the Kimberly and Klerksdorp branches) and increasing efficiency. The effect of this restructuring should have a positive effect mainly through cost reduction in the following financial year.

Our achievements

- New will sales increased by 166%.
- Asset value of all wills drawn during the year increased to over R10 billion.
- Embedded value increased by approximately R35 million.
- A pilot project "Personalised banking for seniors" was successfully launched at selected outlets during the year. Initial feedback indicates that the pilot was well received. This project aims to focus on senior citizens banking and other financial needs.

Prospects and focus

- Focus on being "preferred provider of trust company (fiduciary) services" within South Africa.
- Investigate the potential of expansion into Africa – the division already operates a full branch in Namibia and a small office in Swaziland. The possibility of a joint venture with Ashburton to administer offshore trusts is being investigated.
- Wills sales will again be a focus for the coming year by targeting the client base in other Group companies that cater to the individual market. The multi-brand, multi-channel, segmented product strategy allows targeted approaches to select niche segments within the FirstRand client base.

Ansbacher UK

Focuses on the wealth preservation and creation needs of high net worth individuals.

Our results

	2003	2002	% change
Loss before tax (Rm)	(90)	8	>(100)
Loss after tax (Rm)	(90)	8	>(100)
Total advances (Rm)	5 410	3 908	38,4

The Ansbacher (UK) Group showed an operating loss for the year.

The results were impacted by low US\$ and GBP interest rates following rate cuts throughout the year, as well as a

deterioration in international credit markets.

Prospects

- Following a strategic assessment of FirstRand's international operations,

certain businesses in the Ansbacher Group has been identified as non-core to FirstRand's overall strategy. A decision has therefore been made to find a new strategic shareholder for this business.

Discovery



Overview

Discovery, a 62% owned subsidiary of Momentum, operates in the health and life assurance markets, and its core purpose is making people healthier and enhancing and protecting their lifestyles. The following businesses form the cluster:

- **Discovery Health** – healthcare
- **Discovery Life** – life assurance
- **Discovery Vitality** – wellness programme
- **Destiny Health** – US-based healthcare

Adrian Gore, **CEO, Discovery**

Strong organic growth was achieved across all businesses with Discovery Life delivering an exceptional performance. The four individual businesses are discussed below.

Capital was raised in June 2003 to support the ongoing growth of Discovery Life and the roll-out of the joint ventures to Destiny Health businesses. R875 million was raised successfully through the claw-back offer.

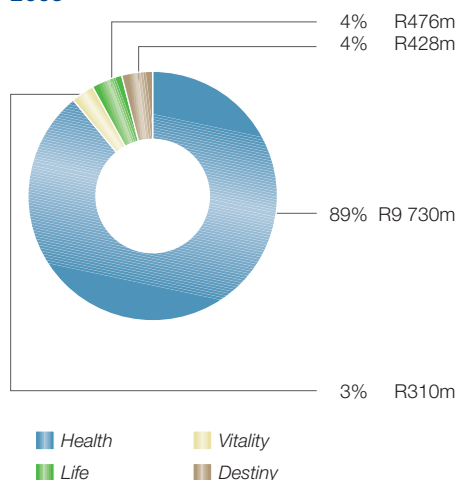
Gross inflows under management include flows from the Discovery Health Medical Scheme to demonstrate the scale of activity of the Discovery Group and provide direct comparison of activity to prior periods. In line with new business growth, all lines of business showed satisfactory growth in gross inflows.

Performance

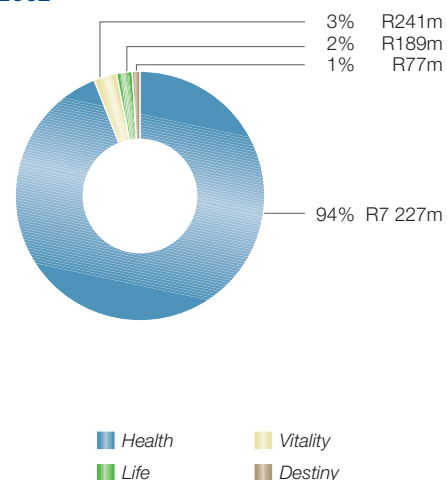
	2003	2002	% change
Profit before tax (Rm)	538	381	41.2
Profit after tax and minorities (Rm)	166	117	41.9
New business premium income (Rm)	3 148	2 338	34.6
Gross inflows under management (Rm)	10 944	7 734	41.5

Gross inflows under management

2003



2002



Our results

Strong new business growth was achieved in existing markets.

New business grew by 26% to R2 284 million from R1 819 million and lapse rates were reduced to 3.4% from 4.5%. Lapse rates are an indicator of general satisfaction with service and value proposition offered to clients.

Total lives covered grew by 23% to just under 1.5 million lives making Discovery Health Medical Scheme the largest medical scheme in the country.

Our achievements

- The service model was restructured into a series of small, cross-functional teams that wrap around the client. Clients benefit from focused, personalised service and competition between the teams.
- Operational efficiency was improved with staff headcount per 1 000 clients reduced by 8%.

- The KeyCare Health Plans were introduced in January 2003 to the employed but uninsured market with 40 000 lives joining within the first six months.

Prospects and focus

- Significant spending on technology will enhance future efficiencies.
- It is expected that the target of 50 000 lives on the KeyCare Health Plans will be exceeded by the end of 2003.

Discovery Life

Our results

Discovery Life had an outstanding performance, exceeding expectations.

Annualised new business premium grew by 60% to R423 million from R264 million in 2002.

Profit increased to R114 million from R11 million, an increase of 936%.

The value of in-force business increased by 174% to R756 million from R276 million in 2003.

Our achievements

- The launch of the Health Plan Protector added to the ability to offer members of Discovery Health unique protection and value. This product had an important impact on growth in the number of policyholders.
- The risk-only approach to life assurance adopted by the business created structural changes in the life assurance market. Discovery Life is a leader in this market and all other major life insurers have now adopted this product philosophy.

Prospects and focus

- The rolling out of the integration between Discovery Health and Discovery Life Plans will allow offering of integrated, comprehensive risk protection, with strong synergies for the client. The entire spectrum of risk needs of the individual can be catered for. This is expected to translate into future growth opportunities for the company.

Discovery Vitality

Our results

A decision was taken to enhance Vitality's benefits at the cost of some profit, resulting in overall profitability remaining flat at R33 million against the previous period.

Our achievements

- The number of Vitality members grew to over one million people. Statistics indicate that people are changing their behaviour – Vitality members

participate in preventative health screening measures 40% more than non-Vitality counterparts.

- Vitality continues to offer important product differentiation to both Discovery Health and Discovery Life and made an important contribution during the year to delivering on Discovery's core purpose of making people healthier.

Prospects and focus

- We will continue to focus on enhancing the value offered to clients by the Vitality

programme through the addition of new lifestyle benefits and partners.

- Another important area of focus will be on leveraging the health and fitness facilities to which our members have access in encouraging lifestyle modification as a first line of treatment in the management of certain lifestyle diseases. We are already piloting this approach with our cardiovascular programme in conjunction with Medicross clinics and the Hypertensive Society of South Africa.

Destiny Health

Our results

The company, which operates in the United States, focused on delivering three key strategies during the year:

- Achieving breakeven by the end of December 2003
- Achieving product credibility
- Rolling out of the partnerships with the Guardian Life Assurance Company of America and Tufts Health Plan of Boston, Massachusetts

Losses were in line with expectations and the company has made progress towards achieving a breakeven position by end 2003.

New business grew by 65% to \$42.5 million from \$25.7 million in 2002.

Membership grew by 128% to 21 395 lives from 9 383 in 2002.

Our achievements

- The office in Bethesda, Maryland, was closed during the year and staff and functionality centralised in Chicago. Once-off expenses were incurred but these will be offset by the future monthly savings and efficiency gained.
- Further progress has been made in transferring the major administrative function back to Discovery in South Africa. Economies of scale and a cheaper operating environment will result from this move.
- From a risk management perspective a great deal of work has been done towards the building of necessary risk management systems to achieve the desired long-term medical loss ratios. The infrastructure being built for the partnership with Tufts Health Plan is expected to greatly enhance this capability.

- Destiny was identified as one of the leaders in the rapidly emerging 'consumer-driven' healthcare market by various independent research sources. This recognition goes a long way towards achieving corporate and product credibility.
- To capitalise on this the company focused on creating the operational infrastructure and marketing support required to roll out the joint ventures with Guardian Life on a nationwide basis and Tufts Health Plan regionally within the New England area.

Prospects and focus

- The joint ventures with Tufts Health Plan and Guardian Life will be launched to intermediaries during the latter half of 2003 with new business expected to commence in January 2004. Growth for Destiny in the US healthcare market is expected as a result.
- Infrastructure will continue to be built to facilitate the rollout of the joint ventures.

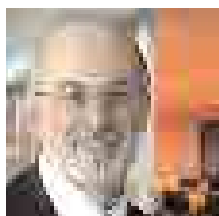
Board of directors

The board of FirstRand comprises 14 directors with an appropriate mix of skills and background

Gerrit Thomas Ferreira (55)

Non-executive Chairman

BCom, Hons B(B&A), MBA Appointed 1 July 1992



"GT" Ferreira has been involved in the financial services sector since graduating from the University of Stellenbosch. He started his career at the Bank of Johannesburg and was a co-founder of Rand Consolidated Investments ("RCI") in 1977. RCI acquired control of Rand Merchant Bank ("RMB") in 1985 and he

was Managing Director of RMB from 1985 to 1988 after which he was elected as Executive Chairman. When RMB Holdings was founded he was appointed Chairman. He is a member of the Council of the University of Stellenbosch and also a member of the board of the Open Society of South Africa.

FirstRand – membership

Directors' affairs and corporate governance committee
Remuneration committee

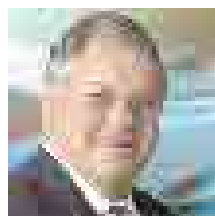
Directorships

RMB Holdings – Non-executive Chairman
FirstRand Bank Holdings – Chairman
Momentum Group
Glenrand MIB
Venfin

Lauritz Lanser Dippenaar (54)

Chief Executive Officer

MCom, CA(SA) Appointed 1 July 1992



Laurie Dippenaar graduated from Pretoria University, qualified as a chartered accountant with Aiken & Carter (now KPMG) and spent a few years with the Industrial Development Corporation before becoming co-founder of Rand Consolidated Investments ("RCI"). RCI acquired control of Rand Merchant Bank ("RMB") in 1985 and he became an Executive Director. He was

appointed Managing Director in 1988, which position he held until 1992 when RMB Holdings ("RMBH") acquired a controlling interest in Momentum Life Assurers, the fifth largest insurance company in South Africa at that time. He was appointed as Executive Chairman of that company, a position he held until being appointed Chief Executive Officer of FirstRand in 1998.

FirstRand – membership

Executive committee – Chairman
Audit committee
Remuneration committee

Directorships

RMB Holdings
Momentum Group – Chairman
Discovery Holdings – Chairman
FirstRand Bank Holdings

Barry Hilton Adams (67)

Independent non-executive

CA(SA) Appointed 1 July 1992



Barry Adams is a chartered accountant who retired as Country Managing Partner of Arthur Andersen in 1991.

FirstRand – membership

Audit committee – Chairman
Directors' affairs and corporate governance committee
Remuneration committee

Directorships

Tiger Brands
Hanover Reinsurance Group Africa
Momentum Group

Vivian Wade Bartlett (60)

Executive Director

AMP (Harvard), FIBSA Appointed 27 May 1998



Viv Bartlett started his career with Barclays Bank DCO South Africa, which became First National Bank of SA in 1987. After some four years of overseas secondments he returned to South Africa in 1972 where he has served as General Manager and Managing Director in various group companies until being appointed as Group Managing Director and Chief

Executive Officer of First National Bank of Southern Africa in 1996. He now holds the position of Deputy Chief Executive Officer of FirstRand Bank.

FirstRand – membership

Executive committee

Directorships

FirstRand Bank Holdings – Executive
Momentum Group
CEMEA Regional Board of VISA – Chairman
Visa International – Executive Chairman

David John Alistair Craig (55)

Independent non-executive

British Appointed 27 May 1998



David Craig held the position of Director - International Capital Markets Division at Hambros Bank until 1979 when he left to help set up JP Morgan Securities. In 1983, holding the position of Deputy Chief Executive (Chief Executive Designate), he left to take up the position of Group Managing Director at IFM Trading, the first

major hedge fund group in London, until the time of its sale to the J Rothschild Group in 1994.

FirstRand – membership

Directors' affairs and corporate governance committee

Directorships

Northbridge Management – Chairman and Chief Executive

Various International private companies

Patrick Maguire Goss (55)

Independent non-executive

BEcon (Hons), BAccSc (Hons), CA(SA) Appointed 27 May 1998



Pat Goss, after graduating from the University of Stellenbosch, served as President of the Association of Economics and Commerce Students (AIESEC), representing South Africa at The Hague and Basle. He thereafter qualified as a chartered accountant with Ernst and Young and then joined the Industrial Development Corporation. In 1977 he was a

co-founder of Rand Consolidated Investments ("RCI") which successfully merged with Rand Merchant Bank in 1985. A former Chairman of the Natal Parks Board, his family interests include Umngazi River Bungalows and other related investments.

FirstRand – membership

Directors' affairs and corporate governance committee

Remuneration committee – Chairman

Directorships

RMB Holdings

FirstRand Bank Holdings

Anglovaal Industries

McCarthy Retail

Lewa Downs Wildlife Conservancy (Kenya)

Denis Martin Falck (57)

Non-executive

CA(SA) Appointed 27 February 2001



Denis Falck left the auditing profession in 1971 to join the Rembrandt Group. He was appointed Group Financial Director in 1990 and currently holds the same portfolio on the board of Remgro.

FirstRand – membership

Directors' affairs and corporate governance committee

Directorships

Remgro

RMB Holdings

FirstRand Bank Holdings

Paul Kenneth Harris (53)

Executive Director

MCom Appointed 1 July 1992



Paul Harris graduated from the University of Stellenbosch and joined the Industrial Development Corporation where he served for a number of years. He was a co-founder of Rand Consolidated Investments ("RCI"). RCI acquired control of Rand Merchant Bank ("RMB") in 1985 and he became an Executive Director of the bank. He spent

four years in Australia where he founded Australian Gilt Securities (later to become RMB Australia) and returned to South Africa in 1991 where he was appointed Deputy Managing Director of RMB. In 1992 he took over as Managing Director and Chief Executive Officer. He has been Chief Executive Officer of FirstRand Bank since July 1999.

FirstRand – membership

Executive committee

Directorships

FirstRand Bank Holdings – CEO

Remgro Limited

Momentum Group

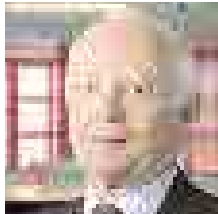
Discovery Holdings

Board of directors continued

Michael Wallis King (66)

Independent non-executive

CA(SA), FCA Appointed 27 May 1998



Mike King was educated at St John's College and the University of the Witwatersrand. He qualified as a chartered accountant with Deloitte. In 1961 he joined Union Acceptances, and was Deputy Managing Director from 1972 to 1974. He left to join Anglo American Corporation of South Africa, and was Finance Director from 1979 to 1997. He became Executive Deputy Chairman in 1997, Executive Vice-Chairman of Anglo American plc in 1999, and retired in May 2001. He served on the board of Barclays Bank DCO South Africa, whose name was changed in 1987 to First National Bank of Southern Africa.

FirstRand – membership

Remuneration committee

Audit committee

Directors' affairs and corporate governance committee

Directorships

FirstRand Bank Holdings

Union Acceptances

Anglo American Platinum Corporation

The Tongaat-Hulett Group

African Rainbow Minerals Gold

Sturrock and Robson Holdings

Khehla Cleopas Shubane (46)

Independent non-executive

BA (Hons), MBA Appointed 10 September 1996



Khehla Shubane graduated at the University of the Witwatersrand. Earlier he was a student at the University of the North where his studies were terminated following his arrest for political activities, conviction and sentence which he served on Robben Island. Upon his release he was employed

at Liberty Life for a short tenure. He served on various political organisations until joining the Centre for Policy Studies in 1988. He has been the co-author of several political publications, is a member of the board of the Centre for Policy Studies and Chairman of the National Roads Agency. He is a Manager with Simeka Management Consultants.

FirstRand – membership

Directors' affairs and corporate governance committee

Directorships

RMB Holdings

Matamela Cyril Ramaphosa (50)

Independent non-executive

BProc (Unisa) Appointed 26 November 2001



Cyril Ramaphosa was educated in Soweto and Sibasa in the Limpopo province. He enrolled for his degree at the University of the North, but his studies were interrupted when he was detained for opposing apartheid. He obtained his BProc degree from the University of South Africa (UNISA).

He became a co-founder of the National Union of Mineworkers where he was General Secretary from 1982 to 1991. In 1991 he was elected Secretary General of the ANC. He became a Member of Parliament in 1994 and was the Chairman of the Constitutional Assembly, the body that wrote the new Constitution of South Africa. He left active politics in 1996 and became the Chairman of Johnnic.

FirstRand – membership

Directors' affairs and corporate governance committee

Directorships

Millennium Consolidated Investments – Chairman

SAB Miller plc

MTN Holdings

Mac Steel

SASRIA

Benedict James van der Ross (56)

Independent non-executive

Dip Law (UCT) Appointed 27 May 1998



Ben van der Ross is the Chief Executive Officer of Business South Africa. He has a diploma in Law from the University of Cape Town. He was admitted to the Cape Side Bar as an Attorney and Conveyancer. Thereafter he practiced for his own account for 16 years. He became an Executive

Director with the Urban Foundation for five years up to 1990 and thereafter of the Independent Development Trust where he was Deputy Chief Executive Officer from 1995 to 1998. He was appointed to the board of The Southern Life Association in 1986.

FirstRand – membership

Directors' affairs and corporate governance committee

Directorships

Momentum Group

Nasionale Pers

Pick 'n Pay

Bonatla Property Holdings – Chairman

Business South Africa – CEO

Frederik van Zyl Slabbert (63)

Independent non-executive

BS, BA (Hons) (cum laude), MA (cum laude), DPhil

Appointed 26 November 2001



Frederik van Zyl Slabbert is a graduate of Stellenbosch University from which he received a Doctorate in Philosophy in 1967. He lectured at various South African universities until 1974 when he was elected to the South African Parliament as a member of the Progressive Party for the

Rondebosch Constituency. At the time of his retirement from politics in 1986, he was the leader of the Progressive Federal Party, which was the official opposition in Parliament. He is currently a political analyst. He holds an Honorary Doctorate from the Simon Fraser University in Canada and the University of Natal. He is the author of a number of books dealing with demographics and change in South Africa and also a member of the board of the Open Society of South Africa.

FirstRand – membership

Directors' affairs and corporate governance committee

Directorships

Metro Cash 'n Carry – Chairman

CTP Caxton – Chairman

Adcorp – Chairman

Khula

Robert Albert Williams (62)

Independent non-executive

BA, LLB Appointed 27 May 1998



Robbie Williams qualified at the University of Cape Town and joined Barlows Manufacturing Company where he became the Managing Director in 1979. In 1983 he was appointed Chief Executive Officer of Tiger Oats. In 1985 he assumed the Chairmanship of CG Smith Foods and Tiger

Oats, and was appointed to the board of Barlow Rand. Following the unbundling of CG Smith, he remained chairman of Tiger Brands and Illovo Sugar.

FirstRand – membership

Directors' affairs and corporate governance committee

Remuneration committee

Directorships

FirstRand Bank Holdings

Tiger Brands – Chairman

Illovo Sugar – Chairman

Mutual & Federal Assurance Company

Nampak

Executive committee

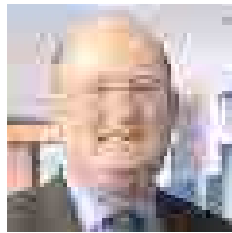
Executive committee (“Exco”) is empowered and responsible for implementing the strategies approved by the FirstRand board.



Laurie Dippenaar (54)

MCom, CA(SA)

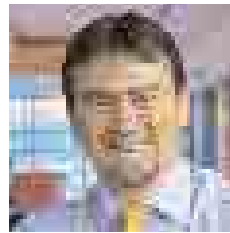
CEO: FirstRand



Viv Bartlett (60)

AMP (Harvard), FIBSA

Deputy CEO: FirstRand Bank Holdings



Johan Burger (44)

BCom (Hons), CA(SA)

CFO: FirstRand



Derek Carstens (53)

BEcon (Hons), MA (Cantab)

Director of Brands



Peter Cooper (47)

BCom (Hons), CA(SA), H Dip Tax

COO: RMB Holdings Limited



Ketso Gordhan (46)

BA – UDW, MPhil (Sussex University)

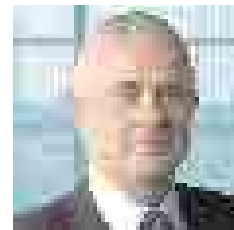
RMB Executive



Adrian Gore (39)

BSc (Hons), FFA, ASA, MAAA, FASSA

CEO: Discovery Holdings Limited



Paul Harris (53)

MCom

CEO: FirstRand Banking Group



Wendy Lucas-Bull (49)

BSc

CEO: Retail Cluster



Hillie Meyer (44)

BCom, FIA, AMP (Oxford)

CEO: Wealth Cluster



E B Nieuwoudt (41)

MCom

CEO: Corporate Cluster

The executive committee charter encompasses strategy development, values, branding, reputation and collaboration between business units.

Corporate Cluster

EB Nieuwoudt, CEO
Laurie Dippenaar
Paul Harris
Viv Bartlett
Johan Burger
Derek Carstens
Michael Pfaff
LP Collet
Louis van der Merwe
Bryan Jackson
Theunie Lategan
Modise Moatlhodi
Zelda Roscherr
Peter Page

Retail Cluster

Wendy Lucas-Bull, CEO
Laurie Dippenaar
Paul Harris
Viv Bartlett
Johan Burger
Derek Carstens
Michael Jordaan
Peet van der Walt
Modise Moatlhodi
John Macaskill
Alan Hedding
Ronnie Watson
Yatin Narsai

Wealth Cluster

Insurance

Hillie Meyer, CEO
Laurie Dippenaar
Frans Truter
Danie Botes
Etienne de Waal
Nigel Dunkley
Wayne McCurrie
Nicolaas Kruger
Kobus Sieberhagen
Riaan van Dyk
Brandon Zietsman

Banking

Hillie Meyer, CEO
Laurie Dippenaar
Johan Burger
Frans Truter
Derek Carstens
Peter Bourne
Sean Farrell
Graham McPherson
Willie Miller
Schoeman Rudman
Godfrey Watson

Good corporate governance is an integral part of the FirstRand business philosophy.

Governance ethos

FirstRand is committed to the highest standards of corporate governance.

The directors of FirstRand and its subsidiaries endorse the Code of Corporate Practices and Conduct (the "King Code 2002") contained within the King Report on Corporate Governance for South Africa 2002 (the "King Report 2002"). They are satisfied that the Group has in all material respects complied with the provisions and the spirit of the King Code 2002.

The process of documenting and refining the practices and procedures referred to last year has continued. The Banking Group commissioned its auditors to conduct a comprehensive review of their governance policies. This was supplemented by an independent review conducted by Advocate Myburgh at the request of the South African Reserve Bank (SARB). The directors were pleased with the findings of the two reports and are standardising, where appropriate, governance practices and procedures across the entire FirstRand Group. Where the Group conducts business internationally, best practice is adopted and monitored.

Good corporate governance is an integral part of FirstRand's business philosophy. The values espoused in this philosophy govern the way in which the Group interfaces with all its stakeholders and forms part of the induction courses run for all members of staff.

The directors believe that the implementation of group strategies is best managed at an operational level. While the directors acknowledge the need for their independence, they recognise the importance of good communication and co-operation between executive and non-executive directors.

The corporate governance framework which exists across the Group, ensures that the respective boards play an effective role in

providing strategic guidelines and in monitoring management in the discharging of their duties.

The board of directors and its committees

Composition

FirstRand 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 FirstRand, 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 already 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 of FirstRand comprises fourteen directors with an appropriate mix of skills and backgrounds. Their profiles appear on page 56 to 59 of this report and those who are regarded as independent and non-executive are reflected as such.

The boards of the Group's major subsidiaries are similarly constituted and group-wide charters are in place.

Induction and orientation programmes are being further improved to meet the increased needs of incoming directors. Director education is ongoing to ensure that directors are kept informed of industry developments and international best practice.

Appointment of directors

Non-executive directors are appointed for three years and are subject to Companies Act provisions relating to their removal. Re-appointment of non-executive directors is not automatic. The retirement age is set at age 70 across the Group. The executive directors all have contracts that can be terminated with one month's notice. Directors are required to subscribe to the Group's code of ethics.

The directors acknowledge the need for their independence but recognise the importance of good communication and co-operation between executive and non-executive directors.

Duties of directors

The board of directors has a fiduciary duty to act in good faith, with due diligence and care, and in the best interests of the company and all stakeholders. It is the guardian of the values and ethics of the company and its subsidiaries.

The fundamental responsibility of the board is to improve the economic prosperity of the Group over which it has full and effective control. In terms of its charter, the board is responsible for appointing the chief executive, guiding and reviewing corporate strategy and major plans of action, corporate governance and risk policy. In so doing the board and subsidiary boards monitor business plans, key performance indicators, including non-financial criteria and annual budgets. It oversees major capital expenditures, acquisitions and disposals and any other matters that are defined as material. It is also responsible for managing successful and productive relationships with stakeholders.

In exercising control of the Group, the directors are empowered to delegate. This it does through the boards of the major subsidiaries, an executive committee and various board committees. Reports from the subsidiaries and board committees are reviewed at quarterly board meetings.

Board proceedings

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.

The board met five times during the year and attendance was as follows:

	Sept	Nov	Feb	May	June
GT Ferreira	✓	✓		✓	✓
LL Dippenaar	✓	✓	✓	✓	✓
VW Bartlett	✓	✓	✓	✓	✓
DM Falck	✓	✓	✓	✓	✓
BH Adams	✓	✓	✓	✓	✓
DJA Craig	✓	✓	✓		✓
PM Goss	✓	✓	✓	✓	✓
SR Maharaj	✓	✓			
PK Harris	✓	✓	✓	✓	✓
BJ van der Ross	✓	✓	✓	✓	✓
MW King	✓	✓	✓	✓	✓
KC Shubane	✓	✓	✓		✓
MC Ramaphosa	✓	✓		✓	
RA Williams	✓	✓	✓	✓	
F van Zyl Slabbert	✓	✓	✓	✓	✓

Mr Maharaj was granted leave of absence in February 2003 and resigned from the board in August 2003.

To fulfil their responsibilities, directors have full and unrestricted access to relevant information and all group properties. Directors are also entitled to seek independent professional advice at the Group's expense in support of their duties.

Subsidiary boards and board committees

FirstRand has two wholly-owned subsidiaries. These are FirstRand Bank Holdings and the Momentum Group. The boards of these companies are subject to the oversight of the South African Reserve Bank and the Financial Services Board, respectively. Both boards comprise members who enjoy the combination of technical skills and experience necessary to effectively direct and control their respective businesses.

In addition to the executive committee, board committees have been appointed to deal with remuneration, audit and directors' affairs and corporate governance.

Executive committee

The FirstRand executive committee ("Exco") is empowered and responsible for implementing the strategies approved by the FirstRand board and for managing the affairs of the Group. Exco is chaired by the chief executive of FirstRand and meets monthly. The executive committee charter encompasses strategy development, values, branding, reputation and collaboration between business units.

Membership of Exco includes the chief executives of the Group's operating clusters, the Group chief financial officer and executives responsible for branding and transformation.

The members of the FirstRand Exco are listed on page 60.

Directors' affairs and governance committee

This committee comprises all the non-executive directors and is chaired by an independent non-executive director. In terms of its charter, its prime objective is to assist the board in discharging its responsibilities relative to corporate governance structures, matters relating to performance of directors and the appointment of new directors, the effectiveness of the board and succession planning at executive level. This committee also ensures that adequate education and training is available to directors.

This sub-committee was established during the year and met twice at short notice. Attendance was as follows:

	12 May	27 May
PM Goss (Chairman)	✓	✓
BH Adams		✓
DJA Craig		
DM Falck		
GT Ferreira	✓	✓
MW King	✓	✓
MC Ramaphosa		
KC Shubane	✓	
BJ van der Ross		✓
F van Zyl Slabbert		✓
RA Williams	✓	✓

Audit committee

The FirstRand audit committee reviews the findings and reports of the Banking and Insurance Group audit committees and addresses matters of a group nature.

All Group audit committees have adopted charters approved by their respective boards dealing with membership, structure, authority and duties.

The responsibility across the Group of the FirstRand audit committee is to:

- review the integrity, reliability and accuracy of accounting and financial reporting systems;
- review systems in place for monitoring risk, control, and compliance with the law and codes of conduct;
- review with external and internal auditors and management the adequacy and effectiveness of the internal audit, risk and compliance;
- maintain transparent and appropriate relationships with the respective firms of external auditors; and
- review the scope, quality and cost of the statutory audit and the independence and objectivity of the auditors.

The members of the FirstRand audit committee are:

BH Adams	Chairman, and chairman of the Insurance Group audit committee
MW King	Chairman of the Banking Group audit committee
LL Dippenaar	Chief executive

Given the Group's structure, the board deems it appropriate that the chief executive should be a full member of the committee.

The audit committee meets three times a year. The external auditors and the Group chief financial officer are present.

Attendance by directors was as follows:

	Sept	Feb	June
BH Adams (Chairman)	✓	✓	✓
LL Dippenaar	✓	✓	✓
MW King	✓	✓	✓

Remuneration committee

The FirstRand remuneration committee met once during the year. Its membership includes representatives of the remuneration committees of the Group's principal subsidiaries.

The primary objective of the remuneration committee is to develop the reward strategy for the Group. It is responsible for:

- evaluating the performance of executive directors;
- recommending remuneration packages for executive directors;
- recommending policy relating to the Group's bonus and share incentive schemes;
- recommending the basis for non-executive directors' fees; and
- reviewing annual salary increases.

No executive director is involved in the setting of his own remuneration.

The members of the FirstRand remuneration committee are:

PM Goss (Chairman)

BH Adams

GT Ferreira

MW King

RA Williams

LL Dippenaar attends in an ex-officio capacity.

FirstRand espouses a remuneration philosophy that promotes active widespread ownership for collective organisational goals and bases reward on individual contribution to their achievement. Further details relating to FirstRand's remuneration practices can be found on page 66 of this report.

Performance evaluation

Following the reports from PricewaterhouseCoopers and Advocate Myburgh on the effectiveness of the FirstRand Bank board, similar processes are being planned for the remaining boards within the Group and action will be taken as appropriate.

Details of each director's remuneration for the period under review can be found on page 105 of this report. The remuneration

of non-executive directors has been reviewed and proposals relating to the increase of fees will be submitted to the forthcoming annual general meeting of shareholders.

Management succession planning

FirstRand benefits from a wide pool of extensive and diverse experience and competence at senior management level. The board is confident that it should be possible to identify suitable short-term and long-term replacements from within the Group should the need arise.

Sustainability reporting

A separate report on sustainability recommended in terms of the Global Reporting Initiative ("GRI") has been prepared and sent to shareholders with these statements.

Company secretary

AH Arnott was appointed company secretary on 25 November 2002 when PF de Beer, company secretary since 1998, retired. He is suitably qualified and has access to the Group's secretarial resources.

The company secretary provides support and guidance to the board in matters relating to governance and ethical practices across the Group.

Auditor independence

The Group financial statements have been audited by the independent auditors PricewaterhouseCoopers Inc. FirstRand believes that they have observed the highest level of business and professional ethics. It has no reason to believe that the external auditor has not at all times acted with unimpaired independence. Details of fees paid to the external auditor for audit services are disclosed in the financial statements of the Banking and Insurance Groups.

It is FirstRand's policy to ensure that the Group makes use of the most suitable organisation for any professional services it may require. Details of non-audit services provided by the external auditor are disclosed in the financial statements of the Banking and Insurance Groups, together with an indication of fees paid in respect thereof.

To recognise the divergent needs of the Group operating divisions, FirstRand follows a practice of “industry specific” remuneration strategies.

Remuneration committees

The FirstRand Group companies operate in a number of sectors within the broader financial services industry. Each of these sections has its own distinct employment practices and unique human resource pressures. To recognise and address such divergent needs, FirstRand follows a practice of devolving the design and implementation of appropriate “industry specific” remuneration strategies through board sub-committees:

- the Momentum Group (insurance and asset management);
- First National Bank (retail and corporate banking); and
- Rand Merchant Bank (investment banking).

The FirstRand board remuneration committee oversees the activities of the subsidiary remuneration committees and co-ordinates group remuneration strategy thereby ensuring an appropriate alignment across all divisions.

Remuneration strategy

Within the divisional framework, referred to above, remuneration structures comprise:

- basic salary plus benefits; and, where appropriate,
- annual performance related rewards; and
- share incentive schemes.

The performance of the executive team and senior management is measured against pre-determined goals, both financial and non-financial.

Where employees belong to recognised trade unions, appropriate bargaining platforms are in place.

The policy on remuneration of executive directors is consistent with that of senior staff. Non-executive directors receive fees for their services as directors and for services provided as members of board committees. These fees vary depending on the role of the committee. An increase in fees has been recommended to

recognise new legislative responsibilities relating to the role of directors.

Non-executive directors do not currently qualify for participation in share incentive schemes.

Since year-end, consultants have been appointed to review the current processes and scorecards used to test alignment with shareholder strategies and new legislation.

Basic salary and benefits

Salaries are reviewed annually, in the context of individual and business unit performance and specific industry practices and trends. Reference is made to independent salary surveys on a regular basis. Where bargaining units exist negotiations take place with the recognised trade unions.

Benefits are largely determined by specific industry practices. All full-time employees are members of defined benefit or defined contribution pension and/or provident fund schemes under the auspices of the relevant governing legislation. New employees joining the Group become members of the defined contribution pension and/or provident fund schemes. All schemes are regularly valued by independent actuaries, and are in a financially sound position. Retirement funding contributions are charged against expenditure when incurred. Should the actuaries advise any deficits, such deficits are funded, either immediately or through increased contributions to ensure the ongoing soundness of the funds concerned. The assets of such retirement funds are managed separately from the Group's assets. Trustees, which include staff and pensioner representatives, oversee the management of the funds and ensure compliance with the relevant legislation.

All employees are required to belong to a recognised medical aid scheme. Where the Group provides for medical aid contributions beyond the date of retirement, it determines the present value of

such contributions for existing pensioners and provides for the liability. In the case of current employees, such cost is charged over the service period of the employees concerned. Current employment practice is not to provide for post-retirement medical aid benefits.

Performance related payments

Where appropriate, annual performance related payments are made to employees. The level of such payments is dependent upon a number of key measures including the performance of the individual and the business unit concerned. In certain business units bonus payments take place in tranches during the twelve months following the financial year to which they relate. Notwithstanding such deferral, the bonuses are provided for in full in the current year's expenditure. Should an employee resign or be dismissed from the Group's employ, unpaid bonus tranches are forfeited.

Share incentives

Share incentive schemes operated by the Group are a powerful tool in aligning the interests of staff with those of FirstRand shareholders. All of the share incentive schemes currently in operation in the Group have received the prior approval of FirstRand shareholders in general meeting. A maximum of 544 million ordinary shares in the capital of FirstRand may be allocated to the schemes. This represents approximately 10% of FirstRand's ordinary shares currently in issue.

The share incentive schemes operated by the Group fall into two main categories, namely:

- A series of conventional share option schemes (collectively "the FirstRand Share Option Schemes"); and
- The FirstRand Out-Performance Share Scheme, in terms of which participants are rewarded only if the performance of the FirstRand shares exceeds that of the FINI 15.

Up to half of the ordinary shares available in terms of the share incentive scheme may be allocated to the FirstRand Out-Performance Share Scheme.

Allocations to both schemes are reviewed annually and no schemes exist beyond ten years.

The OutPerformance scheme was introduced in 2000. Its introduction recognises modern trends to encourage long term sustainable performance relative to a peer group, thereby countering suggestions of windfall executive remuneration.

Details of share option plans appear in note 37 of the annual financial statements.

Workforce profile

The Group recruits and develops entrepreneurial and intreprenurial self-starters who are passionate about what they do.

South African workforce

	AIC		White		Total		Grand Total
	Male	Female	Male	Female	Male	Female	
1. Top management	12	3	117	27	129	30	159
2. Senior management	50	21	429	159	479	180	659
3. Professionally qualified and experienced specialists and mid-management	321	270	1 611	1 015	1 932	1 285	3 217
4. Skilled technical and academically qualified workers, junior management, supervisors	1 583	2 173	2 335	3 801	3 918	5 974	9 892
5. Semi-skilled and discretionary decision-making	3 042	6 902	1 103	5 092	4 145	11 994	16 139
6. Unskilled and defined decision-making	1 090	737	44	173	1 134	910	2 044
Total	6 098	10 106	5 639	10 267	11 737	20 373	32 110

AIC = African, Indian and Coloured

By race

By gender

	2003	%	2002	%		2003	%	2002	%
AIC	16 204	50.5	15 429	49.7	Male	11 737	36.6	11 071	35.7
White	15 906	49.5	15 606	50.3	Female	20 373	63.4	19 964	64.3
Total	32 110	100.0	31 035	100.0		32 110	100.0	31 035	100.0

Change in South African workforce

	2003	2002
Staff complement at 1 July	31 035	30 387
New appointments	3 739	4 437
Resignations	(2 246)	(3 110)
Retrenchments	(120)	(300)
Dismissals	(192)	(312)
Deaths or disability	(106)	(67)
Staff complement at 30 June	32 110	31 035

Total workforce

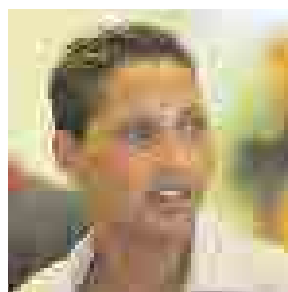
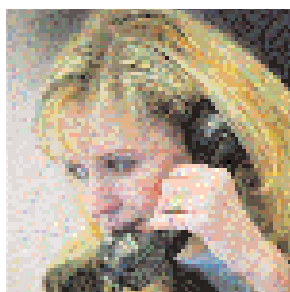
	2003		2002	
	Number	%	Number	%
South Africa	32 110	90.8	31 035	91.1
Rest of Africa	2 305	6.5	1 924	5.7
Other countries	929	2.7	1 087	3.2
Total workforce	35 344	100.0	34 046	100.0



FIRSTRAND

FirstRand Group financial statements 2003

The group has produced five years of sustained growth. This translates into compound annual growth in core headline earnings of 20%, in dividends per share of 23% and in NAV of 19% over the five-year period.





FIRSTRAND
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FirstRand Group financial statements 2003

These financial statements cover the consolidated financial results of FirstRand Limited and its wholly-owned subsidiaries, FirstRand Bank Holdings Limited and Momentum Group Limited.

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Directors' responsibility statement

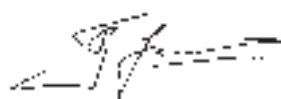
To the members of FirstRand Limited

The directors of FirstRand 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 company and the group 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 financial statements incorporate full and responsible disclosure, in line with the group's philosophy on corporate governance.

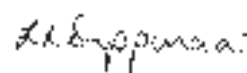
The directors have reviewed the group's budget and flow of funds forecast for the year to 30 June 2004. On the basis of this review, and in the light of the current financial position, the directors have no reason to believe that FirstRand will not be a going concern for the foreseeable future. The going-concern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

The group's external auditors, PricewaterhouseCoopers Inc, have audited the financial statements and their unqualified report appears on page 72.

The financial statements of the group and the company for the year ended 30 June 2003, which appear on pages 73 to 95 and 96 to 104 respectively, have been approved by the board of directors and are signed on its behalf by:



GT Ferreira
Chairman



LL Dippenaar
CEO

Sandton
15 September 2003

Report of the independent auditors

To the members of FirstRand Limited

We have audited the annual financial statements of the group and company set out on pages 73 to 95 and 96 to 104 for the year ended 30 June 2003. These financial statements are the responsibility of the company's directors. Our responsibility is to express an opinion on these financial statements based on our audit.

Scope

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

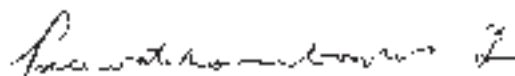
An audit includes:

- examining, on a test basis, evidence supporting the amounts and disclosures 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 group and the company at 30 June 2003 and the results of their operations and cash flows for the year then ended in accordance with Statements of Generally Accepted Accounting Practice in South Africa and in the manner required by the South African Companies Act of 1973.



PricewaterhouseCoopers Incorporated
Chartered Accountants (SA)
Registered Accountants and Auditors

Sandton
15 September 2003

Directors' report

for the year ended 30 June 2003

Nature of business

FirstRand Limited ("FirstRand") is listed under banks on the JSE Securities Exchange South Africa and the Namibian Stock Exchange and is the holding company of the FirstRand Group of companies, which comprise diverse financial services activities in the areas of retail, corporate, investment and merchant banking, life insurance, employee benefits, health insurance and asset and property management.

The banking and insurance activities of the group are consolidated in the wholly-owned subsidiaries FirstRand Bank Holdings Limited and Momentum Group Limited.

A schedule of group companies is set out on page 15.

Share capital

Ordinary shares

There were no changes to the authorised share capital of the company during the year.

On 23 April 2003 FirstRand issued 15 017 941 additional ordinary shares. These new shares arose from the conversion of "A" variable rate, convertible, redeemable cumulative preference shares issued by the company on 28 March 2000 in terms of the FirstRand Out-Performance Share Incentive Scheme.

At the annual general meeting of the shareholders of the company held on 25 November 2002 a special resolution was passed authorising the board of directors to approve the purchase of its own shares by the company during the period up to and including the date of the following annual general meeting. This repurchase is limited in any one financial year to a cumulative maximum of 20% of the company's issued share capital.

At the same meeting, a second special resolution was passed authorising a subsidiary of the company to purchase ordinary shares on the same basis as that set out above.

Each of these resolutions is subject to the provisions of the Companies Act, as amended, and the listing requirements of the JSE Securities Exchange South Africa.

To date no action in terms of these resolutions has taken place.

Preference shares

There were no changes to the authorised capital in respect of the "A" variable rate, convertible, redeemable cumulative preference shares (the preference shares) during the year.

On 1 October 2002, 17 700 000 preference shares were issued at a premium of R6,53 per share.

The following redemptions of preference shares took place during the year:

Date	Number of shares	Premium
2 January 2003	4 740 000	R8,14
2 January 2003	360 000	R7,44
23 April 2003	14 264 559	R8,14

On 23 April 2003, 29 282 500 preference shares were converted into 15 017 941 ordinary shares.

For reporting purposes, the preference shares are shown as long-term funding.

Shareholder analysis

Based on information disclosed by STRATE and investigations conducted on behalf of the company, the following shareholders have a beneficial interest of 5% or more in the issued ordinary shares of the company:

RMB Holdings Limited	32.74%	(2002: 32.83%)
Financial Securities Limited (Remgro)	9.54%	(2002: 9.56%)
Public Investment Commissioners	7.83%	(2002: 7.25%)

Further details of shareholders' appear on page 269.

Group results

A general review of the financial results of the group and the operations of its subsidiaries commences on page 28. The financial results of the company for the year to 30 June 2003 have been prepared in accordance with requirements of a new statement of Generally Accepted Accounting Practice "AC133 – Financial Instruments: Recognition and Measurement". This standard introduces the concept of "fair value" accounting for financial instruments which form the core of the group's businesses.

FirstRand believes that the impact of AC133 is best highlighted by presenting supplementary pro forma accounts for the 2003

Directors' report continued

for the year ended 30 June

year reflecting the position before the application of AC133. Accordingly the earnings figure is shown below both before and after the implementation of AC133.

Earnings

Headline earnings and the contribution from the banking and insurance subsidiaries for the year were as follows:

R million	2003 Post	2003 Pre	2002
FirstRand Bank Holdings	3 820	3 463	3 771
Core operations	4 352	4 068	3 223
Foreign currency translation (losses)/gains	(532)	(605)	548
Momentum Group	1 116	1 122	1 024
Secondary tax on companies	(39)	(39)	(61)
Total headline earnings after tax	4 897	4 546	4 734
Earnings per share (cents)	84,3	77,9	82,5

Dividends

Ordinary shares

The following ordinary cash dividends were declared for the 2003 financial year.

	2003 Cents per share	2002 Cents per share
Interim (declared 26 February 2003)	16,5	13,5
Final (declared 16 September 2003)*	18,5	15,0
	35,0	28,5

* The last day to trade in FirstRand shares on a cum-dividend basis in respect of the final dividend will be 17 October 2003 and the first day to trade ex-dividend will be 20 October 2003. The record date will be 24 October 2003 and the payment date 27 October 2003. No dematerialisation or rematerialisation of shares can be done during the period 20 October 2003 to 24 October 2003, both days inclusive.

"A" preference shares

Dividends on the "A" preference shares are calculated at a rate of 65% of the prime lending rate of banks and the following dividends have been declared for payment:

For the six months to	
31 December 2002:	R62 944 771 (2002: R48 196 800)
For the six months to	
30 June 2003:	R57 225 978 (2002: R51 644 498)

Directorate

Details of the directors, their emoluments, participation in share incentive schemes and interests in the company are reflected on pages 105 and 106.

Since the last annual report the only change to the directorate has been the resignation of SR Maharaj on 31 August 2003.

Interest of directors and officers

During the financial year, no contracts were entered into in which directors or officers of the company had an interest and which significantly affected the business of the group. The directors had no interest in any third party or company responsible for managing any of the business activities of the group except to the extent that they are shareholders in RMB Holdings, which together with Remgro has management control of FirstRand.

Property and equipment

There is no change in the nature of the property and equipment of the group or in the policy regarding their use during the year.

Insurance

The group protects itself against crime risks as well as professional indemnity by carrying large deductibles through a structured insurance risk financing programme and with the balance of the risks being fully insured up to R2 billion.

Subsidiaries

Interest in subsidiaries is set out in note 12 of FirstRand Limited's company financial statements.

Company secretary and registered offices

AH Arnott was appointed company secretary on 25 November 2002 when PF de Beer retired. The address of the company secretary is that of the registered office as stated on page 270.

Events subsequent to the balance sheet date

In July 2003, a subsidiary of FirstRand issued redeemable cumulative preference shares to the value of R1 405 million. The proceeds of this issue facilitated a restructuring of the insurance group in terms of which Momentum's investment in Discovery Holdings was transferred to FirstRand. R786 million of the proceeds of the issue was used by the group to follow its rights in the claw back offer made by Discovery Holdings.

Declaration by the company secretary in respect of section 268g(d) of the Companies 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 Companies Act and that all such returns are true, correct and up to date.



AH Arnott
BCom, CA(SA)
Company secretary

Accounting policies

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

1. Basis of presentation

These financial statements have been prepared on a going-concern basis using the historical cost basis, except for the following financial assets and liabilities, where it adopts the fair value basis of accounting:

- Financial assets and liabilities held for trading
- Financial assets and liabilities classified as available for sale
- Derivative financial instruments
- Short trading positions.

The consolidated 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 noted. Where necessary and permitted, comparative figures were adjusted to conform to changes in presentation in the current year.

AC133 (Financial Instruments: Recognition and Measurement) was adopted with effect from 1 July 2002, including the interpretation issued under Circular ED168.

2. Consolidation

The financial statements include the assets, liabilities and results of the operations of the holding company and its subsidiaries. Subsidiaries are companies in which the group, directly or indirectly, has a long-term interest and the power to exercise control over the operations. The group considers the existence and effect of potential voting rights that are presently exercisable or convertible in determining control.

The group consolidates a special purpose entity (SPE) when the substance of the relationship between the group and the SPE indicates that the group controls the SPE.

The group uses the purchase method of accounting to account for the acquisition of subsidiaries. Subsidiaries are consolidated from the date on which the group acquires effective control. Consolidation is discontinued from the effective date of disposal.

The group recognises assets and liabilities acquired in its balance sheet at their estimated fair values at the date of acquisition. It eliminates all inter-company transactions, balances and unrealised surpluses and deficits on transactions between group companies.

3. Investment in subsidiaries

The company's investment in subsidiaries is reflected at the attributable net asset value of the subsidiaries. This is achieved by applying equity accounting principles.

4. Revenue and expense recognition

Investment income

Investment income comprises interest, dividends and equity accounted earnings of subsidiaries. The group accounts for dividends as at the last day of registration in respect of listed shares, and on the date of declaration in respect of unlisted shares.

Interest and other investment income, including dividend income on cumulative preference share investments, are accounted for on an accrual basis.

5. Direct and indirect taxation

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

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

Indirect taxes are separately disclosed in the notes to 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 the group operates in.

6. Recognition of assets, liabilities and provisions

6.1 Assets

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

6.2 Liabilities and provisions

Liabilities, including provisions, are recognised when the group:

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

6.3 Contingent liabilities

Contingent liabilities are disclosed when the group:

- 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 group, 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.

7. Derecognition of assets, liabilities and provisions

A financial asset is derecognised when the group 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 financial liability is derecognised when it is legally extinguished.

8. Cash and cash equivalents

In the cash flow statement, cash and cash equivalents comprise money at call and short notice.

9. Accounting policies specific to banking and insurance

For detailed accounting policies relating to the banking and insurance operations, please refer to pages 137 to 149 and pages 223 to 229 respectively.

Income statement

for the year ended 30 June

R million	Notes	Group 2003	Group 2002
Banking operations			
Interest income	Banking note 3	26 293	18 721
Interest expenditure	Banking note 4	(17 189)	(12 304)
Net interest income before impairment of advances		9 104	6 417
Impairment of advances	Banking note 11	(1 478)	(1 705)
Net interest income after impairment of advances		7 626	4 712
Non-interest income	Banking note 5	7 123	8 319
Net income from operations		14 749	13 031
Operating expenditure	Banking note 6	(9 537)	(8 378)
Income from operations		5 212	4 653
Share of earnings of associated companies	Banking note 15	494	368
Income before indirect taxation		5 706	5 021
Indirect taxation	Banking note 7	(346)	(270)
Income before direct taxation		5 360	4 751
Direct taxation	Banking note 7	(1 308)	(829)
Income after taxation		4 052	3 922
Earnings attributable to outside shareholders		(278)	(182)
Earnings from banking operations	Banking note 30	3 774	3 740
Insurance operations			
Group operating profit after taxation		604	635
Net premium income	Insurance note 3	10 527	19 245
Investment income	Insurance note 4	3 399	5 838
Policy fees on investment contracts	Insurance note 4	178	–
Policyholder benefits	Insurance note 5	(7 312)	(17 393)
Marketing and administration expenses	Insurance note 6	(3 084)	(2 563)
Impairment of goodwill	Insurance note 15	(242)	(210)
Commissions		(1 043)	(938)
Direct taxation	Insurance note 8	(468)	(594)
Indirect taxation	Insurance note 8	(125)	(131)
Realised and unrealised investment surpluses attributable to insurance contracts		(764)	2 844
Earnings attributable to outside shareholders		(138)	(100)
Transfer to policyholder liabilities under insurance contracts	Insurance note 21	(324)	(5 363)
Investment income on the shareholders' portfolio		250	176
Interest, dividends and net rentals	Insurance note 4	288	195
Taxation on investment income	Insurance note 8	(38)	(19)
Earnings from insurance operations	Insurance notes 7, 9	854	811
FirstRand Limited		(39)	(61)
Management expenses		(27)	(6)
Secondary tax on companies		(12)	(55)
Goodwill amortised – intergroup		5	5
Earnings attributable to ordinary shareholders	5, 32	4 594	4 495
Earnings per share (cents)	5	84,3	82,5
Diluted earnings per share (cents)	5	83,2	82,5
Core headline earnings per share (cents)	5	99,6	76,9
Headline earnings per share (cents)	5	89,9	86,9
Dividend per share (cents)	4	35,0	28,5

Balance sheet

as at 30 June

R million	Notes	Group 2003	Group 2002
Assets			
Banking operations		257 926	246 337
Cash and short-term funds	6	29 252	24 784
Advances	7	189 626	175 161
<ul style="list-style-type: none"> • Originated • Held-to-maturity • Available for sale • Trading • Less: Impairment 		135 062 9 753 7 406 40 707 (3 302)	
Investment securities and other investments	8	36 645	44 654
Financial instruments held for trading		11 379	
Investment securities		25 266	
<ul style="list-style-type: none"> • Held-to-maturity • Available for sale • At elected fair value 		1 220 21 208 2 838	
Non-recourse investments	9	2 403	1 738
Insurance operations		76 297	73 832
Funds on deposit	10	15 836	13 455
Government and public authority stocks		12 575	9 842
Debentures and other loans		10 759	7 541
Policy loans		581	580
Equity investments	11	33 793	39 510
Investment properties	12	2 753	2 904
Current assets	13	8 926	10 621
Loan	14	686	934
Investments in associated companies	15	2 458	1 735
Derivative financial instruments	16	43 879	35 056
Deferred taxation assets	17	981	1 264
Intangible assets	18	472	942
Property and equipment	19	4 068	4 045
Total assets		395 693	374 766
Liabilities and shareholders' funds			
Liabilities			
Deposits and current accounts	20	186 031	201 404
Non-recourse deposits	9	2 403	1 738
Current liabilities	21	17 335	13 956
Provisions	22	1 092	925
Taxation	23	1 430	508
Derivative financial instruments	24	46 657	37 215
Short trading positions	25	33 881	16 799
Deferred taxation liabilities	17	1 944	2 204
Retirement funding liabilities	26	1 293	1 210
Debentures and long-term liabilities	27	4 645	5 164
Policyholder liabilities		75 551	73 519
Policyholder liabilities under insurance contracts	28	38 975	73 519
Policyholder liabilities under investment contracts	29	36 576	–
Total liabilities		372 262	354 642
Outside shareholders' interest	30	1 145	1 040
Shareholders' funds			
Share capital and share premium	31	8 487	8 487
Reserves	32	13 799	10 597
Distributable reserves		11 766	9 465
Non-distributable reserves		2 033	1 132
Total shareholders' funds		22 286	19 084
Total liabilities and shareholders' funds		395 693	374 766
Contingencies and commitments	33	25 888	27 284

Cash flow statement

for the year ended 30 June

R million	Notes	Group 2003	Group 2002
Cash flows from operating activities			
Cash generated by operations	34.1	13 469	15 367
Working capital changes	34.2	5 865	(3 098)
Cash inflow from operations		19 334	12 269
Taxation paid	34.3	(1 332)	(1 412)
Dividends paid	34.4	(1 715)	(1 416)
Net cash inflow from operating activities		16 287	9 441
Cash flows from investment activities			
Banking investment activities	34.5	(6 650)	5 931
Insurance investment activities	34.6	(1 118)	(180)
Net purchase of property and equipment		(938)	(1 015)
Investment in associates		(393)	(516)
Net purchase of intangible assets		(41)	(184)
Proceeds on disposal of shares in subsidiary		–	56
Net cash (outflow)/inflow from investment activities		(9 140)	4 092
Cash flows from financing activities			
(Repayment of)/proceeds from long-term borrowings		(298)	482
Net cash (outflow)/inflow from financing activities		(298)	482
Net increase in cash and cash equivalents		6 849	14 015
Cash and cash equivalents at the beginning of the year		38 239	16 293
Cash and cash equivalents acquired		–	7 931
Cash and cash equivalents at the end of the year	34.7	45 088	38 239

Statement of changes in equity

for the year ended 30 June

R million	Share capital (Note 31)	Share premium (Note 31)	Retained earnings (Note 32)	Non-distributable reserves (Note 32)	Total shareholders' funds
Balance at 1 July 2001					
As previously stated	56	9 539	6 533	457	16 585
• Reclassification of preference shares	(1)	(1 107)	–	–	(1 108)
• Change in accounting policy – deferred acquisition costs	–	–	(111)	–	(111)
Restated balance as at 1 July 2001	55	8 432	6 422	457	15 366
Currency translation differences	–	–	–	604	604
Revaluation of investments	–	–	–	60	60
Non-distributable reserves of associated companies	–	–	–	12	12
Movement in other reserves	–	–	–	(37)	(37)
Earnings attributable to shareholders	–	–	4 495	–	4 495
Dividends	–	–	(1 416)	–	(1 416)
Transfer (to)/from reserves	–	–	(36)	36	–
Balance at 30 June 2002	55	8 432	9 465	1 132	19 084
Balance at 1 July 2002	55	8 432	9 465	1 132	19 084
AC133 adjustments to opening balance	–	–	(482)	555	73
Adjusted opening balance	55	8 432	8 983	1 687	19 157
AC133 adjustments to current year	–	–	–	823	823
Currency translation differences	–	–	–	(575)	(575)
Movement in other reserves	–	–	–	2	2
Earnings attributable to shareholders	–	–	4 594	–	4 594
Dividends	–	–	(1 715)	–	(1 715)
Transfer (to)/from reserves	–	–	(96)	96	–
Balance at 30 June 2003	55	8 432	11 766	2 033	22 286

Notes to the annual financial statements

for the year ended 30 June

R million	Reference	Group 2003	Group 2002
1. Accounting policies			
The accounting policies of the group are set out on pages 76 and 77.			
2. Turnover			
Turnover is a concept not relevant to the business of banking and insurance.			
3. Net income after tax attributable to shareholders			
Net income after tax is stated after charging the following:			
Directors' emoluments paid			
Executive directors			
Salaries, pension and medical aid contributions		22	18
Non-executive directors			
Fees for services as directors/consultants		4	4
		26	22
Directors' emoluments paid by:			
Company		2	2
Subsidiaries		24	20
		26	22
4. Dividends			
Ordinary dividends			
An interim dividend of 16.5 cents (2002: 13.5 cents) per share was declared on 26 February 2003 in respect of the six months ended 31 December 2002.		899	735
A final dividend of 18.5 cents (2002: 15.0 cents) per share was declared on 16 September 2003 in respect of the six months ended 30 June 2003.		1 010	816
		1 909	1 551
5. Earnings per share			
Attributable earnings			
Earnings per share is based on the net income after tax attributable to ordinary shareholders and the weighted number of ordinary shares in issue.			
Earnings attributable to ordinary shareholders amounted to R4 594 million (2002: R4 495 million) and the weighted average number of ordinary shares in issue during the year amounted to 5 448 142 097 (2002: 5 445 303 089). The weighted average number of ordinary shares for the purpose of calculating the diluted earnings per share amounted to 5 524 042 097 (2002: 5 445 303 089).			
Headline earnings			
Headline earnings per share is based on the net income after tax attributable to ordinary shareholders adjusted for items of a capital nature, and the weighted average number of ordinary shares in issue.			

R million	Reference	Group 2003	Group 2002
5. Earnings per share (continued)			
Headline earnings reconciliation			
Net income after tax attributable to ordinary shareholders		4 594	4 495
Add: Amortisation of goodwill		82	58
Add: Impairment of goodwill		242	210
Add: Loss on disposal of assets		31	31
Less: Abnormal profit on release of reserves – Discovery		(52)	(28)
Less: Profit on disposal of subsidiary shares		–	(32)
Headline earnings		4 897	4 734
Add/(less): Foreign currency translation loss/(gain)		532	(548)
Core headline earnings		5 429	4 186
6. Cash and short-term funds			
Banking operations	Banking note 8	29 252	24 643
Consolidation adjustment		–	141
		29 252	24 784
7. Advances			
Banking operations	Banking note 10	189 611	175 145
Consolidation adjustment		15	16
		189 626	175 161
8. Investment securities and other investments			
Banking operations	Banking note 12	36 655	44 666
Consolidation adjustment		(10)	(12)
		36 645	44 654
9. Non-recourse investments/deposits			
Banking operations	Banking note 13	2 403	1 738
10. Funds on deposit			
FirstRand Limited	FirstRand Limited pg 97	7	5
Insurance operations	Insurance pg 231	16 727	13 524
Consolidation adjustment		(898)	(74)
		15 836	13 455
11. Equity investments			
Insurance operations	Insurance note 10	33 924	39 623
Consolidation adjustment		(131)	(113)
		33 793	39 510
12. Investment properties			
Insurance operations	Insurance note 12	2 753	2 904

Notes to the annual financial statements continued

for the year ended 30 June

R million	Reference	Group 2003	Group 2002
13. Current assets			
FirstRand Limited	FirstRand Limited pg 97	307	219
Banking operations	Banking note 14	3 196	3 269
Insurance operations	Insurance note 13	5 494	7 342
Consolidation adjustment		(71)	(209)
		8 926	10 621
14. Loan	FirstRand Limited		
OutPerformance Share Incentive Scheme loan	note 7	686	934
Loans to share option trusts are detailed in note 37.			
15. Investments in associated companies			
Banking operations	Banking note 15	1 915	1 169
Insurance operations	Insurance note 11	543	566
		2 458	1 735
16. Derivative financial instruments			
Banking operations	Banking note 9	36 375	26 139
Insurance operations	Insurance note 25	7 504	8 917
		43 879	35 056
17. Deferred taxation			
Banking operations – Debit balances	Banking note 7	931	1 253
Insurance operations – Debit balances	Insurance note 14	50	11
		981	1 264
Banking operations – Credit balances	Banking note 7	1 721	1 931
Insurance operations – Credit balances	Insurance note 14	223	273
		1 944	2 204
18. Intangible assets			
Banking operations	Banking note 18	205	288
Insurance operations	Insurance note 15	356	750
Consolidation adjustment		(89)	(96)
		472	942
19. Property and equipment			
Banking operations	Banking note 16	3 455	3 412
Insurance operations	Insurance note 16	613	634
Consolidation adjustment		–	(1)
		4 068	4 045

R million	Reference	Group 2003	Group 2002
20. Deposits and current accounts			
Banking operations	Banking note 19	186 031	201 404
21. Current liabilities			
FirstRand Limited	FirstRand Limited pg 97	321	223
Banking operations	Banking note 21	11 888	7 016
Insurance operations	Insurance note 17	4 244	6 035
Consolidation adjustment		882	682
		17 335	13 956
22. Provisions			
Banking operations	Banking note 22	976	831
Insurance operations	Insurance note 18	116	94
		1 092	925
23. Taxation			
FirstRand Limited	FirstRand Limited pg 97	1	1
FirstRand Investment Holdings		1	1
Banking operations	Banking pg 151	1 091	429
Insurance operations	Insurance pg 231	337	77
		1 430	508
24. Derivative financial instruments			
Banking operations	Banking note 9	43 103	31 525
Insurance operations	Insurance note 25	3 554	5 690
		46 657	37 215
25. Short trading positions			
Banking operations	Banking note 20	33 881	16 799
26. Retirement funding liabilities			
Banking operations	Banking note 17.3	1 004	897
Insurance operations	Insurance note 19	289	313
		1 293	1 210
27. Debentures and long-term liabilities			
Banking operations	Banking note 23	2 910	3 217
Insurance operations	Insurance note 20	2 705	1 990
FirstRand Limited	FirstRand Limited note 8	686	934
Consolidation adjustment		(1 656)	(977)
		4 645	5 164
28. Policyholder liabilities under insurance contracts			
Insurance operations	Insurance note 21	38 964	73 645
Consolidation adjustment		11	(126)
		38 975	73 519
29. Policyholder liabilities under investment contracts			
Insurance operations	Insurance note 22	36 712	–
Consolidation adjustment		(136)	–
		36 576	–

Notes to the annual financial statements continued

for the year ended 30 June

R million	Reference	Group 2003	Group 2002
30. Outside shareholders' interest			
Banking operations	Banking pg 151	549	475
Insurance operations	Insurance pg 231	606	531
Consolidation adjustment		(10)	34
		1 145	1 040
31. Share capital and share premium			
Share capital			
Authorised			
6 228 000 000 ordinary shares of 1 cent each (2002: 6 228 000 000)		62	62
272 000 000 "A" variable rate, convertible, redeemable cumulative preference shares of 1 cent each (2002: 272 000 000)		3	3
Issued			
Balance at the beginning of the year			
5 445 303 089 ordinary shares of 1 cent each (2002: 5 445 303 089)		55	55
135 520 000 "A" variable rate, convertible, redeemable cumulative preference shares of 1 cent each (2002: 136 000 000)		1	1
Shares issued during the year			
15 017 941 ordinary shares of 1 cent each (2002: nil)		–	–
17 700 000 "A" variable rate, convertible, redeemable cumulative preference shares of 1 cent each		–	–
(2002: 9 150 000 "A" variable rate, convertible, redeemable cumulative preference shares of 1 cent each)		–	–
Shares redeemed during the year			
19 364 559 "A" variable rate, convertible, redeemable cumulative preference shares of 1 cent each		–	–
(2002: 9 630 000 "A" variable rate, convertible, redeemable cumulative preference shares of 1 cent each)		–	–
Shares converted during the year			
15 017 941 "A" variable rate, convertible, redeemable cumulative preference shares of 1 cent each (2002: nil)		–	–
Balance at the end of the year			
5 460 321 030 ordinary shares of 1 cent each (2002: 5 445 303 089)		55	55
118 837 500 "A" variable rate, convertible, redeemable cumulative preference shares of 1 cent each (2002: 135 520 000)		1	1
Preference shares disclosed under liabilities		(1)	(1)
Total share capital		55	55
Share premium			
Balance at the beginning of the year		9 530	9 539
Preference shares issued		116	69
Preference shares redeemed		(280)	(78)
		9 366	9 530
Preference shares disclosed under liabilities		(934)	(1 098)
Total share premium		8 432	8 432
Share capital and share premium		8 487	8 487
The following represents the shareholding of subsidiaries in FirstRand Limited at 30 June 2003:		%	%
Momentum Group Limited – held on behalf of policyholders		2.0	2.5

31. Share capital and share premium (continued)

Share option schemes

Details of the investment in FirstRand Limited by the share incentive schemes in existence within the group are set out in note 37.

R million	Reference	Group 2003	Group 2002
32. Reserves			
<i>Distributable reserves</i>			
Retained earnings at the beginning of the year		9 465	6 422
AC133 adjustments to opening balance		(482)	–
Earnings attributable to shareholders		4 594	4 495
Dividend for the current year		(1 715)	(1 416)
Transfer to non-distributable reserves		(96)	(36)
Retained earnings at the end of the year		11 766	9 465
<i>Non-distributable reserves</i>			
Non-distributable reserves relating to:			
<i>Banking operations</i>		1 908	947
General risk reserve		901	–
Revaluation reserve		689	5
Currency translation reserve		303	903
Other		15	39
<i>Insurance operations</i>		125	185
Revaluation reserve		18	91
Currency translation reserve		67	42
Reserve on capitalisation of subsidiary		51	51
Other		(11)	1
Non-distributable reserves at the end of the year		2 033	1 132
<i>Total reserves</i>		13 799	10 597
<i>Movement for the year in non-distributable reserves</i>			
Balance at the beginning of the year		1 132	457
Transfer from income statement relating to banking operations		96	34
Transfer from income statement relating to insurance operations		–	2
General risk reserve		763	–
Revaluation reserve		615	60
Currency translation reserve		(575)	604
Other		2	(25)
Balance at the end of the year		2 033	1 132
33. Contingencies and commitments			
Banking operations	Banking note 26	25 883	27 284
FirstRand Limited	FirstRand Limited pg 97	5	–
		25 888	27 284

Notes to the annual financial statements continued

for the year ended 30 June

R million	Group 2003	Group 2002
34. Cash flow information		
34.1 Cash generated by operations		
Net income after tax attributable to ordinary shareholders	4 594	4 495
Adjustment for non-cash items and taxation	8 875	10 872
Cash generated by operations	13 469	15 367
34.2 Working capital changes		
Net increase in current assets	(10 709)	(14 907)
Net increase in current liabilities	16 574	11 809
Net working capital changes	5 865	(3 098)
34.3 Taxation paid		
Balance at the beginning of the year	(508)	(376)
Taxation charged for the year	(2 254)	(1 544)
Balance at the end of the year	1 430	508
Taxation paid	(1 332)	(1 412)
34.4 Dividends paid		
Final dividend declared on:		
• 16 September 2002 in respect of the year ended 30 June 2002	(816)	–
• 6 September 2001 in respect of the year ended 30 June 2001	–	(681)
Interim dividend declared on:		
• 26 February 2003 in respect of the period ended 31 December 2002	(899)	–
• 27 February 2002 in respect of the period ended 31 December 2001	–	(735)
Dividends paid	(1 715)	(1 416)
34.5 Banking investment activities		
(Increase)/decrease in:		
Investment securities and other investments	4 610	(8 701)
Advances	(19 454)	(40 531)
	(14 844)	(49 232)
Deposits and current accounts	(8 931)	46 941
Short trading positions	17 125	16 369
Net (increase)/decrease in banking investment activities	(6 650)	14 078
Cash flow from assets and deposits purchased:		
Advances acquired	–	(16 936)
Cash equivalents acquired	–	(7 931)
Deposits acquired	–	13 002
Unsettled portion	–	3 718
Net cash flow from assets and deposits purchased	–	(8 147)
Net (decrease)/increase in banking investment activities	(6 650)	5 931
34.6 Insurance investment activities		
Cash (outflow)/inflow from:		
Government and public authority stocks	(1 300)	(1 539)
Debentures and other loans	(2 594)	459
Policy loans	(1)	(63)
Equity investments	3 114	4 362
Property investments	161	130
Derivative instruments	(746)	(3 529)
Loans	248	–
Net increase in insurance investment activities	(1 118)	(180)

R million	Group 2003	Group 2002
34. Cash flow information (continued)		
34.7 Cash and cash equivalents		
Cash and cash equivalents consist of cash on hand, balances with banks and other investments in money market instruments. Cash and cash equivalents included in the cash flow statement comprise the following balance sheet amounts:		
Cash and short-term funds	29 252	24 784
Funds on deposit	15 836	13 455
Cash and cash equivalents	45 088	38 239

35. Related parties

Major shareholders

The major shareholders of FirstRand Limited are RMB Holdings Limited and Remgro Limited. Both of these companies are incorporated in South Africa.

Transactions with major shareholders and with share trusts

Interest free loans to share trusts amounted to R4 152 million at 30 June 2003 (2002: R3 610 million). Refer to note 37.

Loans to RMB Holdings Limited amounted to R71 million (2002: R84 million) and loans received to R nil (2002: R4 million). Income received from RMB Holdings Limited amounted to R15 million (2002: R15 million) and expenses paid to R4 million (2002: R3 million).

Deposits received from the Remgro Limited Group amounted to R411 million.

Transactions with directors

Directors' emoluments are detailed in note 3 and pages 105 and 106. Transactions with directors are entered into in the normal course of business.

Transactions with entities in the group

FirstRand Limited is the ultimate controlling entity in the group. The company advanced, repaid and received loans from other entities in the group during the current and previous financial years. These loans have been eliminated on consolidation.

Fixed interest securities and derivative instruments

The Momentum Group invests from time to time in fixed interest securities and derivative instruments issued by FirstRand Bank. These assets are acquired at market rates in accordance with the group accounting policy. Due to the fact that these assets are acquired to back liabilities to policyholders under unmaturing policies, they are not eliminated upon consolidation. At 30 June 2003 Momentum Group reflected assets with FirstRand Bank of R7 515 million and liabilities of R550 million (2002: assets of R7 239 million and liabilities of R2 828 million).

36. Comparative figures

Comparative figures have been restated where necessary to afford proper comparison.

Notes to the annual financial statements continued

for the year ended 30 June

37. Share option schemes

Details of the investment in FirstRand by the share incentive schemes in existence within the group are set out below. These schemes comprise: the Momentum Life Assurers Limited Share Trust (Momentum Life); the Southern Life Association Limited Share Scheme (Southern Life); the First National Bank Share Purchase/Option Scheme (FNB) and the FirstRand Limited Share Trust (FirstRand). Details of the investment in RMB Holdings Limited by the RMB Share Trust (RMB) have also been set out below as this scheme is operated for the benefit of employees of companies within the FirstRand Group.

2003	Momentum Life (FSR shares)	Southern Life (FSR shares)	FNB (FSR shares)	FirstRand (FSR shares)	RMB (RMBH shares)
Number of options in force at the beginning of the year (millions)	28.2	8.0	53.1	100.9	31.5
Granted at prices ranging between (cents)	527 – 990	233 – 1029	148 – 1069	674 – 861	250 – 1625
Number of options granted during the year (millions)	–	–	–	82.8	–
Granted at prices ranging between (cents)	–	–	–	655 – 785	–
Number of options exercised/released during year (millions)	(7.5)	(0.3)	(7.5)	–	(3.5)
Market value range at date of exercise/release (cents)	625 – 810	625 – 689	617 – 807	–	910 – 1142
Number of options cancelled/lapsed during year (millions)	(1.4)	(3.0)	(0.4)	(7.7)	(1.5)
Granted at prices ranging between (cents)	591 – 910	233 – 689	690	655 – 785	825 – 1625
Number of options in force at the end of the year (millions)	19.3	4.7	45.2	176.0	26.5
Granted at prices ranging between (cents)	527 – 990	348 – 1029	225 – 1069	655 – 861	250 – 1450
Options are exercisable over the following periods (first date able to release)					
Financial year 2003/2004 (millions)	19.3	4.7	37.5	29.5	26.1
Financial year 2004/2005 (millions)	–	–	7.0	31.6	0.4
Financial year 2005/2006 (millions)	–	–	0.2	58.7	–
Financial year 2006/2007 (millions)	–	–	0.5	29.2	–
Financial year 2007/2008 (millions)	–	–	–	27.0	–
Total	19.3	4.7	45.2	176.0	26.5
Options outstanding (by expiry date)					
Financial year 2003/2004 (millions)	19.2	0.9	2.6	–	22.4
Financial year 2004/2005 (millions)	0.1	1.1	0.8	–	2.6
Financial year 2005/2006 (millions)	–	0.2	2.0	88.4	1.2
Financial year 2006/2007 (millions)	–	0.1	16.4	6.5	0.3
Financial year 2007/2008 (millions)	–	2.4	2.9	81.1	–
Financial year 2008/2009 (millions)	–	–	20.0	–	–
Financial year 2009/2010 (millions)	–	–	0.5	–	–
Total	19.3	4.7	45.2	176.0	26.5

2003	Momentum Life (FSR shares)	Southern Life (FSR shares)	FNB (FSR shares)	FirstRand (FSR shares)	RMB (RMBH shares)
37. Share option schemes (continued)					
Total options outstanding – in the money (millions)	19.2	4.6	43.7	172.7	17.2
Total options outstanding – out of the money (millions)	0.1	0.1	1.5	3.3	9.3
Total	19.3	4.7	45.2	176.0	26.5
Number of shares in portfolio at the beginning of the year (millions)	31.7	11.4	53.1	105.6	30.6
Number of shares purchased during the year (millions)	–	–	–	56.6	0.2
Number of shares released during the year (millions)	(7.5)	(0.3)	(7.2)	–	(3.3)
Number of surplus shares sold/transferred during the year (millions)	(4.1)	(6.3)	(0.3)	–	(2.4)
Number of shares in portfolio at the end of the year (millions)	20.1	4.8	45.6	162.2	25.1
Cost price of shares in portfolio at the beginning of the year (R million)	195.2	71.9	403.9	733.0	299.1
Cost price of shares purchased during the year (R million)	–	–	–	401.7	2.7
Cost price of shares released during the year (R million)	(58.5)	(1.4)	(26.4)	–	(27.2)
Cost price of shares sold/transferred during the year (R million)	(27.3)	(35.7)	(2.3)	–	(24.5)
Proceeds of shares sold/transferred during the year (R million)	27.4	41.6	2.3	–	26.2
Cost price of shares in portfolio at the end of the year (R million)	109.4	34.8	375.2	1 134.7	250.1
Market value of shares in portfolio at the end of the year (R million)	153.6	36.7	348.3	1 238.9	267.6
Value of company loans to share option trust at the beginning of the year (R million)	197.8	71.0	403.9	733.0	373.1
Value of company loans to share option trust at the end of the year (R million)	119.0	27.5	375.6	1 190.3	315.4
Number of participants	325	369	568	1 419	249

Notes to the annual financial statements continued

for the year ended 30 June

2002	Momentum Life (FSR shares)	Southern Life (FSR shares)	FNB (FSR shares)	FirstRand (FSR shares)	RMB (RMBH shares)
37. Share option schemes (continued)					
Number of options in force at the beginning of the year (millions)	35.1	9.7	71.2	97.6	37.2
Granted at prices ranging between (cents)	295 – 990	189 – 1 029	40 – 1 026	674 – 852	250 – 1 625
Number of options granted during the year (millions)	–	–	–	7.1	–
Granted at prices ranging between (cents)	–	–	–	690 – 861	–
Number of options exercised/released during the year (millions)	(4.3)	(1.6)	(16.7)	–	(3.1)
Market value range at date of exercise/release (cents)	662 – 880	654 – 899	651 – 899	–	945 – 1 262
Number of options cancelled/lapsed during the year (millions)	(2.6)	(0.1)	(1.4)	(3.8)	(2.6)
Granted at prices ranging between (cents)	591 – 700	348 – 648	148 – 1 026	676 – 745	760 – 1 450
Number of options in force at the end of the year (millions)	28.2	8.0	53.1	100.9	31.5
Granted at prices ranging between (cents)	527 – 990	256 – 1 029	173 – 1 026	674 – 861	250 – 1 625
Options are exercisable over the following periods (by first date)					
Financial year 2002/2003 (millions)	21.0	8.0	41.3	–	18.1
Financial year 2003/2004 (millions)	7.2	–	5.9	31.3	12.8
Financial year 2004/2005 (millions)	–	–	5.7	33.6	0.6
Financial year 2005/2006 (millions)	–	–	0.2	33.6	–
Financial year 2006/2007 (millions)	–	–	–	2.4	–
Total	28.2	8.0	53.1	100.9	31.5
Options outstanding (by expiry date)					
Financial year 2002/2003 (millions)	4.2	0.3	0.1	–	1.1
Financial year 2003/2004 (millions)	23.9	1.5	1.3	–	17.3
Financial year 2004/2005 (millions)	0.1	1.7	3.3	–	5.0
Financial year 2005/2006 (millions)	–	0.6	0.8	–	3.2
Financial year 2006/2007 (millions)	–	0.3	1.9	93.9	2.9
Financial year 2007/2008 (millions)	–	3.6	20.1	7.0	2.0
Financial year 2008/2009 (millions)	–	–	3.3	–	–
Financial year 2009/2010 (millions)	–	–	21.7	–	–
Financial year 2010/2011 (millions)	–	–	0.6	–	–
Total	28.2	8.0	53.1	100.9	31.5
Total options outstanding in the money	28.1	7.8	52.2	99.6	21.3
Total options outstanding out of the money	0.1	0.2	0.9	1.3	10.2
Total	28.2	8.0	53.1	100.9	31.5

2002

	Momentum Life (FSR shares)	Southern Life (FSR shares)	FNB (FSR shares)	FirstRand (FSR shares)	RMB (RMBH shares)
37. Share option schemes (continued)					
Number of shares in portfolio at the beginning of the year (millions)	55.8	38.0	123.8	*	34.7
Number of shares purchased during the year (millions)	–	–	3.6	–	0.2
Number of shares released during the year (millions)	(1.6)	(0.4)	(17.4)	–	(4.3)
Number of surplus shares sold/transferred during the year (millions)	(22.5)	(26.2)	(56.9)	105.6	–
Number of shares in portfolio at the end of the year (millions)	31.7	11.4	53.1	105.6	30.6
Cost price of shares in portfolio at the beginning of the year (R million)	327.8	268.5	834.4	*	324.0
Cost price of shares purchased during the year (R million)	23.5	9.4	15.9	–	1.5
Cost price of shares released during the year (R million)	(26.0)	(7.7)	(50.9)	–	(26.4)
Cost price of shares sold/transferred during the year (R million)	(130.1)	(198.3)	(395.5)	733.0	–
Proceeds of shares sold/transferred during the year (R million)	155.1	182.4	384.7	–	–
Cost price of shares in portfolio at the end of the year (R million)	195.2	71.9	403.9	733.0	299.1
Market value of shares in portfolio at the end of the year (R million)	242.5	87.2	406.3	808.1	331.0
Value of company loans to share option trust at the beginning of the year (R million)	391.6	297.3	834.4	*	434.5
Value of company loans to share option trust at the end of the year (R million)	197.8	71.0	403.9	733.0	373.1
Number of participants	381	720	602	1 141	263

* The FirstRand Limited share trust held no FirstRand Limited shares and therefore had no loan account. It did, however, hold call options in respect of the surplus FirstRand Limited shares held in the other share trusts in the group at a price equal to the price at which the options were granted.

Notes to the annual financial statements continued

for the year ended 30 June

37. Share option schemes (continued)

FirstRand OutPerformance Share Incentive Scheme

Convertible, redeemable "A" preference shares issued by FirstRand Limited are taken up by special purpose companies of employees established for this purpose. These companies are financed by the issue of redeemable preference shares at the ruling market rates to the FirstRand Limited Share Trust, which in turn is funded by an equivalent loan from FirstRand Limited. These preference shares are convertible in four equal tranches after three years. At the time of conversion incentive shares are awarded in terms of a formula based on the level of outperformance achieved by FirstRand Limited ordinary shares versus the FINI 15 index over the same period. The underlying preference shares are redeemed at par or converted into ordinary shares at the then ruling market price should the market price of ordinary shares be lower than the market price upon issue of the preference shares, or should there be no outperformance for any particular conversion period.

If there is value at the conversion date the "A" preference shares are converted into ordinary shares that, together with the incentive shares, will be obtained by way of a fresh issue of new ordinary shares. The number of ordinary shares into which the "A" preference shares are converted is the amount of preference share capital originally subscribed for divided by the then ruling market price. The number of incentive shares are awarded in terms of a formula as mentioned above and would, for illustrative purposes, equate to 0.27 ordinary shares per preference share assuming an annual 5% outperformance over and above an annual 5% increase in the index over four years and assuming that the market price of ordinary shares was higher than the market price upon issue of the preference shares. The maximum number of ordinary shares into which a preference share may be converted, is one. The total number of "A" preference shares issued and redeemed during the period is dealt with under share capital. The loan to the share trust is equivalent to the total preference share capital and share premium account plus accrued preference share dividend.

	2003	2002
Number of "A" preference shares at the beginning of the year (millions)	135.5	136.0
Purchased at prices ranging between (cents)	745 – 815	815
Number of shares redeemed during the year (millions) (resignations)	(5.1)	(9.6)
Number of shares issued during the year (millions)	17.7	9.1
Number of shares converted during the year	(29.3)	–
Number of "A" preference shares at the end of the year (millions)	118.8	135.5
Purchased at prices ranging between (cents)	654 – 815	745 – 815
Preference shares are redeemable over the following periods:		
Financial year 2002/2003 (millions)	–	31.6
Financial year 2003/2004 (millions)	34.5	31.6
Financial year 2004/2005 (millions)	29.3	31.6
Financial year 2005/2006 (millions)	31.4	33.8
Financial year 2006/2007 (millions)	6.4	2.3
Financial year 2007/2008 (millions)	6.4	2.3
Financial year 2008/2009 (millions)	6.4	2.3
Financial year 2009/2010 (millions)	4.4	–
Total	118.8	135.5
Value of company loans to share option trust at the beginning of the year (R million)	1 831.1	1 108.4
Value of company loans to share option trust at the end of the year (R million)	2 124.3	1 831.1
Number of participants	226	216

37. Share option schemes (continued)

RMB Preference Share Scheme

RMB had a share purchase scheme for employees, which was discontinued after the establishment of FirstRand Limited and the subsequent OutPerformance Share Incentive Scheme for the FirstRand Group. RMB Holdings shares were purchased and housed in special purpose companies established for this purpose, which companies were financed by the issue of fixed rate preference shares taken up by the RMB Share Trust. The cost is included in the company loan account to the trust. The initial investment period was five years but can be extended by a further two years.

	2003	2002
Number of RMBH shares in SPV companies at the beginning of the year (millions)	6.5	10.0
Purchased at prices ranging between (cents)	900 – 1 335	900 – 1 335
Number of shares repurchased by share trust (resignation)	(0.2)	(0.2)
Number of shares released during the year (millions) (preference shares redeemed)	(1.2)	(3.3)
Number of shares in special purpose companies at the end of the year (millions)	5.1	6.5
Purchased at prices ranging between (cents)	900 – 1 327	900 – 1 335
Cost price of shares in special purpose companies at the beginning of the year (R million)	74.0	109.0
Cost price of shares repurchased by share trust (resignation)	(2.5)	(1.5)
Cost price of shares released during the year (R million) (preference shares redeemed)	(14.3)	(33.5)
Cost price of shares in special purpose companies at the end of the year (R million)	57.2	74.0
Market value of shares in special purpose companies at the end of the year (R million)	54.5	70.4
Preference shares are redeemable over the following periods (by first date)		
Financial year 2002/2003 (millions)	–	3.8
Financial year 2003/2004 (millions)	4.8	2.4
Financial year 2004/2005 (millions)	0.3	0.3
Total	5.1	6.5
Preference shares outstanding (by final redemption date)		
Financial year 2003/2004 (millions)	1.1	1.3
Financial year 2004/2005 (millions)	1.4	2.5
Financial year 2005/2006 (millions)	2.3	2.4
Financial year 2006/2007 (millions)	0.3	0.3
Total	5.1	6.5
Total shares outstanding in the money	1.7	2.3
Total shares outstanding out of the money	3.4	4.2
Total	5.1	6.5
Number of participants	35	41

Income statement

for the year ended 30 June

R million	Notes	Company 2003	Company 2002
Net investment income	1	4 650	4 570
Management and administration expenses	2	(44)	(20)
Income before taxation		4 606	4 550
Taxation	3	(12)	(55)
Earnings attributable to ordinary shareholders	5	4 594	4 495
Earnings per share (cents)	5	84.3	82.5
Diluted earnings per share (cents)	5	83.2	82.5
Core headline earnings per share (cents)	5	99.6	76.9
Headline earnings per share (cents)	5	89.9	86.9
Dividend per share (cents)	4	35.0	28.5

Balance sheet

as at 30 June

R million	Notes	Company 2003	Company 2002
Assets			
Investments			
Funds on deposit		7	5
Investment in subsidiaries	6, 12	22 294	19 084
Total investments		22 301	19 089
Current assets			
Loan	7	307	219
		686	934
Total assets		23 294	20 242
Liabilities and shareholders' funds			
Liabilities			
Current liabilities		321	223
Long-term liabilities	8	686	934
Taxation		1	1
Total liabilities		1 008	1 158
Shareholders' funds			
Share capital and share premium	9	8 487	8 487
Reserves	10	13 799	10 597
Total shareholders' funds		22 286	19 084
Total liabilities and shareholders' funds		23 294	20 242
Contingencies		5	–

Cash flow statement

for the year ended 30 June

R million	Notes	Company 2003	Company 2002
Cash flows from operating activities			
Cash generated by operations	11.1	1 698	1 495
Working capital changes	11.2	10	1
Cash inflow from operations		1 708	1 496
Taxation paid	11.3	(12)	(55)
Dividends paid	11.4	(1 715)	(1 416)
Net cash (outflow)/inflow from operating activities		(19)	25
Cash flows from investment activities			
Net investment in subsidiaries		21	(22)
Net cash inflow/(outflow) from investment activities		21	(22)
Increase in cash and cash equivalents		2	3
Cash and cash equivalents at the beginning of the year		5	2
Cash and cash equivalents at the end of the year		7	5

Statement of changes in equity

for the year ended 30 June

R million	Share capital (Note 9)	Share premium (Note 9)	Retained earnings (Note 10)	Non-distributable reserves (Note 10)	Total shareholders' funds
Balance at 1 July 2001					
As previously stated	56	9 539	6 533	457	16 585
• Reclassification of preference shares	(1)	(1 107)	–	–	(1 108)
• Change in accounting policy – deferred acquisition costs	–	–	(111)	–	(111)
Restated balance as at 1 July 2001	55	8 432	6 422	457	15 366
Currency translation differences	–	–	–	604	604
Revaluation of investments	–	–	–	60	60
Non-distributable reserves of associated companies	–	–	–	12	12
Movement in other reserves	–	–	–	(37)	(37)
Earnings attributable to shareholders	–	–	4 495	–	4 495
Dividends	–	–	(1 416)	–	(1 416)
Transfer (to)/from reserves	–	–	(36)	36	–
Balance at 30 June 2002	55	8 432	9 465	1 132	19 084
Balance at 1 July 2002	55	8 432	9 465	1 132	19 084
AC133 adjustments to opening balance	–	–	(482)	555	73
Adjusted opening balance	55	8 432	8 983	1 687	19 157
AC133 adjustments to current year	–	–	–	823	823
Currency translation differences	–	–	–	(575)	(575)
Movement in other reserves	–	–	–	2	2
Earnings attributable to shareholders	–	–	4 594	–	4 594
Dividends	–	–	(1 715)	–	(1 715)
Transfer (to)/from reserves	–	–	(96)	96	–
Balance at 30 June 2003	55	8 432	11 766	2 033	22 286

Notes to the annual financial statements

for the year ended 30 June

R million	Company 2003	Company 2002
1. Investment income		
Net investment income earned in respect of:		
Preference share dividends received	120	152
Preference share dividends paid	(120)	(152)
Investment income earned from subsidiaries:		
Equity accounted earnings of subsidiaries	2 908	3 055
Dividends – unlisted shares	1 728	1 502
Interest-bearing investments and fees from subsidiaries	14	13
	4 650	4 570
2. Management and administration expenses		
Included in management and administration expenses are the following:		
Auditors' remuneration		
Audit fees – current year	–	–
Operating lease charges		
Land and buildings	1	1
Equipment	–	1
	1	2
3. Taxation		
Secondary taxation on companies (STC)	12	55
Tax rate reconciliation	%	%
Effective rate of taxation	0.3	1.2
Equity accounted earnings	19.0	20.1
Dividends received	11.3	9.9
Non-deductible expenses	(0.3)	–
Secondary taxation on companies	(0.3)	(1.2)
Standard rate of taxation	30.0	30.0
4. Dividends		
Ordinary dividends		
An interim dividend of 16.5 cents (2002: 13.5 cents) per share was declared on 26 February 2003 in respect of the six months ended 31 December 2002.	899	735
A final dividend of 18.5 cents (2002: 15.0 cents) per share was declared on 16 September 2003 in respect of the six months ended 30 June 2003.	1 010	816
	1 909	1 551

R million	Company 2003	Company 2002
5. Earnings per share		
Attributable earnings		
Earnings per share is based on the net income after tax attributable to ordinary shareholders and the weighted number of ordinary shares in issue.		
Earnings attributable to ordinary shareholders amounted to R4 594 million (2002: R4 495 million) and the weighted average number of ordinary shares in issue during the year amounted to 5 448 142 097 (2002: 5 445 303 089). The weighted average number of ordinary shares for the purpose of calculating the diluted earnings per share amounted to 5 524 042 097 (2002: 5 445 303 089).		
Headline earnings		
Headline earnings per share is based on the net income after tax attributable to ordinary shareholders adjusted for items of a capital nature, and the weighted average number of ordinary shares in issue.		
Headline earnings reconciliation		
Net income after tax attributable to ordinary shareholders	4 594	4 495
Add: Amortisation of goodwill	82	58
Add: Impairment of goodwill	242	210
Add: Loss on sale of assets	31	31
Less: Abnormal profit on release of reserves – Discovery	(52)	(28)
Less: Profit on disposal of subsidiary shares	–	(32)
Headline earnings	4 897	4 734
Add/(less): Foreign currency translation loss/(gain)	532	(548)
Core headline earnings	5 429	4 186
6. Investment in subsidiaries		
Shares at net asset value	22 603	19 072
Amounts owing (to)/by subsidiaries	(309)	12
	22 294	19 084
7. Loan		
Out-Performance Share Incentive Scheme loan		
Total amount outstanding	934	1 098
Short-term portion disclosed under current assets	(248)	(164)
Long-term portion	686	934
This loan is repayable by the FirstRand Limited Trust upon conversion of the preference shares into ordinary shares. If the conditions for conversion are not met, the loan and preference shares will be cancelled. The return on the loan is linked to the preference share dividend.		
8. Long-term liabilities		
Out-Performance Share Incentive Scheme liability		
Total amount outstanding	934	1 098
Short-term portion disclosed under current liabilities	(248)	(164)
Long-term portion	686	934
This liability represents the preference shares issued in terms of the Out-Performance Share Incentive Scheme.		

Notes to the annual financial statements continued

for the year ended 30 June

R million	Company 2003	Company 2002
9. Share capital and share premium		
Share capital		
Authorised		
6 228 000 000 ordinary shares of 1 cent each (2002: 6 228 000 000)	62	62
272 000 000 "A" variable rate, convertible, redeemable cumulative preference shares of 1 cent each (2002: 272 000 000)	3	3
Issued		
Balance at the beginning of the year		
5 445 303 089 ordinary shares of 1 cent each (2002: 5 445 303 089)	55	55
135 520 000 "A" variable rate, convertible, redeemable cumulative preference shares of 1 cent each (2002: 136 000 000)	1	1
Shares issued during the year		
15 017 941 ordinary shares of 1 cent each (2002: nil)	–	–
17 700 000 "A" variable rate, convertible, redeemable cumulative preference shares of 1 cent each (2002: 9 150 000 "A" variable rate, convertible, redeemable cumulative preference shares of 1 cent each)	–	–
Shares redeemed during the year		
19 364 559 "A" variable rate, convertible, redeemable cumulative preference shares of 1 cent each (2002: 9 630 000 "A" variable rate, convertible, redeemable cumulative preference shares of 1 cent each)	–	–
Shares converted during the year		
15 017 941 "A" variable rate, convertible, redeemable cumulative preference shares of 1 cent each (2002: nil)	–	–
Balance at the end of the year		
5 460 321 030 ordinary shares of 1 cent each (2002: 5 445 303 089)	55	55
118 837 500 "A" variable rate, convertible, redeemable cumulative preference shares of 1 cent each (2002: 135 520 000)	1	1
Preference shares disclosed under liabilities	(1)	(1)
Total share capital	55	55
Share premium		
Balance at the beginning of the year	9 530	9 539
Preference shares issued	116	69
Preference shares redeemed	(280)	(78)
	9 366	9 530
Preference shares disclosed under liabilities	(934)	(1 098)
Total share premium	8 432	8 432
Share capital and share premium	8 487	8 487
The following represents the shareholding of subsidiaries in FirstRand Limited at 30 June 2003:		
	%	%
Momentum Group Limited – held on behalf of policyholders	2.0	2.5

R million	Company 2003	Company 2002
10. Reserves		
<i>Retained earnings</i>		
Retained earnings at the beginning of the year	9 465	6 422
AC133 adjustments to opening balance	(482)	–
Earnings attributable to ordinary shareholders	4 594	4 495
Dividend for the year	(1 715)	(1 416)
Transfer to non-distributable reserves	(96)	(36)
Retained earnings at the end of the year	11 766	9 465
<i>Non-distributable reserves</i>		
Non-distributable reserves relating to:		
<i>Banking operations</i>	1 908	947
General risk reserve	901	–
Revaluation reserve	689	5
Currency translation reserve	303	903
Other	15	39
<i>Insurance operations</i>	125	185
Revaluation reserve	18	91
Currency translation reserve	67	42
Reserve on capitalisation of Discovery Holdings	51	51
Other	(11)	1
Non distributable reserves at the end of the year	2 033	1 132
<i>Total reserves</i>	13 799	10 597
<i>Movement for the year in non-distributable reserves</i>		
Balance at the beginning of the year	1 132	457
Transfer from retained earnings relating to banking operations	96	34
Transfer from retained earnings relating to insurance operations	–	2
General risk reserve	763	–
Revaluation reserve	615	60
Currency translation differences	(575)	604
Other	2	(25)
Non-distributable reserves at the end of the year	2 033	1 132
11. Cash flow information		
<i>11.1 Cash generated by operations</i>		
Net income after taxation attributable to shareholders	4 594	4 495
Adjustment for non-cash items and taxation	(2 896)	(3 000)
Cash generated by operations	1 698	1 495
<i>11.2 Working capital changes</i>		
Increase in current assets	(88)	(1)
Increase in current liabilities	98	2
Net working capital changes	10	1
<i>11.3 Taxation paid</i>		
Balance at the beginning of the year	(1)	(1)
Taxation charged for the year	(12)	(55)
Balance at the end of the year	1	1
Taxation paid	(12)	(55)

Notes to the annual financial statements continued

for the year ended 30 June

R million	Company 2003	Company 2002
11. Cash flow information (continued)		
11.4 Dividends paid		
Final dividend declared on:		
• 16 September 2002 in respect of the year ended 30 June 2002	(816)	–
• 6 September 2001 in respect of the year ended 30 June 2001	–	(681)
Interim dividend declared on:		
• 26 February 2003 in respect of the period ended 31 December 2002	(899)	–
• 27 February 2002 in respect of the period ended 31 December 2001	–	(735)
Dividends paid	(1 715)	(1 416)

	Effective percentage holding		Amounts owing by/(to) subsidiaries		Investment of holding company Shares at net asset value	
	2003 %	2002 %	2003 Rm	2002 Rm	2003 Rm	2002 Rm
12. Analysis of investment in subsidiaries						
Banking operations						
FirstRand Bank Holdings Limited	100	100	(317)	7	16 014	13 027
Insurance operations						
Momentum Group Limited	100	100	8	5	6 561	6 019
FirstRand Investment Holdings Limited	100	100	–	–	28	26
			(309)	12	22 603	19 072
Total interest in subsidiaries					22 294	19 084

13. Comparative figures

Comparative figures have been restated where necessary to afford proper comparison.

Directorate

Details of Directors

The names of the directors, their age, qualifications and other details appear on pages 56 to 59 of this report.

Remuneration and fees

Payments to directors during the year for services rendered are as follows:

	Services as directors		Cash	Other	Performance	Total	Total
	FirstRand	Group	package ¹	benefits ²	related ³	2003	2002
	R000s	R000s	R000s	R000s	R000s	R000s	R000s
Executive							
VW Bartlett ⁴			2 465	264	2 700	5 429	4 459
LL Dippenaar ⁴			3 046	594	4 750	8 390	6 933
PK Harris ⁴			3 171	469	4 750	8 390	6 936
Subtotal			8 682	1 327	12 200	22 209	18 328
Non-executive							
GT Ferreira (Chairman) ⁵	854	296				1 150	1 000
BH Adams	120	251				371	177
DJA Craig	50	164				214	244
DM Falck	60	156				216	158
PM Goss	70	126				196	174
MW King	120	294				414	296
SR Maharaj ⁶	20	1 928				1 948	1 064
MC Ramaphosa	30					30	40
KC Shubane	60					60	50
F van Zyl Slabbert	60					60	40
BJ van der Ross	60	116				176	124
RA Williams	70	230				300	226
Subtotal	1 574	3 561				5 135	3 593
Total	1 574	3 561	8 682	1 327	12 200	27 344	21 921

1. "Cash package" includes travel and other allowances.

2. "Other benefits" comprises provident fund and medical aid contributions.

3. "Performance related" payments are in respect of the year ended 30 June 2003, but will be paid (together with an interest factor) in three tranches during the year ending 30 June 2004.

4. Messrs Bartlett, Dippenaar and Harris also earned directors' fees from FirstRand and its subsidiaries. Any such fees receivable by them have been waived and ceded to companies in the FirstRand Group and do not accrue to them in their private capacity.

5. The emoluments due to Mr Ferreira per above have been waived in favour of RMB Holdings Limited and do not accrue to him in his private capacity.

6. Mr Maharaj was paid a salary by the Banking Group in terms of his employment contract and a bonus, commensurate with his contribution to the Banking Group, both of which were approved by the Remuneration Committee. In addition, he was paid a director's fee for his services as a director of the FirstRand Banking Group. The correct classification of Mr Maharaj as an executive director of the bank was noted during the review of the bank's corporate governance in 2002/2003 by Adv John Myburgh.

The Executive Directors participate in group share incentive schemes. Their participation is subject to the specific approval of the FirstRand remuneration committee and allocations are done on pricing parameters consistent with those extended to other senior executives.

Directorate continued

Share options

The current interests of Executive Directors in share incentive schemes, together with benefits from redemptions, are as follows:

FirstRand shares Share option scheme	Opening balance	Strike price cents	Strike date	Taken up this year	Benefit derived R	Closing balance
VW Bartlett	506 250	408	10/9/2006			506 250
	675 000	325	22/11/2006	675 000	2 301 750	–
	450 000	628	24/3/2009			450 000
	1 170 000	690	9/4/2006			1 170 000
	1 000 000*	655	17/9/2007			1 000 000
LL Dippenaar	2 750 000	690	9/4/2006			2 750 000
	2 000 000*	655	17/9/2007			2 000 000
PK Harris	2 750 000	690	9/4/2006			2 750 000
	2 000 000*	655	17/9/2007			2 000 000

* Granted during year ended 30 June 2003.

OUTperformance scheme	Opening balance	Price cents	Expiry date	Redeemed this year	Benefit derived R	Closing balance
(FirstRand preference shares)						
VW Bartlett	1 500 000	815	1/4/2006	375 000	1 250 100	1 125 000
LL Dippenaar	2 000 000	815	1/4/2006	500 000	1 666 802	1 500 000
PK Harris	2 000 000	815	1/4/2006	500 000	1 666 802	1 500 000

Directors' interests

According to the Register of Directors' interest, maintained by FirstRand in accordance with the provisions of section 140A of the Companies Act, directors of FirstRand have disclosed the following interest in the ordinary shares of the company at 30 June 2003.

RMB Holdings Limited, which company holds a 32.7% interest in FirstRand, has disclosed the indirect effective interest of certain FirstRand directors as a result of their shareholdings in RMB Holdings.

000s	Direct beneficial	Indirect beneficial	Indirect via RMBH	Total 2003	Total 2002
BH Adams		293	263	556	556
VW Bartlett	2 040	192		2 232	1 365
DJA Craig				–	–
LL Dippenaar	4	664	137 143	137 811	137 554
DM Falck				–	–
GT Ferreira			131 412	131 412	131 412
PM Goss			17 104	17 104	17 241
PK Harris		291	44 720	45 011	39 568
MW King	23		45	68	68
SR Maharaj				–	–
MC Ramaphosa				–	–
KC Shubane	25			25	25
F v Z Slabbert				–	–
BJ van der Ross				–	–
RA Williams		59		59	59
Total 2003	2 092	1 499	330 687	334 278	327 848

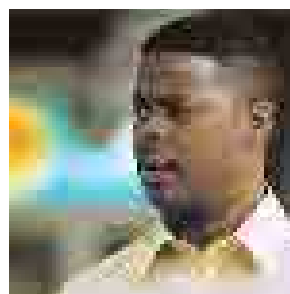
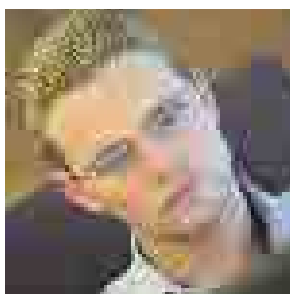
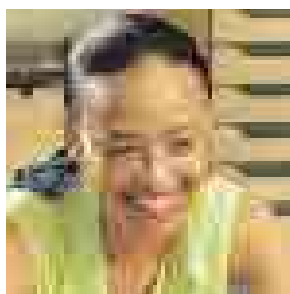
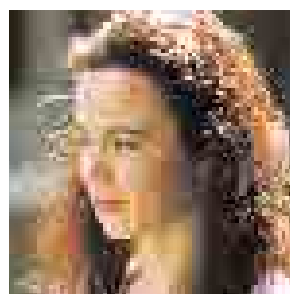
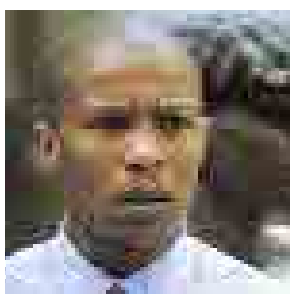


FIRSTRAND

— Banking Group —

FirstRand Banking Group financial statements 2003

This report reflects the operating results and financial position of the banking interests of the FirstRand Limited group of companies (“the Banking Group”) and should be read in conjunction with the report on FirstRand Limited.





FIRSTRAND

— Banking Group —

FirstRand Banking Group financial statements 2003

Contents

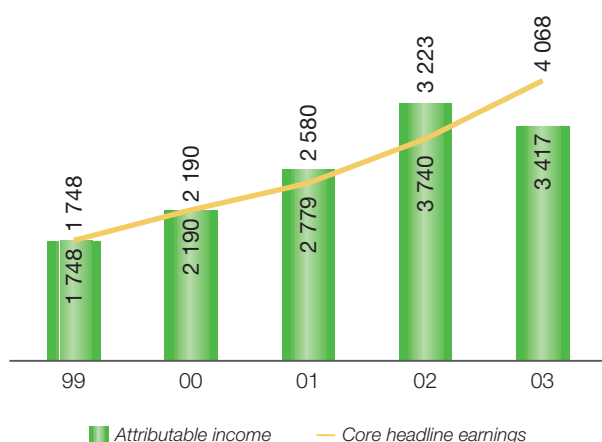
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Financial highlights

	Post-AC133 % change	Pre-AC133 % change
Attributable earnings	0.9	(8.6)
Headline earnings	1.3	(8.2)
Core headline earnings	35.0	26.2
Return on average equity (including translation losses)	22.3	21.0
Return on average equity (excluding translation losses)	25.7	25.0
Net asset value growth	19.3	10.7
Cost to income ratio (excluding translation losses)	55.3	57.0
Advances growth	8.3	8.2
Gross interest margin	5.0	4.8

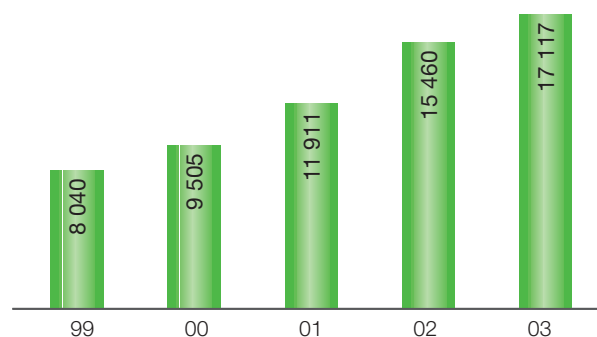
Earnings performance (R million)

Compound annual growth in core headline earnings: 23.5%

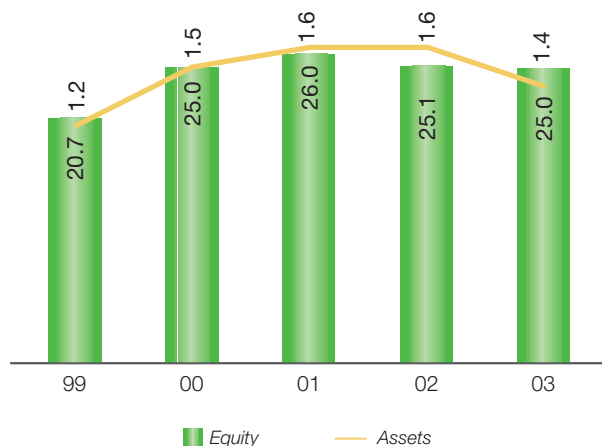


Net asset value (R million)

Compound annual growth in net asset value: 20.8%



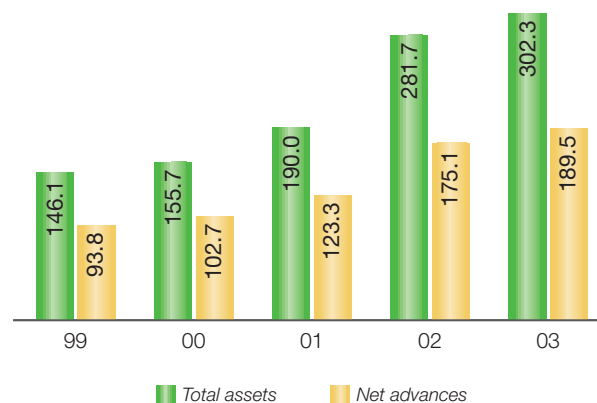
Return on average equity and assets (%)



Assets and advances (R billion)

Compound annual growth in assets: 19.9%

Compound annual growth in net advances: 19.2%



All graphs above are presented on a pre-AC133 basis.

Five-year review

R million	1999	2000	2001	2002	Pre- AC133 2003	Compound growth %	Post- AC133
Balance sheet							
Total assets	146 067	155 721	189 979	281 722	302 262	19.9	303 998
Net advances	93 824	102 652	123 328	175 145	189 518	19.2	189 611
Deposits and current accounts	116 306	117 592	141 461	201 404	186 129	12.5	186 031
Shareholders' equity	8 040	9 505	11 911	15 460	17 117	20.8	18 441
Income statement							
Net interest income before impairment of advances	4 594	4 697	5 415	6 417	8 734	17.4	9 104
Impairment of advances	(1 363)	(1 329)	(1 143)	(1 705)	(1 367)	(0.1)	(1 478)
Non-interest revenue	5 145	5 847	6 446	8 319	6 913	7.7	7 123
Operating expenditure	(6 086)	(6 365)	(7 180)	(8 378)	(9 538)	(11.9)	(9 537)
Earnings attributable to ordinary shareholders	1 748	2 190	2 779	3 740	3 417	18.2	3 774
Headline earnings	1 748	2 190	2 787	3 771	3 463	18.6	3 820
Core headline earnings	1 748	2 190	2 580	3 223	4 068	23.5	4 352
Key ratios							
Return on average equity (%)	20.7	25.0	26.0	27.3	25.0		25.7
Return on average assets (%)	1.2	1.5	1.6	1.6	1.4		1.5
Cost to income ratio (%)	62.4	60.3	59.9	55.5	59.1		57.0
Adjusted cost to income ratio (%) ¹	62.9	61.0	60.9	57.6	57.0		55.3
Interest margin on average advances (%)	4.9	4.8	4.8	4.3	4.8		5.0
Non-interest revenue as a percentage of total income (%) ¹	52.8	55.5	52.9	53.4	44.9		46.6
Impairments of advances as a percentage of average gross advances (%)	1.5	1.3	0.9	1.1	0.7		0.8

1. Excludes the effect of translation gains or losses.

	1999	2000	2001	2002	Pre- AC133 2003	Compound growth %
Exchange rates						
Rand/US\$						
– Closing	6.03	6.77	8.07	10.31	7.56	
– Average	5.95	6.40	7.42	9.19	8.89	
Rand/£						
– Closing	9.51	10.26	11.35	15.75	12.47	
– Average	9.63	9.88	10.81	14.81	14.12	
Balance sheet¹						
Million						
US\$						
Total assets	24 223	22 993	23 550	27 325	40 224	13.5
Advances	15 560	15 157	15 288	16 988	25 089	12.7
Deposit and current accounts	19 288	17 363	17 536	19 535	24 615	6.3
Total equity	1 333	1 404	1 477	1 500	2 440	16.3
Income statement²						
Million						
US\$						
Net interest income before impairment						
of advances	772	734	730	698	982	6.2
Charge for bad and doubtful debts	(229)	(208)	(154)	(186)	(154)	(9.5)
Non-interest income	865	913	869	905	778	(2.6)
Operating expenditure	(1 023)	(994)	(968)	(912)	(1 073)	1.2
Earnings attributable to ordinary shareholders	294	342	375	407	384	6.9
Balance sheet¹						
Million						
£						
Total assets	15 367	15 179	16 737	17 892	24 374	12.2
Advances	9 871	10 006	10 865	11 124	15 203	11.4
Deposit and current accounts	12 236	11 462	12 462	12 791	14 916	5.1
Total equity	846	927	1 049	982	1 479	15.0
Income statement²						
Million						
£						
Net interest income before impairment						
of advances	477	475	501	433	619	6.7
Charge for bad and doubtful debts	(142)	(135)	(106)	(115)	(97)	(9.1)
Non-interest income	534	592	597	562	490	(2.2)
Operating expenditure	(632)	(644)	(665)	(566)	(675)	1.7
Earnings attributable to ordinary shareholders	182	222	257	253	242	7.5

1. Balance sheet has been translated using year-end rate of exchange.

2. Income statement has been translated using the average rate of exchange for the year.

Board of directors and board committees of FirstRand Bank Holdings Limited

GT Ferreira (55)

BCom, Hons.B (B&A), MBA

Chairman of FirstRand, FirstRand Bank Holdings and RMB Holdings

PK Harris (53)

MCom

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

VW Bartlett (60)

AMP (Harvard), FIBSA

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

MPC Brogan (53)*

FCA

Chairman of FirstRand International and Ansbacher Holdings

JP Burger (44)

BCom (Hons), CA(SA)

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

LL Dippenaar (54)

MCom, CA(SA)

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

DM Falck (57)

CA(SA)

Director of FirstRand and RMB Holdings

JW Gafney (69)

CA(SA)

PM Goss (55)

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

Director of FirstRand and RMB Holdings

MW King (66)

CA(SA), FCA

Director of FirstRand and Ansbacher Holdings

AS Vahed (68)

Hon DComm (UDW), Hons DEcon (Natal)

RA Williams (62)

BA, LLB

Director of FirstRand

** Australian*

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

R Spilg – 1 April 2003

SR Maharaj – 31 August 2003

Audit Committee

MW King (Chairman)

DM Falck

RA Williams

Risk Committee

MW King (Chairman)

DM Falck

RA Williams

Remuneration Committee

PM Goss (Chairman)

GT Ferreira

MW King

RA Williams

Large Exposures Credit Committee

GT Ferreira (Chairman)

JW Gafney

AS Vahed

Directors' Affairs and Governance Committee

DM Falck

GT Ferreira

JW Gafney

PM Goss

MW King

AS Vahed

RA Williams

Report of the Chief Financial Officer

for the year ended 30 June 2003

The year under review

Operational review

The Banking Group produced excellent results, benefiting from diverse income sources, strong organic growth, benefits of scale achieved from the acquisitions made in the previous year, the higher interest rate environment which favoured bank deposits and the resultant endowment benefits thereof as well as lower bad debts.

Core headline earnings before AC133, which exclude translation losses/(gains), increased by 26.2% from R3 223 million to R4 068 million.

On a post-AC133 basis, earnings attributable to ordinary shareholders increased by 0.9% to R3 774 million (2002: R3 740 million).

Reconciliation between earnings attributable to ordinary shareholders and headline earnings

	June 2003		June	%
R million	Post-AC133	Pre-AC133	2002 Actual	change on Actual
Earnings attributable to ordinary shareholders	3 774	3 417	3 740	(8.6)
Less: Profit on sale of subsidiary	–	–	(5)	(100.0)
Plus: Loss on sale of fixed assets	36	36	26	38.5
Plus: Goodwill	10	10	10	–
Headline earnings	3 820	3 463	3 771	(8.2)

Reconciliation between headline earnings and core headline earnings

	June 2003		June	%
R million	Post-AC133	Pre-AC133	2002 Actual	change on Actual
Headline earnings	3 820	3 463	3 771	(8.2)
Translation losses/(gains)	532	605	(548)	(>100.0)
Core headline earnings	4 352	4 068	3 223	26.2

Exceptional translation (losses)/gains

The Banking Group recognises translation gains and losses on currency movements in the income statement to the extent that the underlying operations are defined as integral to those of the South African-based business. Translation gains and losses relating to independent operations are recognised directly in reserves. The Banking Group incurred abnormally large translation losses in the year under review due to the significant year-on-year appreciation of the Rand.

The volatility of the Rand in the 2002 and 2003 financial years gave rise to an abnormal profit in 2002 and an abnormal loss in 2003.

The cumulative impact of these movements is however negligible as illustrated in the table below and, consistent with prior year treatment, is excluded in the calculation of core headline earnings.

	Pre-AC133		Cumu-
R million	2003	2002	lative
Headline earnings	3 463	3 771	7 234
Core headline earnings	4 068	3 223	7 291

Report of the Chief Financial Officer continued

Income statement	2003 Reviewed Pre-AC133	2002 Audited Actual
R million		
Interest income	26 301	18 721
Interest expenditure	(17 567)	(12 304)
Net interest income before impairment of advances	8 734	6 417
Impairment of advances	(1 367)	(1 705)
Net interest income after impairment of advances	7 367	4 712
Non-interest revenue	6 913	8 319
Transactional income	5 735	5 132
Trading income	1 447	1 772
Investment income	118	494
Other non-interest income	218	373
Translation (losses)/gains	(605)	548
Net income from operations	14 280	13 031
Operating expenditure	(9 538)	(8 378)
Income from operations	4 742	4 653
Share of income of associated companies	484	368
Income before taxation	5 226	5 021
Indirect taxation	(346)	(270) ¹
Income before direct taxation	4 880	4 751
Direct taxation	(1 186)	(829) ¹
Income after taxation	3 694	3 922
Earnings attributable to outside shareholders	(277)	(182)
Earnings attributable to ordinary shareholders	3 417	3 740

1. Capital gains tax has been reclassified from indirect to direct taxation.

Accounting policies

The principal accounting policies are consistent in all material respects with those adopted in the previous year, except as noted below.

The Banking Group adopted AC133 – “Financial Instruments: Recognition and Measurement” with effect from 1 July 2002.

For comparative purposes, the reviewed pre-AC133 format income statement is presented above.

Further details regarding differences between the post- and pre-AC133 figures are set out in the accounting policy note “Changes in accounting policy”.

Financial commentary

To be meaningful, all commentary hereafter relates to the comparison between the pre-AC133 adjusted figures in respect of 2003, which have been prepared on a basis consistent with that applied in the previous financial year, and the actual figures for 2002, except where specifically noted.

The Banking Group adopted AC133 with effect from 1 July 2002 and supports the overall principles thereof. However, certain improvements to IAS39 (the International equivalent of AC133) are currently still being debated by standard setters and may impact on the future interpretations of the standard.

In terms of an interpretation issued in September 2003 by the Accounting Practices Committee of the South African Institute of Chartered Accountants relating to the transitional treatment of provisions, the once-off net release of the previous general provision for bad debts must be taken to opening retained income. This interpretation has been issued as ED 168. The Banking Group agrees with this interpretation and, as it meets the prescribed conditions, has taken the full amount of the release in general provisions, of R2 065 million, pre-tax, through opening retained income.

Interest income

Following the sharp increase in inflation in 2002 and the 3% increase in the prime interest rate during the 2002 financial year, the prime rate increased by a further 1% during September 2002 to a high of 17%. Interest rates were on average 2.7% higher than in the comparative year. This, together with the increase in average advances in the 2003 financial year, accounts for the absolute increase in interest income and interest expenditure.

Net interest income, which increased by 36.1%, was positively influenced by:

- the positive impact on endowment margins of the higher rates;
- the volume effect arising from organic growth in both assets and liabilities in FNB Retail in the current year;
- the volume and margin impact in the current year arising from the acquisition of the Saambou home loan and deposit books and the NBS home loan book in the previous financial year; and
- an increase in the average capital base following the retention of earnings in the previous financial year.

These positive factors outweighed the negatives, which included:

- reduced interest rates on the foreign capital base of the Banking Group;
- the lower translation rate relating to non-Rand denominated interest income; and
- holding costs in respect of non-performing corporate exposures.

The Banking Group has hedge structures in place in anticipation of the decline in interest rates, which should limit the negative endowment impact of a declining interest rate environment going forward. This strategy has had the effect of lowering potential interest income in the period under review.

Interest margins

The interest margin based on average advances improved relative to the previous year to 4.81%, in spite of continued long-term pressure on margins.

A detailed margin analysis is set out on pages 192 and 193.

The table below summarises the analysis as follows:

	Net interest income R million	Interest margin %
Interest income (2002)	6 417	4.33
Volume effect (growth in advances and deposits)	1 478	0.00
Endowment effect (deposits)	338	0.18
Endowment effect (capital)	253	0.13
Other	248	0.17
Interest income (2003)	8 734	4.81

The retail banking operations benefited from higher margins in the current year as a result of organic growth in advances and deposits, as well as the higher average interest rates. Margins on corporate advances continue to reflect the pressure of a highly competitive and sophisticated market, and once again showed a small decline.

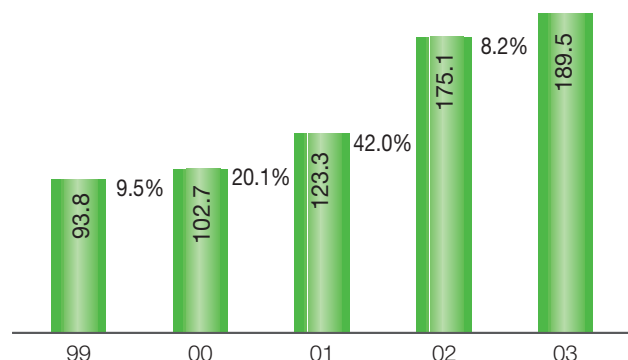
Advances

Total net advances growth of 8.2% in the period under review was satisfactory given the high interest rate environment.

Rand denominated advances grew by a satisfactory 12.5%. This growth was partially offset by a 8.8% decline in the Banking Group's non-Rand denominated advances portfolio as a direct result of the strengthening of the Rand. Non-Rand denominated advances grew by 24.4% in US Dollar terms. The compound annual growth rate of net advances for the four-year period ended 30 June 2003 was 19.2%.

Report of the Chief Financial Officer continued

Advances (R billion)



WesBank and the FNB Card's activities have shown exceptional advances growth, with WesBank once again achieving record new production levels.

FNB HomeLoans achieved markedly higher new payouts during the year on the back of a buoyant property market, resulting in significant organic growth on the core FNB book. Overall advances growth in FNB HomeLoans was low due to the expected run-off in the acquired Saambou and NBS books.

Lending growth in FNB Corporate was subdued due to the high interest rate environment during the year and a general decrease in corporate demand for credit.

The African subsidiaries recorded satisfactory increases in advances in difficult market conditions.

Non-performing loans and impairment of advances

Non-performing loans

As a percentage of gross advances, non-performing loans declined from 3.0% at 30 June 2002 to 2.5%, in line with the general improvement in credit quality and in spite of the high interest rate environment.

This can be ascribed to the following factors:

- a conservative approach to debt by corporate and retail consumers following the interest rate hikes of the past few years;
- continued focus on credit management processes within the Banking Group, including the use of sophisticated client scoring and rating models, and the consequent improvement in pricing for risk; and
- the positive effect of improved collection, work-out and debt-restructuring processes in the year under review.

WesBank and FNB HomeLoans, in particular, have continued to show improvements in the overall credit quality of their respective loan books.

A detailed analysis of the movement in non-performing loans is set out in the table on page 117:

Movement in non-performing loans

R million	2003		2002 Actual	% change
	Post- AC133	Pre- AC133		
Non-performing loans	4 620	4 620	5 305	(12.9)
Add: Present value adjustment ¹	360	–	–	–
Less: Recoverable amount	(92)	(92)	(1 014)	(91.0)
Net credit exposure	4 888	4 529	4 291	5.5
Less: Security	(1 579)	(1 579)	(1 266)	24.7
Less: Contractual interest suspended	(613)	(613)	(725)	(15.4)
Residual risk	2 696	2 336	2 300	1.6
Specific impairments ¹	2 696	2 336	2 300	1.6
Portfolio impairments ²	606	–	–	–
General provision ²	–	2 101	2 065	1.7
Total impairments	3 302	4 437	4 365	1.7
Fair value impairments	378	–	–	–
General risk reserve ²	1 117	–	–	–
Total impairments and reserves	4 797	4 437	4 365	1.7
Total advances	193 526	194 568	180 235	8.0
Less: Contractual interest suspended	(613)	(613)	(725)	(15.4)
Gross advances	192 913	193 955	179 510	8.0
Less: Impairments	(3 302)	(4 437)	(4 365)	1.7
Net advances	189 611	189 518	175 145	8.2
General provision analysis				
Opening balance	2 065	2 065	1 346	53.4
Less: Exchange adjustments	–	(102)	65	(>100.0)
New and increased provisions	138	138	436	(68.3)
Acquisitions	–	–	218	(100.0)
Transfer to General Risk Reserve				
– opening balance	(2 065)	–	–	–
– current period	(138)	–	–	–
	–	2 101	2 065	1.7

1. AC133 requires an estimation of the time to recovery of the recoverable amount. The AC133 impairment calculation methodology takes the period to recovery into account in determining the amount of the impairment. The impairment calculation is a discounted cash flow method, which was not previously the case. The combination of the above results in an increase in specific impairments.

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

Report of the Chief Financial Officer *continued*

Impairment of advances

The total provision reflected in the balance sheet on a pre-AC133 basis, represents a conservative 2.3% of advances (2002: 2.5%).

Impairment losses in respect of the US Collateralised Debt Obligations (CDOs) were significantly below those experienced during the previous financial year, and in line with the expected losses inherent in these structures, although the portfolio is not yet profitable. The unrealised mark-to-market losses on these

exposures have reduced in the year under review, and are expected to reverse further in the 2004 financial year. The Banking Group continues to hold conservative levels of provisions against these exposures.

During the year under review, R237 million in additional specific bad debt impairments was raised against the Banking Group's card and micro loan advance books. These additional impairments bring the overall level of impairments in line with that in place elsewhere in the Banking Group.

Total impairment levels, the current period transfer of the general provision to the General Risk Reserve in equity, and the resultant total impairment levels on a pre- and post-AC133 basis, is set out below:

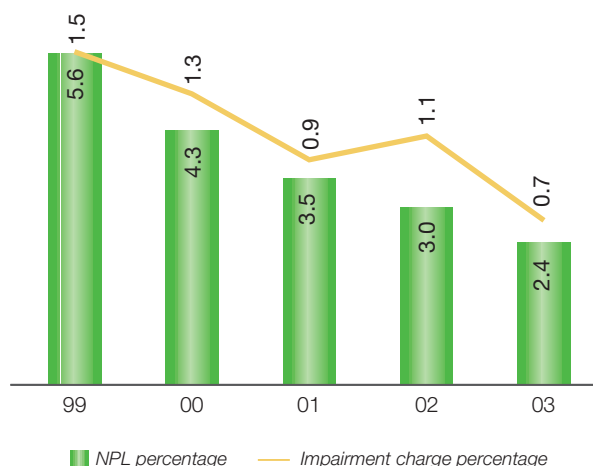
%	2003		2002 Actual
	Post- AC133	Pre- AC133	
Non-performing loans as a percentage of gross advances	2.4	2.4	3.0
Specific impairments as a percentage of non-performing loans	58.5	51.3	43.4
Specific impairments as a percentage of gross advances	1.4	1.2	1.3
General provision as a percentage of gross advances	-	1.1	1.2
Portfolio impairments	0.3	-	-
Fair value impairments	0.2	-	-
General Risk Reserve	0.6	-	-
Total impairments as a percentage of gross advances	2.5	2.3	2.5
Total impairments as a percentage of non-performing loans	102.9	96.0	82.3
Total impairments as a percentage of residual risk	176.9	187.1	189.8

Income statement charge

The income statement charge for impairment of advances reflects a 19.8% decrease relative to the prior period.

Non-performing loans as a percentage of gross advances and impairment charge as a percentage of average gross advances are set out in the graph:

Non-performing loans and impairments



Non-performing loans declined by 12.9%, predominantly as a result of:

- improved corporate performance with the successful workout of certain large exposures;
- decline in non-performing US corporates; and
- general improvement in retail advances.

Non-security recoverables declined in line with the decrease in corporate non-performing loans.

Additional write-offs in respect of the following negatively impacted on current bad debts:

- R107 million in respect of card loans
- R130 million in respect of micro loans

In accordance with the requirements of AC133, numerous changes have been made to the way banks calculate impairments for bad debts. In general, these changes will lead to a reduction in the bad debt charge reflected in the income statement, although the annual charge will also become more volatile.

The table below sets out more details with regard to differences in the current period charge on a pre- and post-AC133 basis:

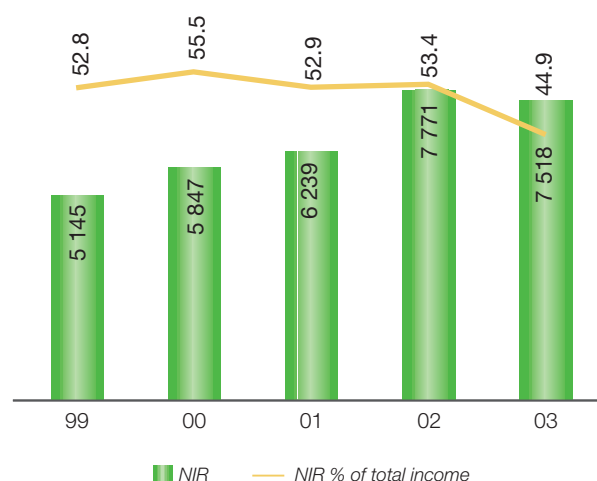
	Post-AC133	Pre-AC133
Specific impairments for bad debts	1 229	1 229
Time value of money adjustment against recoverable amounts	116	–
Adjustments for change in recognition of bad debts	64	–
Total specific impairments for bad debts	1 409	1 229
Portfolio impairments for bad debts	69	–
General provisions for bad debts	–	138
Total bad debt charge for the current period	1 478	1 367

A detailed analysis of impairment movements, both on a pre- and post-AC133 basis, is set out in note 11 on page 163.

Non-interest revenue

Core non-interest revenue (excluding currency translation gains or losses), decreased by 3.3% to R7 518 million (2002: R7 771 million). Total non-interest revenue, including currency translation gains and losses, decreased by 16.9% to an amount of R6 913 million (2002: R8 319 million). These decreases are discussed in more detail below:

Non-interest revenue (R million)
(excluding translation gains and losses)



Transactional income

Retail banking fee and commission income grew by 13.9% as a result of steady growth in client numbers and transaction volumes as well as limited price increases. Corporate fee income increased by 16.3% through a broadening of product offerings and substantial volume increases from existing clients. Investment banking and International fee income remains under pressure in subdued markets. This was further exacerbated by the strengthening of the Rand against the US Dollar in the year under review.

Trading income

Trading income reduced significantly by 18.3% to R1 447 million. The decline in income was primarily as a result of lower volatility in the market, resulting in narrower spreads and reduced trading opportunities. The decrease must be seen in the context of the extraordinary performance in 2002, which resulted from the extreme market volatility at the end of 2001 and early 2002, presenting uniquely favourable trading opportunities, especially in the forex markets.

Report of the Chief Financial Officer continued

Investment income

Investment income includes gains and losses from the Banking Group's Private Equity businesses, in addition to traditional investment activities. Private Equity continued to benefit from strong income from associated companies. Few investments were realised in the year under review due to weak local and international equity markets.

Dividend flows from strategic investments including Private Equity's non-consolidated portfolio were lower than the prior period due to two factors:

- the decline in the overall size of this portfolio as the bank reduced investments in non-controlled entities; and
- the first time equity accounting of the Banking Group's international private equity portfolio, which has resulted in previous dividend income being reflected in income from associated companies.

Long-term investments held in funds designed to meet the obligations of the Banking Group's post-retirement liabilities are marked-to-market and made unrealised losses in the current period.

Share of income of associated companies

Income from associated companies increased by a satisfactory 31.5% to R484 million. This is in spite of a 25.2% decline in income from investments by RMB Private Equity. The prior period income from private equity associated companies included a R96 million profit on the sale of the business of an associated company.

OUTsurance had an exceptional year, with the Banking Group's attributable profit increasing by more than 100%.

Operating expenditure

Non-interest expenditure increased by 13.8%.

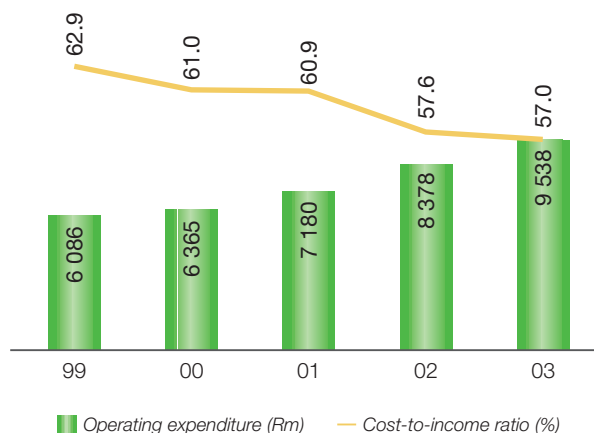
Staff costs were limited to an increase of 11.3%. Other operating costs increased by a disappointing 16.6%, mainly as a result of a 40.0% increase in marketing expenditure and a 40.4% increase in depreciation. Marketing costs increased as the Banking Group aggressively moved to promote itself through increased media and sponsorship presence and new product launches. The increase in depreciation includes accelerated depreciation of property assets.

Cost to income ratio

Continued strict management of costs together with the growth in income contributed to the improvement in the ratio from 57.6% to 57.0%. On a post-AC133 basis, the cost to income ratio in the period under review was 55.3%.

The improvement in the cost to income ratio, excluding the effect of translation gains or losses, is set out below:

Operating efficiency



International operations

Net income before taxation:

R million	Pre-AC133 2003	Actual 2002	% change
FNB Namibia	249	235	6.0
FNB Botswana	296	252	17.5
FNB Swaziland	29	24	20.8
FNB Africa	574	511	12.3
FirstRand International	193	367	(47.4)
Ansbacher (UK) ¹	(112)	11	(>100.0)
Other	106	52	103.1
Total international earnings	761	936	(21.6)

1. Ansbacher (UK) was disclosed as part of FirstRand International in the 2002 annual report. FirstRand International was disclosed as R378 million.

Profit growth of 12.3% in FNB Africa was affected by:

- higher non-performing loans in Namibia due to the prolonged high interest rate environment;
- lower endowment effect on FNB Namibia capital due to a special dividend paid during the year;
- additional credit provisions of Pula14 million at FNB Botswana;
- strong growth in the FNB Swaziland operation off a low base; and
- effective cost containment in all operations.

The decline in FirstRand International and Ansbacher (UK) resulted from:

- curtailment of the Ansbacher Cayman operations due to an adverse US regulatory environment;
- reduced margins on client funds due to low international interest rate environment;
- losses in treasury trading operations in Ansbacher (UK); and
- negative impact of adverse stock markets on investment advisory business.

Business segment performance

The divisional performances of the Banking Group, before tax, can be analysed as follows:

Net income before taxation

R million	June 2003	June 2002	% change
Retail segment	3 327	2 548	31.8
FNB Retail	1 890	1 291 ²	46.4
WesBank	716	676	5.9
FNB Africa	574	511	12.3
OUTsurance and FirstLink	147	70 ³	>100.0
Corporate segment	1 793	1 480	21.1
Rand Merchant Bank	1 071	910	17.7
FNB Corporate	722	570	26.7
Wealth segment	(47)	63	(>100.0)
RMB Private Bank	38	21	81.0
FNB Trust Services	27	31	(12.9)
Ansbacher (UK)	(112)	11	(>100.0)
Capital Centre	758	382 ^{2,3}	98.4
	5 831	4 473	30.4
Exceptional translation (loss)/gain	(605)	548	(>100.0)
Income before taxation	5 226	5 021	4.1

1. All business units operate on a fully-funded basis. As a result, the numbers above do not include investment return on capital.

2. These figures have been restated to reflect a transfer of a R32 million profit from Capital Centre to FNB Retail in respect of the acquisitions made in the previous financial year.

3. Interest calculated on capital allocated to the Capital Centre has been reallocated to the appropriate short-term insurance centres.

A detailed discussion on the results of the various businesses is set out on pages 28 to 55.

Risk report

1. What is risk?

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

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

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

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

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

subsidiary companies and their divisions, departments and business units.

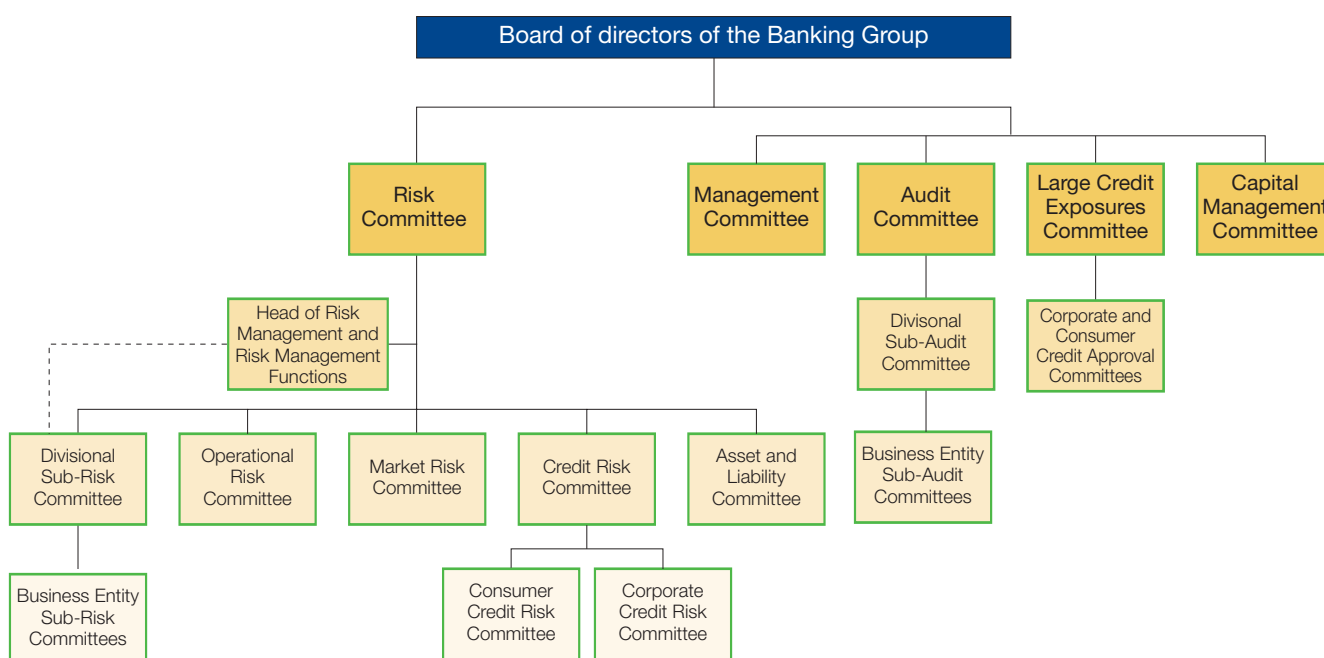
Executive managers are directly responsible for the management of the strategic business risks. They may delegate the management of the operating risks to specialist line and risk managers.

2.1 Risk management structure

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

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

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



The table below lists the committees of the Boards, which are charged with the responsibility to monitor the risk management processes and the effectiveness of risk management. These

committees also monitor the identification of risk management shortcomings, process breakdowns and the implementation of corrective actions to address these.

Committees and sub-committees of the Boards

Committees	Functions and responsibilities
Main Audit Committee Sub-Audit Committees	Approve the financial statements and accounting policies. Monitor the quality of the internal controls and processes of the Banking Group and the implementation of corrective actions.
Main Risk Committee and Sub-Risk Committees	Monitor the implementation of risk management policies, risk assessments, exposures under limits and the effectiveness of risk management.
Credit Approval Committees and Sub-Committees <ul style="list-style-type: none"> • Large exposures • Large corporate • Medium corporate • Corporate property finance • Financial institutions • Portfolio risk • Consumer sectors • Project finance • Structured finance • Wealth sector 	Oversee the management of credit risk, which is the risk of default of a counterpart. Responsible for credit approvals and the approval of credit policies for submission to the Credit Portfolio Risk Committee and the Main Risk Committee.
Capital Management Committee Capital Investment Committee	Sets policies for the allocation and investment of capital and the management of capital adequacy requirements and compliance.
Sub-committees of the Risk Committee	
Asset and Liability Committees ("Alco") <ul style="list-style-type: none"> • Main Alco • International Alco • Business unit Alcos 	<p>Oversee the management of liquidity and interest rate risk in the banking book and sets prudential limits for liquidity and interest rate exposures.</p> <p>Liquidity risk is the risk that the bank is unable to meet its liabilities and trading obligations.</p> <p>Interest rate risk is the risk of changes to the interest margin due to maturity re-pricing mismatches and changes in interest rates.</p>
Credit Portfolio Risk Management Committees <ul style="list-style-type: none"> • Corporate • Consumer 	Responsible for credit portfolio risk management and the monitoring of the effectiveness of credit risk management.

Risk report continued

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

2.2 The role of the finance, risk and audit division

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

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

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

3. Effectiveness of risk management

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

The Banking Group has been very successful at managing its strategic business risks, as demonstrated through its successful

results set out elsewhere in the Annual Report. The management of operating business risks over the past financial year and the effectiveness thereof is discussed in this section.

3.1 Capital management

The aim of capital management is to:

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

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

1. Optimal capitalisation of the Banking Group

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

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

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

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

2. Investment of the capital of the Banking Group

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

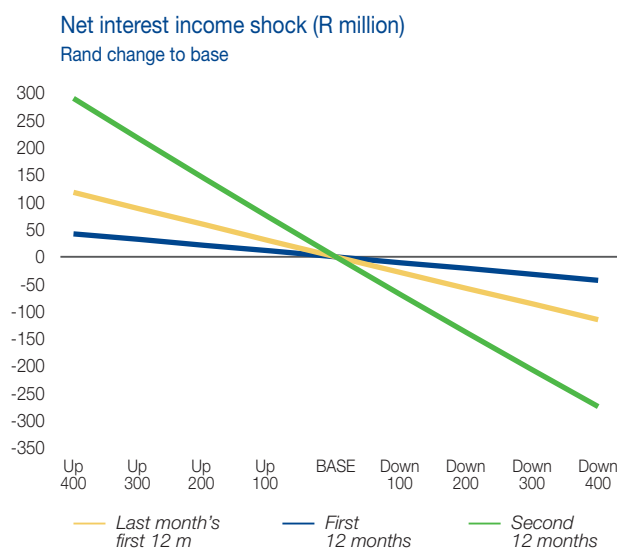
3. Allocation of capital within the Banking Group

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

3.2 Investment of own funds

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

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



3.3 Operating risk management

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

3.4 Financial management

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

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

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

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

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

3.5 Direct tax management

Tax risk management has the following primary objectives:

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

Risk report continued

3.6 Indirect tax management

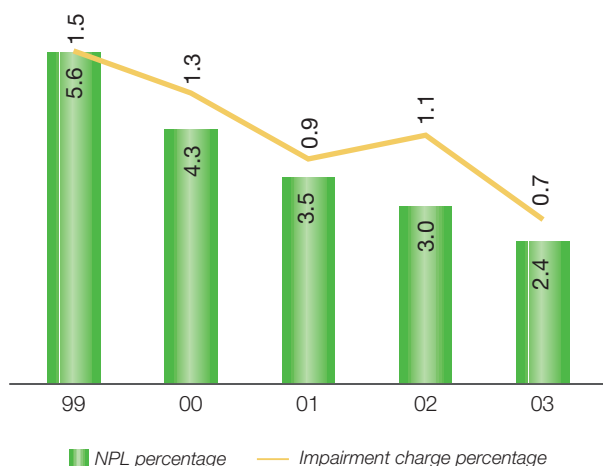
The Indirect Tax business unit comprises of a small team of specialists who specifically manage Value Added Tax ("VAT"), Regional Services Council levies ("RSC") and stamp duty compliance for the Banking Group. This unit has also been involved in assisting with the implementation of VAT compliance in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

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

3.7 Credit risk exposures

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

Non-performing loans and impairments



3.7.1 Corporate credit risk exposures

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

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

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

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

3.7.2 Consumer credit

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

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

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

Credit approval processes

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

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

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

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

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

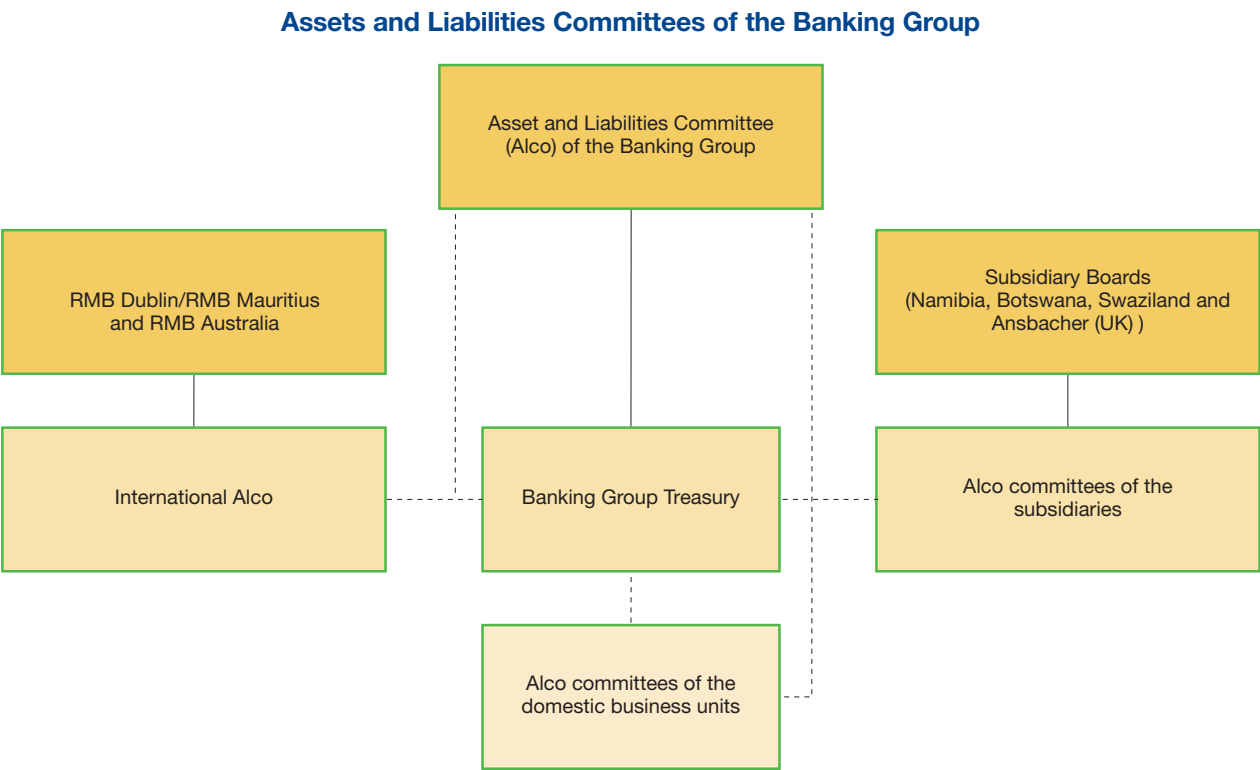
- the expected default rate of each counterparty;
- the rate which the bank earns on the transaction; and
- expected percentage recovery of the outstanding amount in the event of default.

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

3.8 Asset and Liability Management

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

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



Risk report continued

Liquidity risk

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

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

3.9 Interest turn

3.9.1 Interest rate risk

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

- Banking book; and
- Trading book.

3.9.2 Banking book

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

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

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

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

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

Three key measures are used to quantify interest rate risk:

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

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

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

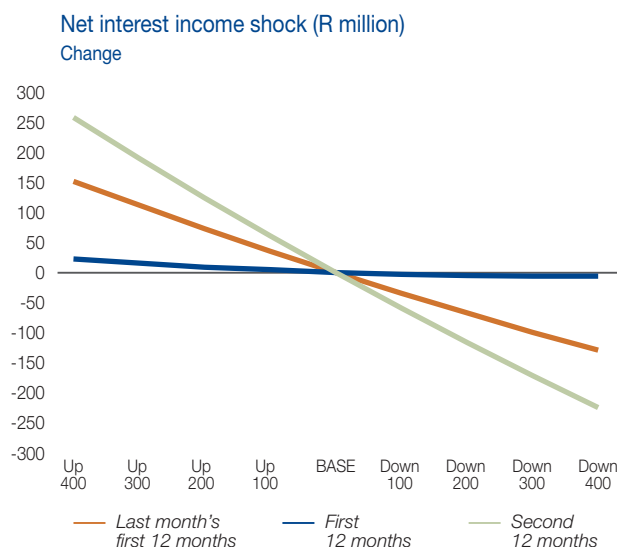
Interest rate sensitivity

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

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

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

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



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

Strategy in using hedging instruments

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

- ALMU formally documents all relationships between hedging instruments, and hedged items in the bank's balance sheet and document the enterprise risk management objective and strategy for undertaking the hedge. This process includes linking all derivatives designated as hedges to specific assets or liabilities in the Banking Group balance sheet.
- ALMU also formally assesses, both at hedge inception and at external reporting dates, whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in cash flows attributable to the hedged risk.

Interest rate derivatives comprising mainly of interest rate swaps and Rand overnight deposit swaps (RODS), and government securities, are utilised for hedging purposes to eliminate uncertainty and reduce the risk that the Bank faces due to volatile interest rates.

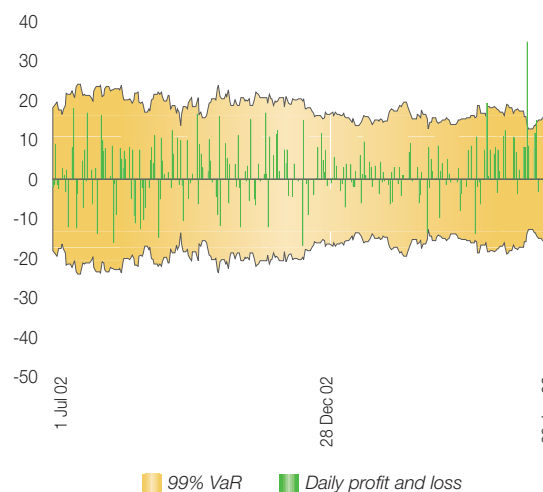
3.9.3 Trading Book

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

3.10 Market risk

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

Value at Risk (99% 1 day) (R million)
1 July 2002 – June 2003



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

Although the Banking Group calculates risk measures such as VaR to obtain an understanding of the profit and loss characteristics of

Risk report continued

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

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

3.11 Operational risk

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

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

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

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

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

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

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

3.12 Information security

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

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

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

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

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

Category	Business impact											
	Major				Minor				None			
Service loss												
Financial loss												
Reputation												

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

Project area	Status of improvement projects											
	Under way						Complete					
Risk Framework												
Policy and Standards												
Awareness												
Control												
Status												
Perimeter Protection												
New risks												

3.13 Business continuation

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

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

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

Risk report continued

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

<i>Systems</i>	<i>Assessment</i>						<i>Plans and implementation</i>						<i>Testing</i>						<i>% Complete †</i>
Core and production	<div><div></div><div></div><div></div><div></div><div></div><div></div></div>						<div><div></div><div></div><div></div><div></div><div></div><div></div></div>						<div><div></div><div></div><div></div><div></div><div></div><div></div></div>						100
Front-end, delivery	<div><div></div><div></div><div></div><div></div><div></div><div></div></div>						<div><div></div><div></div><div></div><div></div><div></div><div></div></div>						<div><div></div><div></div><div></div><div></div><div></div><div></div></div>						94
Enterprise specific	<div><div></div><div></div><div></div><div></div><div></div><div></div></div>						<div><div></div><div></div><div></div><div></div><div></div><div></div></div>						<div><div></div><div></div><div></div><div></div><div></div><div></div></div>						70
† With the migration to a new mirrored site, a fresh test cycle will be commenced during 2003/2004																			
<i>Business clusters</i>	<i>Assessment</i>						<i>Plans and implementation</i>						<i>Testing</i>						<i>% Complete †</i>
Retail	<div><div></div><div></div><div></div><div></div><div></div><div></div></div>						<div><div></div><div></div><div></div><div></div><div></div><div></div></div>						<div><div></div><div></div><div></div><div></div><div></div><div></div></div>						76
Corporate/trading	<div><div></div><div></div><div></div><div></div><div></div><div></div></div>						<div><div></div><div></div><div></div><div></div><div></div><div></div></div>						<div><div></div><div></div><div></div><div></div><div></div><div></div></div>						88
Wealth	<div><div></div><div></div><div></div><div></div><div></div><div></div></div>						<div><div></div><div></div><div></div><div></div><div></div><div></div></div>						<div><div></div><div></div><div></div><div></div><div></div><div></div></div>						88

† Percentage completeness is a subjective, arithmetic calculation

3.14 Risk insurance

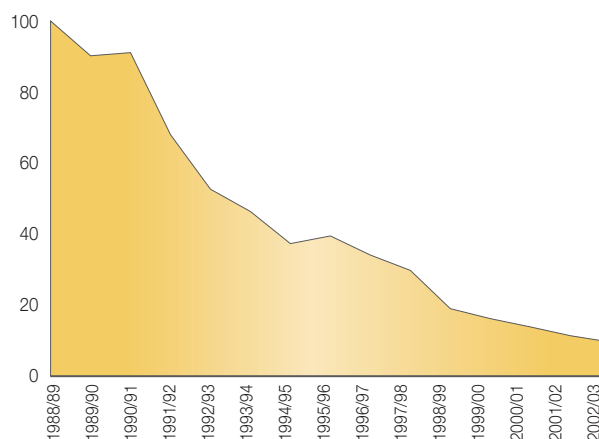
The Banking Group protects itself, wherever possible, against insurable risks through a combination of vigorous risk management processes and a comprehensive structured insurance risk financing programme.

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

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

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

Bankers Blanket Bond/Computer Crime Insurance Programme
Cost of funding and premiums relative to assets – Indexed



3.15 Legal risk

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

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

4. Review and the way forward

4.1 General risk management

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

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

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

- further integration of the management and risk management processes;

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

5. Internal audit

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

Audit teams

Frequency of audits

- Process auditors who specialise in the auditing of branches and processing facilities.

- Annually – 98% completed.

- Credit auditors who audit the credit processes in the branches and credit hubs.

- Annually – 100% completed.

- Business auditors who audit the financial, governance, risk management and business processes of the business units.

- Annually – 100% completed for high/medium priority units.
– 95% completed for low priority units.

- Systems auditors who assess the effectiveness of systems, general and application controls, information security and systems development.

- Three year cycle subject to risk profile, business changes and system developments.

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

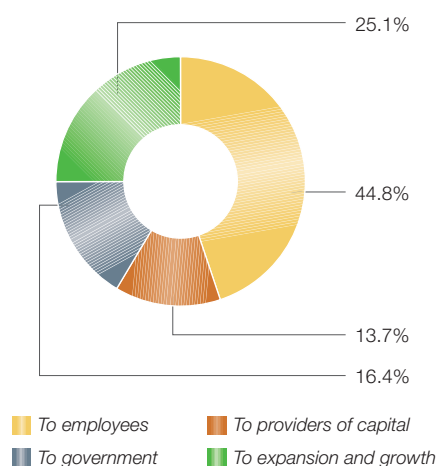
Value added statement

for the year ended 30 June

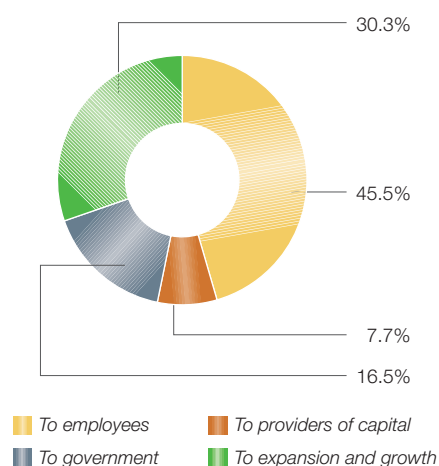
	Group 2003 ¹		Group 2002	
	R million	%	R million	%
Value added				
Income earned by providing banking services	26 293		18 721	
Cost of services	(18 667)		(14 009)	
Value added by banking services	7 626		4 712	
Non-operating income	7 339		8 505	
Non-operating expenditure	(4 015)		(3 530)	
Value added by banking services	10 950		9 687	
To employees				
Salaries, wages and other benefits	4 910	44.8	4 412	45.5
To providers of capital				
Dividends to shareholders	1 500	13.7	744	7.7
To government				
Normal taxation	1 451	13.3	1 314	13.6
Value-added tax	268	2.4	193	2.0
Regional services levy	44	0.4	35	0.4
Capital gains tax	2	0.0	11	0.1
Other	34	0.3	43	0.4
To expansion and growth				
Retained income	2 274	20.8	2 996	30.9
Depreciation	612	5.6	436	4.5
Deferred taxation	(145)	(1.3)	(496)	(5.1)
	10 950	100.0	9 687	100.0

1. Post-AC133.

Value added 2003



Value added 2002



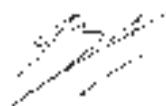
Directors' responsibility statement

The directors of FirstRand Bank Holdings Limited are required to maintain adequate accounting records and to prepare financial statements for each financial year that fairly present the state of affairs of FirstRand Bank Holdings Limited and its subsidiary and associated companies ("the Banking Group") at the end of the financial year, and of the results and cash flows for the year. In preparing the accompanying financial statements, South African Statements of Generally Accepted Accounting Practice have been followed including the interpretation issued under circular ED168, suitable accounting policies have been applied, and reasonable estimates have been made. The Board approves significant changes to accounting policies and the effects of these are fully explained in the annual financial statements. The financial statements incorporate full and responsible disclosure in line with the FirstRand Group's philosophy on corporate governance. The external auditors, PricewaterhouseCoopers Inc. and Deloitte & Touche, have audited the financial statements and their unqualified report appears on page 136.

The directors have reviewed the Banking Group's budget and cash flows for the year to 30 June 2004. On the basis of this

review, and in the light of the current financial position, the directors have no reason to believe that the Banking Group will not be a going concern for the foreseeable future. The going concern basis has therefore been adopted in preparing the financial statements.

The consolidated financial statements for the year ended 30 June 2003 which appear on pages 137 to 189, have been approved by the Board of Directors and are signed on its behalf by:



JP Burger
Chief Financial Officer



PK Harris
Chief Executive Officer

Sandton
15 September 2003

Report of the independent auditors

To the directors of FirstRand Limited

We have audited the consolidated financial statements of FirstRand Bank Holdings Limited, and its subsidiary and associate companies ("the Banking Group") set out on pages 137 to 189, for the year ended 30 June 2003. The financial statements are the responsibility of the directors of FirstRand Bank Holdings Limited. Our responsibility is to express an opinion on these financial statements based on our audit.

Scope

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

An audit includes:

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

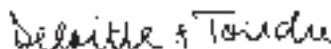
We believe that our audit provides a reasonable basis for our opinion.

Audit opinion

In our opinion, the financial statements fairly represent, in all material respects, the financial position of the FirstRand Banking Group at 30 June 2003 and the results of its operations and cash flows for the year then ended in accordance with Statements of Generally Accepted Accounting Practice in South Africa.



PricewaterhouseCoopers Incorporated
Chartered Accountants (SA)
Registered Accountants and Auditors



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

Sandton
15 September 2003

Accounting policies

The Banking Group adopts the following accounting policies in preparing its consolidated financial statements.

1. Basis of presentation

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

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

The consolidated 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 noted where necessary, the Banking Group adjusts comparative figures to conform to changes in presentation in the current year.

The Banking Group adopted AC133 – “Financial Instruments: Recognition and Measurement” (“AC133”) with effect from 1 July 2002. The effect of the change in accounting policy on the financial statements of the Banking Group is set out in note 25 below.

2. Consolidation

The consolidated financial statements include the assets, liabilities and results of the operations of the holding company and its subsidiaries. Subsidiaries are companies in which the Banking Group, directly or indirectly, has a long-term interest and the power to exercise control over the operations. The Banking Group considers the existence and effect of potential voting rights that are presently exercisable or convertible in determining control.

The Banking Group consolidates a special purpose entity (“SPE”) when the substance of the relationship between the Banking Group and the SPE indicates that the Banking Group controls the SPE.

The Banking Group uses the purchase method of accounting to account for the acquisition of subsidiaries. Subsidiaries are

consolidated from the date on which the Banking Group acquires effective control. Consolidation is discontinued from the effective date of disposal. The Banking Group recognises assets and liabilities acquired in its balance sheet at their estimated fair values at the date of acquisition. It eliminates all inter-company transactions, balances and unrealised surpluses and deficits on transactions between Banking Group companies.

3. Associated companies

Associated companies are companies in which the Banking Group 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 Banking Group includes the results of associated companies in its consolidated financial statements using the equity accounting method, from the effective dates of acquisition to the effective dates of disposal. The Banking Group eliminates all transactions with its associated companies in determining its portion of the post-acquisition results of the associated companies.

Earnings attributable to ordinary shareholders include the Banking Group’s share of earnings of associated companies. The Banking Group’s reserves include its share of post-acquisition movements in reserves of the associated companies. The cumulative post-acquisition movements are adjusted against the cost of the investment in the associated companies.

The Banking Group carries its interest in an associated company in its balance sheet at an amount that reflects its share of the net assets of the associated company. This amount includes any unamortised excess or deficit of the purchase price over the fair value of the attributable assets of the associated company at date of acquisition.

The Banking Group discontinues equity accounting when the carrying amount of the investment in an associated company reaches zero, unless it has incurred obligations or guaranteed obligations in favour of the associated undertaking.

The Banking Group increases the carrying amount of investments with its share of the associated companies’ income when equity accounting is resumed.

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4. Joint ventures

The Banking Group accounts for interests in jointly controlled entities by proportionate consolidation. In terms of this method the Banking Group includes its share of a joint venture's individual income or expense, assets and liabilities and cash flows in the relevant components of its financial statements.

5. Revenue recognition

5.1 Interest income

The Banking Group 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 AC133, interest income on impaired advances is thereafter recognised based on the original effective interest rate used to determine the recoverable amount. The difference between the recoverable amount and the original carrying value is released to interest income over the expected collection period of the advance.

5.2 Trading income

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

5.3 Fee and commission income

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

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

5.4 Services rendered

The Banking Group 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 Banking Group 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

6.1 General

The Banking Group presents its consolidated financial statements in South African Rand, the measurement currency of the holding company ("the reporting currency"). Banking Group entities record items in their financial statements using the currency that best reflects the economic substance of the underlying events and circumstances relevant to that entity ("measurement currency").

6.2 Independent entities

Assets and liabilities of foreign subsidiary companies, regarded as independent entities, are translated to South African Rand at rates of exchange ruling at year-end. Resultant gains and losses are recorded directly in a non-distributable currency translation reserve.

6.3 Integral operations

Non-monetary assets and liabilities of foreign subsidiary companies, regarded as an integral part of the Banking Group's operations, are translated into South African Rand at historical rates, with monetary assets and liabilities translated at rates of exchange ruling at year-end. Resultant gains and losses are recognised in the income statement.

6.4 Other

In both of the cases above, the Banking Group translates capital, reserves and any goodwill or fair value adjustments arising on the

acquisition of foreign operations at historical rates. Income statement items are translated at the average rate for the year.

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

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

7. Borrowing costs

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

Other borrowing costs are expensed as incurred.

8. Direct and indirect taxation

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

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

Indirect taxes are separately disclosed in the income statement.

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

9. Recognition of assets, liabilities and provisions

9.1 Assets

The Banking Group 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 Banking Group 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 Banking Group's control.

9.3 Liabilities and provisions

The Banking Group recognises liabilities, including provisions when:

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

9.4 Contingent liabilities

The Banking Group 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

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as appropriate. The difference between sale and repurchase price is treated as interest and accrued over the life of repos using the effective yield method. Securities lent to counterparties are retained in the financial statements.

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

10. Derecognition of assets and liabilities

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

- there is a legally enforceable right to set off, and
- there is an intention to settle on a net basis or to realise the asset and settle the liability simultaneously, and
- 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 associated companies, fixed assets, deferred taxation, taxation payable and intangible assets.

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

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

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

Where the Banking Group 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 Banking Group 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 Banking Group 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 Banking Group classifies purchased advances and receivables and investment securities as either held-to-maturity or available-for-sale assets. Purchased advances and receivables (including sub-participations acquired after providing the original loan), and

investment securities with a fixed maturity and fixed or determinable payments, where management has both the intent and the ability to hold to maturity, are classified as “Held-to-maturity”. The Banking Group classifies purchased advances and receivables and investment securities where the intention is to hold for an indefinite period of time and which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices, as “Available-for-sale”. Management determines the appropriate classification at the time of purchase.

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

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

The Banking Group 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.

13.3.2 Impairment of originated advances

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

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

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

The Banking Group 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 Banking Group 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 Banking Group calculates the impairment loss for assets

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

13.5 Derivative financial instruments and hedging

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

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

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

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

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

The Banking Group 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 Banking Group 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 Banking Group 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 arms length transactions.

15. Property and equipment

15.1 Owner occupied

The Banking Group carries property and equipment at cost less accumulated depreciation.

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

The periods of depreciation used are as follows:

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

Motor vehicles	5 years
Office equipment	3 – 6 years

The Banking Group 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.

15.2 Investment properties

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

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

16. Accounting for leases – where a group company is the lessee

The Banking Group 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 Banking Group allocates each lease payment between the liability and finance charges to achieve a constant rate on the finance balance outstanding. The interest component of the finance charge is charged to the income statement over the lease period. The property and equipment acquired are depreciated over the useful life of the asset, on a basis consistent with similar fixed assets.

The Banking Group 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.

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The Banking Group 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 Banking Group 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 Banking Group 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 Banking Group 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 Goodwill

Goodwill represents the excess of the cost of an acquisition over the attributable fair value of the Banking Group's share of the net assets of the acquired subsidiary at the date of acquisition. Goodwill on associated companies is included in the carrying value of the associated company. The Banking Group capitalises goodwill and amortises it on a straight-line basis over the period of expected benefit, limited to 20 years. The carrying amount of goodwill is reviewed periodically and written down for permanent impairment where considered necessary.

Negative goodwill represents the excess of the fair value of the Banking Group's share of the net assets acquired over the cost of acquisition. The Banking Group presents negative goodwill in the same balance sheet classification as goodwill.

The Banking Group recognises negative goodwill that relates to expectations of future losses and expenses that are identified in its plan for the acquisition, and can be measured reliably, but which do not represent identifiable liabilities, in the income statement when the future losses and expenses are recognised. It recognises any remaining negative goodwill, not exceeding the fair value of the non-monetary assets acquired, in the income statement over the remaining useful life of those assets. Negative goodwill in excess of the fair value of those assets is recognised in the income statement immediately.

18.2 Computer software development costs

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

The Banking Group 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.

18.3 Other intangible assets

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

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

19. Deferred taxation

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

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

The Banking Group 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 Banking Group provides for post-retirement healthcare benefits to qualifying employees and retired personnel by subsidising a portion of their medical aid contributions. The Banking Group created an independent fund in 1998 to fund these obligations. AC116 requires that the assets and liabilities in respect thereof be reflected on the balance sheet. The Banking Group 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 Banking Group 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 Banking Group 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

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or losses that are in excess of the corridor must be recognised as income or expense in the current accounting period.

The Banking Group 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 Banking Group to pay bills of exchange drawn on customers. The Banking Group accounts for and discloses acceptances as a contingent liability.

22. Related party transactions

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

23. Segment reporting

The Banking Group defines a segment as a distinguishable component or business that provides either:

- unique products or services ("business segment"), or
- products or services within a particular economic environment ("geographical segment"),

subject to risks and rewards that are different from those of other segments.

Segments with a majority of revenue earned from charges to external customers and whose revenue, results or assets are 10% or more of all the segments, are reported separately.

24. Fiduciary activities

The Banking Group 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.

25. Changes in accounting policy

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

The statement introduces fair value accounting to certain classes of financial assets and liabilities such as certain advances,

derivative instruments and investments in debt and equity securities. The statement is not applicable to assets such as fixed assets or investments in subsidiaries and associated companies.

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

There are four primary asset categories:

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

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

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

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

General provisions

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

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

AC133 is ambiguous in dealing with the transitional arrangements in respect of the treatment of the adjustments to provisions, but not in respect of the methodology used in calculating the quantum of impairments. The South African Institute of Chartered Accountants issued an interpretation (ED168) on the correct transitional treatment on 4 September 2003, stating that the release of previous provisions should be treated on the same basis as other transitional adjustments relating to AC133 subject to certain requirements. The Banking Group complies with these requirements, and consequently, transferred the once-off release of the previous general provision for bad debts of R2 065 million to opening retained income.

Portfolio impairments

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

General Risk Reserve

The Banking Group created an impaired capital reserve of R1 530 million at 1 July 2002 in compliance with the regulatory provisioning requirements set out in the regulations to the Banks Act.

Internal hedging transactions

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

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

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

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

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

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

Impact of adopting AC133 on opening equity

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

Accounting policies continued

R million	Retained income	Revaluation reserve	General risk reserve	Total
Closing balance at 30 June 2002	12 343	–	–	12 343
Retained income adjustment for:				
Present value adjustment for off-market loans ¹	(110)			(110)
Present value adjustment for specific loan impairments ²	(311)			(311)
Non-qualifying interest rate hedges ³	(211)			(211)
Release of general loan provisions ⁴	2 065			2 065
Creation of a General Risk Reserve (impaired capital reserve) ⁵	(1 530)	440	1 090	–
Creation of portfolio impairment	(535)			(535)
Revaluation of held for trading portfolios ⁶	(21)			(21)
Revaluation of available for sale portfolios ⁷	(671)			(671)
Transfer of available for sale portfolios	671	(671)		–
Taxation on above	196	23	(327)	(108)
Restated opening balance at 1 July 2002	11 886	(208)	763	12 441

1. AC133 requires that loans and advances should be recognised at inception at the fair value of the consideration given. Where off-market rates are applicable, then the fair value of the consideration is measured by present valuing the future cash flows using an applicable market interest rate. This gives rise to an “up front loss” on inception of such loans, which then gradually unwinds over the life of the transaction to interest income.
2. A major change introduced by AC133 relates to the impairment of advances, on an individual or portfolio basis, which must be calculated using a present value methodology, based on expected future cash flows of identified impaired advances or losses inherent in a portfolio of advances. This results in an increase in specific impairments previously provided to take account of the delay in collection of the recoverable amount.
3. AC133 sets onerous requirements before hedge accounting can be applied, including restrictions on the use of partial hedges, internal hedges and net hedging. While the Banking Group has complied with these requirements in certain circumstances, in other situations, where the cost of complying exceeds any tangible business benefit, the Banking Group has elected to reflect the hedges through the income statement.
4. The present value calculation applied in AC133 requires that all future cash flows, including future interest payments, be taken into account in the creation of credit risk impairments. If the risk pricing methodology of an enterprise is appropriate and the current expectations of recoverable cash flows is consistent with the initial expectations, then the risk premium inherent in future interest flows should compensate for the risk inherent in the underlying capital amount relating to expected future losses. The specific impairment losses is supplemented where market conditions change and as a result the Banking Group's expectations of future cash flows change and it is not possible to re-price sufficiently quickly to compensate for the change in risk. This additional impairment is included in adjustment 2 above. As a result, the old general provision, which pre-AC133 took account of the inherent risk in the book, without taking the risk premium into account, is no longer permitted under AC133. To the extent that the Banking Group is of the opinion that there are losses inherent in the performing portfolio of advances, which will only be identified in the future, or that insufficient data exists to reliably determine whether such losses exist, a portfolio impairment has been created. In line with standard industry practice, an impaired capital reserve has been created in terms of the requirements of South African Reserve Bank (“SARB”) (refer 5 below).
5. The General Risk Reserve is created to comply with the minimum provisioning levels required in terms of the SARB. The formulaic approach prescribed by the SARB, results in levels of provisioning which incorporate “unexpected losses” in a portfolio of advances. To the extent that general or specific impairments created relate to advances now held as “Available for sale”, these impairments have been included in the Revaluation Reserve column of the statement of changes in equity.
6. Investment banking assets previously held at cost, now designated at fair value. This category includes Private Equity investments, which are not associated companies or subsidiaries.
7. Adjustment relating to the measurement of available for sale financial assets to fair value or amortised cost, on 1 July 2002.

Impact on current income

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

R million	Net interest income	Bad debts	Other income	Other	Total
Unwind of present value adjustment in the current period	114				114
Increase in specific impairment (present value)		(116)			(116)
Increase in specific impairment (other)		(64)			(64)
Portfolio impairment		(69)			(69)
General provision		138			138
Non-qualifying hedge profits			398		398
Mark-to-market vs accrual profits			(6)	11	5
Translation losses			73		73
Re-allocations	256		(256)		–
Effect of individual line items	370	(111)	209	11	479
Tax impact on the above	(111)	33	(41)	(3)	(122)
Net impact on current period income	259	(78)	168	8	357

Impact on closing reserves

R million	Retained income	Other non- distributable reserves	Re- valuation reserve	General risk reserve	Total
Reserves before AC133	14 301	1 077	–	–	15 378
Opening adjustment	(457)		(208)	763	98
Current period income statement effect	357				357
Transfer to general risk reserve	(138)			138	–
Revaluation of available for sale portfolios			897		897
Currency reserve		(11)			(11)
Other		(16)			(16)
Revised closing reserves	14 063	1 050	689	901	16 703

Income statement

for the year ended 30 June

R million	Notes	Group 2003	Group 2002
Interest income	3	26 293	18 721
Interest expenditure	4	(17 189)	(12 304)
Net interest income before impairment of advances		9 104	6 417
Impairment of advances	11	(1 478)	(1 705)
Net interest income after impairment of advances		7 626	4 712
Non-interest income	5	7 123	8 319
Net income from operations		14 749	13 031
Operating expenditure	6	(9 537)	(8 378)
Income from operations		5 212	4 653
Share of earnings of associated companies	15	494	368
Income before indirect taxation		5 706	5 021
Indirect taxation	7	(346)	(270)
Income before direct taxation		5 360	4 751
Direct taxation	7	(1 308)	(829)
Income after taxation		4 052	3 922
Earnings attributable to outside shareholders		(278)	(182)
Earnings attributable to ordinary shareholders		3 774	3 740
Reconciliation between earnings attributable to ordinary shareholders and headline earnings			
Earnings attributable to ordinary shareholders		3 774	3 740
Less: Profit on sale of subsidiaries		–	(5)
Plus: Loss on sale of fixed assets		36	26
Plus: Goodwill		10	10
Headline earnings		3 820	3 771
Reconciliation between headline earnings and core headline earnings			
Headline earnings		3 820	3 771
Translation losses/(gains)		532	(548)
Core operational headline earnings		4 352	3 223

Balance sheet

as at 30 June

R million	Notes	Group 2003 Actual	Group 2002
Assets			
Cash and short-term funds	8	29 252	24 643
Derivative financial instruments	9	36 375	26 139
– qualifying for hedge accounting		12 632	
– held for trading		23 743	
Advances	10	189 611	175 145
– originated		131 935	
– held-to-maturity		9 562	
– available for sale		7 406	
– trading		40 708	
Investment securities and other investments	12	36 655	44 666
– Financial instruments held for trading		11 389	
– Investment securities		25 266	
held-to-maturity		1 220	
available for sale		21 208	
at elected fair value		2 838	
Non-recourse investments	13	2 403	1 738
Accounts receivable	14	3 196	3 269
Investment in associated companies	15	1 915	1 169
Property and equipment	16	3 455	3 412
Deferred taxation assets	7	931	1 253
Intangible assets	18	205	288
Total assets		303 998	281 722
Liabilities and shareholders' funds			
Liabilities			
Deposit and current accounts	19	186 031	201 404
Non-recourse deposits	13	2 403	1 738
Short trading positions	20	33 881	16 799
Derivative financial instruments	9	43 103	31 525
– qualifying for hedge accounting		13 655	
– held for trading		29 448	
Creditors and accruals	21	11 888	7 016
Provisions	22	976	831
Taxation		1 091	429
Pension and post-retirement benefit fund liability	17.3	1 004	897
Deferred taxation liabilities	7	1 721	1 931
Long-term liabilities	23	2 910	3 217
Total liabilities		285 008	265 787
Outside shareholders' interest		549	475
Shareholders' equity			
Ordinary shares	24	106	106
Share premium		1 632	1 332
Non-distributable reserves	25	2 640	1 679
Distributable reserves		14 063	12 343
Total shareholders' equity		18 441	15 460
Total liabilities and shareholders' funds		303 998	281 722
Contingencies and commitments	26	25 883	27 284

Cash flow statement

for the year ended 30 June

R million	Notes	Group 2003	Group 2002
Cash flows from operating activities	27.1	7 244	5 905
Cash received from customers		33 548	26 237
Interest income		26 293	18 721
Fee and commission income		5 735	5 132
Other income		1 520	2 384
Cash paid to customers and employees		(24 802)	(19 884)
Interest expenditure (excluding debenture interest)		(16 657)	(11 942)
Total other operating expenditure (excluding depreciation)		(8 145)	(7 942)
Cash flows from returns on investments and servicing of finance		(1 502)	(448)
Debenture interest paid		(532)	(363)
Dividends from other investments		402	463
Dividends from associated companies		130	198
Dividends paid	27.2	(1 502)	(746)
Taxation paid	27.3	(765)	(689)
Cash flows from banking activities		(801)	11 453
(Increase)/decrease in income-earning assets		(14 637)	(32 278)
Liquid assets and trading securities		4 612	8 254
Advances		(19 249)	(40 532)
Increase/(decrease) in deposits and other liabilities		13 836	43 731
Term deposits		(17 974)	21 020
Current deposit accounts		15 281	6 097
Deposits from banks		1 887	8 999
Negotiable certificates of deposit		(6 694)	(5 449)
Savings accounts		(1 916)	(17)
Creditors net of debtors		4 699	(3 332)
Other		18 553	16 413
Net cash inflow from operating activities		5 678	16 669
Cash flows from investment activities			
Capital expenditure			
– to maintain operations		(865)	(856)
– to increase operations		(206)	(8 147)
Purchase of associates		(375)	(512)
Purchase of investments			(571)
Proceeds from sale of property and equipment		72	70
Proceeds from sale of investments			13
Net cash outflow from investment activities		(1 374)	(10 003)
Cash flows from financing activities			
Net repayment of long-term liabilities		5	(87)
Proceeds from the issue of ordinary shares		300	–
Net cash flow from financing activities		305	(87)
Net increase in cash and cash equivalents		4 609	6 579
Cash and cash equivalents at beginning of the year		24 643	10 133
Acquired cash equivalents			7 931
Cash and cash equivalents at end of the year	8	29 252	24 643

Statement of changes in equity

for the year ended 30 June

R million	Share capital (Note 24)	Share premium	General risk reserve	Revaluation reserve	Other non-distributable reserves (Note 25)	Distributable reserves	Total shareholders' equity
Balance at 1 July 2001	106	1 332			1 093	9 381	11 912
Currency translation differences					577		577
Non-distributable reserves of associated companies					12		12
Earnings attributable to ordinary shareholders						3 740	3 740
Final dividend – 31 October 2001						(289)	(289)
Interim dividend – 31 March 2002						(455)	(455)
Transfer to other non-distributable reserves					34	(34)	
Movement in other non-distributable reserves					(37)		(37)
Balance as at 30 June 2002	106	1 332			1 679	12 343	15 460
Effect of adopting AC133, before tax:							
– Present value adjustment for off-market loans						(110)	(110)
– Present value adjustment for specific loan provisions						(311)	(311)
– Non-qualifying interest rate hedges						(211)	(211)
– Release of general loan provisions						2 065	2 065
– Creation of general risk reserve (impaired capital reserve)			1 090	440		(1 530)	
– Creation of portfolio provision						(535)	(535)
– Revaluation of held-for-trading portfolios						(21)	(21)
– Revaluation of available for sale portfolios						(671)	(671)
– Transfer of available for sale portfolios				(671)		671	
– Taxation on above			(327)	23		196	(108)
Restated balance as at 1 July 2002	106	1 332	763	(208)	1 679	11 886	15 558
Currency translation differences					(600)		(600)
Non-distributable reserves of associate companies					8		8
Earnings attributable to ordinary shareholders						3 774	3 774
Final dividend – 4 November 2002						(615)	(615)
Interim dividend – 31 March 2003						(885)	(885)
Transfer to General Risk Reserve (impaired capital reserve)			138			(138)	
Revaluation of available for sale provisions				897			897
Sale of revalued property					(41)	41	
Movement in other non-distributable reserves					4		4
New share issue		300					300
Balance as at 30 June 2003	106	1 632	901	689	1 050	14 063	18 441

Details regarding the adjustments relating to the implementation of AC133 are contained in paragraph 25 of the accounting policies of the Banking Group.

Notes to the annual financial statements

for the year ended 30 June

R million	Group 2003	Group 2002
1. Accounting policies		
The accounting policies of the Banking Group are set out on pages 137 to 149.		
2. Turnover		
Turnover is not relevant in banking business.		
3. Interest income		
Interest on:		
Advances	21 029	15 854
– originated	18 842	
– held-to-maturity	1 630	
– available for sale	15	
– trading	542	
Cash and short-term funds	1 723	1 054
Investment securities	2 751	1 656
– held-to-maturity	183	
– available for sale	2 568	
Accrued on impaired advances	109	
Accrued on off-market advances	4	
Other	677	157
	26 293	18 721
4. Interest expenditure		
Interest on:		
Deposits from banks and financial institutions	(861)	(227)
Current accounts	(5 487)	(2 415)
Savings accounts	(112)	(108)
Term deposits	(8 276)	(7 694)
Finance leases	(1)	(85)
Debentures	(532)	(363)
Other	(1 920)	(1 412)
	(17 189)	(12 304)
5. Non-interest income		
Transactional income		
– Banking fee and commission income	5 116	4 168
– Knowledge-based fee and commission income	303	734
– Non-banking fee and commission income	316	230
<i>Transactional income</i>	5 735	5 132
Trading income		
Foreign exchange		
– Domestic-based currency trading	772	943
– Foreign-based currency trading	(41)	81
Foreign exchange trading	731	1 024
Treasury trading operations	861	748
Transfer from revaluation reserve on sale of available-for-sale assets	(9)	–
<i>Trading income</i>	1 583	1 772

R million	Group 2003	Group 2002
5. Non-interest income (continued)		
Investment income		
(Loss) on realisation of investment banking assets	(1)	(14)
Dividends received	214	437
Income from associated companies	494	368
Investment income	707	791
Unrealised (loss)/profit on assets held against employee liabilities	(95)	71
Gross investment income	612	862
Share of income from associated companies disclosed separately (refer note 15)	(494)	(368)
<i>Net investment income</i>	118	494
Other income	255	399
Loss on sale of fixed assets	(36)	(26)
<i>Other income</i>	219	373
Total non-interest income	7 655	7 771
Translation (losses)/gains	(532)	548
Non-interest income	7 123	8 319
Other income includes the performance of Ansbacher (UK), which incurred trading losses on its exposure to US Corporate and emerging market debt portfolios.		
6. Operating expenditure		
Auditors' remuneration		
– Audit fees	(50)	(47)
– Fees for other services	(7)	(3)
– Prior year over provision	2	
	(55)	(50)
Amortisation of intangible assets		
– Goodwill	(10)	(10)
– Software	(14)	(9)
– Development costs	(2)	(1)
– Other	(51)	(56)
	(77)	(76)
Depreciation		
– Property	(174)	(60)
Freehold buildings	(87)	(23)
Leasehold premises	(87)	(37)
– Equipment	(438)	(376)
Computer equipment	(280)	(232)
Furniture and fittings	(110)	(96)
Motor vehicles	(20)	(24)
Office equipment	(26)	(22)
Capital leased assets	(2)	(2)
	(612)	(436)
Operating lease charges		
– Land and buildings	(428)	(226)
– Equipment	(23)	(16)
– Motor vehicles	(32)	(23)
	(483)	(265)
Professional fees		
– Managerial	(45)	(19)
– Technical	(95)	(142)
– Other	(140)	(72)
	(280)	(233)

Notes to the annual financial statements *continued*

for the year ended 30 June

R million	Group 2003	Group 2002
6. Operating expenditure (continued)		
Staff costs		
– Salaries, wages and allowances	(4 104)	(3 660)
– Contributions to employee benefit funds	(554)	(446)
* Defined contribution schemes	(543)	(445)
* Defined benefit schemes	(11)	(1)
– Social security levies	(60)	(42)
– Other	(192)	(264)
	(4 910)	(4 412)
Advertising and marketing	(413)	(295)
Business travel	(145)	(127)
Computer expenses	(300)	(288)
Other operating costs	(2 262)	(2 196)
Total operating expenditure	(9 537)	(8 378)
7. Taxation		
Charge for the year		
Normal taxation		
– Current	(1 185)	(1 225)
Current year	(1 366)	(1 233)
Prior year adjustment	181	8
– Deferred	77	496
Current year	280	542
Prior year adjustment	(203)	(46)
– Share of tax of associates (note 15)	(116)	(64)
	(1 224)	(793)
Foreign company and withholding taxation		
– Current	(150)	(25)
Current year	(163)	(25)
Prior year adjustment	13	
– Deferred	68	
Current year	68	
	(82)	(25)
Capital gains tax	(2)	(11)
Total direct taxation	(1 308)	(829)
Secondary taxation on companies		
– Current	(32)	(17)
	(32)	(17)
Miscellaneous taxes		
Value-added taxation (net)	(268)	(193)
Regional services levy	(44)	(35)
Stamp duties	(20)	(9)
Other	18	(16)
Total miscellaneous taxes	(314)	(253)

R million	Group 2003	Group 2002
7. Taxation (continued)		
Total indirect taxation	(346)	(270)
Total taxation	(1 654)	(1 099)
Taxation rate reconciliation – South African normal taxation	%	%
Effective rate of taxation	29.0	21.9
Total taxation has been affected by:		
Miscellaneous taxes	(5.5)	(5.0)
Non-taxable income	9.3	9.2
Prior year adjustments	(0.2)	(0.8)
Other permanent differences	(2.6)	4.7
Standard rate of South African taxation	30.0	30.0
Deferred taxation		
The movement on the deferred taxation account is as follows:		
At beginning of the year	678	1 278
Effect of adopting AC133		
– Present value adjustment for off-market loans	(33)	
– Present value adjustment for specific loan provisions	(93)	
– Non-qualifying interest rate hedges	(63)	
– Present value adjustment for general loan provisions	620	
– Creation of portfolio provision	(161)	
– Revaluation of held for trading portfolios	(6)	
– Revaluation of available for sale portfolios	(156)	
Beginning of the year as restated	786	1 278
Exchange rate difference	(13)	18
(Release)/charge to the income statement	(145)	(496)
Available for sale adjustments	170	
Other	(8)	(122)
At end of the year	790	678

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	AC133 Adjustments Opening balance	to opening balance	Exchange rate	Acquisi- tions and disposals	Taxation charge	Other	Closing balance
Deferred tax assets and liabilities							
Taxation losses	5		4		(49)	4	(36)
Provision for loan impairment	(303)	366	10	(4)	(32)	8	45
Provision for post-retirement benefits	51		(7)		(5)		39
Other provisions	(7)		(1)		80	6	78
Cash flow hedges		(63)	(1)		12		(52)
On fair value adjustments of financial instruments					1	(4)	(3)
Instalment credit agreements	926		(16)		133		1 043
Accruals	689		5		(2)	2	694
Revaluation of available for sale securities to equity		(156)	(7)		122	170	129
Other	(683)	(39)		(17)	(405)	(3)	(1 147)
Total deferred taxation	678	108	(13)	(21)	(145)	183	790

Notes to the annual financial statements continued

for the year ended 30 June

R million	Group 2003	Group 2002
8. Cash and short-term funds		
Coins and bank notes	1 865	1 687
Money at call and short notice	546	1 188
Balances with central banks	3 496	3 836
Balances guaranteed by central banks	6 852	8 452
Balances with other banks	16 493	9 480
	29 252	24 643
Mandatory reserve balances included in above:	2 644	2 191
Banks are required to deposit a minimum average balance, calculated monthly, with the central bank.		
These deposits bear no or very low interest.		
Money at short notice constitutes amounts withdrawable in 32 days or less.		

9. Derivative financial instruments

The Banking Group uses the following financial instruments for hedging purposes:

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

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

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

Strategy in using hedging instruments

Interest rate derivatives comprising mainly interest rate swaps, rand overnight deposit swaps ("RODS") and forward rate agreements are utilised for hedging purposes to eliminate uncertainty and reduce the risk that the Banking Group faces due to volatile interest rates. The Banking Group accepts deposits at variable rates and uses pay fixed interest rate derivatives as cash flow hedges of future interest payments, effectively converting borrowings from floating to fixed rates. The Banking Group also has assets at variable rates and uses receive fixed interest rate derivatives as cash flow hedges of future interest receipts.

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

The Banking Group's detailed risk management strategy, including the use of hedging instruments in risk management, is set out in paragraph 3.9.2 of the Risk Report on pages 128 and 129 of the Annual Report.

Further information pertaining to the risk management of the Banking Group is set out in note 28 below.

R million	Group 2003			
	Assets		Liabilities	
	Notional	Fair value	Notional	Fair value
9. Derivative financial instruments (continued)				
The Banking Group utilises the following derivatives for hedging and trading purposes:				
Qualifying for hedge accounting				
Cash flow hedges				
Interest rate derivatives				
– Forward rate agreements	500	1		
– Swaps	19 385	292	2 850	24
Total cash flow hedges	19 885	293	2 850	24
Fair value hedges				
Currency derivatives				
– Swaps	8 112	8 110	8 115	8 063
	8 112	8 110	8 115	8 063
Interest rate derivatives				
– Swaps	3 704	4 193	8 117	4 361
– Options	192			
– Other	74 879		74 879	236
	78 775	4 193	82 996	4 597
Other		36		971
Total fair value hedges	86 887	12 339	91 111	13 631
Total qualifying for hedge accounting	106 772	12 632	93 961	13 655
Held for trading				
Currency derivatives				
– Forward rate agreements	62 563	4 262	64 912	3 533
– Swaps	116 207	8 597	107 971	8 570
– Options	3 492	401	2 203	139
Total currency derivatives	182 262	13 260	175 086	12 242
Interest rate derivatives				
– Forward rate agreements	84 533	243	52 460	155
– Swaps	131 828	4 958	113 830	4 800
– Options	2 582	80	3 168	141
– Other	788 563	5	567 518	13
Total interest rate derivatives	1 007 506	5 286	736 976	5 109
Equity derivatives				
– Options	924	2 187	1 295	1 535
– Other	28			
Total equity derivatives	952	2 187	1 295	1 535
Commodity derivatives				
– Forward rate agreements	204	1 041	172	1 772
– Swaps		2	60	81
– Options	4 939	1 005	5 154	714
– Other	279	111	98	68
Total commodity derivatives	5 422	2 159	5 484	2 635
Credit derivatives	751	851	8 193	7 927
Total	1 196 893	23 743	927 034	29 448

Notes to the annual financial statements continued

for the year ended 30 June

R million	Group 2002			
	Assets		Liabilities	
	Notional	Carrying value	Notional	Carrying value
9. Derivative financial instruments (continued)				
Currency derivatives				
– Forward rate agreements	216 202	4 317	1 085	4 343
– Swaps	19 710	11 456	12 830	11 486
– Options	3 951	110	218	211
Total currency derivatives	239 863	15 883	14 133	16 040
Interest rate derivatives				
– Forward rate agreements	46 729	50	516	86
– Swaps	173 862		14 541	–
– Options	2 278	7	127	25
– Other	134 941		132 462	137
Total interest rate derivatives	357 810	57	147 646	248
Equity derivatives				
– Forward rate agreements	242			
– Options	11 617	2 984	12 897	9 946
– Other	150			
Total equity derivatives	12 009	2 984	12 897	9 946
Commodity derivatives				
– Forward rate agreements	40 033	2 910	4 369	4 334
– Swaps	1 022	3	36	5
– Options	11 571	1 099	3 432	932
– Other	5 481	1 619	130	20
Total commodity derivatives	58 107	5 631	7 967	5 291
Credit derivatives	17 276	1 584		
Total	685 065	26 139	182 643	31 525
Following the adoption of AC133, all derivatives have been reclassified as either trading in nature or qualifying for hedge accounting. However, in terms of the requirements of AC133, the statement has been applied on a prospective basis and consequently the 2002 results have not been restated. The effect of the implementation of AC133 in respect of derivative instruments qualifying for hedge accounting is set out in paragraph 25 of the accounting policies under "Change in accounting policy".				

R million	Originated	Held-to-maturity	Group 2003 Available for sale	Trading	Total	Group 2002 Total
10. Advances						
Sector analysis						
Agriculture	3 687		351	54	4 092	3 384
Banks and financial services	7 398			28 344	35 742	30 419
Building and property development	7 079		136	4	7 219	6 878
Government, Land Bank and public authorities	583			4 976	5 559	9 986
Individuals	74 095	9 790			83 885	77 058
Manufacturing and commerce	24 876		6 620	5 851	37 347	34 372
Mining	2 388			186	2 574	2 972
Transport and communication	3 231		299	1 210	4 740	5 884
Other services	12 285			83	12 368	9 283
Total value of advances	135 622	9 790	7 406	40 708	193 526	180 236
Contractual interest suspended	(576)	(37)			(613)	(726)
Gross advances	135 046	9 753	7 406	40 708	192 913	179 510
Impairment of advances (note 11)	(3 111)	(191)			(3 302)	(4 365)
Net advances	131 935	9 562	7 406	40 708	189 611	175 145
Geographic analysis (based on credit risk)						
South Africa	123 151	9 790	351	19 768	153 060	148 096
Other Africa	7 453			594	8 047	7 132
United Kingdom	2 356			8 618	10 974	11 624
Other	2 662		7 055	11 728	21 445	13 384
Total value of advances	135 622	9 790	7 406	40 708	193 526	180 236
Contractual interest suspended	(576)	(37)			(613)	(726)
Gross advances	135 046	9 753	7 406	40 708	192 913	179 510
Impairment of advances (note 11)	(3 111)	(191)			(3 302)	(4 365)
Net advances	131 935	9 562	7 406	40 708	189 611	175 145
Category analysis						
Overdrafts and managed account debtors	26 826		2	2 722	29 550	34 666
Card loans	4 630				4 630	4 034
Instalment sales	25 004		351	411	25 766	21 658
Lease payments receivable	11 817				11 817	9 546
Home loans	43 507	9 790	136		53 433	48 683
Collateralised debt obligations	88		6 620	54	6 762	9 600
Assets under agreement to resell	380			8 007	8 387	9 909
Other	23 370		297	29 514	53 181	42 140
Total value of advances	135 622	9 790	7 406	40 708	193 526	180 236
Contractual interest suspended	(576)	(37)			(613)	(726)
Gross advances	135 046	9 753	7 406	40 708	192 913	179 510
Impairment of advances (note 11)	(3 111)	(191)			(3 302)	(4 365)
Net advances	131 935	9 562	7 406	40 708	189 611	175 145

Notes to the annual financial statements continued

for the year ended 30 June

R million	Group 2003				Group 2002
	Within 1 year	Between 1 and 5 years	More than 5 years	Total	Total
10. Advances (continued)					
Instalment sales and leases	9 075	24 055	2	33 132	27 993
Lease payments receivable	5 786	7 757	2 751	16 294	11 976
	14 861	31 812	2 753	49 426	39 969
Less: Unearned finance charges	(3 131)	(7 854)	(858)	(11 843)	(8 765)
	11 730	23 958	1 895	37 583	31 204

Included in advances are instruments purchased under reverse-repurchase agreements with a carrying value of R8 387 million (2002: R9 908 million), and which mature within 12 months of the balance sheet date.

A maturity analysis of advances is set out in paragraph 28.7 on page 182 and is based on the remaining periods to contractual maturity from the year-end.

The Banking Group has not recognised contingent rents in income during the period.

R million	Group 2003	Group 2002
11. Impairment of advances		
<i>Impairment of advances</i>		
Balance at beginning of the year	(4 365)	(3 300)
Adjustments for exchange rate differences	78	(113)
Transfer of general provision to general risk and other reserves	2 065	
Amounts written off	636	1 251
Present value adjustments relating to AC133	(214)	
Unwinding of discounted present value on non-performing loans	109	
Unwinding of discounted present value on off-market loans	4	
Other	91	(301)
	(1 596)	(2 463)
Recoveries of amounts previously written off	(218)	(187)
Profit on sale of security	(10)	(10)
Charge to income statement	(1 478)	(1 705)
Balance at end of the year	(3 302)	(4 365)

R million

11. Impairment of advances (continued)***Analysis of movement in impairment of advances***

	2003			
	Specific impairment	Portfolio impairment	General provision	Income statement
Opening balance	2 300		2 065	
Present value adjustment on adoption of AC133	311			
Transfer of general provision to Reserve			(2 065)	
Exchange rate difference	(78)			
Amounts written off	(1 327)			
Unwinding of discounted present value on non-performing loans	(109)			
Unwinding of discounted present value on off-market loans	(4)			
Creation of portfolio impairment		535		
Net new provisions created	1 612	69		(1 681)
Provisions created	2 114	69		(2 183)
Provisions released	(502)			502
Recoveries of bad debts				218
Realisation of security				(15)
Other	(9)	2		
Closing balance	2 696	606	–	(1 478)

	Specific provision	2002 General provision	Income statement
Opening balance	1 955	1 346	
Exchange rate difference	47	65	
Amounts written off	(1 459)		
Reclassifications	(14)	14	
Net new provisions created	1 481	422	(1 903)
Provisions created	1 721	422	(2 143)
Provisions released	(240)		240
Recoveries of bad debts			188
Acquisitions	290	218	
Realisation of security			10
Closing balance	2 300	2 065	(1 705)

Notes to the annual financial statements *continued*

for the year ended 30 June

R million	Credit risk	Security held	2003 Contractual interest suspended	Specific impairments	2002 Specific impairments
11. Impairment of advances (continued)					
<i>Non-performing lendings by sector</i>					
Agriculture	81	52	15	26	27
Banks and financial services	273	8	16	340	82
Building and property development	395	174	32	167	135
Government, Land Bank and public authorities	223		32	3	22
Individuals	2 556	1 071	313	1 223	994
Manufacturing and commerce	1 162	230	166	563	677
Mining	30	1	1	28	6
Transport and communication	11	2	3	6	38
Other services	249	41	35	340	319
Total	4 980	1 579	613	2 696	2 300
2002 Total non-performing lendings	5 305	1 266	725	2 300	
<i>Non-performing lendings by category</i>					
Overdrafts and managed account debtors	1 377	427	292	608	734
Card loans	449		16	196	151
Instalment sale	314	82	41	191	142
Lease payments receivable	103	36	17	63	66
Home loans	1 436	979	174	562	481
Other	1 301	55	73	1 076	726
Total	4 980	1 579	613	2 696	2 300
2002 Total non-performing lendings	5 305	1 266	725	2 300	

R million	Trading	Held-to-maturity	2003 Available for sale	Elected fair value	Total	2002 Total
12. Investment securities and other investments						
Total						
Negotiable certificates of deposit	417				417	260
Treasury bills	144	274	850	151	1 419	2 903
Other government and government guaranteed stock	5 540	698	9 877	36	16 151	23 776
Other dated securities	1 341	187	3 262	1 320	6 110	11 906
Other undated securities	21			1 056	1 077	2 278
Other	3 926	61	7 219	275	11 481	3 543
	11 389	1 220	21 208	2 838	36 655	44 666
Listed						
Negotiable certificates of deposit	417				417	
Treasury bills	73	274	810		1 157	
Other government and government guaranteed stock	5 520	346	9 854		15 720	20 272
Other dated securities	813		365	9	1 187	200
Other undated securities				2	2	1 403
Other	1 270		177	14	1 461	440
	8 093	620	11 206	25	19 944	22 315
Unlisted						
Negotiable certificates of deposit						260
Treasury bills	71		40	151	262	2 903
Other government and government guaranteed stock	20	352	23	36	431	3 504
Other dated securities	528	187	2 897	1 311	4 923	11 706
Other undated securities	21			1 054	1 075	875
Other	2 656	61	7 042	261	10 020	3 103
	3 296	600	10 002	2 813	16 711	22 351

The trading portfolio includes physical commodities to the value of R509 million.

The Banking Group holds certain interests in collateralised debt obligation structures. The Banking Group has no obligations toward other investors beyond the amounts already contributed. The Banking Group has no management control or influence over these investments which are recorded at fair value under the available for sale category in the above table.

Notes to the annual financial statements continued

for the year ended 30 June

R million	Group 2003	Group 2002
12. Investment securities and other investments (continued)		
<i>Analysis of investment securities</i>		
Listed	19 944	22 315
Equities	3 173	439
Debt	16 771	21 876
Unlisted	16 711	22 351
Equities	2 434	2 847
Debt	14 277	19 504
	36 655	44 666
Aggregate market value of listed securities	19 988	22 431
Aggregate directors' valuation of unlisted investments	16 986	22 303
	36 974	44 734
<p>Held-to-maturity securities are carried at amortised cost in both years. Available for sale securities are carried at fair value in 2003 and at values approximating fair value in 2002.</p> <p>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.</p> <p>The maturity analysis for investment securities is set out in note 28.7 below.</p>		
13. Non-recourse investments and deposits		
<i>Non-recourse investments</i>		
<p>Non-recourse investments represent government bonds which were acquired to serve as security in terms of the Fresco and Procul Synthetic Collateralised Debt Obligation structures. The Banking Group has no control over these assets. These assets have been consolidated as the Banking Group is deemed to control these structures in terms of AC412. These investments are categorised as trading and carried at fair value, with changes in fair value taken to the income statement. These investments consist of:</p>		
South African Government Bonds		
R153 at fair value (2002: at cost)	1 236	1 108
R194 at fair value (2002: at cost)	1 167	1 030
	2 403	2 138
Less: Banking Group's share thereof		(400)
	2 403	1 738
<i>Non-recourse deposits</i>		
<p>Non-recourse deposits represent multiple class linked notes issued to fund the structures whereby noteholders have no recourse to the Banking Group under any circumstances. These notes have been issued in various tranches and are priced according to the credit risk of the underlying reference portfolio and the relative credit enhancement applied to the respective tranches. These notes were consolidated in terms of AC412. The deposits represent notes issued to external parties and are carried at fair value (2002: at cost)</p>		
Total fair value of notes issued (2002: at cost)	3 451	3 169
Less: Notes acquired by the Banking Group	(1 048)	(1 431)
	2 403	1 738

R million	Group 2003	Group 2002
14. Accounts receivable		
Items in transit	360	462
Accrued interest	270	303
Accounts receivable	549	510
Other debtors	2 017	1 994
	3 196	3 269
15. Investment in associated companies		
<i>Listed investments</i>		
Equity investments	655	494
Total cost less amounts written off	655	494
<i>Unlisted investments</i>		
Equity investments	694	431
Total cost less amounts written off	694	431
Income before taxation for the year	494	368
Taxation for the year	(116)	(64)
Dividends received for the year	(130)	(198)
Retained income for the year	248	106
Exchange differences	(2)	1
Acquisitions and disposals	(71)	(2)
Share of retained income at beginning of the year	206	101
Adjustment to opening retained income due to adoption of AC133	(8)	
Share of retained income at end of the year	373	206
Share of other reserves	193	38
Total retained income and reserves	566	244
Total carrying value	1 915	1 169
<i>Goodwill included in cost above</i>		
Gross amount	66	34
Less: Accumulated amortisation and impairment losses	(13)	6
	53	40
<i>Movement in goodwill</i>		
Opening balance	40	42
Exchange differences	1	
Disposals	(1)	
Additions	32	
Amortisation charge and impairment losses	(19)	(2)
At end of year	53	40
<i>Valuation</i>		
Listed investments at market value	730	494
Unlisted investments at directors' valuation	1 662	1 522
Total valuation	2 392	2 016

Notes to the annual financial statements continued

for the year ended 30 June

R million	Nature of business	Issued ordinary share capital R	Number of ordinary shares held	Year-end
15. Investment in associated companies (continued)				
Listed				
McCarthy Limited	Retail	1 027 631	964 898 728	30-Jun
Relyant Retail Limited	Retail	18 791 174	234 096 511	30-Jun
Other	Various	Various	Various	Various
Unlisted				
OUTsurance Holdings Limited	Insurance	34 366 631	1 584 301 689	30-Jun
Zeda Car Leasing (Pty) Limited	Leasing	100	25	31-Mar
Infrastructure Finance Corp Limited	Funding	848 532	150 020	31-Dec
Mobile Acceptances (Pty) Limited	Leasing	700 000	182 000	30-Jun
Toyota Financial Services (Pty) Limited	Vehicle finance	2 700	900	30-Jun
Marsh Holdings SA (Pty) Limited	Insurance brokers	100 000	40 000	31-Dec
Arthur Kaplan Jewellers (Pty) Limited	Jewellers	1 000	463	31-May
Private Equity associated companies	Various	Various	Various	Various

R million	Effective holding %		Group carrying amount		Group costs less amounts written off	
	2003	2002	2003	2002	2003	2002
Listed						
McCarthy Limited	48	48	444	494	444	494
Relyant Retail Limited	26	–	192		192	
Other	Various	Various	26		19	
Total listed			662	494	655	494
Unlisted						
OUTsurance Holdings Limited	46	46	221	174	117	115
Zeda Car Leasing (Pty) Limited	50	50	53	40	1	1
Infrastructure Finance Corp Limited		18		29		17
Mobile Acceptances (Pty) Limited	26	26	4	3		
Toyota Financial Services (Pty) Limited	33	33	106	73	120	90
Marsh Holdings SA (Pty) Limited	40	40	11	6	11	12
Arthur Kaplan Jewellers (Pty) Limited	–	46		12		10
Private Equity Associates	Various	Various	613	319	223	180
Other	Various	Various	245	19	222	6
Total unlisted			1 253	675	694	431
Total listed and unlisted			1 915	1 169	1 349	925

	OUTsurance Holdings Limited		Zeda Car Leasing (Pty) Ltd		Infrastructure Finance Corp Limited ¹	
R million	2003	2002	2003	2002	2003	2002
15. Investment in associated companies (continued)						
Summarised financial information of associated companies:						
Balance sheet						
Non-current assets	409	354	836	717		1 126
Current assets	556	358	103	69		4 170
Current liabilities	(605)	(380)	(786)	(655)		(407)
Non-current liabilities	(1)	(19)	(51)	(52)		(4 718)
Equity	359	313	102	79		171
Income statement						
Profit attributable to the Banking Group	50	26	15	9		5
Loans to associates			586	533		328
	Mobile Acceptances (Pty) Limited		Toyota Financial Services (Pty) Limited		Marsh Holdings SA (Pty) Limited	
R million	2003	2002	2003	2002	2003	2002
Balance sheet						
Non-current assets	31	64	2 490	1 623	8	63
Current assets	20	72	1 056	852	191	131
Current liabilities	(11)	(63)	(187)	(106)	(116)	(126)
Non-current liabilities	(26)	(60)	(3 041)	(2 150)	(62)	
Equity	14	13	318	219	21	68
Income statement						
Profit/(loss) attributable to the Banking Group	0	1	3	(3)		(1)
Loans to associates	27	107	3 041	2 150		
	McCarthy Limited ²		Arthur Kaplan Jewellers (Pty) Limited		Private Equity Associates	
R million	2003	2002	2003	2002	2003	2002
Balance sheet						
Non-current assets	405	557		11	938	559
Current assets	1 807	1 885		63	696	434
Current liabilities	(1 472)	(1 711)		(30)	(776)	(410)
Non-current liabilities	(34)	(350)		(37)	(625)	(412)
Equity	706	381		7	233	171
Income statement						
Profit/(loss) attributable to the Banking Group				2	185	256
Loans to associates		262		5		27

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

2. Earnings from associates have been impaired to carry the investments at fair value.

Notes to the annual financial statements continued

for the year ended 30 June

R million	Relyant Retail Limited ¹		Other	
	2003	2002	2003	2002
15. Investment in associated companies (continued)				
Balance sheet				
Non-current assets	536		866	94
Current assets	2 466		2 180	362
Current liabilities	(1 886)		(1 616)	(360)
Non-current liabilities			(955)	(35)
Equity	1 116		475	61
Income statement				
Profit/(loss) attributable to the Banking Group			97	20
Loans to associates			1	1

1. Earnings from associates have been impaired to carry the investments at fair value.

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

R million	Accumulated depreciation and impairments			Accumulated depreciation and impairments		
	Cost	Cost	Net book value	Cost	Cost	Net book value
	2003	2003	2003	2002	2002	2002
16. Property and equipment						
Property						
Freehold land and buildings	1 575	(451)	1 124	1 515	(333)	1 182
Leasehold premises	1 305	(170)	1 135	1 492	(296)	1 196
	2 880	(621)	2 259	3 007	(629)	2 378
Equipment						
Computer equipment	2 325	(1 649)	676	2 068	(1 538)	530
Furniture and fittings	886	(542)	344	979	(590)	389
Motor vehicles	90	(49)	41	143	(71)	72
Office equipment	259	(126)	133	165	(125)	40
Capitalised leased assets	6	(4)	2	5	(2)	3
	3 566	(2 370)	1 196	3 360	(2 326)	1 034
Total	6 446	(2 991)	3 455	6 367	(2 955)	3 412

R million	Freehold land and buildings	Leasehold premises	Computer equipment	Furniture and fittings	Motor vehicles	Office equipment	Capitalised leased assets
16. Property and equipment (continued)							
Movement in property and equipment – net book value							
Net book value at 1 July 2001	789	1 130	429	436	75	51	
Foreign currency adjustments on translation	49	5	18	7	1	1	1
Changes in group structure		44	1				
Additions	328	58	332	68	43	25	3
Depreciation charge for period	(23)	(37)	(231)	(96)	(24)	(22)	(2)
Disposals	(39)	(4)	(12)	(20)	(22)		
Intergroup transfers			(19)	(6)			
Other	78		12		(1)	(15)	1
Net book value at 30 June 2002	1 182	1 196	530	389	72	40	3
Foreign currency adjustments on translation	(93)	(3)	(22)	(5)		(1)	
Additions	178	44	456	76	28	123	1
Depreciation charge for period	(87)	(87)	(280)	(110)	(20)	(26)	(2)
Disposals	(60)	(11)	(4)	(8)	(39)	(4)	
Intergroup transfers	4	(4)	(4)				
Other				2		1	
Net book value at 30 June 2003	1 124	1 135	676	344	41	133	2

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.

17. Pension and post-retirement benefits

The Banking Group has a liability to subsidise the post-retirement medical expenditure of certain of its employees. At 30 June 2003, the actuarially determined liability of the Banking Group was R1 036 million (2002: R897 million).

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

No net asset is recognised in respect of the surplus at 30 June 2002 as the apportionment thereof still needs to be approved by the Registrar of Pension Funds in terms of the Pension Funds Second Amendment Act, Act 39 of 2001.

R million	Group 2003	Group 2002
17.1 Post-retirement pension		
Pension liability (FNB Pension Fund)		
Present value of funded liability	8 980	9 036
Fair value of plan assets	(8 503)	(9 466)
Pension fund deficit/(surplus)	477	(430)
Unrecognised pension fund surplus	–	430
Unrecognised actuarial (losses)/gains	(455)	–
Retirement benefit liability	22	–
The amounts recognised in the income statement are as follows:		
Current service cost	220	197
Interest cost	1 043	962
Expected return on plan assets	(1 092)	(1 032)
Net actuarial profit recognised in the year	(127)	
Total included in staff costs	44	127

Notes to the annual financial statements continued

for the year ended 30 June

R million	Group 2003	Group 2002
17. Pension and post-retirement benefits (continued)		
Movement in retirement benefit liability		
Present value at the beginning of the year		(126)
Exchange differences	(2)	
Amounts recognised in the income statement as above	44	127
Contributions paid	(20)	(1)
Present value at the end of the year	22	–
The principal actuarial assumptions used for accounting purposes were:		
Discount rate (%)	11.5	12.0
Expected return on plan assets (%)	11.5	12.0
Salary inflation (%)	6.3	7.0
Net interest rate used to value pensions, allowing for pension increases (%)	5.0	6.0

Pension fund surplus

The South African Government promulgated new pension fund legislation with effect from December 2001, which, inter alia, sets out laws for the fair division of pension fund surpluses. The regulations governing the implementation of this legislation have not yet been introduced, and considerable uncertainty exists about the form these regulations will take. Consequently, the Banking Group believed it prudent to impair the pension fund asset created on the balance sheet in 2002.

R million	Group 2003	Group 2002
17.2 Post-retirement medical liability		
Present value of unfunded liability	1 036	897
Unrecognised actuarial (losses)	(54)	
Post-retirement medical liability	982	897
The amounts recognised in the income statement are as follows:		
Current service cost	26	23
Interest cost	103	94
Total included in staff costs	129	117
Movement in post retirement medical liability		
Present value at the beginning of the year	897	826
Amounts recognised in the income statement as above	129	117
Contributions paid	(44)	(46)
Present value at the end of the year	982	897
The principal actuarial assumptions used for accounting purposes were:		
Discount rate (%)	10.3	11.8
Long-term increase in medical subsidies (%)	8.3	9.5
17.3 Pension and post-retirement benefits		
Post-retirement pension (refer note 17.1)	22	–
Post-retirement medical liability (refer note 17.2)	982	897
Total pension and post-retirement benefits	1 004	897

R million	Group 2003	Group 2002
18. Intangible assets		
Goodwill		
Gross amount	177	195
Less: Accumulated amortisation and impairment losses	(28)	(18)
	149	177
Movement in goodwill – book value		
Opening balance	177	124
Exchange differences	(5)	33
Disposals	(29)	(16)
Additions	16	46
Amortisation charge and impairment losses	(10)	(10)
	149	177
Software		
Gross amount	54	39
Less: Accumulated amortisation and impairment losses	(27)	(16)
	27	23
Movement in software – book value		
Opening balance	23	12
Disposals	1	(9)
Additions	17	29
Amortisation charge and impairment losses	(14)	(9)
	27	23
Development costs		
Gross amount	2	3
Less: Accumulated amortisation and impairment losses	(2)	(1)
		2
Movement in development costs – book value		
Opening balance	2	4
Exchange differences		1
Disposals		(4)
Additions		2
Amortisation charge and impairment losses	(2)	(1)
		2
Other		
Gross amount	118	151
Less: Accumulated amortisation and impairment losses	(89)	(65)
	29	86
Movement in other – book value		
Opening balance	86	
Exchange differences	(16)	(1)
Disposals	6	
Additions	4	143
Amortisation charge and impairment losses	(51)	(56)
	29	86
Total intangible assets		
Goodwill	149	177
Software	27	23
Development costs		2
Other	29	86
	205	288

Notes to the annual financial statements *continued*

for the year ended 30 June

R million	Group 2003	Group 2002
19. Deposit and current accounts		
From banks and financial institutions	25 232	23 345
– In the normal course of business	17 112	15 221
– Under repurchase agreements	8 120	8 124
From customers	125 905	130 514
– Current accounts	58 984	43 703
– Savings account	2 219	4 135
– Term deposits	64 702	82 676
Other deposits	34 894	47 545
– Negotiable certificates of deposit	3 089	9 783
– Other deposits	31 805	37 762
	186 031	201 404
<i>Geographic analysis (based on counterparty risk)</i>		
South Africa	145 423	153 400
Other Africa	9 120	9 037
United Kingdom	14 585	20 845
Other	16 903	18 122
	186 031	201 404
A maturity analysis of deposits and current accounts is set out in note 28.7 on page 182 and is based on the remaining periods to contractual maturity from the year-end.		
Deposits include amounts raised under repurchase agreements with a carrying value of R8 120 million (2002: R8 124 million).		
20. Short trading positions		
Government and government guaranteed	8 452	7 654
Other dated securities	24 797	7 711
Undated securities	632	1 434
	33 881	16 799
<i>Analysed as follows:</i>		
Listed	4 356	9 000
Unlisted	29 525	7 799
	33 881	16 799
Short trading positions are carried at fair value. Fair market value for listed securities are their market quoted prices, and for unlisted securities are based on the directors' valuation using suitable valuation methods.		
21. Creditors and accruals		
Accrued interest	42	112
Accounts payable	612	862
Dividends payable		2
Other Group companies	6 771	708
Short-term portion of long-term liabilities (note 23)	193	178
Short-term portion of financial leases (note 23)	62	42
Other creditors	4 208	5 112
	11 888	7 016

R million	Group 2003	Group 2002
22. Provisions		
Leave pay		
Opening balance	551	521
Charge to the income statement	115	30
Utilised	(46)	
Closing balance	620	551
Audit fees		
Opening balance	16	18
Charge to the income statement	50	47
Utilised	(37)	(49)
Closing balance	29	16
Other		
Opening balance	264	151
Charge to the income statement	323	113
Utilised	(260)	
Closing balance	327	264
Total provisions	976	831
23. Long-term liabilities		
Debentures		
100 debentures of R1 million each carrying interest at prime minus 3% ^a	100	100
120 debentures of R1 million each carrying interest at prime minus 2% ^b	120	120
	220	220
Both of the instruments above relate to debentures which are convertible into non-redeemable preference shares.		
<i>a Rand Merchant Bank Limited has the sole right, at any stage after 30 June 2002, to convert the debentures into non-redeemable preference shares. Interest is payable six-monthly in arrears on 30 June and 31 December each year at the prime overdraft rate minus 3%.</i>		
<i>b The holder has the right, at any stage after 30 June 2005, to convert the debentures into non-redeemable preference shares. The debentures will automatically convert into non-redeemable preference shares in the event that such conversion has not already taken place by 30 June 2020. Interest is payable six-monthly in arrears on 30 June and 31 December each year at the prime overdraft rate minus 2%.</i>		
Preference shares		
Authorised		
500 000 000 (2002: 500 000 000) cumulative redeemable shares with a par value of R0,0001		
1 000 000 cumulative redeemable shares with a par value of R0,10		
Issued		
1 500 (2002: 1 500) cumulative redeemable shares with a par value of R0,0001 and a premium of R99 999,9999 per share ^c	150	150
10 000 cumulative redeemable shares with a par value of R0,10 and a premium of R9 999,90 per share ^d	100	100
	250	250

c These preference shares are redeemable at the company's discretion on or after 1 June 2003, at the full subscription price. Dividends are paid at a variable rate based on prime and currently amounts to 10.4% (2002: 10.4%).

d These preference shares are redeemable at the company's discretion, at the full subscription price. Dividends are paid at a variable rate based on prime and currently amounts to 9.9% (2002: 9.9%).

Notes to the annual financial statements continued

for the year ended 30 June

R million	Group 2003	Group 2002
23. Long-term liabilities (continued)		
Other long-term liabilities		
Unsecured debt securities amortising over the period to 2007 ^e	284	348
Secured loan ^f	29	62
Subordinated notes ^g	1 534	1 679
Less: Portion repayable within 12 months transferred to current liabilities (note 21)	(193)	(178)
	1 654	1 911
<i>e Various local and foreign unsecured loans with nominal interest rates ranging from 0% to 17%.</i>		
<i>f This secured loan is repayable on 11 April 2011 and is stated at net present value, using a discount rate of 15.32%.</i>		
<i>g The subordinated notes are redeemable in six-monthly tranches until 2009 and do not bear interest.</i>		
The notes were issued at a discount to notional value and bear an effective interest rate of 16.5%.		
Finance lease liabilities		
Not later than 1 year	140	124
Later than 1 year and not later than 5 years	1 026	668
Later than 5 years		486
	1 166	1 278
Future finance charges on finance leases	(318)	(400)
Present value of finance lease liability	848	878
Less: Portion repayable within 12 months transferred to current liabilities (note 21)	(62)	(42)
	786	836
Total long-term liabilities	2 910	3 217
24. Ordinary shares		
Ordinary shares		
Authorised		
550 000 000 shares with a par value of 20 cents per share	110	110
Issued		
530 068 641 (2002: 530 068 640) shares with a par value of 20 cents per share	106	106
25. Non-distributable reserves		
Non-distributable reserves in associated companies	55	47
Currency conversion reserve	658	1 258
Revaluation reserve – available for sale instruments	689	
General risk reserve (impaired capital reserve)	901	
Other	337	374
	2 640	1 679
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	Group 2003	Group 2002
26. Contingencies and commitments		
Contingencies		
Guarantees*	19 794	23 555
Acceptances	261	269
Letters of credit	5 828	3 460
	25 883	27 284

* Includes undrawn irrevocable facilities.

There are a number of legal or potential claims against the Banking Group, the outcome of which cannot at present be foreseen. These claims are not regarded as material either on an individual or group 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 (refer note 17).

Commitments

Commitments in respect of capital expenditure and long-term investments approved by directors

Contracted for

Not contracted for

Funds to meet these commitments will be provided from Banking Group resources.

Group commitments under operating leases			
R million	Next year	2003 2 to 5 years	After 5 years
Office premises	194	1 196	13
Recoverable under subleases	(5)	(18)	(8)
	189	1 178	5
Equipment and motor vehicles	54	48	
	243	1 226	5
		2002	
	Next year	2 to 5 years	After 5 years
Office premises	203	890	505
Recoverable under subleases	(7)	(20)	
	196	870	505
Equipment and motor vehicles	33	49	
	229	919	505

Notes to the annual financial statements continued

for the year ended 30 June

R million	Group 2003	Group 2002
27. Cash flow information		
27.1 Reconciliation of income from operations to cash flow from operating activities		
Income from operations	5 212	4 653
Adjusted for:		
– Depreciation and amortisation costs	689	512
– Impairment of advances	1 478	1 705
– Provision for post-employment benefit obligations	173	118
– Unrealised loss/(profit) on assets held against employee liabilities	95	(71)
– Other non-cash provisions	530	242
– Profit on sale of fixed assets and investments	37	40
– Foreign currency translation reserve	532	(548)
– Dividends paid	(1 502)	(746)
Cash flows from operating activities	7 244	5 905
27.2 Dividends paid		
Amounts unpaid at beginning of the year	(2)	(4)
Charged to distributable reserves	(1 500)	(744)
Amounts unpaid at end of the year		2
Total dividends paid	(1 502)	(746)
27.3 Taxation paid		
Amounts unpaid at beginning of the year	(429)	(31)
Taxation charge per income statement	(1 654)	(1 099)
Transfer from deferred taxation to current taxation	82	(420)
Deferred taxation included in tax charge	145	432
Amounts unpaid at end of the year	1 091	429
Total taxation paid	(765)	(689)

28. Risk management

28.1 General

The Risk Report of the Banking Group is contained on pages 122 to 133 ("the Risk Report"). The report sets out in detail the various risks the Banking Group 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 Banking Group are approved by the Board, while operational policies and control procedures are approved by the relevant risk committees. Details of the Banking Group's risk management structure, the risk management methodologies and the various risk committees are set out in paragraphs 1 and 2 of the Risk Report, on pages 122 to 124.

Strategy in using financial instruments

By its nature the Banking Group's activities are principally related to the use of financial instruments including derivatives. The Banking Group 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 Banking Group 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 Banking Group 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 Banking Group places trading limits on the level of exposures that can be taken in relation to both overnight and intra-day positions. With the exception of specific hedging arrangements, foreign exchange and interest rate 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.

28. Risk management (continued)

28.2 Strategy in using hedges

The Banking Group hedging instruments are set out in note 9 above and its hedging strategy is set out in paragraph 3.9.2 of the Risk Report.

28.3 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 Banking Group 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 detail on credit risk management is contained in paragraph 3.7 of the Risk Report on pages 126 and 127.

Significant credit exposures at 30 June 2003 were:

R million	South Africa	Other Africa	United Kingdom	Ireland	Other Europe	North America	South America	Australasia	Other	Total
Assets										
Advances	153 060	8 047	10 974	615	7 928	4 482	62	374	7 984	193 526
Contingencies	23 806	1 294	783							25 883
	176 866	9 341	11 757	615	7 928	4 482	62	374	7 984	219 409

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

28.4 Market risk

The Banking Group 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 Banking Group 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 primary risk control mechanism used for risk control purposes are stress loss test and limits. Further details on the market risk management are set out in paragraph 3.10 of the Risk Report on pages 129 and 130.

28.5 Currency risk management

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

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

R million	Rand	UK£	US\$	Eur	Other	Total
Assets						
Cash and short-term funds	23 851	504	3 184	624	1 089	29 252
Derivative financial instruments	25 688	495	6 642	3 077	473	36 375
Advances	163 374	2 616	13 863	1 984	7 774	189 611
Financial instruments held for trading	9 481	136	895	328	549	11 389
– held-to-maturity	(656)		1 405	197	274	1 220
– available for sale	5 187	497	14 389	784	351	21 208
– at elected fair value	1 744	12	648	377	57	2 838
Non-recourse investments	2 403					2 403
Accounts receivable	2 304	61	429	18	384	3 196
Investment in associated companies	1 727				188	1 915
Property and equipment	2 704	553	34	2	162	3 455
Deferred taxation asset	875	2	14		40	931
Retirement benefit asset						
Intangible assets	141	2	24	2	36	205
	238 823	4 878	41 527	7 393	11 377	303 998

Notes to the annual financial statements continued

for the year ended 30 June

R million Rand UK£ US\$ Eur Other Total

28. Risk management (continued)

28.5 Currency risk

management (continued)

Liabilities

Deposit and current accounts	150 720	3 499	21 783	2 143	7 886	186 031
Non-recourse deposits	2 403					2 403
Short trading positions	33 602	132	99		48	33 881
Derivative financial instruments	34 801	181	4 964	2 615	542	43 103
Creditors and accruals	10 655	183	673	25	352	11 888
Provisions	976					976
Taxation	1 047	(1)	2	(8)	51	1 091
Post-retirement medical liability	961	21			22	1 004
Deferred taxation liability	1 648				73	1 721
Long-term liabilities	2 571	113	26	37	163	2 910
Outside shareholders' interest	299		84		166	549
Shareholders' equity	14 072	1 270	2 101	(13)	1 011	18 441
	253 755	5 398	29 732	4 799	10 314	303 998

28.6 Interest rate risk management

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

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

Further details on the interest rate risk management are set out in paragraph 3.9 of the Risk Report on pages 128 and 129.

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

R million	Carrying amount 2003	Interest earning/bearing				Non-interest earning/ bearing
		Demand	Term to pricing 1 – 12 months	1 – 5 years	Over 5 years	
Assets						
Cash and short-term funds	29 252	21 759	7 048			445
Derivative financial instruments	36 375		21 605	8 664	6 106	
Advances	189 611	72 622	45 620	44 161	27 192	16
Financial instruments held for trading	11 389	3 135	5 427	2 694	133	
Investment securities						
– held-to-maturity	1 220	(10)	1 042		188	
– available for sale	21 208	1 178	3 378	9 643	7 009	
– at elected fair value	2 838	1 305	1 533			
Non-recourse investments	2 403	1	228	1 462	712	
Accounts receivable	3 196	157	568			2 471
Investment in associated companies	1 915					1 915
Property and equipment	3 455					3 455
Deferred taxation asset	931					931
Intangible assets	205					205
	303 998	100 147	86 449	66 624	41 340	9 438

R million	Carrying amount 2003	Interest earning/bearing Term to pricing			Over 5 years	Non-interest earning/ bearing
		Demand	1 – 12 months	1 – 5 years		
28. Risk management (continued)						
28.6 Interest rate risk management (continued)						
Liabilities						
Deposit and current accounts	186 031	109 770	48 679	19 040	8 542	
Non-recourse deposits	2 403	6	502	1 201	694	
Short trading positions	33 881	33 881				
Derivative financial instruments	43 103		27 682	11 308	4 113	
Post-retirement medical liability	1 004				1 004	
Creditors and accruals	11 888	8 057	1 143			2 688
Provisions	976					976
Taxation	1 091					1 091
Deferred taxation liability	1 721					1 721
Long-term liabilities	2 910		319	2 135	456	
Outside shareholders' interest	549					549
Shareholders' equity	18 441					18 441
	303 998	151 714	78 325	33 684	14 809	25 466
Net interest sensitivity gap		(51 567)	8 124	32 940	26 531	(16 028)

28.7 Liquidity risk management

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

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

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

Details on the liquidity risk management process is set out in paragraph 3.8 of the Risk Report on pages 127 and 128.

The table below sets out the maturity analysis of the Banking Group'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.

Notes to the annual financial statements continued

for the year ended 30 June

R million	Carrying amount 2003	Demand	Term to maturity		Over 5 years
			1 – 12 months	1 – 5 years	
28. Risk management (continued)					
28.7 Liquidity risk management (continued)					
Assets					
Cash and short-term funds	29 252	22 204	7 048		
Derivative financial instruments	36 375	5 739	15 410	8 011	7 215
Advances	189 611	56 266	33 665	67 627	32 053
Financial instruments held for trading	11 389	5 789	2 551	2 661	388
Investment securities					
– held-to-maturity	1 220	(75)	571	305	419
– available for sale	21 208	849	984	14 185	5 190
– at elected fair value	2 838	962	704	177	995
Non-recourse investments	2 403		229	1 462	712
Accounts receivable	3 196	(50)	797	1 387	1 062
Investment in associated companies	1 915			737	1 178
Property and equipment	3 455	28	12	419	2 996
Deferred taxation asset	931	65	2	304	560
Intangible assets	205	11	35	19	140
	303 998	91 788	62 008	97 294	52 908
Liabilities					
Deposit and current accounts	186 031	125 291	36 524	8 981	15 235
Non-recourse deposits	2 403	7	502	1 201	693
Short trading positions	33 881	10 865	19 213	3 243	560
Derivative financial instruments	43 103	7 362	20 645	11 497	3 599
Post-retirement medical liability	1 004			1 004	
Creditors and accruals	11 888	10 745	1 143		
Provisions	976	421	181	374	
Taxation	1 091	133	958		
Deferred taxation liability	1 721	30	1 134	538	19
Long-term liabilities	2 910			2 454	456
Outside shareholders' interest	549				549
Shareholders' equity	18 441				18 441
	303 998	154 854	80 300	29 292	39 552
Net liquidity gap		(63 066)	(18 292)	68 002	13 356

28.8 Fair value of financial instruments

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

R million	Carrying amount 2003	Fair value 2003	Unrecognised gain/(loss) 2003
Assets			
Advances			
– originated	131 935	131 935	–
– held-to-maturity	9 562	9 562	–
Investment securities	1 220	1 220	–
– held-to-maturity			
	142 717	142 717	–
Deposit and current accounts	186 031	186 031	–
Long-term liabilities	2 910	2 910	–
	188 941	188 941	–

28. Risk management (continued)

28.8 Fair value of financial instruments (continued)

Fair value has been determined as follows:

- advances – based on the discounted value of estimated future cash flows, determined based on current market rates;
- held-to-maturity investment securities – market/dealer quotations, if available, or fair value estimations based on market prices for similar instruments with similar credit risks;
- deposits and current accounts – where there is no stated maturity, the amount repayable on demand – in respect of interest bearing liabilities with a fixed maturity, based on discounted cash flow value using market rates on new liabilities with a similar maturity;
- long-term liabilities – quoted market prices, if available, or based on the discounted cash flow values using market rates for similar instruments with a comparable term to maturity.

29. Trust activities

The market value of assets held or placed on behalf of customers in a fiduciary capacity amounts to R12 484 million (2002: R38 102 million).

30. Segment information

30.1 Primary segments (business)

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

Notes to the annual financial statements *continued*

for the year ended 30 June

	Cluster				
	Retail				
2003 R million	FNB Retail	FNB HomeLoans	WesBank	FNB Africa	OUTsurance and FirstLink
30. Segment information (continued)					
30.1 Primary segments (business) (continued)					
Income statement					
Net interest turn before impairment of advances	2 578	1 253	1 409	688	15
Charge for bad and doubtful debts	(511)	(126)	(230)	(50)	
Net interest turn after impairment of advances	2 067	1 127	1 179	638	15
Other operating income	3 183	124	561	414	105
Net income from operations	5 250	1 251	1 740	1 052	120
Other operating expenditure	(3 915)	(696)	(1 051)	(478)	(90)
Income from operations	1 335	555	689	574	30
Share of earnings of associated companies			27		117
Income before taxation	1 335	555	716	574	147
Indirect taxation	(158)	(23)	(35)	(12)	
Income before direct taxation	1 177	532	681	562	147
Direct taxation*	(256)	(115)	(143)	(125)	(32)
Income after taxation	921	417	538	437	115
Earnings attributable to outside shareholders	1		(3)	(125)	
Income attributable to ordinary shareholders	922	417	535	312	115
Income statement includes:					
Depreciation	(259)	(13)	(22)	(24)	(5)
Amortisation		(1)		(3)	(1)
Impairment charges	(28)				
Balance sheet includes:					
Advances	12 213	39 610	39 219	6 967	
Non-performing loans	785	1 079	374	164	
Investment in associates	221		122	9	11
Total deposits	54 213	504	103	7 364	
Capital expenditure					
Key ratios					
Cost to income ratio (excluding translation gains) (%)	68.0	50.5	52.6	43.3	38.0
Bad debt charge as a % of advances	4.2	0.3	0.6	0.7	
Non-performing loans as a % of advances	6.4	2.7	1.0	2.4	

The segmental analysis is based on the management accounts for the respective segments. The management accounts have been prepared on the pre-AC133 basis. All AC133 related entries, as well as other adjustments, have been recorded in the Capital Centre*.

* Taxation has been smoothed.

Cluster						
Corporate		Wealth				
Rand Merchant Bank	FNB Corporate	RMB Private Bank	Ansbacher (UK)	FNB Trust Services	Capital Centre*	Total
	955	176	180	9	1 841	9 104
(4)	(383)	(33)	(3)		(138)	(1 478)
(4)	572	143	177	9	1 703	7 626
1 179	1 703	101	310	119	(676)	7 123
1 175	2 275	244	487	128	1 027	14 749
(403)	(1 553)	(206)	(599)	(101)	(445)	(9 537)
772	722	38	(112)	27	582	5 212
299					51	494
1 071	722	38	(112)	27	633	5 706
(15)	(21)	(5)	(2)		(75)	(346)
1 056	701	33	(114)	27	558	5 360
(228)	(152)	(6)	28	(7)	(268)	(1 308)
828	549	27	(90)	20	288	4 052
(25)					(126)	(278)
803	549	27	(90)	20	164	3 774
(33)	(31)	(8)	(40)		(177)	(612)
(59)		(1)	(6)		(6)	(77)
(14)						42
69 311	19 958	6 824	5 410		(9 901)	189 611
338	724	148	124		1 244	4 980
641	634				277	1 915
50 032	36 376	2 768	9 185		25 486	186 031
27.3	58.4	74.4	122.2	78.9	25.5	55.3
	1.9	0.5	0.1			1.0
0.5	3.6	2.2	2.3			3.0

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2002 R million	Cluster				
	Retail				
	FNB Retail ¹	FNB HomeLoans ¹	WesBank	FNB Africa	OUTsurance and FirstLink
30. Segment information					
(continued)					
30.1 Primary segments					
(business) (continued)					
Income statement					
Net interest turn before impairment of advances	2 099	615	1 380	576	31
Charge for bad and doubtful debts	(439)	(58)	(285)	(15)	
Net interest turn after impairment of advances	1 660	557	1 095	561	31
Other operating income	2 940	88	467	358	103
Net income from operations	4 600	645	1 562	919	134
Other operating expenditure	(3 520)	(434)	(879)	(410)	(95)
Income from operations	1 080	211	683	509	39
Share of earnings of associated companies			(7)	2	31
Income before taxation	1 080	211	676	511	70
Indirect taxation	(137)	(25)	(43)	(6)	
Income before direct taxation	943	186	633	505	70
Direct taxation	(146)	(29)	(130)	(122)	(14)
Income after taxation	797	157	503	383	56
Earnings attributable to outside shareholders	8			(95)	
Income attributable to ordinary shareholders	805	157	503	288	56
Income statement includes:					
Depreciation	(235)	(7)	(21)	(22)	(6)
Amortisation		(5)		(1)	
Impairment charges					
Balance sheet includes:					
Advances	14 713	34 880	30 511	5 717	
Non-performing loans	1 258	1 186	454	155	
Investment in associates	174		92	12	6
Total deposits	41 671		94	7 597	
Capital expenditure					
Key ratios					
Cost to income ratio (excluding translation gain) (%)	69.9	61.7	47.7	43.9	57.6
Bad debt charge as a % of advances	3.0	0.2	0.2	0.2	
Non-performing loans as a % of advances	8.5	3.4	3.4	2.7	

1. Rural home loans was disclosed as part of FNB Retail in 2002. It was transferred to FNB HomeLoans on 1 July 2002. The effect of the transfer on profit before tax is an increase of R115 million in FNB HomeLoans.

Corporate		Cluster Wealth				
Rand Merchant Bank	FNB Corporate	RMB Private Bank	Ansbacher (UK)	FNB Trust Services	Capital Centre*	Total
(283)	770	105	313	5	806	6 417
(518)	(156)	(4)	24		(254)	(1 705)
(801)	614	101	337	5	552	4 712
1 777	1 335	93	322	122	714	8 319
976	1 949	194	659	127	1 266	13 031
(379)	(1 386)	(173)	(648)	(96)	(358)	(8 378)
597	563	21	11	31	908	4 653
313	7				22	368
910	570	21	11	31	930	5 021
(19)	(17)	(2)	(1)	(1)	(19)	(270)
891	553	19	10	30	911	4 751
(122)	(129)	(3)	(2)	(6)	(126)	(829)
769	424	16	8	24	785	3 922
(92)					(3)	(182)
677	424	16	8	24	782	3 740
(19)	(22)	(6)	(40)	(1)	(57)	(436)
(62)					(8)	(76)
(41)					(11)	(52)
63 837	20 266	4 207	3 908		(4 244)	175 145
703	1 266	64	134		85	5 305
319					828	1 169
59 012	36 182	2 755	10 350		43 743	201 404
21.0	65.6	87.7	109.9	75.4	17.1	57.6
0.8	0.8	0.1	(0.6)			1.0
1.1	6.2	1.5	3.4			3.0

Notes to the annual financial statements continued

for the year ended 30 June

R million	South Africa	Other Africa	United Kingdom	Australasia	Other	Total
30. Segment information						
(continued)						
30.2 Secondary segments						
(geographic)						
2003						
Segment revenue	13 804	1 125	1 617	77	98	16 721
Segment expense	(8 893)	(517)	(1 492)	(104)	(9)	(11 015)
Segment assets	231 224	11 030	39 107	1 205	21 431	303 998
Segment liabilities	227 995	9 773	29 868	896	16 476	285 008
2002						
Segment revenue	11 991	934	2 062	60	57	15 104
Segment expense	(7 909)	(425)	(1 664)	(80)	(5)	(10 083)
Segment assets	204 595	9 355	51 656	415	15 701	281 722
Segment liabilities	194 520	8 096	47 223	414	15 534	265 787

	Nature of business	Country of incorporation	Listed/ Unlisted	Issued ordinary capital R million	Effective holding % 2003	% 2002
31. Subsidiaries						
Significant subsidiaries						
Banking						
First National Bank Holdings (Botswana) Limited	Commercial banking	Botswana	Listed	28	100	100
First National Bank of Namibia Limited	Commercial banking	Namibia	Listed	1	77	78
First National Bank of Swaziland Limited	Commercial banking	Swaziland	Unlisted	28	100	100
FirstCorp Merchant Bank Holdings Limited	Commercial banking	South Africa	Unlisted	10	100	100
FirstRand Bank Limited	Commercial and merchant banking	South Africa	Unlisted	4	100	100
First National Asset Management & Trust Company (Pty) Limited	Asset management and trust services	South Africa	Unlisted	0	100	100
Rand Merchant Bank Limited	Merchant banking	South Africa	Unlisted	19	100	100
Non-banking						
FirstRand International Limited	International holding company	Guernsey	Unlisted		100	100
First Land Developments Limited	Property company	South Africa	Unlisted	1	100	100
FNB Equipment Finance (Pty) Limited	Equipment and finance	South Africa	Unlisted		100	100
FirstRand (International) Mauritius Limited	Financial services	Mauritius	Unlisted	250	100	100
Firstlink Insurance Brokers Holdings (Pty) Limited	Insurance brokers	South Africa	Unlisted	0	100	100
RMB Private Equity (Pty) Limited	Investment and financial services	South Africa	Unlisted	88	88	

R million	Group carrying amount	
	2003	2002
31. Subsidiaries (continued)		
Banking		
First National Bank Holdings (Botswana) Limited	56	56
First National Bank of Namibia Limited	9	9
First National Bank of Swaziland Limited	15	15
FirstCorp Merchant Bank Holdings Limited	54	54
FirstRand Bank Limited	2 014	1 585
First National Asset Management & Trust Company (Pty) Limited		
Rand Merchant Bank Limited	334	334
Non-banking		
FirstRand International Limited	1 446	1 446
First Land Developments Limited	1	1
FNB Equipment Finance (Pty) Limited	5	5
FirstRand (International) Mauritius Limited	250	250
FirstLink Insurance Brokers Holdings (Pty) Limited	14	14
RMB Private Equity (Pty) Limited	8	

Capital adequacy

Optimal capitalisation is a key driver of the Banking Group and is managed accordingly. The Banking Group has implemented economic profit measurement and allocates capital to align managerial behaviour more closely with the interests of shareholders.

The registered banks within the Banking Group are subject to regulatory capital adequacy requirements. The capital base of the Banking Group provides the foundation for lending, off-balance sheet transactions and other activities. The capital adequacy of the Banking Group is measured in terms of the Banks Act in terms of which the Banking Group must maintain a minimum level of capital based on their risk adjusted assets and off-balance sheet exposures. At 30 June 2003, the minimum regulatory capital requirement was 10% of risk weighted assets. The current capital ratios within the Banking Group are:

R million	2003	2002			
Regulatory capital					
Tier 1	13 987	12 960			
Share capital	1 368	1 210			
Share premium	2 490	1 756			
Capital redemption reserve	–	1			
Retained income	12 008	10 152			
Fair value reserves	707	–			
Less: Impairments	(1 879)	(159)			
Tier 2	4 662	4 396			
Subordinated debt instruments	2 903	2 984			
General provision	1 759	1 412			
Total regulatory capital	18 649	17 357			
Capital adequacy ratios					
Tier 1 (%)	8.8	8.7			
Tier 2 (%)	2.9	2.9			
Total	11.7	11.6			
Calculation of risk weighted assets					
				Risk weighted assets	
			Risk weighting	2003	2002
Banking book	421 198	306 423		156 789	147 512
Cash, own bank, and central government advances	208 113	81 200	0%	–	–
Public sector body advances	4 029	11 105	10%	403	1 110
Other bank advances and letters of credit	32 147	51 391	20%	6 429	10 278
Mortgage advances, remittances in transit and performance related guarantees	53 905	53 207	50%	26 953	26 604
Other advances and lending related guarantees	110 577	102 905	100%	110 577	102 905
Counterparty risk exposure	8 128	6 615	100%	8 128	6 615
Large exposures	4 299	–	100%	4 299	–
Trading book	2 939	1 603		2 939	1 603
Position risk	1 070	1 150	100%	1 070	1 150
Counterparty risk exposure	1 618	453	100%	1 618	453
Large exposures	251	–	100%	251	–
	424 137	308 026		159 728	149 115

Credit ratings for FirstRand Bank Limited and FirstRand Bank Holdings Limited

Moody's Investor Service – Dec 2002

- Bank deposits – Foreign currency
- Bank deposits – Domestic currency
- Bank financial strength
- Commercial paper

Standard & Poor's – Jan 2003

- Local currency – long term
- Local currency – outlook
- Local currency – short term
- Foreign currency – long term
- Foreign currency – outlook
- Foreign currency – short term

Fitch Ratings Foreign currency

- Short term senior
- Long term senior
- Long term rating outlook

Local currency

- Long term senior
- Outlook

National

- Short term senior
- Long term senior
- Individual
- Support

Fitch Ratings Foreign currency

- Long term
- Short term
- Outlook

National

- Long term
- Short term
- Individual
- Support

Fitch Ratings

- Short term senior
- Long term senior
- Long term rating outlook

FirstRand Bank Limited

Baa2/P2
A1/P-1
C
NP

FirstRand Bank Limited

BBB-
Stable
A-3
BBB-
Stable
B

FirstRand Bank Limited

F3
BBB
Stable

A-
Stable

F1 + (ZAF)
AA (ZAF)
B/C
2

FirstRand Bank Holdings Limited

BBB
F3
Stable

AA-
F1+
B/C
5

Sovereign Risk – Sep 2002

BBB-
A-
Stable

Margin analysis

	2003			2002		
	Average ¹ balance R million	Average margin %	Interest income/ expense R million	Average balance R million	Average margin %	Interest income/ expense R million
Margin assets						
Liquid assets						
Cash and short-term funds	25 129		1 723	16 382		1 054
Advances						
Sub-Saharan Africa, Corporate and Consumer						
– Mortgage loans – variable	42 579	3.45	6 745	29 880	3.20	3 858
– Instalment sales and leases – variable	25 045	3.59	4 005	20 967	4.29	2 936
– Other prime linked loans – variable	19 429	5.81	3 538	17 205	6.50	2 790
– Fixed rate loans – Mortgages, instalment sale and wholesale term	17 522	4.05	2 965	13 046	3.71	1 803
– Call related loans	13 147	1.03	1 786	15 929	1.64	1 796
Other banking advances	64 711		1 991	52 682		2 671
Investment securities and other investments	43 696		3 541	45 245		1 813
Total margin assets	251 258		26 293	211 336		18 721
Non-margin assets	42 832			38 033		
Total assets	294 090		26 293	249 369		18 721
Liabilities and shareholders' funds						
Interest-bearing liabilities						
– Current and savings deposits	23 240	7.96	1 031	19 489	6.69	591
– Fixed rate deposits	30 937	0.84	3 565	18 396	0.87	1 719
– Call related deposits	42 944	1.72	4 652	39 244	1.52	3 182
Other interest-bearing liabilities	127 742		7 940	108 160		6 812
	224 863		17 189	185 289		12 304
Non interest-bearing liabilities	51 847			49 424		
Total liabilities	276 710		17 189	234 713		12 304
Shareholders' funds						
Share capital and reserves	16 891			14 111		
Outside shareholders' interest	489			545		
Total liabilities and shareholders' funds	294 090		17 189	249 369		12 304
Net interest income and margin on average advances	182 433	4.99	9 104	149 709	4.29	6 417

1. Average balances are calculated on a daily basis.

	2003			2002		
	Average ¹ balance R million	Average margin %	Interest income/ expense R million	Average balance R million	Average margin %	Interest income/ expense R million
Additional margin analysis on interest earning/bearing assets and liabilities						
Margin on advances						
– FNB Retail ²	23 784	5.46	4 258	23 537	5.03	3 466
– FNB HomeLoans	30 919	3.47	4 906	20 751	3.27	2 695
– WesBank	36 392	4.04	6 030	30 473	4.41	4 335
– FNB Corporate	21 844	1.01	3 117	19 033	1.40	2 289
– Private Banking	4 783	2.81	728	3 232	2.57	397
Cash and short-term funds	25 129		1 723	16 382		1 054
Other banking advances	64 711		1 991	52 682		2 671
Investment securities and other investments	43 696		3 541	45 245		1 813
Non-margin assets	42 832			38 033		
	294 090		26 293	274 805		18 721
Margin on deposits						
– FNB Retail ¹	58 503	3.96	4 958	44 529	3.66	2 740
– FNB Corporate	36 188	1.46	3 991	30 646	1.32	2 586
– Private Banking	2 383	0.63	267	1 830	0.62	159
– Other						
Other interest-bearing liabilities	127 788		7 973	108 284		6 819
Non interest-bearing liabilities	51 847			49 424		
Shareholders' funds	17 380			14 656		
	294 090		17 189	249 369		12 304
Net interest income and margin on average advances	182 433	4.99	9 104	149 709	4.29	6 417

2. Includes the primary deposit taking, transactional banking and card loan banking products of the sub-Saharan Banking operations.

Glossary of terms

Definitions relating to operations

Attributable earnings

Earnings attributable to ordinary shareholders.

Headline earnings

Earnings attributable to ordinary shareholders from trading operations, excluding capital profits and losses, amortisation of goodwill and impairment of assets.

Core operating headline earnings

Headline earnings excluding currency translation gains or losses.

Return on average equity (%)

Earnings attributable to ordinary shareholders divided by average ordinary shareholders' funds.

Return on average total assets (%)

Earnings attributable to ordinary shareholders divided by average total assets.

Interest margin on average total assets (%)

Net interest income (before deducting the income statement charge for bad and doubtful advances) divided by average total assets.

Interest margin on average advances (%)

Net interest income (before deducting the income statement charge for bad and doubtful advances) divided by average advances.

Cost to income ratio (%)

Operating expenditure divided by total income.

Other definitions

Non-performing loan

A loan on which the contractual interest and capital is not expected to be recovered.

Interest in suspense

Contractual interest suspended on non-performing loans.

Short trading positions

Trading positions where the Banking Group sells financial instruments that it does not own with a view of acquiring such instruments at a later stage on terms beneficial to the Group.

Repo rate

Rate at which the South African Reserve Bank lends to banks.

Organic growth

Non-acquisition growth.

Administration

FirstRand Bank Holdings Limited

(Registration No 1971/009695/06)

Registered office

1st Floor, 4 Merchant Place
Cnr Fredman Drive and Rivonia Road
Sandton
2196

Postal address

PO Box 786273
Sandton
2146

Telephone

National (011) 282 4000
International +27 11 282 4000

Telefax

National (011) 282 1699
International +27 11 282 1699

Websites

www.fnb.co.za
www.rmb.co.za
www.ebucks.com

Company secretary

B W Unser

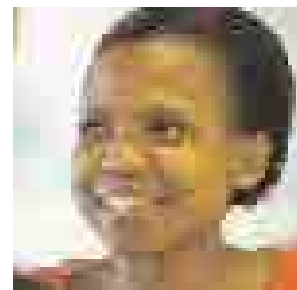
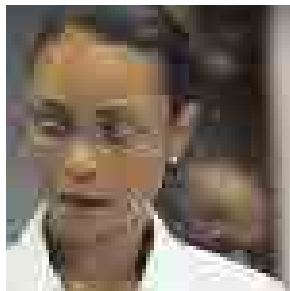
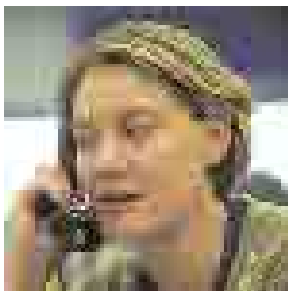
Auditors

PricewaterhouseCoopers Incorporated
2 Eglin Road
Sunninghill

Deloitte & Touche
The Woodlands
20 Woodlands Drive
Woodmead

Momentum financial statements 2003

This report reflects the operating results and financial position of the insurance interests of the FirstRand Limited group of companies ("the Momentum Group") and should be read in conjunction with the report on FirstRand Limited.





www.momentum.co.za

Momentum financial statements 2003

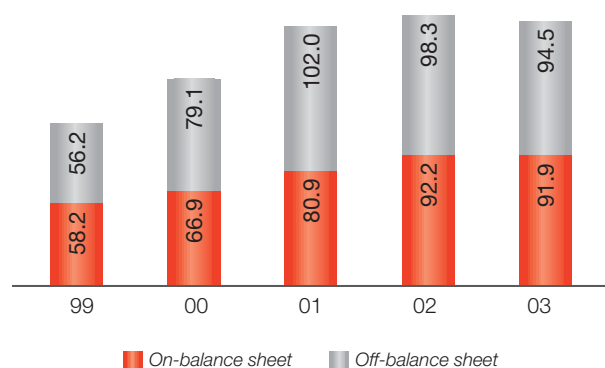
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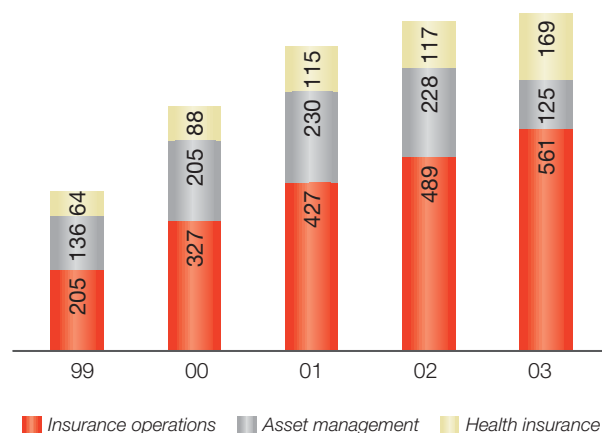
Financial highlights

	Post-AC133	Pre-AC133
Group headline earnings (%)	+9	+10
Embedded value of new business (%)	+33	+33
Group assets under management or administration (R billion)	186.4	187.1

Group assets under management or administration (R billion)
Compound growth of 13% per annum



Group operating profit growth (R million)
Compound growth of 21% per annum



Five-year review

R million	1999	2000	2001	2002	2003	Compound growth %
Group headline earnings						
Insurance operations	205	327	427	489	561	29
Individual business	127	229	308	382	432	36
Employee benefits	78	98	119	107	129	13
Asset management operations	136	205	230	228	125	(2)
Health insurance operations	64	88	115	117	169	27
Group operating profit after tax	405	620	772	834	855	21
Investment income on the shareholders' portfolio	226	170	171	190	261	4
Group headline earnings	631	790	943	1 024	1 116	15
Funds received from clients						
Individual life premium income	5 497	7 721	7 978	7 474	9 224	14
Single premiums	2 111	3 021	3 944	3 021	3 284	12
Corporate policy premiums	598	1 859	1 006	1 255	2 323	40
Recurring premiums	2 788	2 841	3 028	3 198	3 617	7
Employee benefits premium income	2 807	2 800	3 991	4 309	4 661	14
Single premiums ⁽¹⁾	1 485	1 661	2 727	2 927	3 242	22
Recurring premiums	1 322	1 139	1 264	1 382	1 419	2
Health insurance premium income	1 049	1 871	2 531	3 132	3 053	31
Linked product sales ⁽²⁾	3 728	4 744	2 963	2 920	2 722	(8)
Unit trust sales	3 977	6 713	8 055	7 348	5 750	10
Segregated third party inflows ⁽¹⁾	15 570	10 612	7 233	10 665	4 897	(25)
Total funds received from clients	32 628	34 461	32 751	35 848	30 307	(2)
Net flow of funds	12 683	12 439	4 685	3 724	2 247	(35)
Group assets under management or administration						
Total assets per balance sheet	58 189	66 870	80 908	92 234	91 878	12
Off-balance sheet assets managed on behalf of clients	56 152	79 067	102 020	98 328	94 569	14
Total assets under management or administration	114 341	145 937	182 928	190 562	186 447	13
Exchange rates						
Rand/US\$						
– closing	6.03	6.77	8.07	10.31	7.56	
– average	5.95	6.40	7.42	9.19	8.89	
Rand/£						
– closing	9.51	10.26	11.35	15.75	12.47	
– average	9.63	9.88	10.81	14.81	14.12	
US\$ million						
Group headline earnings	106	123	127	111	126	4
Total funds received from clients	5 484	5 385	4 414	3 901	3 409	(11)
Net flow of funds	2 132	1 944	631	405	253	(41)
Total assets under management or administration	18 962	21 548	22 676	18 487	24 662	7
£ million						
Group headline earnings	66	80	87	69	79	5
Total funds received from clients	3 388	3 488	3 030	2 421	2 146	(11)
Net flow of funds	1 317	1 259	433	251	159	(41)
Total assets under management or administration	12 029	14 225	16 115	12 105	14 952	6

(1) Excludes transfers between on- and off-balance sheet business.

(2) Includes sales of products on the life insurance balance sheet.

Board of directors and board committees of Momentum Group Limited

LL Dippenaar (54)

MCom, CA(SA)

Chairman of Momentum Group
Chief Executive Officer of FirstRand
Director of FirstRand Bank Holdings
Director of RMB Holdings

JD Krige (54)

MCom, FIA, AMP (Harvard)

HP Meyer (45)

BCom, FIA, AMP (Oxford)

Managing Director of Momentum Group

BH Adams (67)

CA(SA)

Chairman of the FirstRand and Momentum Group audit committees, and the Momentum Group remuneration committee

AH Arnott (56)

CA(SA), PMD (Harvard)

VW Bartlett (60)

AMP (Harvard), FIBSA

Director of FirstRand
Deputy Chief Executive Officer of FirstRand Bank Holdings

WFE Bragg (62)

FCA

JP Burger (44)

CA(SA)

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

GT Ferreira (55)

BCom (Hons), (B&A), MBA

Chairman of FirstRand, FirstRand Bank Holdings and RMB Holdings

K Gordhan (42)

BA, MPhil

RB Gouws (60)

BSc, FFA, FASSA, AMP (Oxford)

Chairman of the actuarial committee

PK Harris (53)

MCom

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

RJ Hutchison (56)

BCom (Hons), (B&A), MBA

NB Langa-Royds (41)

BA (Law), LLB

BJ van der Ross (56)

Dip Law (UCT)

Director of FirstRand

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

JdT Hugo – 20 November 2002

Actuarial committee

RB Gouws (Chairman)
HP Meyer
NAS Kruger
D Brown
S Jurisich

Remuneration committee

BH Adams (Chairman)
LL Dippenaar
RJ Hutchison

Audit committee

BH Adams (Chairman)
AH Arnott
WFE Bragg
HP Meyer
BJ van der Ross

Report of the chief financial officer

for the year ended 30 June 2003

Frans Truter
*Chief financial
officer,
Momentum Group*



Momentum Group Limited is a wholly-owned subsidiary of FirstRand Limited. The consolidated figures in this report include the operations of Momentum Life, Momentum Employee Benefits, FirstRand Asset Management (FRAM) and the Discovery Group of companies. All operations take place within either divisions of Momentum Group Limited, or within 100%-owned subsidiaries, with the exception of Discovery Holdings and Momentum International MultiManagers, in which Momentum Group holds a 62% and 73% interest respectively. A comprehensive group structure is set out on page 15.

Basis of preparation

The attached annual financial statements relate to the above defined group being the insurance and asset management interests of the FirstRand Group of Companies, and should be read in conjunction with the FirstRand Group financial statements set out on pages 73 to 95.

In order to provide a better understanding of the results of the Momentum Group, these results have been provided on a segmental basis, where appropriate. The segments into which the group has been divided are:

Individual Business – includes Momentum Life, the provider of life insurance and investment products to the upper income market, and Momentum International MultiManagers, the group's international multi-manager and investment research house with operations in South Africa and the UK.

Employee Benefits – the results of Momentum Employee Benefits, which provides a range of products to the retirement benefit market.

Asset Management – the results of the FirstRand Asset Management Group of companies, which provide institutional and retail asset management products in South Africa and internationally.

Health Insurance – the results of the Discovery Group of companies, which provide healthcare funding and life insurance products.

In addition, the investment income on the Momentum Group shareholders' portfolio is disclosed separately.

The segmental analysis set out above is not necessarily based on the results per statutory entity, but rather on a functional split of the activities of the group, as this is the basis on which the group's affairs are managed.

This report includes information relating to the off-balance sheet activities of the group, as these are a significant contributor to profit as well as to the assets managed by the group. Reconciliations between the figures presented in the group annual financial statements, which represent only the on-balance sheet cash flows and assets of Momentum Group and its subsidiaries, and the figures presented in this report, which represent all on- and off-balance sheet cash flows and assets, have been provided where necessary.

Accounting policies

The accounting policies applied are in accordance with Statements of Generally Accepted Accounting Practice. These accounting policies are consistent with those of the prior year with the exception of:

- The effect of the adoption of Accounting Standard AC133 – *Financial Instruments: Recognition and Measurement* issued by the South African Institute of Chartered Accountants (SAICA), which became effective from 1 July 2002.
- The change in accounting policy adopted by Discovery from deferring health insurance and group life acquisition costs to expensing these costs as incurred, in line with industry practice. The effect of the change in this accounting policy has been:
 - a reduction in the retained income at 30 June 2001 of R111 million.

- a reduction in earnings attributable to ordinary shareholders in 2002 of R13 million.
- a reduction in earnings attributable to ordinary shareholders in 2003 of R2 million.

The group has implemented AC133 on the following basis:

- The guidance issued by SAICA relating to the application of AC133 to liabilities arising from long-term insurance contracts has been applied in preparing these results;
- *Insurance contracts* as defined in AC125 continue to be valued and disclosed in terms of the Financial Soundness Valuation (FSV) basis contained in PGN104 issued by the Actuarial Society of South Africa. These liabilities are reflected as "Policyholder liabilities under insurance contracts" (previously the Life Fund);
- *Investment contracts* that do not comply with the definition of *insurance contracts* have been reflected separately in the group balance sheet as "Policyholder liabilities under investment contracts". The premium income, benefit payments, investment income, commissions and taxation relating to the assets backing these *investment contracts*, have been excluded from the income statement and accounted for directly against the liability under these contracts. Fees earned from these products are disclosed separately in the income statement;
- Assets and liabilities relating to *investment contracts* have been reflected in the financial statements at fair value, with changes in fair value being accounted for in the income statement.

The following table shows the effect of AC133 on the income statement for the year ended 30 June 2003:

	30 June 2003		30 June 2002
	Post-AC133	Pre-AC133	Pre-AC133
R million			
Income statement items			
Group headline earnings ¹	1 116	1 122	1 024
Net premium income	10 527	18 557	19 245
Investment income	3 687	5 995	6 033
Policy fees on investment contracts	178	–	–
Policyholder benefits	(7 312)	(13 990)	(17 393)
Realised and unrealised investment (deficits)/surpluses	(1 006)	(1 850)	2 634
Commissions	(1 043)	(1 218)	(938)
Taxation	(631)	(748)	(744)
Balance sheet items			
Policyholder liabilities	75 676	76 279	73 645
Policyholder liabilities under insurance contracts	38 964	76 279	73 645
Policyholder liabilities under investment contracts	36 712	–	–

1. The decrease in group headline earnings following the implementation of AC133 is due to the change in revenue recognition on certain single premium investment contracts – previously, in terms of the actuarial guideline PGN104, a portion of the profit on single premium retail products was recognised at point-of-sale. These investment contracts are now subject to statements of GAAP (not only PGN104 guidance), therefore no profit is recognised at point of sale.

It is important for readers of this report to note that the 2002 figures in the annual financial statements are not necessarily comparable with the 2003 figures due to the implementation of AC133, which does not allow the restatement of comparatives.

Review of group results and operating environment

The Momentum Group continued to produce solid earnings growth, despite challenging market conditions. Headline earnings increased by 9% to R1.1 billion for the year ended 30 June 2003, subsequent to the implementation of AC133. Excluding the impact of AC133, headline earnings increased by 10%. Since 1999, the first full year following the Southern merger, group headline earnings have increased from R631 million to R1 116 million, a

Report of the chief financial officer continued

compound growth of over 15% per annum, despite Momentum transferring R800 million in excess capital to FirstRand in the form of dividend declarations during this same period. It is pleasing to note that the negative effect of the decline in investment markets on fee income has been strongly outweighed by efficiency improvements, expense savings arising from the Southern merger and steady organic growth over the period.

During the year the operating environment was affected by subdued demand for retail investment products, especially single premium products, and the negative effects of a strengthening Rand on offshore-based fee income. Global equity markets continued their negative trend, with the MSCI World Index declining by 2.5% in US Dollar terms during the year. The South African markets were also characterised by uncertainty, with the JSE ALSI40 index declining by 25%. Our asset management operations were especially hard hit by the declining markets and the stronger Rand.

Five-year review

The five-year review of key financial indicators is set out on page 198. What is particularly pleasing to note is that group operating profit has increased by an average of 21% per annum since 1999, mainly due to the strong performance of Momentum's individual business and Discovery. Individual life and employee benefits premium income have shown solid growth of 14% per annum, despite the general market trend which has been negative. Pressure on segregated third party inflows from subdued investment markets has resulted in a decline of 25% per annum since 1999. It is however encouraging to note that the net flow of funds has remained strongly positive for each of the financial years since 1999. The small compound increase in the investment income on the shareholders' portfolio is due to the fact that Momentum transferred R800 million in excess capital to FirstRand in the form of dividend declarations since 2000.

Group assets under management or administration have shown consistent growth of 13% per annum, which is significantly better than the growth in the JSE ALSI 40 index over the same period of 5% per annum. In US\$ terms, group headline earnings have shown an increase of 4% per annum over the past five years, which is gratifying given the volatility in the Rand/Dollar exchange rate since 1999.

Group operating results

The following table shows the main components of the increase in group headline earnings for the year (after the implementation of AC133):

Earnings source	2003	2002	% change
R million			
Insurance operations	561	489	15
Individual business	432	382	13
Employee benefits	129	107	21
Asset management operations	125	228	(45)
Discovery Holdings	169	117	44
Group operating profit after tax	855	834	3
Investment income on shareholders' assets	261	190	37
Group headline earnings	1 116	1 024	9
Group core headline earnings¹	1 116	1 024	9

1. Represents group headline earnings excluding foreign currency translation gains or losses. This figure is the same as the group headline earnings due to the fact that the group has no integrated foreign operations, and therefore no foreign currency translation gains or losses are included in earnings.

The performance of the business units that contributed to the group operating profit after tax of R855 million, is discussed in more detail in the Operational Review set out on pages 28 to 55. A detailed segmental income statement is also provided in note 9 to the annual financial statements, including information regarding total assets and liabilities per segment.

Investment income on the shareholders' assets

The investment income earned on shareholders' assets increased by 37% to R261 million. This increase is due to the higher cash balance in the shareholders' portfolio arising from:

- the lower dividends paid following an increase in the dividend cover from 2.2 times to 2.7 times, to bring Momentum's dividend policy in line with that of the FirstRand Group; and

- the sale of surplus shares in the share incentive scheme, which realised R140 million in cash, as well as the sale of certain other assets that did not previously produce a significant income yield.
- The directors' valuation of shareholders' net assets at 30 June 2003, along with the corresponding investment income after tax per asset category, is set out below:

Shareholders' net assets

	Directors' valuation		Attributable investment income	
R million	2003	2002	2003	2002
Strategic subsidiary investments¹:				
• Discovery Holdings (62%)	1 839	1 777		
• FirstRand Asset Management (100%)	1 337	1 603		
• Momentum International MultiManagers (73%)	36	40		
Shareholders' portfolio investments¹:				
• African Life (33%)	521	557	73	58
• Fixed interest instruments	575	666	50	50
• Equities	165	153	3	3
• Properties	264	269	20	20
• Share trust and subsidiary loans	566	631	48	31
• Cash and other	1 181	468	67	28
Total	6 484	6 164	261	190

1. Strategic subsidiary investments are reflected at directors' valuation. The income from these strategic subsidiary investments is included in group operating profit, whilst the income from the shareholders' portfolio investments detailed above is reflected separately in earnings.

Marketing and administration expenses

The marketing and administration expenses of Momentum Group increased by 20% from R2.6 billion to R3.1 billion. The main contributor to this increase was Discovery Holdings, where expenses increased by 27% from R1.3 billion to R1.7 billion, due to start-up costs incurred at Destiny Health (Discovery's USA health initiative), a 13% increase in headcount for the South African operations and increased Vitality benefits.

The 21% increase in marketing and administration expenses for individual business and employee benefits is mainly attributable to start-up costs of new initiatives, including the new health offering, Pulz, and FundsAtWork, Momentum's SME group retirement scheme product.

The segmental breakdown of the marketing and administration expenses is provided in the table below:

Marketing and administration expenses

			%
R million	2003	2002	change
Per business:			
Momentum individual and employee benefits	1 097	908	21
Discovery Holdings	1 665	1 313	27
FirstRand Asset Management	322	342	(6)
Total	3 084	2 563	20
Geographical:			
South Africa	2 697	2 280	18
USA	202	114	77
Europe	185	169	9
Total	3 084	2 563	20

Goodwill impairment – Ashburton

Due to a decline in the profits of Ashburton, as well as a further decline in international equity markets since 30 June 2002 and the general uncertainty globally with regard to the direction of investment markets, an impairment of R242 million has been charged against attributable earnings for the year as reflected in note 7 to the annual financial statements. The carrying value of

Report of the chief financial officer continued

the investment in Ashburton was R354 million at 30 June 2003 (30 June 2002: R821 million). Ashburton currently manages £717 million in retail assets (R8.9 billion) compared with £706 million (R11.1 billion) at 30 June 2002.

Capital management

The Momentum Group subscribes to the overall philosophy of the FirstRand Group regarding capital management. The group aims to achieve a long-term return on capital of at least inflation plus 10%. During this past year, Momentum achieved a return on capital of 17.6%, which compares favourably with CPIX inflation of 6.6% over the same period. Momentum achieved an average return on capital of 15.6% per annum over the past three years, compared to the average annual CPIX inflation rate of 7.4%.

The excess of assets over liabilities of Momentum Group was R6 484 million at 30 June 2003. The capital adequacy requirements (CAR) of R3 072 million (2002: R2 543 million) were covered 2.1 times (2002: 2.4 times) by this excess. The volatile investment markets prevailing during the year under review resulted in a 21% increase in CAR.

The Financial Service Board (FSB) has issued new rules with regard to the calculation of the solvency requirements relating to life insurers, which came into effect on 1 August 2003. These new rules include more conservative principles for the valuation of strategic subsidiary investments. Momentum will remain financially sound following the implementation of these new rules.

Momentum has, subsequent to the year-end, embarked on a programme of restructuring its shareholders' portfolio. More information on this restructuring is contained in the section headed "Post-balance sheet events – capital restructuring programme" later on in this report.

Dividend policy

The FirstRand Group policy is that dividends be sourced from the Insurance and Banking Groups in proportion to their contribution to the overall FirstRand Group earnings. This results in a dividend cover of 2.7 times for the Momentum Group.

Embedded value – Momentum Group

The embedded value of the Momentum Group, representing the sum of the shareholders' net assets and the present value of the expected future profits arising from the existing in-force insurance business, was R10 billion at 30 June 2003 (2002: R9.5 billion). The embedded value calculation includes the shareholders' net assets at the values reflected in the table on page 203.

The analysis of the main components of the group embedded value is set out in the following table:

Embedded value

R million	2003	2002
Value of shareholders' net assets	6 484	6 164
Net value of in-force business	3 518	3 368
Value of in-force business	3 846	3 611
Opportunity cost of capital adequacy requirements	(328)	(243)
Embedded value	10 002	9 532

The embedded value of new business is set out in the following table:

Embedded value of new business

R million	2003	2002	% change
Individual life	242	169	43
Employee benefits	48	49	(2)
Less: Opportunity cost of capital	(17)	(12)	(42)
Embedded value of new business	273	206	33

The increase in the embedded value of new business is mainly due to the higher level of new recurring premium business written, as well as improved profit margins. The embedded value of new business written during the year represents a margin of 16.5% of the notional new business premiums (new recurring plus 10% of single premiums), compared with 15.6% for the prior year.

The embedded value profit for the year of R712 million represents a return on embedded value of 7.5%.

The “Report on the embedded value”, detailing the composition of the embedded value profit, and the methodology and assumptions made in calculating the embedded value of Momentum Group, is reflected on pages 259 to 264 of this annual report.

Embedded value – Discovery Group

The salient features of the embedded value results of the Discovery Group of companies at 30 June 2003, are detailed below:

Discovery Group – embedded value

R million	2003	2002
Value of shareholders' net assets	1 037	744
Net value of in-force business	3 831	2 577
Value of in-force business	4 021	2 742
Opportunity cost of capital adequacy requirements	(190)	(165)
Embedded value	4 868	3 321

Discovery's embedded value increased by 47% to R4 868 million at 30 June 2003. The main driver behind this increase was the value of new business, with the value of life new business increasing by 157%.

Group assets under management or administration

The Momentum Group managed or administered assets of R186.4 billion at 30 June 2003, compared with R190.5 billion at 30 June 2002, a decrease of 2%. This decrease is mainly due to the decline in investment markets during the year and includes the negative effect on foreign currency assets of the Rand's strengthening.

The following table provides an analysis of the assets managed or administered by group companies:

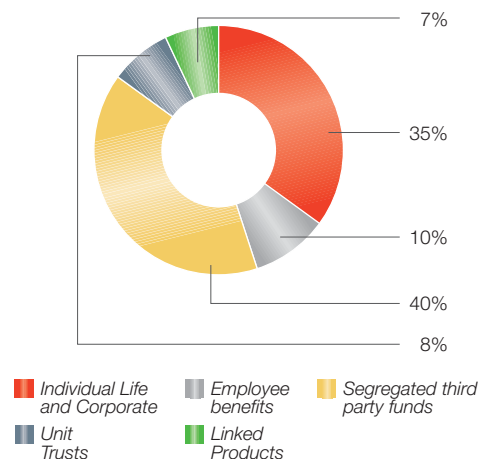
Assets under management or administration

R billion	2003	2002	% change
On-balance sheet assets	91.9	92.2	–
Assets managed on behalf of third parties	74.3	75.2	(1)
Unit trust funds managed	14.4	16.9	(15)
Assets under management	180.6	184.3	(2)
Linked product assets under administration ¹	5.8	6.2	(6)
Total assets under management or administration	186.4	190.5	(2)

1. Excludes business written by the Momentum Group's Linked Product Packager on the life company's balance sheet, as these assets are reflected under on-balance sheet assets. Total linked product assets under administration amounted to R12.6 billion (2002: R13.9 billion).

The following pie chart represents a breakdown of the group assets under management or administration between the various classes of business:

Components of group assets under management and administration



New business inflows

New business inflows for the year totalled R26.0 billion, a reduction of 17% compared with the corresponding figure in the

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prior year. New annualised recurring premium business increased by an excellent 30%, due to strong increases in production from the individual life, employee benefits and health insurance businesses. Unit trust and segregated third party fund inflows suffered from the decline in investment markets. A breakdown of the new business inflows, which include 100% of the Discovery Holdings figures, is provided in the table below:

New business

R million	2003	2002	% change
Annualised recurring premiums	3 940	3 030	30
Individual life – Momentum ¹	737	582	27
Individual life – Discovery ¹	313	236	33
Employee benefits – Momentum	122	109	12
Employee benefits – Discovery	42	28	50
Health insurance ²	2 726	2 075	31
Lump sum inflows	17 305	17 456	(1)
Individual life premium income	3 284	3 021	9
Corporate policy premium income	2 308	1 240	86
Employee benefits premium income	3 242	2 927	11
Linked product sales ³	2 722	2 920	(7)
Unit trust sales – local	4 174	5 245	(20)
Unit trust sales – offshore	1 575	2 103	(25)
Segregated third party inflows ⁴	4 730	10 665	(56)
Total new business inflows	25 975	31 151	(17)

1. Excludes automatic premium increases of R180 million for Momentum and R33 million for Discovery Life.

2. Includes new annualised premiums of US\$42.5 million (2002: US\$25.7 million) relating to the sales of Destiny Health products.

3. Includes sales of products on the life insurance balance sheet amounting to R1 033 million (2002: R1 186 million).

4. The figure for 2002 includes the once-off inflow of assets from a single institutional mandate of R5.1 billion which, if excluded, results in a reduction in total new business inflows of only 1% for the year.

All transfers between on- and off-balance sheet funds have been excluded from the above.

Funds received from clients

The total funds received from clients, being the sum of the inflows from new and existing business, amounted to R30.3 billion for the year, a decrease of 16%. The following table provides an analysis of these inflows:

Funds received from clients

R million	2003	2002	% change
Individual life premium income	9 224	7 474	23
Single premiums ¹	3 284	3 021	9
Corporate policy premiums	2 323	1 255	85
Recurring premiums	3 617	3 198	13
Employee benefits premium income	4 661	4 309	8
Single premiums	3 242	2 927	11
Recurring premiums	1 419	1 382	3
Health insurance net premium income	3 053	3 132	(3)
Gross inflows under management	10 495	7 545	39
Less: Medical scheme and money market contributions	(7 190)	(4 234)	(70)
Less: Reinsurance premiums	(252)	(179)	(41)
Linked product sales ²	2 722	2 920	(7)
Unit trust sales	5 750	7 348	(22)
Local	4 174	5 245	(20)
Offshore	1 576	2 103	(25)
Segregated third party inflows	4 897	10 665	(54)
Total funds received from clients	30 307	35 848	(16)

1. Single premiums exclude funds retained through the extension of the original policy term, amounting to R615 million (2002: R457 million).

2. Includes sales of products on the life insurance balance sheet amounting to R1 033 million (2002: R1 186 million).

All transfers between on and off-balance sheet funds have been excluded from the above.

The following represents a reconciliation between the total funds received in the table above, and total premium income per note 3 to the annual financial statements:

R million	2003	2002
Total funds received	30 307	35 848
Less: Off-balance sheet inflows	(12 336)	(19 747)
Linked product sales	(1 689)	(1 734)
Unit trust sales	(5 750)	(7 348)
Segregated third party inflows	(4 897)	(10 665)
Add: Transfers from off-balance sheet funds	586	3 144
Less: Premium income related to investment contracts (AC133 adjustment)	(8 030)	–
Total premium income per financial statements	10 527	19 245

Payments to clients

The Momentum Group improved the retention of client funds, resulting in a 13% reduction in payments to clients. All business lines, except corporate policies and employee benefits, showed reduced fund outflows. The linked product and local unit trust businesses achieved a significantly better retention of funds, whilst the level of repurchases in the offshore unit trusts was reduced further by the strengthening in the Rand. The total outflows to clients are analysed in the following table:

Payments to clients

R million	2003	2002	% change
Individual life	5 319	5 561	(4)
Corporate policies	1 334	669	99
Employee benefits	4 351	4 287	1
Health insurance	1 402	1 722	(19)
Linked products ¹	2 008	2 491	(19)
Unit trusts – local	4 266	5 085	(16)
Unit trusts – offshore	1 128	1 716	(34)
Segregated third party funds	8 252	10 593	(22)
Total payments to clients	28 060	32 124	(13)

1. Includes outflows relating to products on the life insurance balance sheet amounting to R945 million (2002: R1 027 million).

All transfers between on and off-balance sheet funds have been excluded from the above.

The following represents a reconciliation between the total payments to clients in the table above, and total policyholder benefits per note 5 to the annual financial statements:

R million	2003	2002
Total payments to clients	28 060	32 124
Less: Off-balance sheet payments	(14 709)	(18 858)
Linked products	(1 063)	(1 464)
Unit trusts	(5 394)	(6 801)
Segregated third party funds	(8 252)	(10 593)
Add: Transfers to off-balance sheet funds	638	4 127
Less: Benefit payments related to investment contracts (AC133 adjustment)	(6 677)	–
Total policyholder benefits per financial statements	7 312	17 393

Net flow of funds

The net flow of funds from clients totalled R2.2 billion, a 40% decline compared with the prior year. However, the net cash

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inflow for the second six months to 30 June 2003 of R2.1 billion compare favourably to the R148 million inflow for the six months to 31 December 2002. It is pleasing to note that the net cash inflow from individual life business more than doubled to R1.6 billion during the year, due to reduced outflows and strong inflows of immediate annuity lump sums.

The following table sets out the components of this net inflow of funds, taking into account the total inflows and outflows for the year as set out in the preceding tables:

Net flow of funds

R million	2003	2002	% change
Individual life	1 582	673	>100
Corporate business	989	571	73
Employee benefits	310	22	>100
Health insurance	1 651	1 410	18
Linked products	714	429	66
Unit trusts – local	(92)	160	>(100)
Unit trusts – offshore	448	387	16
Segregated third party funds	(3 355)	72	>(100)
Total net flow of funds	2 247	3 724	(40)

Investment returns

The majority of the investment assets of the group are managed by RMB Asset Management (RMBAM). The returns achieved by RMBAM are measured against the Alexander Forbes Asset Consultants Global Large Manager Watch, which represents a widely used survey on the returns of large South African institutional asset managers. RMBAM improved their relative performance significantly, with the RMB Managed Fund's one year performance improving from fifth out of 10 managers at 30 June 2002 to first out of 10 managers at 30 June 2003. This balanced fund's performance, in the same survey, ranks sixth out of 10 and third out of 10 managers over three and five years respectively.

Momentum MultiManagers' retail portfolios performed very well, exceeding most of their benchmarks by a pleasing margin. The institutional investment portfolios have performed satisfactorily, with the exception of the Aggressive portfolio's twelve month performance, which is still lagging. The Balanced Strategies portfolio would be ranked fifth out of 12 over one year, whilst the Aggressive portfolio would be ranked sixth out of 12 over one year in the June 2003 Alexander Forbes Global Large Manager Watch, if they were included.

Post-balance sheet events – Capital restructuring programme

Momentum is currently in the process of implementing a major restructuring of the assets in its shareholders' portfolio, with the objective of enhancing the return on equity, without compromising the security of policyholder interests. The main motivations behind the restructuring are:

- To achieve a more appropriate asset composition in the shareholders' portfolio following the introduction by the Financial Services Board (FSB) of new valuation regulations for subsidiaries. From 1 August 2003 these regulations limit the extent to which listed subsidiaries can be revalued for solvency purposes above their net asset values reflected in the financial statements, and require unlisted subsidiaries to be reflected at their net asset values;
- To apply more prudent investment principles, limit the asset concentration risk and improve the diversification of the assets used to back the capital adequacy requirements (CAR). CAR is the minimum statutory capital required by the FSB;
- To ensure that policyholder interests are protected by the maintenance of an adequate CAR cover ratio after the implementation of the new FSB guidelines.

The most appropriate investment mandate for shareholders' capital backing CAR is considered to be an investment in cash or near-cash instruments, which leads to a smaller CAR and an enhanced return on equity. The remaining shareholders' capital (in excess of CAR) will be invested in a combination of strategic

assets and a managed portfolio with a significant equity exposure.

In order to achieve the above objectives, the following changes to the shareholders' portfolio have been implemented subsequent to the year-end:

- The investment in Discovery has been transferred from Momentum to FirstRand, effective 1 July 2003. The benefits of this transaction are firstly a reduction in Momentum's CAR, and secondly a reduction in concentration risk within the shareholders' net assets;
- The transfer was effected at the net asset value of Momentum's holding in Discovery of R740 million at 30 June 2003 and in terms of the provisions of section 46 of the Income Tax Act (group restructuring provisions). This is considered to be the most cost effective way of adjusting the allocation of capital within the FirstRand Group consistent with Momentum's own capital needs.

Following the above restructuring, Momentum's CAR cover has remained at two times, which is within the targeted range set by the board. Momentum now has a more robust capital structure, with reduced concentration risk and volatility inherent in the shareholders' portfolio. It should also be noted that the restructuring of the shareholders' portfolio may result in earnings from these assets reflecting a lower correlation with equity markets than was previously the case.

The following table sets out the effect of the restructuring transactions and the implementation of the new FSB capital requirements:

Shareholders' net assets

R million	Pre-restructuring 2003	Transfer of Dis- covery	Effect of revised FSB require- ments	Post- restruc- turing
Strategic subsidiary investments:				
• Discovery Holdings	1 839	(1 839)		–
• FirstRand Asset Management	1 337		(1 337) ¹	–
• Momentum International MultiManagers	36		(26)	10
Shareholders' portfolio investments:				
• African Life	521		10	531
• Fixed interest instruments	573			573
• Equities	165			165
• Properties	265			265
• Share trust and subsidiary loans	567			567
• Cash and other	1 181	740		1 921
Total shareholders' net assets	6 484	(1 099)	(1 353)	4 032
Capital adequacy requirements (CAR)	3 072	(1 084) ²	–	1 988
CAR cover	2.1x			2.0x

1. In terms of the new FSB capital requirements the directors' valuation of R1 337 million for FRAM is written down to its net asset value (excluding any unamortised goodwill), subject to a minimum of R nil.

2. The reduction in CAR arises from the exclusion of Momentum's share of Discovery's CAR (R415 million), and the benefit of investing CAR conservatively (R669 million).

The restructuring of the shareholders' portfolio has the following impact on the future earnings of the group:

- The earnings from Discovery will no longer be included in the Momentum Group's results; and
- The earnings from Discovery will be replaced by the income yield on the cash and near-cash investments received.

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The following table shows the effect of the above on the 2003 headline earnings, had the capital restructuring taken place on 1 July 2002:

Effect of restructuring on earnings and return on equity

R million	Share-holders' net assets	Group headline earnings	Return on equity (ROE) %
Position prior to restructuring	6 484	1 116	18
Less: Transfer of Discovery	(1 099)	(169)	
Add: Investment return after tax on Discovery proceeds ¹		67	
Position subsequent to restructuring	5 385	1 014	19²

1. It has been assumed that Momentum would have received cash of R740 million. An after-tax return of 9% on this amount has been included in earnings.

2. The ROE has been calculated by dividing the headline earnings by the average shareholders' net assets as used in the calculation of the embedded value.

The adjusted group headline earnings in the above table forms the base with which future headline earnings of the Momentum Group can be compared.

The following table sets out the revised embedded value following the capital restructuring:

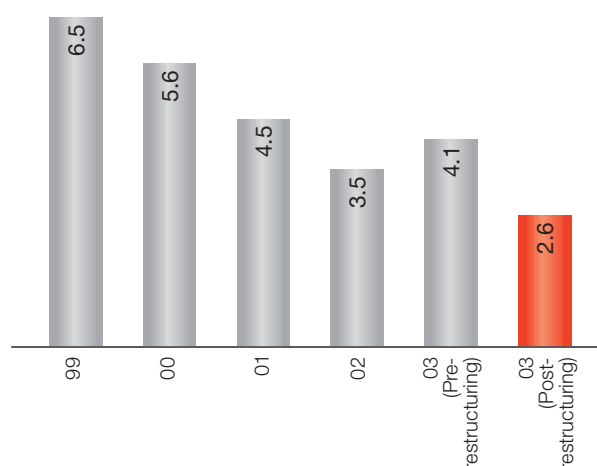
Embedded value following capital restructuring

R million	Pre-restructuring 30 June 2003	Post-restructuring
Value of shareholders' net assets	6 484	5 385
Net value of in-force business	3 518	3 399
Value of in-force business	3 846	3 846
Opportunity cost of capital adequacy requirements	(328)	(447)
Adjusted embedded value	10 002	8 784

The value of shareholders' net assets includes the remaining strategic subsidiary investments (FRAM and Momentum International MultiManagers) at directors' valuations. The increase in the opportunity cost of capital reflects the higher cash component of the restructured shareholders' portfolio.

The following graph illustrates how effective the capital management programme has been in reducing the CAR as percentage of liabilities to policyholders since 1999:

CAR as a percentage of policyholder liabilities (%)



Risk management

Risk management philosophy

The board embraces the principles of King II. The Insurance Group's philosophy on risk recognises that managing risk is an integral part of generating sustainable shareholder value and enhancing stakeholder interests. It also recognises that an appropriate balance should be struck between entrepreneurial endeavour and sound business practice.

Operational risk differs throughout the group, corresponding to the operational differences between business units. Operational responsibility for risk management lies with the management and employees of each profit centre or subsidiary, considering their particular circumstances. Profit centre management has clear responsibility and accountability for ongoing identification, assessment and understanding of risks facing their business, and for carrying out procedures to monitor the risks and limit them to acceptable levels, based on cost benefit analysis.

Although the scope of the Momentum Group audit committee covers all companies in the Momentum Group, FRAM and the Discovery Group are governed by their own audit committees.

Structure and approach

A comprehensive system of internal control including a system of risk management and internal audit was established by management to build robust business operations. Input was obtained from various specialist support functions (including risk management, IT risk management and internal audit), to ensure that risks are mitigated and that the group's objectives are attained.

The system incorporates mechanisms to deliver:

- a commitment by management to the process;
- a documented system of internal control and risk management;
- a demonstrable system of dynamic risk identification;
- a demonstrable system of risk mitigation activities;
- a system of documented risk communications; and
- an alignment of assurance of efforts to the risk profile.

The assurance management (internal audit) and risk management functions were separated on the recommendation of the audit committee. The role of each is as follows:

- Risk management's role is to assist management with the identification and evaluation of actual and potential risk areas as they pertain to a company as a total entity, followed by a process of either elimination, transfer, acceptance or mitigation of each risk. Risks are uncertain future events that could influence the achievement of an entity's objectives.
- Assurance management is an independent, objective assurance and consulting activity with a disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes. It helps the company accomplish its objectives by bringing a systematic approach to improve the operations and to add value.

Risk management

Separate risk committees have been established for Momentum Group and FirstRand Asset Management with the responsibilities for the quality, integrity and reliability of the total risk management process. The results of their work is reported and considered by

their respective audit committees to whom their boards have delegated responsibility in this regard.

Actuarial committees are in operation at both Momentum Group and Discovery. These committees have been appointed by the respective boards to ensure that the highly technical actuarial aspects specific to insurance companies are debated and reviewed independently.

A formal Risk Management Charter that governs the risk management activities and sets out the responsibilities in this regard has been drafted and approved by the risk committee of Momentum Group.

Assurance management

The audit committee oversees the activities of the various internal audit functions in the group and all the internal auditors have unrestricted access to the chairperson of the audit committee.

Although the current structures of the various companies in the group differ, they all have a dedicated internal audit function that has the respect and co-operation of both the board and their management. All companies are moving towards a centralised internal audit function due to the importance attached to independence as well as perceived independence.

The function operates in accordance with the standards of the Institute of Internal Auditors and an internal audit charter formally sets out the purpose, authority and responsibility of the internal audit activity.

As an effective internal audit function it provides the following:

- assurance that the management processes are adequate to identify and monitor significant risks;
- confirmation of the effective operation of the established internal control systems;
- credible processes for feedback on risk management and assurance; and
- objective confirmation that the board receives the right quality of assurance and information from management and that this information is reliable.

The internal audit plan is based on risk assessment as well as on issues highlighted by the audit committee and senior management.

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The risk assessment process is of a continuous nature as to identify not only residual or existing but emerging risks.

The internal audit function coordinates with other internal (including the actuarial function) and external providers of assurance to ensure proper coverage of financial, operational and compliance controls and to minimise duplication of effort.

Management of specific risks

Business risks:

Business risks are classified in terms of external and internal risks. External business risks include (but is not limited to) the following categories: competitors, industry, alliance group and social responsibility.

Internal business risk include (but is not limited to) the following categories: organisational structure, trademark/brand name, client and intermediary service, product innovation and performance measurement.

These strategic business risks are managed by the various executive committees in the profit centres.

Operational risks:

Operational risk is defined as “direct or indirect loss resulting from inadequate or failed internal processes, people or technology”. Operational risks include (but is not limited to) the following categories:

Fraud

One of the main operational risks to which the group is exposed, relates to fraud and theft. One of the mechanisms applied in managing this risk is a dedicated forensic investigation team at Momentum. This team comprises three full-time investigators, who liaise closely with client service staff to identify fraudulent policyholder claims relating to death and disability. Discovery makes use of a forensic investigation team on the same basis.

Proactive training of client service staff takes place to ensure that fraudulent claims are identified and investigated timeously. The forensic investigation team also advises on improvements to internal control systems.

Information security

Security mechanisms have been and are being implemented to safeguard the organisation against malicious attacks and system intrusions such as viruses. The system is monitored against any unauthorised activity and the content of all e-mail is reviewed.

Considerable progress has been made in reviewing existing access profiles in the business areas to ensure that access levels and authority limits granted to staff members are appropriate to their functions.

No significant losses or service breaks due to information security breaches or deficiencies were experienced during the year under review.

Business continuity

Appropriate business continuation measures have been implemented for most key activities. Furthermore, the disaster recovery plans are tested annually.

Regulatory environment

New legislation introduced includes the Financial Intelligence Centre Act to co-ordinate policy and efforts to counter money-laundering activities. Additionally the Promotion of Access to Information Act and the Electronic Communications and Transactions Act were enacted. Processes and procedures to ensure compliance with the laws are being implemented.

Legal risk

The risk embedded in the contractual arrangements with clients and counter parties, including the clarity and enforceability of contracts, the discharge of contractual obligations, the capacity to contract and the communication of changes is overseen by the legal divisions in the business units.

Underwriting risk

Underwriting risk is the risk that the actual exposure to mortality and morbidity risks will exceed the best estimates of the statutory valuator.

The statutory actuary performs regular investigations into actual mortality and morbidity experience, with the best estimate assumptions being adjusted accordingly. All mortality risks above

a set retention limit are reinsured. All applications for mortality or morbidity cover are evaluated against strict underwriting criteria, and are accompanied by compulsory HIV testing in the case of mortality cover.

Market risk:

Market risk is the risk that the value of a financial instrument will fluctuate due to changes in market prices, irrespective of whether those changes were caused by circumstances particular to the group itself, or to the investment market in general.

One of the main focus areas within the group is to maximise returns for policyholders by stock selection based on market timing. Where specific contractual guarantees have been provided to policyholders, these are protected against market fluctuations by investing in assets matching the liability profile.

Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates.

The majority of currency exposure within the group results from the offshore assets held by policyholders' portfolios to provide the desired international exposure, subject to the limitations imposed by the South African Reserve Bank. The majority of these assets are backing linked policyholders' liabilities, in other words the full currency risk is passed to the policyholder.

Interest rate risk

Interest rate risk is the risk that the value of a financial instrument will fluctuate due to changes in market interest rates.

The most significant concentration of interest rate risk in the group resides with the immediate annuity portfolios, where a guaranteed annuity is provided to an annuitant. This guaranteed annuity is matched with an appropriate asset profile, with the overall liability profile being matched on a weekly basis to minimise the interest rate mismatching risk. Use is made of the interest rate hedging expertise of Rand Merchant Bank and Futuregrowth to manage the interest rate and cash flow matching of the annuity portfolio.

Liquidity risk

Liquidity risk is the risk that the group will encounter difficulty in raising funds to meet commitments to policyholders under policy contracts.

All policyholder funds are invested in appropriate assets to meet the reasonable benefit expectations of policyholders, which includes the expectation that funds will be available to pay out benefits as required by the policy contract. The majority of assets invested in are listed financial instruments that are actively traded on the various stock and bond exchanges, resulting in the ability to liquidate most of these investments at relatively short notice.

Credit risk:

Credit risk refers to the risk of loss arising from the obligor's or issuer's inability to service the debt obligations.

Momentum invests in a diversified pool of top rated debt securities and closely monitors the risk of default arising from an obligor's or issuer's inability to service the debt obligations.

These assets are carried at fair values based upon current market prices that are closely aligned to the nature and term of the debt security.

Momentum Group manages its portfolio credit risk using a multi-dimensional approach. Initially the creditworthiness of the company is assessed in accordance with our risk acceptance criteria. Pricing and provisioning is determined using the counterparty's "expected default frequency" and "recovery rate" in the event of default. In order to achieve appropriate diversification, limits are scrutinised at industry sector level, the number of single obligor exposures within rating categories and the weighted average rating of the portfolio. All counterparties are assigned a 'rating' using a conservative internal rating model. The credit portfolio is made up of 159 counterparties, which is spread across 24 different industry sectors.

The Momentum Group has an internal credit risk function that performs ongoing management of the credit portfolio, which in turn is overseen by the group credit committee of the Momentum Group.

Compliance

The risk of not complying with relevant regulatory laws is always a serious consideration for a regulated financial institution, as non-compliance holds reputational consequences and may impact on the institution's ability to continue with its business.

Report of the chief financial officer continued

Momentum Group functions in a number of business units, and it is the responsibility of the business unit management to ensure that compliance takes place in that unit. Dedicated compliance officers are appointed to the various business units where they assist the management of the business unit to ensure that business practices, documentation and processes are compliant.

Due to the decentralisation of the compliance officers, their activities are coordinated centrally by a compliance coordinator, to not only enable compliance on a uniform methodology and standard, but to ensure that all business units are participating in the compliance activities. A compliance forum has also been established to enable compliance officers to meet and liaise on matters of mutual concern and interest.

The compliance coordinator reports to the company secretary who reports to the audit committee of the board on compliance matters. Serious cases of non-compliance are also reported via this route to the audit committee.

Concluding remarks

Momentum's capital restructuring programme has successfully addressed the potentially negative effect of the new FSB requirements regarding the valuation of subsidiary investments. The transfer of Discovery from Momentum to FirstRand has also alleviated the concentration risk that existed in the Momentum shareholders' portfolio, and the group is now well positioned to optimise the return on capital going forward.



FJC Truter
Chief financial officer
Momentum Group Limited

Sandton
15 September 2003


Directors' responsibility statement

The directors of Momentum Group 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 Momentum Group 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 the FirstRand Group's philosophy on corporate governance. The external auditors, PricewaterhouseCoopers Inc, have audited the financial statements and their unqualified report appears on page 216.


The directors have reviewed the Momentum Group's budget and cash flows for the year to 30 June 2004. On the basis of this review, and in the light of the current financial position, the directors have no reason to believe that the Momentum Group

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 2003, which appear on pages 217 to 258, have been approved by the board of directors and are signed on its behalf by:



LL Dippenaar
Chairman



HP Meyer
Managing director

Sandton
15 September 2003

Report of the independent auditors

To the directors of FirstRand Limited

We have audited the annual financial statements of Momentum Group Limited, and its subsidiary and associate companies ("Momentum Group") set out on pages 217 to 258 for the year ended 30 June 2003. These financial statements are the responsibility of the directors of Momentum Group 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.

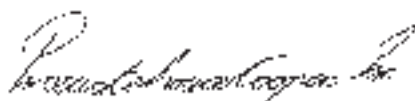
An audit includes:

- Examining, on a test basis, evidence supporting the amounts and disclosures included in the financial statements;
- assessing the accounting policies 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 Momentum Group at 30 June 2003, and the results of its operations and cash flows for the year then ended in accordance with Statements of Generally Accepted Accounting Practice in South Africa.



PricewaterhouseCoopers Inc
Chartered Accountants (SA)
Registered Accountants and Auditors

Sandton
15 September 2003

Statement of actuarial values of assets and liabilities of Momentum Group Limited

as at 30 June

R million	Notes	2003	2002
Total assets	2	90 167	90 670
Assets as per company balance sheet		87 850	88 221
Revaluation of strategic investments		2 317	2 449
Total liabilities	4	83 683	84 506
Actuarial value of policyholder liabilities		76 071	73 299
Current and other liabilities as per company balance sheet		7 612	11 207
Surplus	5	6 484	6 164
Capital adequacy requirement	6	3 072	2 543
Ratio of surplus to capital adequacy requirement		2,1	2,4

Certification of financial position

I hereby certify that:

- the valuation of Momentum Group Limited as at 30 June 2003, the results of which are summarised above, has been conducted in accordance with the Actuarial Society of South Africa's Professional Guidance Notes;
- the statutory actuary's report has been produced in accordance with the Actuarial Society of South Africa's Professional Guidance Note (PGN) 103 and, read together with the annual financial statements, fairly presents the financial position of the company; and
- the company was financially sound as at the valuation date, and in my opinion is likely to remain financially sound for the foreseeable future.



NAS Kruger
BCom FFA FASSA
Statutory actuary of Momentum Group Limited

Centurion
15 September 2003

Notes to the statement of actuarial values of assets and liabilities of Momentum Group

as at 30 June 2003

1. Introduction

This statement of actuarial values of assets and liabilities provides a description of the actuarial valuation methods and assumptions used for the financial soundness valuation of Momentum Group Limited (Momentum Group).

2. Value of assets

The value of assets represents the net assets per the company balance sheet of Momentum Group, adjusted for the directors' valuations of strategic subsidiaries and associate companies. The directors' valuations are disclosed in note 36 to the annual financial statements.

3. Valuation assumptions

This section describes the best-estimate valuation assumptions used for purposes of the financial soundness valuation of the policyholder liabilities. The first-tier margins set out in Professional Guidance Note (PGN) 104 of the Actuarial Society of South Africa, as well as certain second-tier margins described below, were added to the best-estimate assumptions for purposes of the liability valuation.

Investment return

The investment return assumption of 11.0% per annum (before tax) (2002: 13.5% per annum) was determined with reference to the market interest rates on South African government stocks as at 30 June 2003 taking into account the expected outstanding term of the in-force policy book. A notional long-term asset distribution was used to calculate a weighted expected investment return, by adding the following premiums/(discounts) to the market interest rate of 10.1% per annum as calculated above (2002: 12.3% per annum) on South African government stocks as at 30 June 2003:

	% premium/ (discount)	
	2003	2002
Equities	2.0	2.0
Properties	1.0	1.0
Government stocks	0.0	0.0
Other fixed interest stocks	0.5	0.5
Cash	(2.0)	(2.0)

Discretionary bonuses

Future additions of bonuses to with-profit policies have been projected at levels that are consistent with and supported by the assumed rate of investment return, after allowing for contractual expense charges and taxation. It was assumed that bonuses payable on individual life unbundled products over the next three years would be reduced in respect of the negative policyholders' bonus stabilisation reserves that existed at 30 June 2003, but not below the levels that were declared for the year ended 30 June 2003.

Expense inflation rate

The assumed future expense inflation assumption of 7.0% per annum (2002: 9.5% per annum) was determined based on an assumed long-term differential of 4.0% per annum relative to the assumed future investment return assumption of 11.0% per annum (2002: 13.5% per annum).

Expenses

The maintenance expense assumptions were based on the results of internal expense investigations. These expense investigations covered the financial year ended 30 June 2003. The expense assumptions are at a level sufficient to support the existing business on a going-concern basis.

Mortality, morbidity and discontinuance rates

The assumptions regarding future mortality, morbidity and discontinuance rates were based on the results of recent internal experience investigations covering the five-year period 1997 to 2002. Allowance was also made for the expected impact of AIDS using models developed by the Actuarial Society of South Africa.

Tax

Allowance was made for future tax based on the four-fund tax dispensation and for capital gains tax at full face value.

Second-tier margins

Momentum Group holds a number of second-tier margins, mainly to reduce the effect of certain volatile items on the earnings of the company. The main second-tier margins allowed for in the valuation are as follows:

- Investment stabilisation reserves are held as a buffer against the impact of market fluctuations on the assets backing non-profit liabilities;
- Shareholder bonus stabilisation reserves are held as a buffer against the impact of market fluctuations on the assets backing smoothed-bonus liabilities;
- For the closed Lifegro portfolio, appropriate reserves are held to ensure that the Lifegro profits are recognised in line with the terms of the Lifegro take-over agreement;
- The present value of the cost-of-capital charges levied on smoothed bonus portfolios was not capitalised as part of surplus, but was included as a second-tier margin in the actuarial liabilities, to ensure that these charges are recognised as and when they are levied;
- Experience stabilisation reserves are held to serve as a buffer against fluctuations in demographic experience; and
- Reserves are created on structured transactions to recognise profits appropriately over the term of the transactions.

4. Liability valuation methodology

The actuarial valuation of the policy liabilities was determined using the financial soundness valuation method in accordance with the guidelines of the Actuarial Society of South Africa. Assets and policy liabilities have been valued using methods and assumptions that are consistent with each other.

The result of the valuation methods and assumptions is that profits are released appropriately over the term of each policy, to avoid the premature recognition of profits that may give rise to losses in later years.

Guarantees and potential losses

Where relevant, liabilities include provisions to meet maturity, mortality and disability guarantees and for losses in respect of potential lapses and surrenders. A separate liability has been set aside to provide for minimum investment guarantees on maturity. The liability for minimum investment guarantees was calculated in accordance with the latest draft guidelines of the Actuarial Society of South Africa, using stochastic modelling techniques.

Individual smoothed bonus and market-related business

Liabilities for individual smoothed bonus and market-related business were calculated as the fund accounts allocated to the policies, adjusted by the difference between the present value of projected future risk premiums and other charges, and the present value of projected future risk benefits and expenses. Allowance was made for future growth in fund accounts at a level consistent with the assumed future market-related investment return, after allowing for contractual expense charges and taxation.

Policyholder bonus stabilisation reserves

Smoothed bonus liabilities were further adjusted by policyholder bonus stabilisation reserves. The policyholder bonus stabilisation reserves in the closed Lifegro portfolio and Southern's pre-1984 segregated portfolio were calculated as these policyholders' full future entitlement to the reserves in these respective portfolios. The policyholder bonus stabilisation reserves of the Momentum smoothed bonus portfolio and the remainder of the Southern smoothed bonus portfolios consist of accrued investment surpluses/(shortfalls) in these portfolios. In aggregate the policyholder bonus stabilisation reserves as at 30 June 2003 were negative (reflecting the poor performance of investment markets during the year to 30 June 2003). No bonus stabilisation reserve for any class of business was more negative than -7.5% of the corresponding liabilities at the valuation date.

Individual and group linked business

Liabilities for linked business were equated to the fair value of the underlying assets.

Immediate annuities and pensioner outsourcing business

Liabilities for immediate annuities and pensioner outsourcing business were calculated as the present value of expected future annuity payments and expenses, at market-related interest rates according to an appropriate yield curve as at 30 June 2003.

Group risk business

The liabilities for permanent health insurance (and other annuity type) claimants and funeral paid-up benefits were calculated using a prospective cash flow method. Other group risk liabilities

Notes to the statement of actuarial values of assets and liabilities of Momentum Group continued

as at 30 June 2003

were valued using appropriate percentages of the premiums payable for the relevant classes of business.

Guaranteed maturities

The liabilities of endowments with guaranteed maturities were determined by discounting the maturity values and future maintenance expenses using the yields to maturity implied by the fair value of the underlying assets adjusted to allow for planned margins and capital gains tax.

Conventional policies

The liabilities for conventional policies were calculated as the difference between the present value of projected future benefits and expenses, and the present value of projected future premiums. It is assumed that the current bonus rates would be maintained in future.

5. Reconciliation of surplus

The change in Momentum Group's surplus for the year ended 30 June 2003 can be analysed as follows:

R million	2003	2002
Surplus at beginning of the year	6 164	7 379
AC133 adjustment to opening balance	(14)	–
Surplus at beginning of the year after AC133 adjustment	6 150	7 379
Surplus at end of the year	6 484	6 164
Increase/(decrease) in surplus over the year	334	(1 215)

The implementation of AC133 during the year had the effect of reducing the surplus at the beginning of the year by R14 million. The impact of AC133 on surplus arising over the year is incorporated into the headline earnings figure, shown below.

The increase in surplus is due to the following factors:

R million	2003	2002
Attributable earnings as per company income statement	864	837
Capital appreciation on shareholders' assets (after tax)	(283)	(1 307)
Changes in valuation assumptions	(19)	13
Dividends paid	(228)	(758)
Total change in surplus	334	(1 215)

Overall, the changes in the valuation assumptions reduced the surplus by R19 million, and is made up of the following items:

- The reserve for minimum maturity guarantees was calculated based on the latest draft guidance notes of the Actuarial Society of South Africa, using stochastic techniques. The reserve for minimum maturity guarantees increased from R150 million at 30 June 2002 to R350 million at 30 June 2003. This increase reflects the impact of the latest valuation methodology, as well as the impact of the poor investment markets;
- The mortality assumptions of the annuity portfolio were revised, based on the results of an internal investigation. The change in the mortality assumptions increased the surplus by R89 million;
- The mortality assumptions on policies were revised, based on the results of an internal investigation. This reduced the surplus by R25 million;
- The termination assumptions of policies were revised following the results of an internal investigation, resulting in an increase of R74 million in the surplus;
- A change in the methodology used by Momentum Employee Benefits to calculate their risk reserves increased the surplus by R24 million;
- The combined impact of the change in the economic assumptions increased the surplus by R36 million; and

- The combined impact of other miscellaneous basis changes reduced the surplus by R17 million.

The combined impact of the aforementioned changes in the valuation basis is summarised below:

	R million
Minimum maturity guarantees	(200)
Mortality assumptions on annuities	89
Mortality assumptions on policies	(25)
Termination assumptions	74
MEB risk reserves	24
Change in economic assumptions	36
Miscellaneous items	(17)
Total change in valuation basis	(19)

6. Capital adequacy requirements

Capital adequacy requirements are necessary to provide a cushion against the impact of possible adverse deviations in actual future experience from that assumed in the financial soundness valuation. The capital adequacy requirements, which were determined in accordance with the guidelines of the Actuarial Society of South Africa, were calculated as R3 072 million (2002: R2 543 million). The surplus is sufficient to cover the capital adequacy requirements 2.1 times (2002: 2.4 times).

The main contributor to the capital adequacy requirement is the investment resilience component. In determining the investment resilience capital adequacy requirement, it was assumed that a decline of 30% in equity asset values, 15% in property asset values and a change in the market value of fixed-interest securities commensurate with the greater of a 3% increase or decrease in fixed-interest yields, would occur immediately, in accordance with PGN104.

In accordance with the proposed new draft guidance note from the Actuarial Society of South Africa, an allowance has also been made in the capital adequacy requirement for the potential detrimental impact of minimum investment guarantees offered on smoothed bonus and market-related individual life policies.

In determining the capital adequacy requirements, allowance was made for the anticipated management action that will reduce the financial impact of the assumed adverse circumstances. The most important management actions assumed were the following:

- Bonus rates on smoothed bonus policies would be reduced by up to 5% per annum below the investment return net of tax and charges on the relevant portfolios over the ensuing three years to counteract the effect of the market crash scenario depicted above (i.e. the market value of assets experience a sudden adverse shift and do not recover immediately thereafter); and
- 50% of previously declared non-vested bonuses would be removed immediately, following the occurrence of the adverse scenario assumed in the resilience capital adequacy requirement.

In addition to these action steps, the capital adequacy requirement calculation has allowed for the fact that some of the second-tier margins in the policyholder liabilities would be used as a buffer against the potential impact of the adverse scenarios envisaged in the capital adequacy requirement calculations.

The impact of the above management actions on CAR is shown below:

	R million
CAR before management action	4 196
Impact of management action:	(1 758)
Reduction in future bonuses and removal of non-vested bonuses	(657)
Offsetting second-tier margins	(1 101)
CAR after management action	2 438
CAR of subsidiaries:	634
CAR of Discovery Holdings (62%)	415
CAR of African Life (33%)	219
CAR as at 30 June 2003	3 072

Notes to the statement of actuarial values of assets and liabilities of Momentum Group continued

as at 30 June 2003

The off-setting second-tier margins in the table above are the experience stabilisation reserve, the shareholder bonus stabilisation reserve and the investment stabilisation reserve.

The off-setting management actions assumed above have been approved by the Momentum Group board. I am satisfied that these actions would be taken if the corresponding risks were to materialise.

The ordinary capital adequacy requirements (OCAR) exceeded the termination capital adequacy requirements (TCAR) and thus the capital adequacy requirements have been based on the OCAR.

For purposes of grossing up the intermediate ordinary capital adequacy requirements (IOCAR) to determine the OCAR, it has been assumed that assets backing the capital adequacy requirements are invested in a portfolio consisting of 80% equities and 20% fixed interest assets.

The reader's attention is drawn to the post-balance sheet date restructuring of shareholders' assets, which impacted on the surplus and CAR. More detail is given in the CFO report elsewhere in this annual report.

Accounting policies

The principal accounting policies below are consistently applied in all material respects.

1. Basis of presentation

The Insurance Group prepares its audited consolidated financial statements on a going concern basis using the historical cost basis, except for the following financial assets and liabilities, where it adopts the fair value basis of accounting:

- Financial assets and liabilities classified as held at fair value through the income statement
- Financial assets and liabilities classified as available for sale
- Derivative financial instruments

Financial assets and liabilities classified as originated loans are carried at amortised cost.

The consolidated 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 noted. Where necessary and permitted, the Insurance Group adjusts comparative figures to conform to changes in presentation in the current year.

The Insurance Group adopted AC133 – Financial Instruments: Recognition and Measurement with effect from 1 July 2002. This accounting standard is applied prospectively and does not require the restatement of comparative figures. The cumulative effect of AC133 on prior years is adjusted against the opening balance of retained earnings.

2. Consolidation

The consolidated financial statements include the assets, liabilities and results of the operations of the holding company and its subsidiaries. Subsidiaries are companies in which the Insurance Group, directly or indirectly, has a long-term interest and the power to exercise control over the operations. The Insurance Group considers the existence and effect of potential voting rights that are presently exercisable or convertible in determining control.

The Insurance Group consolidates a special purpose entity (SPE) when the substance of the relationship between the Insurance

Group and the SPE indicates that the Insurance Group controls the SPE.

The Insurance Group uses the purchase method of accounting to account for the acquisition of subsidiaries. Subsidiaries are consolidated from the date on which the Insurance Group acquires effective control. Consolidation is discontinued from the effective date of disposal. The Insurance Group recognises assets and liabilities acquired in its balance sheet at their estimated fair values at the date of acquisition. It eliminates all inter-company transactions, balances and unrealised surpluses and deficits on transactions between Insurance Group companies.

3. Associated companies

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

The Insurance Group includes the results of associated companies in its consolidated financial statements using the equity accounting method, from the effective dates of acquisition to the effective dates of disposal. The Insurance Group eliminates all transactions with its associated companies in determining its portion of the post-acquisition results of the associated companies.

Earnings attributable to ordinary shareholders include the Insurance Group's share of earnings of associated companies. The Insurance Group's reserves include its share of post-acquisition movements in reserves of the associated companies. The cumulative post-acquisition movements are adjusted against the cost of the investment in the associated companies.

The Insurance Group carries its interest in an associated company in its balance sheet at an amount that reflects its share of the net assets of the associated company.

The Insurance Group discontinues equity accounting when the carrying amount of the investment in an associated company reaches zero, unless it has incurred obligations or guaranteed obligations in favour of the associated undertaking. The

Accounting policies continued

Insurance Group increases the carrying amount of investments with its share of the associate's income when equity accounting is resumed.

4. Financial instruments

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

The Insurance Group classifies all investments held to meet policyholder liabilities, with the exception of policy loans, as held at fair value. These investments are initially recognised at cost, including transaction cost, and subsequently valued at fair value, with fair value movements reflected in the income statement. Policy loans are classified as originated loans and are carried at amortised cost. Investments in the shareholders' portfolio, with the exception of loans to the share trusts, are classified as available for sale assets with changes in fair value recognised directly in equity. The loans to the share trusts are classified as originated loans and are carried at amortised cost.

The Insurance Group holds investment properties to earn rental income and/or for capital appreciation. Investment properties comprise fixed properties and investments in property subsidiaries. It carries investment properties at fair value based on valuations by professional valuers. Fair value movements are recognised in the income statement in the year in which they arise.

Properties in the process of being developed are valued at development costs incurred, less adjustments to reduce the costs to open market value, where appropriate.

Listed equity investments and unit trust investments are carried at fair value using quoted market and repurchase prices respectively. Unlisted investments are carried at fair value using directors' valuations based on accepted valuation methodologies.

The Insurance Group classifies all policyholder contracts that transfer significant insurance risk as insurance contracts. These

contracts are valued in terms of the Financial Soundness Valuation (FSV) basis contained in PGN104 issued by the Actuarial Society of South Africa and are reflected as "Policyholder liabilities under insurance contracts" (previously the Life Fund).

Policyholder contracts that do not transfer significant insurance risk are classified as investment contracts and reflected in the financial statements at fair value, with changes in fair value being accounted for in the income statement. These contracts are disclosed on the balance sheet as "Policyholder liabilities under investment contracts". The premium income, benefit payments, investment income, commissions and taxation relating to the assets backing these investment contracts, have been excluded from the income statement and accounted for directly against the liability. Fees earned from these products are disclosed separately in the income statement.

5. Revenue and expense recognition

5.1 Premium income

The Insurance Group reflects premium income relating to insurance business net of reinsurance premiums. Premiums on investment contracts are excluded from the income statement with effect from 1 July 2002.

Individual life investment funds, lump sums, annuities and single premiums are accounted for when the collection of the premiums in terms of the policy contract is reasonably assured.

All other individual life premiums are accounted for when they become due and payable.

In the Employee Benefits division, risk premiums are accounted for when they become due and payable.

5.2 Investment income

Investment income comprises interest, dividends and net rental income. The Insurance Group accounts for dividends as at the last day of registration in respect of listed shares, and on the date of declaration in respect of unlisted shares. Dividend income includes shares received in terms of capitalisation issues, irrespective of whether there is an option to receive cash in lieu of shares.

Interest and other investment income are accounted for on an accrual basis.

5.3 Policy fees

The Insurance Group recognises policy fees on investment contracts on an accrual basis when the service is rendered.

5.4 Policyholder benefits

The Insurance Group shows policyholder benefit payments in respect of insurance contracts net of reinsurance recoveries and accounts for such transactions when claims are intimated.

5.5 Life insurance operating profits

The life insurance operating profits are determined in accordance with the guidance note on Financial Soundness Valuations issued by the Actuarial Society of South Africa, PGN104.

The operating surpluses arising from life and health insurance business are determined by the annual actuarial valuation. These surpluses are arrived at after taking into account the increase in actuarial liabilities under unmaturing policies, provisions for policyholder bonuses and adjustments to contingency and other reserves within the policyholder liabilities.

Gains or losses arising from the fair valuation of shareholders' assets designated as 'available for sale' are accounted for directly to equity.

5.6 Commission

Commission payments are net of reinsurance commission received. Life insurance business commissions are expensed as incurred.

5.7 Marketing and administration expenses

Marketing and administration expenses include head office and branch administration expenditure, marketing and development expenditure as well as all other non-commission related expenditure, and are expensed as incurred.

6. Foreign currency translation

6.1 General

The Insurance Group presents its consolidated financial statements in South African Rand, the measurement currency of

the parent company (the reporting currency). Insurance Group entities record items in their financial statements using the currency that best reflects the economic substance of the underlying events and circumstances relevant to that entity (measurement currency).

6.2 Independent entities

Assets and liabilities of foreign subsidiary companies regarded as independent entities, are translated to South African Rand at rates of exchange ruling at year-end. Resultant gains and losses are recorded directly in a non-distributable currency translation reserve.

6.3 Integral operations

Non-monetary assets and liabilities of foreign subsidiary companies, regarded as an integral part of the Insurance Group's operations, are translated into South African Rand at historical rates, with monetary assets and liabilities translated at rates of exchange ruling at year-end. Resultant gains and losses are recognised in the income statement.

6.4 Other

For both independent entities and integral operations, the Insurance Group translates capital and reserves at historical rates. Income statement items are translated at the weighted average rate for the year.

The Insurance Group 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 financial assets and liabilities measured at fair value are included in the income statement for the year, with translation differences on non-monetary items included as part of the fair value gain or loss in equity.

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

Accounting policies continued

7. Borrowing costs

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

Other borrowing costs are expensed as incurred.

8. Direct and indirect taxation

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

Indirect taxes include various other taxes paid to central and local governments, including value added tax and regional services levies. Indirect taxes are separately disclosed in the income statement.

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

Taxation in respect of the South African life insurance operations is determined using the four fund method applicable to life insurance companies.

9. Recognition of assets, liabilities and provisions

9.1 Assets

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

9.3 Liabilities and provisions

The Insurance Group recognises liabilities, including provisions when:

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

9.4 Contingent liabilities

The Insurance Group 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 Insurance Group, 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.

10. Derecognition of assets, liabilities and provisions

The Insurance Group derecognises a financial 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 financial liability is derecognised when it is legally extinguished.

11. Offsetting financial instruments

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

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

12. Cash and cash equivalents

In the cash flow statement, cash and cash equivalents comprise money at call and short notice.

13. Property and equipment

The Insurance Group 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	50 years
Freehold property	50 years
Computer equipment	3 years
Furniture and fittings	3 years
Motor vehicles	5 years
Office equipment	3 years

The Insurance Group 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 the income statement on disposal.

14. Accounting for leases – where a group company is the lessee

The Insurance Group 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 Insurance Group allocates each lease payment between the liability and finance charges to achieve a constant rate on the finance balance outstanding. The interest component of the finance charge is charged to the income statement over the lease period. The property and equipment acquired are depreciated over the useful life of the asset, on a basis consistent with similar fixed assets.

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

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

15.1 Finance leases

The Insurance Group recognises under debentures and other loans, 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.

15.2 Operating leases

The Insurance Group includes properties leased out under operating leases in investment properties in the balance sheet. It does not depreciate these investment properties. Rental income is recognised when due in terms of the lease contract.

16. Intangible assets

16.1 Goodwill

Goodwill represents the excess of the cost of an acquisition over the attributable fair value of the Insurance Group's share of the net assets of the acquired subsidiary at the date of acquisition. The Insurance Group capitalises goodwill and amortises it on a straight-line basis over the period of expected benefit, limited to 20 years. The carrying amount of goodwill is reviewed periodically and written down for permanent impairment where considered necessary.

Negative goodwill represents the excess of the fair value of the Insurance Group's share of the net assets acquired over the cost of acquisition. The Insurance Group presents negative goodwill in the same balance sheet classification as goodwill.

The Insurance Group recognises in the income statement negative goodwill that relates to expectations of future losses and

Accounting policies continued

expenses that are identified in its plan for the acquisition, and can be measured reliably, but which do not represent identifiable liabilities, when the future losses and expenses are recognised. It recognises any remaining negative goodwill, not exceeding the fair value of the non-monetary assets acquired, in the income statement over the remaining useful life of those assets. Negative goodwill in excess of the fair value of those assets is recognised in the income statement immediately.

16.2 Computer software development costs

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

The Insurance Group 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 a yearly basis. Carrying value is written down to the estimated recoverable amount when a permanent decrease in value occurs. Any impairment is recognised in the income statement when incurred.

16.3 Other intangible assets

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

17. Deferred taxation

The Insurance Group 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 Insurance Group recognises deferred tax assets if the directors of Momentum Group Limited consider it probable that future taxable income will be available against which the remaining tax losses can be used.

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.

18. Employee benefits

18.1 Post-employment benefits

The Insurance Group operates defined benefit and defined contribution schemes, the assets of which are held in separate trustee-administered funds. The pension plans are generally funded by payments from employees and the relevant Insurance Group companies, taking account of the recommendations of independent 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 Insurance Group employees. Actuaries perform annual valuations.

The Insurance Group expenses 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.

18.2 Post-retirement medical benefits

In terms of certain employment contracts, the Insurance Group provides for post-retirement healthcare benefits to qualifying employees and retired personnel by subsidising a portion of their medical aid contributions. AC116 requires that the assets and liabilities in respect thereof be reflected on the balance sheet. The Insurance Group 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. Actuaries perform annual valuations.

18.3 Termination benefits

The Insurance Group 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.

18.4 Leave pay provision

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

18.5 Pension fund surplus

The Insurance Group converted its primary pension plan from a defined benefit scheme to a defined contribution scheme in 1995. At that point, an actuarial surplus was converted into a realised surplus. It recognises all income and expenditure with regard to the pension fund surplus in the income statement.

The South African Government promulgated new pension fund legislation with effect from December 2001 which, inter alia, sets out laws for the fair division of pension fund surpluses. The regulations governing the implementation of this legislation have not yet been introduced and considerable uncertainty exists about the form these regulations will take. Consequently, the Insurance Group believes it prudent to impair the pension fund asset created on the balance sheet.

19. Related party transactions

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

20. Segment reporting

The Insurance Group defines a segment as a distinguishable component or business that provides either:

- Unique products or services ("business segment"), or
- Products or services within a particular economic environment ("geographical segment"),

subject to risks and rewards that are different from those of other segments.

Segments with a majority of revenue earned from charges to external customers and whose revenue, results or assets are 10% or more of the aggregate of all the segments, are reported separately.

21. Fiduciary activities

The Insurance Group 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.

22. Scrip lending

The Insurance Group enters into scrip lending transactions which are subject to repurchase agreements, and as such the loan agreement is recorded at the same value as the underlying asset and no sale of scrip is recorded.

The value at which the loan is recorded corresponds with the group's accounting policy relating to equities, as set out under financial instruments above.

The Insurance Group accounts for dividends received on scrip out on loan as well as fees received for scrip lending transactions as investment income in the income statement.

Income statement

for the year ended 30 June

R million	Notes	Group 2003	Group 2002
Group operating profit after tax		604	635
Net premium income	3	10 527	19 245
Investment income	4	3 399	5 838
Policy fees on investment contracts	4	178	–
Policyholder benefits	5	(7 312)	(17 393)
Marketing and administration expenses	6	(3 084)	(2 563)
Impairment of goodwill	15	(242)	(210)
Commissions		(1 043)	(938)
Direct taxation	8	(468)	(594)
Indirect taxation	8	(125)	(131)
Realised and unrealised investment surpluses attributable to insurance contracts		(764)	2 844
Earnings attributable to outside shareholders		(138)	(100)
Transfer to policyholder liabilities under insurance contracts	21	(324)	(5 363)
Investment income on the shareholders' portfolio		250	176
Interest, dividends and net rentals	4	288	195
Taxation on investment income	8	(38)	(19)
Earnings attributable to shareholders	7, 9	854	811

Balance sheet

as at 30 June

R million	Notes	Group 2003	Group 2002
Assets			
Funds on deposit		16 727	13 524
Government and public authority stocks		12 574	9 842
Debentures and other loans		10 759	7 541
Policy loans		581	580
Equity investments	10	33 924	39 623
Investments in associated companies	11	543	566
Derivative assets	25	7 504	8 917
Investment properties	12	2 753	2 904
Investment assets		85 365	83 497
Current assets	13	5 494	7 342
Deferred taxation	14	50	11
Intangible assets	15	356	750
Property and equipment	16	613	634
Total assets		91 878	92 234
Liabilities and shareholders' funds			
Liabilities			
Current liabilities	17	4 244	6 035
Provisions	18	116	94
Taxation		337	77
Derivative liabilities	25	3 554	5 690
Deferred taxation	14	223	273
Retirement benefit liabilities	19	289	313
Long-term liabilities	20	2 705	1 990
Policyholder liabilities		75 676	73 645
Policyholder liabilities under insurance contracts	21	38 964	73 645
Policyholder liabilities under investment contracts	22	36 712	–
Total liabilities		87 144	88 117
Outside shareholders' interest		606	531
Shareholders' funds			
Share capital and share premium	23	1 041	1 041
Reserves	24	3 087	2 545
Total shareholders' funds		4 128	3 586
Total liabilities and shareholders' funds		91 878	92 234

Cash flow statement

for the year ended 30 June

R million	Notes	Group 2003	Group 2002
Cash flows from operating activities			
Cash generated by operations	32	126	3 664
Working capital changes	33	(12)	208
		114	3 872
Dividends received		572	1 373
Net interest received		4 179	3 342
Taxation paid	34	(572)	(669)
Dividends paid	35	(228)	(758)
Net cash inflow from operating activities		4 065	7 160
Cash flows from investment activities			
Investment activities			
Government and public authority stocks		(1 301)	(1 539)
Debentures and other loans		(2 594)	714
Policy loans		(1)	(63)
Equity investments		3 096	4 385
Derivative instruments		(746)	(3 528)
Property investments		161	130
Investment in associated company		(2)	(31)
Proceeds on disposal of subsidiary		–	56
Net purchase of property and equipment		(143)	(229)
Net purchase of intangible assets		(23)	(29)
Net cash outflow from investment activities		(1 553)	(134)
Cash flows from financing activities			
Proceeds from increase in long-term liabilities		691	286
Net cash inflow from financing activities		691	286
Net increase in cash and cash equivalents		3 203	7 312
Cash and cash equivalents at beginning of the year		13 524	6 212
Cash and cash equivalents at end of the year		16 727	13 524

Statement of changes in equity

for the year ended 30 June

R million	Share capital (Note 23)	Share premium (Note 23)	Retained earnings (Note 24)	Non- distributable reserves (Note 24)	Total shareholders' funds
Balance at 1 July 2001					
As previously stated	9	1 032	2 420	96	3 557
Change in accounting policy – deferred acquisition costs	–	–	(111)	–	(111)
Restated balance at 1 July 2001	9	1 032	2 309	96	3 446
Currency translation differences	–	–	–	26	26
Revaluation of investment assets	–	–	–	61	61
Earnings attributable to shareholders	–	–	811	–	811
Dividends	–	–	(758)	–	(758)
Transfer to/(from) reserves	–	–	(2)	2	–
Balance at 30 June 2002	9	1 032	2 360	185	3 586
Balance at 1 July 2002	9	1 032	2 360	185	3 586
AC133 adjustments	–	–	(24)	–	(24)
Currency translation differences	–	–	–	25	25
Revaluation of investment assets	–	–	–	(73)	(73)
Movement in other reserves	–	–	–	(12)	(12)
Earnings attributable to shareholders	–	–	854	–	854
Dividends	–	–	(228)	–	(228)
Balance at 30 June 2003	9	1 032	2 962	125	4 128

Notes to the annual financial statements

for the year ended 30 June

R million	Group 2003	Group 2002
1. Accounting policies		
The accounting policies of the group are set out on pages 223 to 229.		
2. Turnover		
Turnover is a concept not relevant to the business of insurance. Fee income generated by investment business, the asset management operations, as well as non-insurance fee income, are included in investment income.		
3. Premium income		
Individual life	6 244	7 405
Single premiums	1 410	1 858
Recurring premiums	3 632	3 198
Unit-linked annuities	–	1 186
Annuities	1 202	1 163
Corporate business		
Investment funds	–	1 255
Total individual life premiums	6 244	8 660
Health business	3 025	3 132
Gross premium income	10 468	7 545
Less: reinsurance premiums & medical scheme contributions	(7 443)	(4 413)
Employee benefits	1 258	7 453
Single premiums and investment lump sums	330	2 927
Transfers from off-balance sheet funds	–	3 144
Recurring premiums	928	1 382
Total premium income	10 527	19 245
Funds retained through the extension of the policy term amounted to R538 million (2002: R457 million). These funds are not included in the individual life single premium income figures above.		
4. Investment income		
Investment income earned in respect of:		
Dividends – listed shares	445	665
Less: Dividends relating to investment contracts	(282)	–
Dividends – unlisted shares	127	708
Net rental income from properties	260	285
Less: Net rental income relating to investment contracts	(1)	–
Interest-bearing investments	4 179	3 342
Less: Interest relating to investment contracts	(1 999)	–
Fees, investment charges and other income	918	982
Policy fees on investment contracts	178	–
Income from associates	40	51
Total investment income	3 865	6 033
Disclosed as follows:		
Investment income attributable to policyholders	3 399	5 838
Policy fees on investment contracts	178	–
Investment income on the shareholders' portfolio	288	195

R million	Group 2003	Group 2002
5. Policyholder benefits		
Individual life business		
Benefits in respect of individual life policies	3 917	4 177
Death	601	562
Disability	124	99
Maturities	1 735	1 841
Surrenders	1 457	1 675
Benefits in respect of unit linked annuities	–	1 027
Lump sum annuities	1 121	1 384
Annuities paid	1 089	1 352
Commutations	32	32
Corporate business	–	670
Surrenders	–	38
Annuities paid	–	344
Maturities	–	288
Total benefits paid in respect of individual life business	5 038	7 258
Health business		
Gross claims	1 475	1 876
Less: Claims recoveries	(245)	(205)
	1 230	1 671
Withdrawal benefits	–	51
Total benefits paid in respect of health business	1 230	1 722
Employee benefits business		
Benefits in respect of employee benefit policies	1 044	2 946
Death	424	493
Disability	272	228
Maturities	37	195
Member withdrawals	–	198
Scheme terminations and investment withdrawals	150	1 680
Annuities	161	152
Investment funds	–	5 467
Withdrawals	–	1 341
Transfers to off-balance sheet funds	–	4 126
Total benefits paid in respect of employee benefits business	1 044	8 413
Total benefits paid	7 312	17 393

Notes to the annual financial statements *continued*

for the year ended 30 June

R million	Group 2003	Group 2002
6. Marketing and administration expenses		
Included in marketing and administration expenses are the following:		
<i>Auditors' remuneration</i>		
Audit fees – current year	11	8
– underprovision prior year	2	1
Fees for other services	2	2
	15	11
<i>Professional fees</i>		
Actuarial	6	4
Technical and other	103	72
	109	76
<i>Depreciation</i>		
<i>Leased assets</i>		
Land and buildings	7	7
Computer equipment	4	–
<i>Own assets</i>		
Land and buildings	4	2
Computer equipment	102	94
Office equipment	13	14
Furniture and fittings	27	41
Motor vehicles	1	1
	158	159
<i>Operating lease charges</i>		
Land and buildings	83	65
Computer and office equipment	58	44
Motor vehicles	1	1
	142	110
<i>Total of minimum lease payments under non-cancellable operating leases</i>		
Payable within:		
One year	110	
Between one and five years	252	
Later than five years	315	
	677	
<i>Staff costs</i>		
Salaries, wages and allowances	1 039	868
Contribution to pension and other staff funds	102	77
Social security levies	6	2
Other	27	26
	1 174	973

R million	Group 2003	Group 2002
7. Earnings attributable to shareholders		
Attributable earnings basis		
Earnings attributable to ordinary shareholders amounted to R854 million (2002: R811 million).		
Headline earnings basis		
The calculation of headline earnings is based on earnings attributable to ordinary shareholders adjusted for items of a non-trading nature.		
Headline earnings reconciliation		
Attributable earnings	854	811
Add: Goodwill amortised	77	53
Add: Goodwill impaired	242	210
(Less)/add: (Profit)/loss on sale of assets	(5)	4
Less: Abnormal profit on release of reserves	(52)	(28)
Less: Profit on disposal of subsidiary shares	–	(26)
Headline earnings	1 116	1 024
Headline earnings		
Insurance operations	561	489
Individual business	432	382
Employee benefits	129	107
Asset management operations	125	228
Health insurance operations	169	117
Group operating profit after tax	855	834
Investment income on the shareholders' portfolio	261	190
Headline earnings	1 116	1 024

Notes to the annual financial statements continued

for the year ended 30 June

R million	Group 2003	Group 2002
8. Taxation		
Direct taxation attributable to life, health insurance and asset management operations	468	594
Indirect taxation attributable to life, health insurance and asset management operations	125	131
Direct taxation attributable to investment income on the shareholders' portfolio	38	19
	631	744
Charge for the year		
SA normal taxation	504	268
Current taxation	494	172
Current year	643	308
Current taxation relating to investment contracts	(25)	–
Adjustment for prior years	(124)	(136)
Deferred taxation	10	96
Current year	(20)	103
Adjustment for prior years	30	(7)
SA capital gains taxation	(40)	248
Current taxation	65	1
Capital gains taxation relating to investment contracts	(12)	–
Deferred taxation	(93)	247
Retirement fund taxation	109	98
Retirement fund taxation relating to investment contracts	(67)	–
Stamp duty	19	22
Value added tax	100	92
Value added tax relating to investment contracts	(13)	–
Other taxes and levies	19	16
	631	744
Current taxation relating to policyholders and shareholders is determined by applying the four fund method of taxation applicable to life insurers.		
Other taxes and levies consist of skills development levies, Greater Metropolitan Transitional Council and Financial Services Board levies.		

R million	Momentum Individual and Employee Benefits	Discovery Holdings	FirstRand Asset Management	Total
9. Segmental analysis				
Primary segments (business)				
2003				
Premiums received	7 115	3 412	–	10 527
Benefits paid	(5 980)	(1 332)	–	(7 312)
Investment income	3 025	68	594	3 687
Policy fees on investment contracts	178	–	–	178
Realised and unrealised profits and losses	(673)	(14)	(77)	(764)
Marketing and administration expenses	(1 097)	(1 665)	(322)	(3 084)
Impairment of goodwill	–	–	(242)	(242)
Commission	(529)	(437)	(77)	(1 043)
Income/(loss) before taxation	2 039	32	(124)	1 947
Taxation	(401)	(182)	(48)	(631)
Net income/(loss) after taxation before transfer to policyholder liabilities under insurance contracts	1 638	(150)	(172)	1 316
Transfer (to)/from policyholder liabilities under insurance contracts	(830)	506	–	(324)
Net income/(loss) after taxation	808	356	(172)	992
Outside shareholders' interest	(1)	(131)	(6)	(138)
Earnings attributable to ordinary shareholders	807	225	(178)	854
Goodwill amortised	15	–	62	77
Goodwill impaired	–	–	242	242
Profit on sale of assets	–	(4)	(1)	(5)
Abnormal profit on release of reserves	–	(52)	–	(52)
Headline earnings	822	169	125	1 116
Liabilities	84 554	1 531	1 665	87 750
Assets	87 416	2 724	1 738	91 878
2002				
Premiums received	15 956	3 289	–	19 245
Benefits paid	(15 623)	(1 770)	–	(17 393)
Investment income	5 217	79	737	6 033
Realised and unrealised profits and losses	2 847	54	(57)	2 844
Marketing and administration expenses	(908)	(1 313)	(342)	(2 563)
Impairment of goodwill	–	–	(210)	(210)
Commission	(597)	(276)	(65)	(938)
Income before taxation	6 892	63	63	7 018
Taxation	(538)	(142)	(64)	(744)
Net income/(loss) after taxation before transfer to policyholder liabilities	6 354	(79)	(1)	6 274
Transfer (to)/from policyholder liabilities	(5 671)	308	–	(5 363)
Net income/(loss) after taxation	683	229	(1)	911
Outside shareholders' interest	(2)	(84)	(14)	(100)
Earnings attributable to ordinary shareholders	681	145	(15)	811
Goodwill amortised	(4)	–	57	53
Goodwill impaired	–	–	210	210
Loss on sale of assets	4	–	–	4
Profit on sale of subsidiary shares	(2)	–	(24)	(26)
Abnormal profit on release of reserves	–	(28)	–	(28)
Headline earnings	679	117	228	1 024
Liabilities	86 138	1 208	1 302	88 648
Assets	88 524	2 059	1 651	92 234

Notes to the annual financial statements continued

for the year ended 30 June

R million	South Africa	USA	Europe	Total
9. Segmental analysis (continued)				
Secondary segments (geographical)				
2003				
Premiums received	10 315	212	–	10 527
Benefits paid	(7 163)	(149)	–	(7 312)
Investment income	3 368	–	319	3 687
Policy fees on investment contracts	178	–	–	178
Realised and unrealised profits and losses	(669)	(17)	(78)	(764)
Marketing and administration expenses	(2 697)	(202)	(185)	(3 084)
Impairment of goodwill	–	–	(242)	(242)
Commission	(936)	(30)	(77)	(1 043)
Income/(loss) before taxation	2 396	(186)	(263)	1 947
Taxation	(618)	–	(13)	(631)
Net income/(loss) after taxation before transfer to policyholder liabilities under insurance contracts	1 778	(186)	(276)	1 316
Transfer (to)/from policyholder liabilities under insurance contracts	(324)	–	–	(324)
Net income/(loss) after taxation	1 454	(186)	(276)	992
Outside shareholders' interest	(202)	71	(7)	(138)
Earnings attributable to ordinary shareholders	1 252	(115)	(283)	854
Goodwill amortised	15	–	62	77
Goodwill impaired	–	–	242	242
Profit on sale of assets	(4)	–	(1)	(5)
Abnormal profit on release of reserves	(52)	–	–	(52)
Headline earnings	1 211	(115)	20	1 116
Liabilities	86 529	418	803	87 750
Assets	91 063	184	631	91 878
2002				
Premiums received	19 169	76	–	19 245
Benefits paid	(17 329)	(64)	–	(17 393)
Investment income	5 713	2	318	6 033
Realised and unrealised profits and losses	2 902	–	(58)	2 844
Marketing and administration expenses	(2 280)	(114)	(169)	(2 563)
Impairment of goodwill	–	–	(210)	(210)
Commission	(865)	(8)	(65)	(938)
Income/(loss) before taxation	7 310	(108)	(184)	7 018
Taxation	(744)	–	–	(744)
Net income/(loss) after taxation before transfer to policyholder liabilities	6 566	(108)	(184)	6 274
Transfer (to)/from policyholder liabilities	(5 363)	–	–	(5 363)
Net income/(loss) after taxation	1 203	(108)	(184)	911
Outside shareholders' interest	(126)	40	(14)	(100)
Earnings attributable to ordinary shareholders	1 077	(68)	(198)	811
Goodwill amortised	(5)	–	58	53
Goodwill impaired	–	–	210	210
Loss on sale of assets	4	–	–	4
Profit on sale of subsidiary shares	(26)	–	–	(26)
Abnormal profit on release of reserves	(28)	–	–	(28)
Headline earnings	1 022	(68)	70	1 024
Liabilities	87 469	120	1 059	88 648
Assets	90 943	128	1 163	92 234

R million	Group 2003	Group 2002
10. Equity investments		
Listed – at market value	30 654	35 800
Unlisted – at directors' valuation	3 270	3 823
	33 924	39 623
The ten largest equity holdings of Momentum Group comprise the following (in alphabetical order):		
Absa Group, Anglo American plc, FirstRand, Imperial Holdings, MTN Group, Remgro, RMB Holdings, Sanlam, South African Breweries, Standard Bank		
Investments in listed shares were distributed as follows:	%	%
Mining	11	16
Gold	2	2
Financial – Mining houses	–	1
Financial – Other	22	18
Industrial	16	16
Overseas instruments	23	24
Unit trusts	20	19
Other	6	4
	100	100
11. Investments in associated companies		
African Life Assurance Company Limited	531	551
Healthbridge (Pty) Limited	7	4
Futuregrowth Asset Management (Pty) Limited	5	11
	543	566

African Life Assurance Company Limited (African Life) is a listed long-term insurance company. Momentum Group Limited holds directly 33% (2002: 33%) of the issued share capital of African Life in its shareholders' portfolio. The market value of this investment as at 30 June 2003 was R521 million (2002: R557 million). The earnings attributable to ordinary shareholders for the year ended 31 March 2003 were R57 million (2002: R231 million), which includes capital appreciation on shareholder assets. Momentum Group Limited's portion of the earnings, excluding capital appreciation, is equity accounted.

Healthbridge (Pty) Limited is a provider of electronic commerce communication infrastructure and was established to enhance communication and billing between medical schemes and healthcare providers. Discovery Holdings Limited holds 30% (2002: 30%) of the issued share capital of Healthbridge (Pty) Limited. The earnings attributable to ordinary shareholders for the year ended 30 June 2003 amounted to R nil (2002: loss of R17 million). Healthbridge (Pty) Limited has a financial year-end of 30 September, and is equity accounted by Discovery Holdings. The directors' valuation of Discovery's 30% shareholding of Healthbridge (Pty) Limited is R7 million (2002: R4 million).

Futuregrowth Asset Management (Pty) Limited provides investment and asset management services to local and international clients. FirstRand Asset Management (Pty) Limited (FRAM) holds 40% (2002: 40%) of the issued share capital of Futuregrowth Asset Management (Pty) Limited. The earnings attributable to ordinary shareholders for the year ended 30 June 2003 amounted to R13 million (2002: R15 million). FRAM equity accounts its investment in FutureGrowth Asset Management (Pty) Limited. The directors' valuation of FRAM's 40% shareholding of Futuregrowth Asset Management (Pty) Limited is R33 million (2002: R46 million).

Notes to the annual financial statements continued

for the year ended 30 June

R million	African Life	Healthbridge	Futuregrowth Asset Management
11. Investments in associated companies (continued)			
The assets and liabilities of Momentum Group's investments in associated companies are summarised below:			
2003			
Assets			
Investments	11 908	–	13
Current assets	920	10	30
Intangible assets	53	–	–
Property and equipment	115	2	1
	12 996	12	44
Liabilities			
Current liabilities	389	7	29
Deferred taxation	160	–	–
Long-term liabilities	–	69	–
Life insurance fund	10 496	–	–
Outside shareholders' interest	360	–	–
	11 405	76	29
2002			
Assets			
Investments	10 409	–	34
Current assets	747	7	4
Intangible assets	62	–	–
Property and equipment	118	5	2
	11 336	12	40
Liabilities			
Current liabilities	388	6	10
Deferred taxation	194	–	–
Long-term liabilities	–	62	–
Life insurance fund	8 753	–	–
Outside shareholders' interest	351	–	–
	9 686	68	10

R million	Group 2003	Group 2002
12. Investment properties		
Completed investment properties		
Market value at the beginning of the year	2 904	3 039
Additions		
Acquisitions	108	159
Capitalised subsequent expenditure	–	14
Disposals	(206)	(306)
Net loss from fair value adjustments	(53)	(2)
Market value at the end of the year	2 753	2 904
Investment properties comprise the following:		
Office buildings	1 737	1 784
Shopping malls	687	839
Industrial buildings	225	208
Vacant land	39	32
Listed property equities	64	41
Other	1	–
	2 753	2 904
<p>Investment properties are acquired for letting to external tenants with the intention to generate future rental income. Properties are independently valued on the basis of determining the open market value of each property on a six-monthly basis. The latest revaluation was done as at 30 June 2003.</p> <p>The carrying amount of unlet or vacant investment properties as at 30 June 2003 was R39 million (2002: R32 million).</p> <p>Momentum Group has a contractual obligation for the refurbishment of properties amounting to R41 million.</p> <p>Schedules of freehold property and equity investments are open for inspection at the offices of the various group companies in terms of the provisions of the Companies Act, 1973.</p>		
13. Current assets		
Accrued investment income	3 608	3 858
Unsettled trades	470	1 829
Premium debtors	262	154
Properties held for resale	118	300
Trade debtors	113	35
Prepayments	137	219
RMB-SI Investments (Pty) Limited	–	207
FirstRand Bank	–	141
Deferred expenditure	2	145
Discovery Health Medical Scheme	52	34
Other debtors	732	420
	5 494	7 342

Notes to the annual financial statements continued

for the year ended 30 June

R million	Group 2003	Group 2002			
14. Deferred taxation					
Balance at the beginning of the year	(262)	6			
Opening AC133 adjustment	7	–			
Charged directly to investment liability	(1)	–			
Charge for the year	83	(268)			
Relating to current year	146	(275)			
Relating to prior years	(63)	7			
Balance at the end of the year	(173)	(262)			
Deferred taxation asset	50	11			
Deferred taxation liability	(223)	(273)			
	(173)	(262)			
Deferred taxation comprises:					
	Opening balance	Opening AC133 adjustment	Debit to investment liability	Credit/(debit) to the income statement	Closing balance
Capital gains tax on unrealised investment surpluses	(246)	–	(1)	49	(198)
Reinsurance excess of loss premiums	(25)	7	–	18	–
Property and equipment	(13)	–	–	(1)	(14)
Provisions	8	–	–	37	45
Taxation losses	2	–	–	(2)	–
Other	12	–	–	(18)	(6)
	(262)	7	(1)	83	(173)
R million	Group 2003	Group 2002			
15. Intangible assets					
Goodwill	320	718			
Software development and prepaid contracts	36	32			
	356	750			
Goodwill					
Gross amount	959	1 035			
Less: Accumulated amortisation	(639)	(317)			
Carrying amount at the end of the year	320	718			
Gross amount at the beginning of the year	1 035	522			
Exchange differences	(144)	296			
Acquisitions	69	254			
Goodwill realised with sale of shares	–	(37)			
Goodwill realised due to dilution of shareholding	(1)	–			
Gross amount at the end of the year	959	1 035			
Accumulated amortisation at the beginning of the year	317	53			
Amortisation charge	80	54			
Impairment of goodwill	242	210			
Accumulated amortisation at the end of the year	639	317			

R million				Group 2003		Group 2002	
15. Intangible assets (continued)							
Software development and prepaid contracts							
Cost				85		63	
Less: Accumulated amortisation				(49)		(31)	
Carrying amount at the end of the year				36		32	
Cost at the beginning of the year				63		32	
Capitalised expenditure				23		31	
Foreign currency adjustment				(1)		–	
Cost at the end of the year				85		63	
Accumulated amortisation at the beginning of the year				31		19	
Amortisation for the year				19		12	
Foreign currency adjustment				(1)		–	
Accumulated amortisation at the end of the year				49		31	
		2003		2002			
		Accumulated	Net book		Accumulated	Net book	
R million		Cost	depreciation	Cost	depreciation	value	value
16. Property and equipment							
Leased assets							
Land and buildings		321	(22)	299	320	(15)	305
Computer equipment		14	(4)	10	–	–	–
Total leased assets		335	(26)	309	320	(15)	305
Own assets							
Land and buildings		12	(6)	6	8	(2)	6
Computer equipment		624	(458)	166	539	(368)	171
Office equipment		67	(51)	16	72	(45)	27
Furniture and fittings		242	(128)	114	241	(117)	124
Motor vehicles		7	(5)	2	6	(5)	1
Total own assets		952	(648)	304	866	(537)	329
Total property and equipment		1 287	(674)	613	1 186	(552)	634
		Total	Land and buildings	Computer equipment	Office equipment	Furniture and fittings	Motor vehicles
Movement in property and equipment – Cost							
Cost at the beginning of the year		1 186	328	539	72	241	6
Foreign currency adjustments		(14)	(1)	(8)	(2)	(3)	–
Additions		165	6	125	3	29	2
Disposals		(50)	–	(18)	(6)	(25)	(1)
Cost at the end of the year		1 287	333	638	67	242	7

Notes to the annual financial statements continued

for the year ended 30 June

R million	Total	Land and buildings	Computer equipment	Office equipment	Furniture and fittings	Motor vehicles
16. Property and equipment (continued)						
Movement in property and equipment						
– Accumulated depreciation						
Balance at the beginning of the year	552	17	368	45	117	5
Foreign currency adjustments	(9)	–	(6)	(2)	(1)	–
Depreciation charge for the year	158	11	106	13	27	1
Disposals	(27)	–	(6)	(5)	(15)	(1)
Balance at the end of the year	674	28	462	51	128	5

R million	Group 2003	Group 2002
17. Current liabilities		
Unsettled trades	2 032	3 626
Accrued benefit payments	810	934
Creditors	1 402	1 475
	4 244	6 035

	Balance at beginning of year	Additional provision	Utilisation of provision	Unutilised amounts reversed	Effect of change in discount rate	Balance at end of year
18. Provisions 2003						
Provision for leave pay	23	8	(1)	–	–	30
Provision for bonuses	18	37	(24)	–	7	38
Provision for auditors' remuneration	5	8	(8)	–	–	5
Provision for credit exposure	15	–	–	(15)	–	–
Other	33	19	(2)	(1)	(6)	43
	94	72	(35)	(16)	1	116

	Balance at beginning of year	Additional provision	Utilisation of provision	Unutilised amounts reversed	Balance at end of year
2002					
Provision for leave pay	14	9	–	–	23
Provision for contract leases	6	–	(6)	–	–
Provision for bonuses	21	4	(7)	–	18
Provision for auditors' remuneration	3	6	(4)	–	5
Provision for credit exposure	15	–	–	–	15
Other	32	20	(13)	(6)	33
	91	39	(30)	(6)	94

R million	Group 2003	Group 2002
19. Retirement benefit liabilities		
Post-retirement medical aid liability	289	313
<i>Post-retirement medical aid liability</i>		
In certain instances, the group provides for medical aid contributions beyond the date of normal retirement. The present value of expected future medical aid contributions relating to existing pensioners has been determined and the liability provided. The present value of expected future medical aid contributions relating to current employees is charged against expenditure over the service period of such employees.		
The post-retirement medical aid liability is valued once a year. The latest valuation was done as at 30 June 2003. The actuaries have stated that the plan is in a sound financial position.		
Present value of unfunded liability at the beginning of the year	313	297
Other movements	(37)	–
Current service cost	2	2
Net actuarial loss recognised in the year	5	–
Interest cost	27	26
Benefits paid	(21)	(12)
Present value of unfunded liability at the end of the year	289	313
The principal actuarial assumptions are:		
Discount rate	10.25%	11.75%
Long-term increase in health costs	8.25%	10.00%
Number of employees who selected early retirement	None	None

Staff pension funds

All full-time employees in the Momentum Group are members of either defined benefit pension funds or defined contribution schemes that are governed by the Pension Funds Act. Both the Momentum Life Pension Fund and Southern Staff Pension Fund are final salary defined benefit plans and are valued by independent actuaries every three years. The latest actuarial valuations of the Momentum Life Pension Fund and Southern Staff Pension Fund were as at 1 July 2002 and 1 April 2002 respectively and both funds were found to be in a sound financial position. The recommended employer contribution rate to the Momentum Life Pension Fund is 10% of pensionable salaries in order to meet the ongoing accrual of benefits. From 1 April 2000, all full-time employees who were members of the Southern Staff Pension Fund joined the FirstRand Insurance Group Pension Fund, a defined contribution scheme.

Contributions to the pension funds are charged against expenditure when incurred. Any deficits advised by the actuaries are funded either immediately or through increased contributions to ensure the ongoing soundness of the funds.

The assets of these schemes are held in administered trust funds separated from the group's assets. For the Southern Staff Pension Fund assets consist primarily of inflation-linked securities, listed shares and fixed income securities. For the Momentum Life Pension Fund, the scheme assets consist primarily of inflation-linked securities.

Notes to the annual financial statements continued

for the year ended 30 June

R million	Group 2003	Group 2002
19. Retirement benefit liabilities (continued)		
Defined benefit pension fund liability		
Present value of funded liability	(723)	(595)
Fair value of plan assets	736	680
	13	85
Unrecognised actuarial gains	55	5
Present value of net funded liability	68	90
Surplus not recognised ⁽¹⁾	(68)	(90)
Defined benefit pension fund liability recognised in the balance sheet	–	–
The amounts recognised in the income statement are as follows:		
Current service cost	–	–
Interest cost	(72)	(76)
Expected return on plan assets	81	92
Net actuarial (loss)/profit recognised in the year	(31)	101
Contributions paid	–	–
Movement for the year	(22)	117
Surplus not recognised	22	(117)
Total included in staff costs	–	–
Movement in liability		
Present value at the beginning of the year	90	(27)
Movement for the year as above	(22)	117
Present value at the end of the year	68	90
The principal actuarial assumptions are:		
Discount rate	10.00%	11.75%
Expected return on plan assets	10.25%	10.75%
Future salary increases	6.25%	7.00%
Net interest rate used to value pensions, allowing for pension increases	4.00%	4.00%
Number of employees who selected early retirement	None	None
<i>(1) No asset in respect of the surplus was recognised on the balance sheet of Momentum Group, as the registrar of pension funds still needs to approve the apportionment of the surplus in terms of the Pension Fund Second Amendment Act, 39 of 2001.</i>		
20. Long-term liabilities		
Capitalised lease commitments	319	304
Debt component of compulsorily convertible debentures	223	250
Loan to fund subsidiary shares acquired	510	761
Property finance loans	621	627
FirstRand Bank Limited	699	–
Other long-term loans	333	48
	2 705	1 990

The debentures are convertible into 3% non-redeemable, non-cumulative preference shares of the company at the option of the debenture holders at any time after 30 June 2008. Any debentures not converted by 30 June 2021 will be compulsorily converted on that date. The debentures bear interest, payable six-monthly in arrears, at an effective rate of 18.3% per annum.

R million	Group 2003	Group 2002
20. Long-term liabilities (continued)		
The capitalised lease commitments are secured by assets with a net book value of R309 million (2002: R305 million) as disclosed in note 16 to these financial statements. The lease commitments are repayable in monthly instalments at an effective interest rate of 13.2% per annum.		
Total of minimum lease payments (R million)		
Payable within:		
One year	47	
Between one and five years	222	
Later than five years	312	
	581	
Present value of minimum lease payments (R million)		
Payable within:		
One year	43	
Between one and five years	151	
Later than five years	125	
	319	
The total short-term portion of long-term liabilities amounted to R43 million (2002: R179 million).		
21. Policyholder liabilities under insurance contracts		
The movements in the policyholder liabilities under insurance contracts for the year were as follows:		
Balance at the beginning of the year	73 645	68 282
Reclassification to policyholder liabilities under investment contracts	(34 765)	–
AC133 adjustments against opening balance	(240)	–
Transfer from income statement	324	5 363
Balance at the end of the year	38 964	73 645
Actuarial liabilities under unmaturing policies comprise the following:		
	%	%
Linked (market related) business		
Individual life	31.8	44.6
Employee benefits	–	15.0
Smoothed bonus business		
Individual life	21.9	13.3
Employee benefits	–	4.5
With-profits reversionary bonus business	4.8	3.1
Non-profit business		
Individual life	9.5	4.5
Employee benefits	4.2	3.4
Annuity business	27.6	11.0
Health operations	0.2	0.6
	100.0	100.0
The above percentages are based on the actuarial valuations of Momentum Group Limited and Discovery Life Limited at 30 June 2003.		

Notes to the annual financial statements continued

for the year ended 30 June

R million	Group 2003	Group 2002
22. Policyholder liabilities under investment contracts		
Reclassification from policyholder liabilities under insurance contracts as at 1 July 2002	34 765	–
AC133 adjustments against opening balance	(485)	–
Movement for the year relating to investment contracts	2 432	–
Net premium income	8 123	–
Investment income	2 282	–
Policyholder benefits	(6 744)	–
Commission	(175)	–
Direct taxation	(104)	–
Indirect taxation	(13)	–
Policy fees	(178)	–
Fair value adjustment of liabilities under investment contracts	(759)	–
	36 712	–
23. Share capital and share premium		
The company's authorised and issued share capital and share premium are made up as follows:		
Share capital		
Authorised		
225 000 000 ordinary shares of 5 cents each	11	11
1 special class A share of 5 cents	–	–
Issued		
189 695 508 ordinary shares of 5 cents each	9	9
1 special class A share of 5 cents	–	–
The unissued shares are under the control of the directors until the conclusion of the next annual general meeting.		
Share premium	1 032	1 032
Share capital and share premium	1 041	1 041
24. Reserves		
Retained earnings		
Retained earnings at the beginning of the year	2 360	2 309
AC133 adjustments to opening balance	(24)	–
Earnings attributable to ordinary shareholders	854	811
Dividend for the year	(228)	(758)
Transfer to non-distributable reserves	–	(2)
Retained earnings at the end of the year	2 962	2 360
Non-distributable reserves		
Revaluation of investment assets	18	91
Currency translation reserve	67	42
Reserve on capitalisation of Discovery Holdings	51	51
Other	(11)	1
Total non-distributable reserves	125	185
Total reserves	3 087	2 545
Movement for the year in non-distributable reserves		
Balance at the beginning of the year	185	96
Transfer from retained earnings	–	2
Revaluation of investment assets	(73)	61
Currency translation reserve	25	26
Other	(12)	–
Balance at the end of the year	125	185

25. Financial instruments

Fair values

The carrying amounts of all assets backing policyholder liabilities reflect the fair values of the assets concerned. Similarly, the actuarial valuation of policyholder liabilities represents the fair value of the contractual liability under unmaturing policies.

Assets making up the shareholders' free reserves have been reflected at fair values in determining the surplus attributable to shareholders.

Derivative instruments

The group makes use of derivative instruments in order to achieve the following:

- exposure to a desired asset spread where liquidity constraints limit the purchase of sufficient physical assets;
- in order to provide a hedge against a known liability.

Under no circumstances are derivative contracts entered into purely for speculative purposes.

The group's asset managers have been mandated to enter into derivative contracts on an agency basis, with agreed internal controls being instituted to ensure adherence to exposure limits. These controls include the regular monitoring of sensitivity analyses designed to measure the behaviour and exposure to derivative instruments under conditions of market stress.

R million	Group 2003	Group 2002
Derivative assets		
Interest-bearing instruments		
Over the counter	1 995	2 328
Term to maturity less than 1 year	304	1 261
Term to maturity between 1 and 5 years	489	566
Term to maturity longer than 5 years	1 202	501
Equity instruments		
Over the counter	5 509	6 589
Term to maturity less than 1 year	1 392	1 826
Term to maturity between 1 and 5 years	4 095	4 614
Term to maturity longer than 5 years	22	149
	7 504	8 917
Derivative liabilities		
Interest-bearing instruments		
Over the counter	2 464	2 298
Term to maturity less than 1 year	1 681	1 704
Term to maturity between 1 and 5 years	223	281
Term to maturity longer than 5 years	560	313
Equity instruments		
Over the counter	1 090	3 392
Term to maturity less than 1 year	321	1 259
Term to maturity between 1 and 5 years	769	2 079
Term to maturity longer than 5 years	–	54
	3 554	5 690

Notes to the annual financial statements continued

for the year ended 30 June

R million	Future contracts	Options	Swaps	Credit derivatives	Total
25. Financial instruments (continued)					
30 June 2003					
Absolute value					
The notional amounts of derivative instruments outstanding at 30 June 2003 are set out below:					
Currency	–	50	–	–	50
Equity	79	7 203	–	2	7 284
Bonds	–	47	3 811	170	4 028
	79	7 300	3 811	172	11 362
Derivative instruments					
Fair value					
The fair value of derivative instruments outstanding at 30 June 2003 is set out below:					
Assets					
Currency	–	49	–	–	49
Equity	229	5 279	–	1	5 509
Bonds	–	46	1 730	170	1 946
	229	5 374	1 730	171	7 504
Liabilities					
Equity	52	1 038	–	–	1 090
Bonds	–	–	2 464	–	2 464
	52	1 038	2 464	–	3 554
30 June 2002					
Absolute value					
The notional amounts of derivative instruments outstanding at 30 June 2002 are set out below:					
Currency	–	84	–	–	84
Equity	127	7 488	–	2	7 617
Bonds	–	241	3 428	1 093	4 762
	127	7 813	3 428	1 095	12 463
Derivative instruments					
Fair value					
The fair value of derivative instruments outstanding at 30 June 2002 is set out below:					
Assets					
Currency	–	83	–	–	83
Equity	170	6 418	–	1	6 589
Bonds	–	114	1 038	1 093	2 245
	170	6 615	1 038	1 094	8 917
Liabilities					
Equity	287	3 105	–	–	3 392
Bonds	–	47	2 251	–	2 298
	287	3 152	2 251	–	5 690

25. Financial instruments (continued)

Risk management and capital adequacy

The risk and assurance management function is responsible to ensure that material financial risks related to transactions in financial instruments are mitigated by adequate controls and compliance with group policies. The currency risk, interest rate risk, market risk, credit risk, liquidity risk and underwriting risk to which the Momentum Group is exposed, are discussed in the chief financial officer's report set out on pages 200 to 214.

Currency risk

The following assets and liabilities, denominated in foreign currencies, where the currency risk resides with Momentum Group, are included in the group balance sheet:

R million	£	US\$	Euro	Total
<i>Shareholders' assets and liabilities as at 30 June 2003</i>				
<i>Assets</i>				
Funds on deposit	46	153	–	199
Government and public authority stocks	–	23	–	23
Debentures and other loans	48	8	–	56
Equity investments	24	112	49	185
Investment assets	118	296	49	463
Current assets	55	71	–	126
Intangible assets	–	291	–	291
Property and equipment	7	10	–	17
<i>Total assets</i>	180	668	49	897
<i>Liabilities</i>				
Current liabilities	84	155	–	239
Taxation	6	1	–	7
Long-term liabilities	37	1 024	–	1 061
<i>Total liabilities</i>	127	1 180	–	1 307
<i>Shareholders' assets and liabilities as at 30 June 2002</i>				
<i>Assets</i>				
Funds on deposit	141	109	–	250
Government and public authority stocks	–	35	–	35
Debentures and other loans	65	1	–	66
Equity investments	26	155	–	181
Investment assets	232	300	–	532
Current assets	59	79	–	138
Intangible assets	–	671	–	671
Property and equipment	10	12	–	22
<i>Total assets</i>	301	1 062	–	1 363
<i>Liabilities</i>				
Current liabilities	80	134	–	214
Taxation	6	–	–	6
Long-term liabilities	47	865	–	912
<i>Total liabilities</i>	133	999	–	1 132

Notes to the annual financial statements continued

for the year ended 30 June

R million	Total	Shorter than 1 year	Maturity date		Longer than 10 years
			Between 1 and 5 years	Between 5 and 10 years	
25. Financial instruments (continued)					
Interest rate risk					
The following assets will be affected by changes in market interest rates:					
2003					
Policyholder assets:					
Funds on deposit	13 682	13 206	234	213	29
Government and public authority stocks	12 477	408	2 433	4 033	5 603
Debentures and other loans ⁽¹⁾	9 827	1 815	5 672	1 781	559
	35 986	15 429	8 339	6 027	6 191
<i>(1) Included in debentures and other loans is the following lease debtor (R million):</i>					
Lease payments receivable	1 326				
Less: Unearned finance charges	(197)				
Net lease debtor	1 129				
Total of minimum lease payments (R million)					
Receivable within:					
One year	689				
Between one and five years	637				
	1 326				
Present value of minimum lease payments (R million)					
Receivable within:					
One year	641				
Between one and five years	488				
	1 129				
Shareholder assets:					
Funds on deposit	3 045	3 045	–	–	–
Government and public authority stocks	97	24	24	28	21
Debentures and other loans	932	135	273	77	447
	4 074	3 204	297	105	468
Total effect on earnings attributable to ordinary shareholders if interest rates change by 1 percentage point: R19 million.					
2002					
Policyholder assets:					
Funds on deposit	12 320	11 832	247	214	27
Government and public authority stocks	9 800	1 399	1 577	2 809	4 015
Debentures and other loans ⁽²⁾	6 797	2 442	2 794	1 203	358
	28 917	15 673	4 618	4 226	4 400

R million			Maturity date		
	Total	Shorter than 1 year	Between 1 and 5 years	Between 5 and 10 years	Longer than 10 years

25. Financial instruments (continued) 2002

(2) Included in debentures and other loans is the following lease debtor (R million):

Lease payments receivable	455
Less: Unearned finance charges	(64)
Net lease debtor	391

Total of minimum lease payments (R million)

Receivable within:	
One year	182
Between one and five years	273
	455

Present value of minimum lease payments (R million)

Receivable within:	
One year	176
Between one and five years	215
	391

Shareholder assets:

Funds on deposit	1 204	1 204	–	–	–
Government and public authority stocks	42	17	6	15	4
Debentures and other loans	744	–	106	172	466
	1 990	1 221	112	187	470

26. Scrip lending arrangements

The group has mandated its asset managers to enter into scrip lending arrangements on its behalf. The market value of scrip out on loan is monitored on a daily basis. No significant exposure to credit risk, liquidity risk or cash flow risk has resulted from the scrip lending activities of the group.

Because any scrip out on loan is subject to a repurchase agreement, the loan agreement is recorded at the same value as the underlying scrip and no sale of scrip is recorded.

The value at which the loan is recorded corresponds with the group's accounting policy relating to the specific class of asset.

Fees earned from scrip lending and dividends received on scrip out on loan are accounted for under investment income.

The following table represents details of the equities on loan at 30 June:

R million	Group 2003	Group 2002
Market value	884	1 881
Value of collateral	1 289	1 803
• cash	398	610
• bonds and money market	688	592
• equities	203	601
Collateral cover %	146	96

The market value of equities on loan as at 30 June 2002 included an amount of R201 million in respect of a scrip lending arrangement between Discovery Life Limited and FirstRand Bank Limited, with no corresponding collateral. The collateral cover, excluding this transaction, was 107%.

Notes to the annual financial statements continued

for the year ended 30 June

R million	Group 2003	Group 2002
27. Change in accounting policy		
Discovery's accounting policy for health insurance and group life acquisition costs was changed during the year from deferring acquisition costs to expensing these costs as incurred. This treatment is in line with industry practice.		
The effect of the change in accounting policy has been:		
<ul style="list-style-type: none"> • A reduction of the retained income as at 30 June 2001 of R111 million • A reduction of net profit after tax as set out below: 		
Net profit before tax	4	31
Tax	(1)	(10)
Net profit after tax	3	21
Outside shareholders' interest	(1)	(8)
Earnings attributable to ordinary shareholders	2	13

28. Related parties

Holding company

The holding company of Momentum Group Limited is FirstRand Limited, which in turn has two major shareholders being Remgro Limited and RMB Holdings Limited. The most significant related parties of Momentum Group Limited are FirstRand Bank Holdings Limited, Discovery Holdings Limited, FirstRand Asset Management (Pty) Limited, Momentum International MultiManagers (Pty) Limited, Momentum Wealth (Pty) Limited, Momentum Property Investments (Pty) Limited, Momentum Unit Trusts Management Company (Pty) Limited and Momentum Ability (Pty) Limited. Subsidiaries and associated companies of these companies are also related parties, as well as African Life, an associated company of Momentum Group Limited.

Property leases

Certain group companies have entered into property lease agreements with Momentum Group's property management subsidiary, RMB Properties (Pty) Limited. These leases are based on market related terms and conditions.

Assets under management

FirstRand Asset Management (Pty) Limited, a subsidiary of Momentum Group Limited, has been mandated to manage assets on behalf of certain related parties of the group. The total assets under management on behalf of related parties amounted to R56 713 million at 30 June 2003 (2002: R57 284 million).

Distribution of products

Momentum Distribution Services (MDS), a division of Momentum Group Limited, distributed the products of Discovery Holdings Limited and Momentum Wealth (Pty) Limited in addition to those of Momentum Group Limited. The distribution agreement between MDS and Discovery has been terminated during the current financial year. Fees received from these related parties for the distribution of products for the year ended 30 June 2003 amounted to R60 million (2002: R52 million).

29. Contingencies and commitments

No material capital commitments existed at 30 June 2003 other than disclosed in the notes above and no material claims had been instituted against the Momentum Group Limited or any of its subsidiaries.

Commitments under derivative instruments

Option contracts, financial futures contracts and interest rate swap agreements have been entered into in the normal course of business in order to achieve the required hedging of policyholder liabilities. In terms of the group's accounting policies, these instruments are stated at fair value or, where not listed at valuation. Both realised and unrealised profits and losses are included in the income statement and subsequently transferred to or from policyholder liabilities under insurance contracts.

30. Post-balance sheet events

Effective 1 July 2003, Momentum Group Limited's 62% investment in Discovery Holdings Limited was moved to FirstRand Limited. Momentum received an amount of R1 326 million from FirstRand. This payment was funded by the issue of preference share capital by FirstRand's 100% owned subsidiary FirstRand Investment Holdings Limited. Refer to the chief financial officer's report for more information on this transaction.

R million	Group 2003	Group 2002
31. Comparative figures		
Comparative figures have been restated where permitted to afford a more meaningful comparison with the current year's figures. Discovery Holdings Limited changed its accounting policy as explained in note 27, resulting in a restatement of comparatives. In addition to this, Momentum Group Limited reclassified derivative assets in the prior year to be in line with the classification methodology used in the current year.		
32. Cash generated by operations		
Income after taxation	992	911
Outside shareholders' interest	(138)	(100)
Earnings attributable to ordinary shareholders	854	811
Adjustments for non-cash items and taxation:		
Non cash changes in long-term investment values	560	698
Dividends received	(572)	(1 373)
Net interest received	(4 179)	(3 342)
Transfer to policyholder liabilities under insurance contracts and other non-cash items	2 832	6 126
Taxation	631	744
Cash generated by operations	126	3 664
33. Working capital changes		
Net decrease/(increase) in current assets	1 848	(2 425)
Net (decrease)/increase in current liabilities	(1 860)	2 633
Net working capital changes	(12)	208
34. Taxation paid		
Balance at the beginning of the year	(77)	(344)
Taxation charged for the year in the income statement	(714)	(402)
Taxation charged for the year to the investment liability	(118)	–
Balance at the end of the year	337	77
Taxation paid	(572)	(669)
35. Dividends paid		
Final dividend declared on:		
• 3 September 2002 in respect of the year ended 30 June 2002	(203)	–
• 17 October 2001 in respect of the year ended 30 June 2001	–	(430)
Interim dividend declared on:		
• 19 February 2003 in respect of the period ended 31 December 2002	(25)	–
• 20 February 2002 in respect of the period ended 31 December 2001	–	(328)
Dividends paid	(228)	(758)

Notes to the annual financial statements continued

for the year ended 30 June

	Effective % holding		Investment by holding company Amounts owing by/(to) subsidiaries		Group carrying amount		Directors' valuation	
	2003 %	2002 %	2003 Rm	2002 Rm	2003 Rm	2002 Rm	2003 Rm	2002 Rm
36. Analysis of investments in subsidiaries and associates								
<i>Subsidiaries (directly held):</i>								
Listed								
Discovery Holdings Limited	62	63	1	4	740	538	1 839	1 777
Unlisted								
Southern Life Special Investments (Pty) Limited	100	100	(278)	(61)	782	779	782	779
Momentum Property Investments (Pty) Limited	100	100	1 011	991	265	351	265	351
Momentum Life Assurers Limited	100	100	(36)	(36)	36	36	36	36
Momentum Wealth (Pty) Limited	100	100	89	71	35	26	35	26
Momentum International Multimangers (Pty) Limited	73	73	6	–	4	2	36	40
FirstRand Asset Management (Pty) Limited	100	100	338	354	(249)	26	1 337	1 603
			1 131	1 323	1 613	1 758	4 330	4 612
<i>Associates:</i>								
African Life Assurance Company Limited	33	33	–	–	531	551	521	557
			–	–	531	551	521	557

Embedded value of Momentum Group

This section of the annual report sets out the embedded value and the value of new insurance business of Momentum Group Limited (Momentum Group).

Definition of embedded value

An embedded value is an estimate of the economic value of the company, excluding any goodwill that may be attributed to the value of future new business.

The embedded value is defined as:

- the shareholders' net assets (as disclosed in the actuarial balance sheet on page 217 of this annual report);
- plus the value of in-force insurance business less the opportunity cost of holding capital adequacy requirements in respect of the in-force insurance business.

The value of the in-force insurance business is calculated as the present value of the projected stream of future after-tax profits of the insurance business in force at the calculation date. The opportunity cost of holding capital adequacy requirements reflects the fact that the expected long-term investment return on the assets backing the capital adequacy requirements is less than the return required by the shareholders, as reflected by the risk discount rate.

Embedded value results

Embedded value

R million	2003	2002
Shareholders' net assets ⁽¹⁾	6 484	6 164
Value of in-force insurance business	3 518	3 368
• Value of in-force insurance business ⁽²⁾	3 846	3 611
• Opportunity cost of capital adequacy requirements	(328)	(243)
Embedded value	10 002	9 532

(1) The directors' valuations of Discovery Health (62%), Momentum International MultiManagers (73%), FirstRand Asset Management (100%) and African Life (33%) form part of the shareholder's net assets as reflected above. More details regarding the directors' valuations of the subsidiaries and associate companies are disclosed in note 36 to the annual financial statements.

(2) The value of in-force business include R690 million in respect of Employee Benefit business and R3 156 million in respect of Individual Life business.

Value of new business

The value of new business is a measure of the value added to the company as a result of writing new business. The value of new business is calculated as the present value (at point of sale) of the projected stream of future after-tax profits of the new insurance business sold during the financial year, after allowing for initial expenses. The value of new business is also appropriately reduced by the opportunity cost of holding the necessary capital adequacy requirements for new business.

Value of new business

R million	2003	2002
Value of new business:	290	218
• Individual life	242	169
• Employee benefits	48	49
Opportunity cost of capital adequacy requirements	(17)	(12)
Value of new business	273	206
Notional premiums ⁽¹⁾	1 657	1 327
Margin %	16.5	15.6

(1) Notional premiums are defined as annualised recurring premiums plus 10% of single premiums.

Value of new business as a percentage of notional premiums

R million	Value of new business	Notional premiums	Margin %
Value of new business: ⁽¹⁾			
• Individual life	228	1 455	15.7
• Employee benefits	45	202	22.3
Value of new business	273	1 657	16.5

(1) The value of new business shown is net of the opportunity cost of capital adequacy requirements.

Embedded value of Momentum Group *continued*

Reconciliation of new business inflows

The following table shows a reconciliation between the new business inflows used in the calculation of the value of new business and that shown in the chief financial officer's report.

New business inflows for the year ended 30 June 2003

R million	Annualised recurring premiums	Lump sum inflows
New business inflows in the notes to the financial statements	3 940	22 035
Less:		
• Discovery Health recurring premiums	2 726	–
• Discovery Life recurring premiums	313	–
• Discovery employee benefits recurring premiums	42	–
• Individual life premium income not valued (ad hoc premiums)	–	107
• Employee benefit premium income not valued (investment only business and premiums received by Momentum International MultiManagers)	–	2 443
• Linked product sales not valued (Ansbacher and ad hoc inflows)	–	1 482
• Unit trust sales not valued	–	5 750
• Segregated third party inflows not valued	–	4 730
• Saambou Life reinsurance	–	87
Plus:		
• Term extensions on maturing policies included in embedded value calculation	–	539
New business inflows in the embedded value report	859	7 975

Embedded value profits

Embedded value profits represent the change in embedded value over the year, adjusted for any capital raised and dividends paid. The embedded value profits for the twelve months ended 30 June 2003 are set out below.

Embedded value profits

	R million
Embedded value as at 30 June 2003	10 002
Embedded value as at 30 June 2002	9 532
Impact of AC133 on opening embedded value	14
Increase in embedded value	484
Plus: dividends paid	228
Embedded value profits	712

Components of the embedded value profits for the year ended 30 June 2003

	R million	Return on embedded value %
Factors related to operations	945	9.9
• Value of new business	273	2.9
• Expected return on new business	17	0.2
• Expected return on existing business	555	5.8
• Experience assumption changes	(116)	(1.2)
• Operating experience variations	216	2.3
Factors related to market conditions:	(233)	(2.4)
• Investment return on shareholders' net assets	12	0.1
• Economic assumption changes	283	3.0
• Investment variations	(528)	(5.5)
Embedded value profits	712	7.5

The value of new business comprises the economic value of the new business written during the year, determined at the point of sale.

The expected return on new business is determined by applying the current year's risk discount rate to the value of new business for half a year and subtracting the unwind of the expected cost of the capital adequacy requirements in respect of new business over the year.

The expected return on existing business is determined by applying the previous year's risk discount rate to the value of in-force business at the beginning of the year and subtracting the unwind of the expected cost of the capital adequacy requirements over the year.

The operating experience variations represent the positive impact of differences between the actual experience and the assumptions used in the embedded value calculations. The operating variance of R216 million includes the following positive variations:

- R131 million from Individual Life business, which includes R43 million from favourable mortality experience, R25 million in respect of favourable experience on premium indexation and R43 million in respect of financial structures;
- R29 million from risk experience on Momentum Employee Benefits;
- R42 million from the management of the working capital portfolio; and
- R14 million in respect of miscellaneous items.

The impact of the experience assumption changes of negative R116 million consisted mainly of the following:

- In respect of individual life and annuity business, a positive impact of R81 million. This amount included positive R82 million from a relaxation of mortality assumptions on annuity business, positive R19 million from changes in termination assumptions and negative R21 million from other items;
- In respect of employee benefits, a positive impact of R150 million. These changes were in respect of future profit margins on risk business and termination assumptions on fund business;
- The effect of termination and expense assumption changes in respect of investment only business amounted to a negative R60 million;
- The effect of experience assumption changes on the cost of capital adequacy requirements amounted to a negative R51 million;
- The increase in the maturity guarantee reserve amounted to a negative R241 million; and
- An amount of positive R5 million in respect of miscellaneous basis changes.

Investment return on surplus represents the investment income and capital appreciation on the shareholders' assets.

Investment variations represent the impact of the lower investment returns on the policyholder portfolios compared with the returns assumed in the embedded value calculation.

The change in the economic assumptions reflects the effect on the embedded value of the decrease in market interest rates over the year under review. It also includes the effect of a reduction in the differential between the risk discount rate and the assumed long-term investment return (before tax) from 2.0% to 1.6%. The increase in the embedded value as a result of the reduction in this differential was R151 million, and the corresponding increase in the value of new business was R11 million.

Sensitivity to the risk discount rate

The risk discount rate appropriate to an investor depends on the investor's own requirements, tax position and perception of the risks associated with the realisation of the future insurance profits of Momentum Group. The sensitivity of the embedded value and the value of new business to changes in the risk discount rate, is illustrated below:

Embedded value

R million	2003		
	Risk discount rate		
	11.6%	12.6%	13.6%
Shareholders' net assets	6 484	6 484	6 484
Value of in-force insurance business:	3 932	3 518	3 154
• Value of in-force insurance business	4 050	3 846	3 664
• Opportunity cost of capital adequacy requirements	(118)	(328)	(510)
Embedded value	10 416	10 002	9 638

Embedded value of Momentum Group continued

Value of new business

R million	2003		
	Risk discount rate		
	11.6%	12.6%	13.6%
Value of new business ⁽¹⁾	309	290	273
Opportunity cost of capital adequacy requirements	(6)	(17)	(27)
Value of new business	303	273	246

(1) The value of new business reflected above excludes the value of Momentum Group's attributable portion of the new business written by Discovery Health and Discovery Life.

Assumptions

The embedded value calculations comply with the Actuarial Society of South Africa's Professional Guidance Note (PGN) 107. The same best-estimate assumptions were used for the purpose of the embedded value calculations and the financial soundness valuation of Momentum Group. The main assumptions used in the embedded value calculations are described below:

Economic assumptions

The economic assumptions used were as follows:

	2003	2002
Risk discount rate	12.6	15.5
Investment returns (before tax)	11.0	13.5
Expense inflation rate	7.0	9.5

The investment return assumption of 11.0% per annum (2002: 13.5% per annum) was determined with reference to the market interest rates on South African government stocks at 30 June 2003 taking into account the expected outstanding term of the in-force policy book. A notional long-term asset distribution was used to calculate a weighted expected investment return, by assuming the following premiums/(discounts) to the market interest rate of 10.1% per annum (2002: 12.3% per annum) on South African government stocks as at 30 June 2003:

	% premium/(discount)	
	2003	2002
Equities	2.0	2.0
Properties	1.0	1.0
Government stocks	0.0	0.0
Other fixed interest stocks	0.5	0.5
Cash	(2.0)	(2.0)

The differential between the risk discount rate and the long-term investment returns (before tax) was reduced from 2.0% to 1.6% at 30 June 2003. The reduced differential is appropriate to the current risk profile of Momentum Group.

The assumed future expense inflation assumption of 7.0% (2002: 9.5%) per annum was determined based on an assumed long-term differential of 4.0% relative to the assumed future investment return assumption of 11.0% (2002: 13.5%) per annum.

For purpose of the calculation of the opportunity cost of holding capital adequacy requirements, it was assumed that the capital adequacy requirements in future years will be backed by surplus assets consisting of 80% equities and 20% fixed interest securities.

Mortality, morbidity and discontinuance rates

The assumptions regarding future mortality, morbidity and discontinuance rates were based on the results of recent experience investigations. Allowance was also made for the expected impact of AIDS using models developed by the Actuarial Society of South Africa.

Expenses

The maintenance expense assumptions were based on the results of a recently conducted internal expense investigation for the year ended 30 June 2003. The expense assumptions are at a level sufficient to support the existing business on a going-concern basis.

Premium indexation arrangements

The embedded value of in-force business includes the expected value of future premium increases resulting from premium indexation arrangements on in-force business, by using an expected take-up rate based on the results of recent experience investigations. The value of new business includes the expected value of future premium increases resulting from premium indexation arrangements on the new business written during the financial year ended 30 June 2003.

Directors' valuations

The same directors' valuations were used for the subsidiaries and associate companies for the purpose of the embedded value and the financial soundness valuation of Momentum Group. The directors' valuations are disclosed in note 36 of the annual report.

The directors' valuation of FirstRand Asset Management as at 30 June 2003 excludes the value of any profits derived by managing assets on the balance sheet of Momentum Group. The value of asset management profits in respect of assets on the balance sheet of Momentum Group was included in the value of in-force insurance business and the value of new business.

The directors' valuation of Discovery Health was equated to Momentum Group's 62% share of the market value of Discovery Health as at 30 June 2003.

The directors' valuation of African Life was equated to Momentum Group's 33% share of the market value of African Life as at 30 June 2003.

Reserving bases

It was assumed that the current bases of calculating the policyholder liabilities would continue unchanged in future.

Surrender and paid-up bases

It was assumed that the current surrender and paid-up bases would be maintained in future.

Tax

Allowance was made for future tax based on the four-fund tax dispensation. Allowance was made for the effect of capital gains

tax at face value in the policyholders' portfolios. No allowance was made for capital gains tax on shareholders' assets, since it is argued that the strategic investments would not be sold in the foreseeable future. It was also assumed that capital gains tax would not affect the opportunity cost of the capital adequacy requirements. Allowance was made for STC on future dividends ultimately payable to shareholders at a rate of 3% per annum of expected future profits. The STC assumption is based on the expected future cash dividend according to the dividend policy of Momentum Group taking into account expected future STC credits.

Sensitivities

This section illustrates the effect of different assumptions, other than in respect of the risk discount rate, on the value of in-force insurance business and the value of new business. For each sensitivity illustrated, all other assumptions have been left unchanged.

Value of in-force insurance business

R million	Value of in-force business	Increase	% increase
Base value	3 518		
Renewal expenses reduce by 10%	3 754	236	6
Expense inflation reduces from 7% to 6%	3 595	77	2
Policy discontinuance rates reduce by 10%	3 619	101	3
Mortality experience improves by 5%	3 738	220	6
Premium indexation take-up rate increases by 10%	3 678	160	5

These sensitivities reflect the combined effect on the value of in-force insurance business and the changes in the shareholders' net assets.

Embedded value of Momentum Group *continued*

Value of new business

R million	Value of new business	Change	% change
Base value	273		
Renewal expenses reduce by 10%	299	26	10
Expense inflation reduces from 7% to 6%	281	8	3
Policy discontinuance rates reduce by 10%	297	24	9
Mortality experience improves by 5%	302	29	11
Premium indexation take-up rate increases by 10%	284	11	4
New business expenses reduce by 10%	304	31	11

The above tables show the impact of improvements in the experience assumptions. The effect of equivalent deteriorations in the experience assumptions would be to reduce the values by an amount approximately equal to the increases shown above. No allowance was made for compensating management actions, except for employee benefits risk benefits where the improvement in mortality experience is assumed to result in a corresponding reduction in premiums after one year.

The above sensitivities are shown net of the cost of capital, which moves broadly in line with the value of in-force business to the changes in key assumptions shown.

Effect of restructuring of shareholders' assets

The restructuring of Momentum Group's shareholders' assets by the transfer of Discovery Holdings to FirstRand Limited has the following effect on the embedded value:

Embedded value after restructuring

R million	30 June 2003 after restructuring	30 June 2003 before restructuring
Shareholders' net assets	5 385	6 484
Value of in-force insurance business	3 399	3 518
• Value of in-force insurance business	3 846	3 846
• Opportunity cost of capital adequacy requirements	(447)	(328)
Embedded value	8 784	10 002

The reduction in shareholders' net assets is explained in the statement of actuarial values of assets and liabilities of Momentum Group on page 217 of this annual report.

The increase in the opportunity cost of capital adequacy requirements is a result of the increased holdings of cash and fixed interest investments in the shareholders' portfolio following the transfer of Discovery Holdings to FirstRand Limited.

Review by the independent actuaries

B&W Deloitte Actuaries and Consultants have reviewed the methodology and assumptions underlying the calculation of the embedded value and the value of new insurance business. They are satisfied that, based on the information supplied to them by Momentum Group, the methodology and assumptions are appropriate for the purpose of including the embedded value in this report, that these have been determined in accordance with generally accepted actuarial principles, that the approach has been applied consistently across the different business units and that the methodology and assumptions have been applied consistently over the year.

Glossary of terms

Embedded value

Embedded value equals the net asset value of the company, plus the present value of the projected stream of future after-tax profits on in-force insurance contracts, less the cost of capital at risk.

Capital Adequacy Requirement (CAR)

This is the minimum amount of capital an insurer is required to hold, as determined by the Registrar of Insurance.

CAR cover

The CAR cover refers to the multiple by which an insurer's free assets exceeds its capital adequacy requirement (CAR), expressed as a ratio of free assets to CAR.

Financial Soundness Valuation

Methodology intended to provide a prudently realistic picture of the overall financial position of the long-term insurer, allowing explicitly for actual premiums that will be received and future experience that may be expected in respect of interest rates, expenses, mortality, morbidity and other relevant factors.

First-tier margins

Prescribed margins to introduce a minimum degree of prudence in the actuarial valuation basis, to allow for possible adverse deviations in the rendering of services and the exposure to risks during the expected future “lifetime” of insurance contracts on the books of the insurer.

Second-tier margins

Discretionary margins included in cases where the statutory actuary believes that the prescribed (first-tier) margins are insufficient to allow for future contingencies and the risk of adverse experience.

Four-fund tax dispensation

Long-term insurers are taxed in terms of the four funds trustee principle as set out in the Income Tax Act. The four funds are the untaxed policyholder fund, the individual policyholder fund, the company policyholder fund and the corporate fund.

Administration

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(Registration No 1904/002186/06)

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Auditors

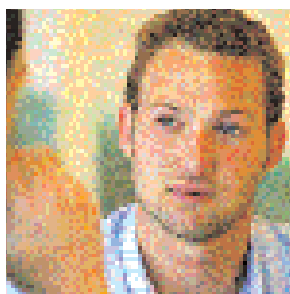
PricewaterhouseCoopers Inc
2 Eglin Road
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FIRSTRAND

Shareholders' information

The annual general meeting of shareholders will take place at 09:30 on 2 December 2003 in the auditorium, 18th Floor, 1 Merchant Place, Corner Fredman Drive and Rivonia Road, Sandton.





FIRSTRAND

Shareholders' information

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Analysis of shareholders

30 June 2003

	Shares held (000's)	%	
Shareholders holding more than 5%			
RMB Holdings Limited	1 787 630	32.74	
Financial Securities Limited (Remgro)	520 717	9.54	
Public Investment Commissioners	427 586	7.83	
Subtotal	2 735 933	50.11	
Other	2 724 388	49.89	
Total	5 460 321	100.00	
Shareholder type			
Corporates	2 490 998	45.62	
Pension funds	1 095 886	20.07	
Insurance companies	620 292	11.36	
Unit trusts	435 188	7.97	
Other managed funds	273 016	5.00	
Individuals	544 941	9.98	
Total	5 460 321	100.00	
	Number of shareholders	Shares held (000's)	%
Public and non-public shareholders			
Public	27 098	2 863 633	52.45
Non-public			
– Corporates (Remgro and RMBH)	2	2 308 347	42.27
– Directors and associates	13	9 882	0.18
– Share trusts	3	253 920	4.65
– Pension fund	1	24 539	0.45
Total	27 117	5 460 321	100.00
		Shares held (000's)	%
Geographic ownership			
South Africa		4 967 800	90.98
International		492 521	9.02
Total		5 460 321	100.00

Performance on the JSE Securities Exchange South Africa

30 June

	2003	2002
Number of shares in issue (000's)	5 460 321	5 445 303
Market prices (cents per share):		
Closing	764	765
High	815	905
Low	597	615
Weighted average	710	772
Closing price/net asset value per share	1.87	2.19
Closing price/earnings (headline)	8.50	9.24
Volume of shares traded (millions)	1 986	2 018
Value of shares traded (R million)	14 086.21	15 579.82
Market capitalisation (R billion)	41.71	41.66

Shareholders' diary

Reporting

Interim for 2004

- Announcement of results

Final for 2004

- Announcement of results for 2004
- Annual report posted by
- Annual general meeting

Dividends

Interim for 2004

- Declared
- Payable

Final for 2004

- Declared
- Payable

31 December 2003
End February 2004
30 June 2004
Mid September 2004
End October 2004
End November 2004

End February 2004
End March 2004

Mid September 2004
End October 2004

Administration

FirstRand Limited

(Registration No 1966/010753/06)

Share code: FSR

ISIN code: ZAE0000 14973 ("FSR")

Company secretary

AH Arnott BCom, CA(SA)

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Statutory valuator of Momentum Group Limited

NAS Kruger, BCom, FFA, FASSA

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Notice of annual general meeting

FirstRand Limited

(Incorporated in the Republic of South Africa)

(Registration number 1966/010753/06)

(Share code: FSR)

ISIN: ZAE000014973

("FirstRand")

Notice is hereby given that the sixth annual general meeting of FirstRand Limited will be held in the auditorium, 18th Floor, 1 Merchant Place, Corner Fredman Drive and Rivonia Road, Sandton on Tuesday, 2 December 2003 at 09:30.

Agenda

Ordinary business

1. To receive and adopt the annual financial statements for the year ended 30 June 2003 including the reports of the directors and the auditors thereon.

2. To elect a director in place of Vivian Wade Bartlett who retires in terms of the articles of association of the company and being eligible and available has offered himself for re-election

Vivian Wade Bartlett (60)

Deputy CEO FirstRand Bank Limited

Educational qualifications

- AMP (Harvard), FIBSA

Directorships

- FirstRand Bank Holdings
- Momentum Group
- CEMEA Regional Board of VISA – Chairman
- Visa International – Executive Chairman

Member

- FirstRand Executive Committee

3. To elect a director in place of David John Alistair Craig who retires in terms of the articles of association of the company and being eligible and available has offered himself for re-election

David John Alistair Craig (55) British

Independent Non-Executive Director

Directorships

- Northbridge Management – Chairman and Chief Executive
- Various international private companies

Member

- Directors' Affairs and Corporate Governance Committee

4. To elect a director in place of Patrick Maguire Goss who retires in terms of the articles of association of the company and being eligible and available has offered himself for re-election

Patrick Maguire Goss (55)

Independent Non-Executive Director

Educational qualifications

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

Directorships

- RMB Holdings
- FirstRand Bank Holdings
- Anglovaal Industries
- McCarthy Retail

Memberships

- Directors' Affairs and Corporate Governance Committee – Chairman
- Remuneration Committee – Chairman

5. To approve the remuneration of the directors for 2003 as reflected in note 3 to the financial statements.

6. To approve the proposed increase in directors' fees for the year to June 2004. These are:

FirstRand board

Per annum

Chairman	R1 250 000
Director	R100 000
Audit Committee	
Chairman	R60 000
Member	R30 000
Remuneration Committee	
Chairman	R20 000
Member	R10 000
Directors' Affairs Committee	
Chairman	R20 000
Member	R10 000
Ad hoc meetings	R2 000 per hour

7. To re-appoint PricewaterhouseCoopers Inc as auditors of the company until the next annual general meeting.

8. To authorise the directors to fix and pay the auditor's remuneration for the year ended 30 June 2003.

Special business

Shareholders will be requested to consider, and if deemed fit, to pass the following resolutions with or without amendments:

Notice of annual general meeting continued

Ordinary Resolution Number 1

Place unissued shares under the control of the directors

“Resolved that the unissued shares in the company be and are hereby placed under control of the directors until the forthcoming annual general meeting and that they be and are hereby authorised to issue any such shares as they may deem fit subject to the Companies Act, the articles of association of the company and the JSE Listings Requirements.”

Ordinary Resolution Number 2

Issue of shares for cash

“Resolved that the directors of the company be given a general authority in terms of the JSE Listings Requirements to issue ordinary shares for cash as and when deemed appropriate, subject to the following limitations:

- that this authority shall be valid until the company's next annual general meeting provided that it shall not extend beyond 15 months from the date of this annual general meeting;
 - that a paid press announcement giving full details, including the impact on net asset value and earnings per share, will be published at the time of any issue representing, on a cumulative basis within one financial year, 5% or more of the number of ordinary shares in issue prior to the issue;
 - that issues in the aggregate in any one financial year will not exceed 15% of the number of ordinary shares of the company's share capital;
 - that, in determining the price at which an issue of shares will be made in terms of this authority, the maximum discount permitted will be 10% of the weighted average traded price of the ordinary shares on the JSE, as determined over the thirty days prior to the date that the price of the issue is determined or agreed by the directors; and
 - that the issue must be made to public shareholders as defined by paragraph 4.25 and 4.27 of the JSE Listings Requirements and not to related parties.”
- that any such repurchase be effected through the order book operated by the JSE trading system and done without any prior understanding or agreement between the company and the counter party;
 - that a paid press release giving such details as may be required in terms of the JSE Listings Requirements be published when the company or its subsidiaries have repurchased in aggregate 3% of the initial number of shares in issue, as at the time that the general authority was granted, and for each 3% in aggregate of the initial number of shares which is acquired thereafter;
 - that the general repurchase may not in the aggregate in any one financial year exceed 20% of the number of shares in the company's issued share capital at the time this authority is given provided that a subsidiary of the company may not hold at any one time more than 10% of the number of issued shares of the company;
 - that no repurchases will be effected during a prohibited period;
 - that at any point in time, the company may only appoint one agent to effect repurchases on the company's behalf;
 - that the company may only undertake a repurchase of securities if, after such repurchase the spread requirements of the company comply with the JSE Listings Requirements;
 - that, in determining the price at which shares may be repurchased in terms of this authority, the maximum premium permitted be 10% above the weighted average traded price of the shares as determined over the 5 (five) days prior to the date of repurchase;
 - the sponsor to the company provides a letter to the JSE on the adequacy of the working capital in terms of section 2.12 of the JSE Listings Requirements prior to any repurchases being implemented on the open market of the JSE; and
 - that such repurchase shall be subject to the Companies Act and the applicable provisions of the JSE Listings Requirements.

The approval of 75% of the votes cast by shareholders present or represented by proxy at this meeting is required for ordinary resolution 2 to become effective.

Special Resolution Number 1

“Resolved that in terms of the company's articles of association, the company's directors be hereby authorised, by way of a general authority, to repurchase issued shares in the company or to permit a subsidiary of the company to purchase shares in the company, as and when deemed appropriate, subject to the following limitations:

- that this authority shall not extend beyond 15 months from the date of this meeting or the date of the next annual general meeting, whichever is the earlier date;

The board has no immediate intention to use this authority to repurchase company shares. However, the board is of the opinion that this authority should be in place should it become appropriate to undertake a share repurchase in the future.

Having considered the effect in the event that the maximum allowed repurchase is effected, the directors are of the opinion that:

- the company and the group will be able in the ordinary course of business to pay its debts for a period of 12 months after the date of the annual general meeting;
- the assets of the company and the group will be in excess of the liabilities of the company and the group for a period of 12 months after the date of the notice of the annual general meeting. The assets and liabilities have been recognised and measured for this purpose in accordance with the accounting policies used in the latest audited annual group financial statements;

- the company's and the group's ordinary share capital and reserves will, after such payment, be sufficient to meet their needs for a period of 12 months following the date of the annual general meeting; and
- the company and the group will, after such payment, have sufficient working capital to meet their needs for a period of 12 months following the date of the annual general meeting."

Reason for and effect of the Special Resolution Number 1

The reason for and the effect of Special Resolution Number 1 are to grant the company's directors a general authority, up to and including the date of the following annual general meeting of the company, to approve the company's purchase of shares in itself, or to permit a subsidiary of the company to purchase shares in the company.

For purposes of considering the Special Resolution and in compliance with Rule 11.26 of the JSE Listings Requirements, the information listed below has been included in the Annual Report, in which this notice of annual general meeting is included, at the places indicated:

- Directors and management – refer pages 56 to 60 of this report;
- Major shareholders – refer page 269 of this report;
- Directors' interests in securities – refer page 106 of this report;
- Share capital of the company – refer page 86 of this report;
- The directors, whose names are set out on page 56 of this report, collectively and individually accept full responsibility for the accuracy of the information contained in this Special resolution and certify that to the best of their knowledge and belief that there are no other facts, the omission of which would make any statement false or misleading and that they have made all reasonable queries in this regard; and
- Litigation – Save as reported in note 26 to the financial statements of the FirstRand Banking Group on page 177, there are no legal or arbitration proceedings (including any such proceedings that are pending or threatened of which the company is aware) which may have or have had in the previous 12 months, a material effect on the group's financial position.

Special Resolution Number 2

Creation of "B" variable rate non-cumulative non-redeemable preference shares

"Resolved that 100 000 000 (one hundred million) ordinary shares of one cent each in the authorised but unissued share capital of the company be and are hereby converted into 100 000 000 (one hundred million) "B" variable rate non-cumulative non-redeemable preference shares of one cent each ("B" non-cumulative non-redeemable preference shares"), having the rights and privileges set out in article 53 of the company's articles of association."

Reasons and effect of Special Resolution Number 2

To provide for the creation of "B" variable rate non-cumulative non-redeemable preference shares to enable the company to raise capital in a cost effective manner from time to time.

Special Resolution Number 3

Creation of "C" variable rate convertible non-cumulative redeemable preference shares

"Resolved that 100 000 000 (one hundred million) ordinary shares of one cent each in the authorised but unissued share capital of the company be and are hereby converted into 100 000 000 (one hundred million) "C" variable rate convertible non-cumulative redeemable preference shares of one cent each ("C" convertible non-cumulative redeemable preference shares"), having the rights and privileges set out in article 54 of the company's articles of association."

Reason and effect of Special Resolution Number 3

To provide for the creation of "C" variable rate convertible non-cumulative redeemable preference shares to enable the company to raise capital in a cost effective manner from time to time.

Special Resolution Number 4

Creation of "D" variable rate cumulative redeemable preference shares

"Resolved that 100 000 000 (one hundred million) ordinary shares of one cent each in the authorised but unissued share capital of the company be and are hereby converted into 100 000 000 (one hundred million) "D" variable rate cumulative redeemable preference shares of one cent each ("D" cumulative redeemable preference shares"), having the rights and privileges set out in article 55 of the company's articles of association."

Reason and effect of Special Resolution Number 4

To provide for the creation of "D" variable rate cumulative redeemable preference shares to enable the company to raise capital in a cost effective manner from time to time.

Special Resolution Number 5

Amendments to articles of association

"Resolved that, subject to the passing and registration of Special Resolutions Numbers 2 and 3 and 4 above, to be considered at the general meeting at which this resolution is to be considered, new articles 53, 54 and 55 are hereby inserted in the company's articles of association:

- "53. The following rights and privileges shall attach to the "B" variable rate non-cumulative non-redeemable preference shares ("the preference shares") in the capital of the company.

Notice of annual general meeting continued

53.1 The preference shares shall confer the right, on a winding-up of the company, to the repayment, out of the surplus assets of the company, of the capital and any premium paid up thereon, together with payment of all arrear dividends calculated to the date of repayment of capital, in priority to the ordinary shares of the company and any other class of shares of the company not ranking in priority to or *pari passu* with the preference shares but shall have no further right to participate in the profits or assets of the company.

53.2 The preference shares shall be issued in such number and at such times as the directors of the company in their sole discretion may determine.

53.3 In respect of each issue of preference shares, the preference shares shall be designated as a separate class of preference share having the rights and privileges as set out in this article 53.

53.4 The preference shares have a par value of R0,01 (one cent) each and shall be allotted and issued, credited as fully paid at a premium to be determined by the directors of the company at the time of issue, against receipt of the subscription price for each preference share.

53.5 The preference shares shall confer on the holder thereof the right to receive out of the profits of the company a non-cumulative preference cash dividend ("the preference dividend") which shall accrue on a daily basis but shall not be compounded and which shall be determined in the manner set out in clauses 53.6 and 53.7 below but subject to the provisions of clauses 53.8 and 53.10, and which will rank in priority to any dividends which after the date of issue of the preference shares ("the issue date") may be declared in respect of any ordinary shares in the company but *pari passu* in respect of any dividends declared on any other preference shares in the company.

53.6 Save for the first preference dividend, the preference dividends shall, if declared, be due and payable 6 (six) monthly in arrear, on 31 March and 30 September of each year provided that if such date is not a business day then the immediately preceding date which is a business day ("the dividend dates") to preference shareholders registered

on the business day immediately preceding each dividend date (a "business day" being any day other than a Saturday, Sunday or proclaimed public holiday). The first preference dividend, if declared, shall be in respect of the initial period from the issue date to the immediately following dividend date (both days inclusive), and thereafter in respect of each period preceding a dividend date (including the first day and the last day of such period). The preference dividends shall, if declared, be declared and paid on each dividend date.

53.7 The preference dividend for each of the preference shares shall, subject to clause 53.10, be calculated in arrear in accordance with the following formula:

$$A = \frac{B \times C \times D \times E}{365}$$

Where:

A = the preference dividend per preference share;

B = a rate to be determined by the directors of the company at the time of issue;

C = the average prevailing interest rate (per cent, per annum, compounded monthly) from time to time published by FirstRand Bank Limited as being its minimum overdraft rate (as certified by any manager of FirstRand Bank Limited whose appointment and designation need not be proved) ("the prime rate") expressed as a percentage over the number of days of the relevant period for which the dividend is payable;

D = the number of days of the relevant period for which the dividend is payable;

E = the issue price of each of the preference shares.

53.8 If any preference dividend is not declared by the company in respect of the period to which such preference dividend relates, the preference dividend will not accumulate and will accordingly never become payable by the company whether in preference to payments to any other class of shares in the company or otherwise. Notwithstanding the foregoing, the company shall, if it fails to declare a preference dividend in respect of any applicable period, be obliged to retain in reserve an amount equivalent to the aggregate amount of profits generated by the company during such period.

- 53.9 If any declared preference dividend is not paid on due dividend date ("unpaid dividend") interest shall accrue on the unpaid dividend at the prime rate calculated from the due date for payment thereof, which interest shall be payable by the company to the preference shareholder when the unpaid dividend is paid.
- 53.10 Notwithstanding anything to the contrary herein contained, if there be any change in any law, Act, regulation or in the interpretation thereof or the introduction of any new law, Act or regulation (save for any change arising from any change in the basic corporate tax rate of such holder, or any change in the rate of secondary tax on companies) which either:
- 53.10.1 increases or reduces the cost of holding the preference shares to any corporate holder thereof; or
- 53.10.2 increases or reduces the net after tax dividend receipt to any holder of the preference shares; or
- 53.10.3 increases or reduces the net after-tax return to the holder of the preference shares
- then the preference dividend shall be increased or reduced, as the case may be, by the amount necessary to place such holder in the same position as if such increase or reduction referred to in 53.10.1 and/or 53.10.2 and/or 53.10.3 had not taken place. Such increase or decrease, as the case may be, in the preference dividend shall take effect on the date upon which such holder shall have notified the company in writing of any adjustment required. A certificate by the auditors of such holder shall be conclusive proof as to any adjustment required in terms hereof.
- 53.11 Save as set out in article 53.1, the preference shares shall not be entitled to any participation in the profits or assets of the company, or, on a winding up or liquidation of the company, in any of the surplus assets of the company.
- 53.12 The company shall be obliged to give the holder notice, in terms of the Act, of any meeting of preference shareholders. At every meeting of the holders of the preference shares, the provisions of the company's articles of association relating to general meetings of ordinary members shall apply mutatis mutandis, except that a quorum at any such class meeting of preference shareholders shall be any person or persons holding or representing by proxy at least one quarter of the issued preference shares, provided that if at any adjournment of such meeting a quorum is not so present, the provisions of the said articles of association relating to adjourned general meetings shall, mutatis mutandis, apply.
- 53.13 Notwithstanding any provisions to the contrary contained herein:
- 53.13.1 the terms of the preference shares may not be modified, altered, varied, added to or abrogated without the prior written consent of both the company and all the holders of the preference shares;
- 53.13.2 the ordinary share capital of the company may not be reduced;
- 53.13.3 the share premium and non-distributable reserves of the company may not be repaid or distributed except in such manner as is permitted by the Act.
- 53.14 Payment in respect of preference dividends on the dividend dates shall be made by electronic transfer for credit to an account nominated in writing by such holder.
- 53.15 The company shall not be entitled at any time after the date of issue of the preference shares to create and/or issue any further shares (whether of the same class as the preference shares or not) ranking in priority to the preference shares; provided that the company shall be entitled to create and/or issue further preference shares (whether of the same class as the preference shares or not), ranking *pari passu* with (except in respect of the coupon rate applicable to the dividend, the date of payment of dividends, any adjustment in accordance with paragraph 53.10, the redemption of the preference shares, the redemption amount payable on redemption and the conversion of the preference shares), the preference shares.
- 53.16 The holders of the preference shares shall not be entitled to vote, either in person or by proxy, at any meeting of the company, by virtue or in respect of the preference shares, unless any one or more of the following

Notice of annual general meeting continued

- circumstances prevail at the date of the meeting:
- 53.16.1 the preference dividend or any part thereof remains in arrear and unpaid after 7 (seven) days from the due date thereof;
- 53.16.2 a resolution of the company is proposed which affects the rights attached to the preference shares or the interest of the holders thereof including, but not limited to, a resolution for the winding-up of the company or reduction of capital or share premium account; or
- 53.16.3 the company proposes or purports to dispose of the whole or substantially the whole of the undertaking of the company or the whole of the greater part of the assets of the company.
- 53.17 At every general meeting or adjourned general meeting of the company at which holders of the ordinary and the holders of the preference shares are present and entitled to vote, upon a poll, a holder of preference shares shall be entitled to that proportion of the total votes in the company which the aggregate amount of the nominal value plus the premium of the preference shares held by it bears to the aggregate amount of the nominal value and premium paid on all shares issued by the company at the relevant time.
- 53.18 "No further securities ranking in priority to, or *pari passu* with the preference shares, shall be created or issued without the consent in writing of the holders of 75% of the preference shares or the sanction of a resolution of the holders of the preference shares ("holders"), passed at a separate general meeting of holders, at which the holders, holding in aggregate not less than one quarter of the total votes of all the holders entitled to vote at that meeting are present in person or by proxy, and the resolution has been passed by not less than three quarters of the total votes to which the holders present in person or by proxy, are entitled".
54. The following rights and privileges shall attach to the "C" variable rate convertible non-cumulative redeemable preference shares ("the preference shares") in the capital of the company.
- 54.1 The preference shares shall confer the right, on a winding-up of the company, to the repayment, out of the surplus assets of the company, of the capital and any premium paid up thereon, together with payment of all arrear dividends calculated to the date of repayment of capital, in priority to the ordinary shares of the company and any other class of shares of the company not ranking in priority to or *pari passu* with the preference shares but shall have no further right to participate in the profits or assets of the company.
- 54.2 The preference shares shall be issued in such number and at such times as the directors of the company in their sole discretion may determine.
- 54.3 In respect of each issue of such preference shares, the preference shares shall be designated as a separate class of preference share having such special rights and privileges as set out in this article 54.
- 54.4 The preference shares have a par value of R0,01 (one cent) each and shall be allotted and issued, credited as fully paid at a premium to be determined by the directors of the company at the time of issue, against receipt of the subscription price for each preference share.
- 54.5 The preference shares shall confer on the holder thereof the right to receive out of the profits of the company a 6 (six) monthly non-cumulative preferential cash dividend ("the preference dividend") which shall accrue on a daily basis and which shall be determined in the manner set out in clauses 54.6 and 54.7 below but subject to the provisions of clauses 54.9 and 54.13, and which will rank in priority to any dividends which after the date of issue of the preference shares ("the issue date") may be declared in respect of any ordinary shares in the company but *pari passu* in respect of any dividends declared on any other preference shares in the company.
- 54.6 Save for the first preference dividend and the last preference dividend, the preference dividends shall be due and payable 6 (six) monthly in arrear, on 31 March and 30 September of each year provided that if such date is not a business day then the immediately preceding date which is a business day ("the dividend dates") to

preference shareholders registered on the business day immediately preceding each dividend date (a "business day" being any day other than a Saturday, Sunday or proclaimed public holiday). The first preference dividend, if declared, shall be in respect of the initial period from the issue date to the immediately following 30 June or 31 December (both days inclusive), as the case may be, and thereafter in respect of each period preceding a dividend date (including the first day and the last day of such period). The final dividend payment shall be due and payable on the day preceding the conversion date or the redemption date of that preference share, as the case may be (but excluding such dividend date). If so declared, the preference dividends shall be paid on each dividend date.

- 54.7 The preference dividend for each of the preference shares shall, subject to clause 54.13, be calculated in arrear in accordance with the following formula:

$$A = \frac{B \times C \times D \times E}{365}$$

Where:

A = the preference dividend per preference share;

B = a rate to be determined by the directors of the company at the time of issue;

C = the average prevailing interest rate (per cent, per annum, compounded monthly) from time to time published by FirstRand Bank Limited as being its minimum overdraft rate (as certified by any manager of FirstRand Bank Limited whose appointment and designation need not be proved) ("the prime rate") expressed as a percentage over the number of days of the relevant period for which the dividend is payable;

D = the number of days of the relevant period for which the dividend is payable;

E = the issue price of each of the preference shares.

- 54.8 If any preference dividend, if declared, is not paid on due dividend date ("unpaid dividend") interest shall accrue on the unpaid dividend at the prime rate calculated from the due date for payment thereof, which interest

shall be payable by the company to the preference shareholder when the unpaid dividend is paid.

- 54.9 If a preference dividend is not declared by the company in respect of the period to which such preference dividend accrual relates, the preference dividend will not accumulate and will accordingly never become payable by the company whether in preference to payments to any other class of shares in the company or otherwise. Notwithstanding the foregoing, the company shall, if it fails to declare a preference dividend in respect of any applicable period, be obliged to retain in reserve an amount equivalent to the aggregate amount of profits generated by the company during such applicable period.

- 54.10 The amount at which the company shall redeem the preference shares in terms of 54.11 shall be an amount equal to:

54.10.1 the issue price; plus

54.10.2 any unpaid dividends which at the date of redemption are still unpaid, on the basis that a dividend will be deemed to be in arrear and unpaid if at any earlier dividend payment date the preference dividend was declared but not paid; plus

54.10.3 interest on unpaid dividends calculated daily at the prime rate, from the due date for payment of the preference dividend up to (but excluding) the date of actual payment, compounded monthly; plus

54.10.4 a dividend amount equal to a rate to be determined by the directors of the company at the time of issue, of the prevailing prime rate, calculated on the issue price of the preference shares on a daily non-compounded basis for the period from and including the last dividend date prior to redemption up to (but excluding) the date of payment of the redemption proceeds;

54.10.5 in the event of the company being in breach of any of its obligations to the holder of the preference shares in respect of the preference shares, an amount equal to any reduction in such holder's net after-tax return

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which such holder would have earned had the company not been so in breach.

“the redemption amount”

54.11 Subject to the provisions of the Act, the directors may in their sole discretion resolve to redeem the preference shares in full for the redemption amount, three years plus 1 (one) day from the issue date (“the maturity date”). Should the directors resolve to redeem the preference shares on the maturity date they shall notify the preference shareholders in writing and the preference shares shall be redeemed for the redemption amount against surrender to the company of the certificates in respect of the preference shares. Should the directors resolve not to redeem the preference shares on the maturity date, the directors shall notify the preference shareholders of this in writing which notice shall further specify a date in the future on which the directors resolved to redeem the preference shares. The date on which the directors resolve to redeem the preference shares in terms of this article 54.11 shall be the redemption date.

54.12 Should the directors, in accordance with article 54.11 resolve not to redeem the preference shares on the maturity date the preference shareholder may, subject to the provisions of the Act, elect to convert all of its preference shares into ordinary shares of one cent each in the capital of the company. Should the preference shareholder wish to convert all of its preference shares, the preference shareholder will, within 60 (sixty) days of despatch by the company of the notice referred to in article 54.11, give notice to the company of its election to convert its preference shares into ordinary shares in the capital of the company. The preference shares in respect of those shareholders who have given notice of its election to convert its preference shares in terms of this article 54.12 will be converted to ordinary shares of one cent each in the capital of the company on a date 15 (fifteen) days after the end of the 60 (sixty) day period referred to in this article 54.12 (“the conversion date”).

The conversion will be done in accordance with the following formula:

$$A = \frac{B}{C \times D}$$

Where:

54.12.1 A = the number of ordinary shares in the share capital of the company into which each preference share will be converted;

B = the subscription price of the preference shares;

C = the price of an ordinary share in the share capital of the company on the JSE Securities Exchange on the maturity date;

D = a factor, expressed as a percentage, determined by the directors of the company at the time the preference shares are issued.

54.12.2 Provided that, if in any calculation of A, the value of A is more than the number of preference shares ranking for conversion, then A shall be deemed to be equal to the number of preference shares ranking for conversion.

54.12.3 Provided further that, if in any calculation of A, the value of A is less than the number of preference shares ranking for conversion, the number of preference shares not converted into ordinary shares shall forthwith be redeemed at the redemption amount.

54.12.4 In the event that the calculation as set out in this article 54.12 gives rise to a fraction of an ordinary share becoming due to the holder of the preference shares, the number of ordinary shares arising shall be rounded down to the nearest whole number.

54.12.5 Such conversion will be done on the first business day following the maturity date (“the conversion date”).

54.13 Notwithstanding anything to the contrary herein contained, if there be any change in any law, Act, regulation or in the interpretation thereof or the introduction of any new law, Act or regulation (save for any change arising from any change in the basic corporate tax rate of such holder, or any change in the rate of secondary tax on companies) which either:

- 54.13.1 increases or reduces the cost of holding the preference shares to any corporate holder thereof; or
- 54.13.2 increases or reduces the net after tax dividend receipt to any holder of the preference shares; or
- 54.13.3 increases or reduces the net after-tax return to the holder of the preference shares

then the preference dividend shall be increased or reduced, as the case may be, by the amount necessary to place such holder in the same position as if such increase or reduction referred to in 54.13.1 and/or 54.13.2 and/or 54.13.3 had not taken place. Such increase or decrease, as the case may be, in the preference dividend shall take effect on the date upon which such holder shall have notified the company in writing of any adjustment required. A certificate by the auditors of such holder shall be conclusive proof as to any adjustment required in terms hereof.

- 54.14 [Notwithstanding any provisions to the contrary contained herein, if the company is obliged to adjust the preference dividend in terms of 54.13, the company will have the right to redeem, at its sole and exclusive discretion, which discretion will be exercised by the board of directors of the company, within 30 (thirty) days after having notified the holders thereof, all of the preference shares at any time before the redemption date, provided that the redemption amount will be calculated as set out in 54.10.]
- 54.15 [Notwithstanding anything else to the contrary herein contained, it is agreed that if there is any change in the laws or banking regulations of the Republic of South Africa which has the result that the cost to the company of issuing redeemable preference shares is increased, and the holder having received written notice from the company, the company shall be entitled to redeem all but not some of the preference shares, within 30 (thirty) days after receipt of such notice by the holder. The redemption amount will be calculated as set out in 54.10.]
- 54.16 Save as set out in article 54.1, the preference shares shall not be entitled to any participation in the profits or assets of the company, or, on a winding up or liquidation

of the company, in any of the surplus assets of the company.

- 54.17 The company shall be obliged to give the holder notice, in terms of the Act, of any meeting of preference shareholders. At every meeting of the holders of the preference shares, the provisions of the company's articles of association relating to general meetings of ordinary members shall apply mutatis mutandis, except that a quorum at any such class meeting of preference shareholders shall be any person or persons holding or representing by proxy at least one quarter of the issued preference shares, provided that if at any adjournment of such meeting a quorum is not so present, the provisions of the said articles of association relating to adjourned general meetings shall, mutatis mutandis, apply.
- 54.18 Notwithstanding any provisions to the contrary contained herein:
 - 54.18.1 the terms of the preference shares may not be modified, altered, varied, added to or abrogated without the prior written consent of both the company and all the holders of the preference shares;
 - 54.18.2 the ordinary share capital of the company may not be reduced;
 - 54.18.3 the share premium and non-distributable reserves of the company may not be repaid or distributed except in such manner as is permitted by the Act.
- 54.19 The preference dividends shall cease to accrue from the redemption date. Should the holders of the preference shares deliver or tender delivery of the share certificates to the company in respect of the preference shares and should the company fail to pay the redemption amount on the redemption date then, interest at the prime rate shall accrue on the redemption amount from the redemption date to the day prior to the actual date of payment of the redemption amount.
- 54.20 Payment in respect of preference dividends on the dividend dates and/or redemption monies on the redemption date shall be made by electronic transfer for credit to an account nominated in writing by such holder.
- 54.21 The company shall not be entitled at any time after the date of issue of the preference shares to create and/or issue any further

Notice of annual general meeting continued

- shares (whether of the same class as the preference shares or not) ranking in priority to the preference shares; provided that the company shall be entitled to create and/or issue further preference shares (whether of the same class as the preference shares or not), ranking *pari passu* with (except in respect of the coupon rate applicable to the dividend, the date of payment of dividends, any adjustment in accordance with article 54.13 the date of redemption and redemption amount payable on redemption), the preference shares.
- 54.22 The company may apply its share premium account in providing for the premium payable, in respect of the preference shares, on the redemption date of the preference shares.
- 54.23 The holders of the preference shares shall not be entitled to vote, either in person or by proxy, at any meeting of the company, by virtue or in respect of the preference shares, unless any one or more of the following circumstances prevail at the date of the meeting:
- 54.23.1 the preference dividend or any part thereof remains in arrear and unpaid after 7 (seven) days from the due date thereof;
 - 54.23.2 any redemption payment remains in arrear and unpaid after 7 (seven) days from the due date thereof;
 - 54.23.3 a resolution of the company is proposed which affects the rights attached to the preference shares or the interest of the holders thereof including, but not limited to, a resolution for the winding-up of the company or reduction of capital or share premium account; or
 - 54.23.4 the company proposes or purports to dispose of the whole or substantially the whole of the undertaking of the company or the whole of the greater part of the assets of the company.
- 54.24 At every general meeting or adjourned general meeting of the company at which holders of the ordinary and the holders of the preference shares are present and entitled to vote, upon a poll, a holder of preference shares shall be entitled to that proportion of the total votes in the company which the aggregate amount of the nominal value plus the premium of the preference shares held by it bears to the aggregate amount of the nominal value and premium paid on all shares issued by the company at the relevant time.
- 54.25 "No further securities ranking in priority to, or *pari passu* with the preference shares, shall be created or issued without the consent in writing of the holders of 75% of the preference shares or the sanction of a resolution of the holders of the preference shares ("holders"), passed at a separate general meeting of holders, at which the holders holding in aggregate not less than one quarter of the total votes of all the holders entitled to vote at that meeting are present in person or by proxy, and the resolution has been passed by not less than three quarters of the total votes to which the holders present in person or by proxy, are entitled".
55. The following rights and privileges shall attach to the "D" variable rate cumulative redeemable preference shares ("the preference shares") in the capital of the company.
- 55.1 The preference shares shall confer the right, on a winding-up of the company, to the repayment, out of the surplus assets of the company, of the capital and any premium paid up thereon, together with payment of all arrear and accrued dividends (whether earned, declared or not) calculated to the date of repayment of capital, in priority to the ordinary shares of the company and any other class of shares of the company not ranking in priority to or *pari passu* with the preference shares but shall have no further right to participate in the profits or assets of the company.
 - 55.2 The preference shares shall be issued in such number and at such times as the directors of the company in their sole discretion may determine.
 - 55.3 Subject to the provisions of article 55.1, in respect of each issue of such preference shares, the preference shares shall be designated as a separate class of preference share having such special rights and privileges, whether as to dividend entitlement, redemption, conversion, voting rights or otherwise as the directors of the company may in their sole discretion, prior to or upon each issue determine.

- 55.4 Subject to the provisions of the Act, the preference shares shall be liable to be redeemed at the discretion of the directors on such basis as may be determined by the directors of the company in respect of each allotment of the preference shares.
- 55.5 The company may apply its share premium account in providing for the premium payable, in respect of the preference shares, on the redemption date of the preference shares.
- 55.6 Subject to article 55.3, the holders of the preference shares shall not be entitled to vote, either in person or by proxy, at any meeting of the company, by virtue or in respect of the preference shares, unless any one or more of the following circumstances prevail at the date of the meeting:
- 55.6.1 the preference dividend or any part thereof whether declared or not, remains in arrear and unpaid after 7 (seven) days from the due date thereof;
- 55.6.2 any redemption payment remains in arrear and unpaid after 7 (seven) days from the due date thereof;
- 55.6.3 a resolution of the company is proposed which affects the rights attached to the preference shares or the interest of the holders thereof including, but not limited to, a resolution for the winding-up of the company or reduction of capital or share premium account; or
- 55.6.4 the company proposes or purports to dispose of the whole or substantially the whole of the undertaking of the company or the whole of the greater part of the assets of the company.
- 55.7 "At every general meeting or adjourned general meeting of the company at which holders of the ordinary and the holders of the preference shares are present and entitled to vote, upon a poll, a holder of preference shares shall be entitled to that proportion of the total votes in the company which the aggregate amount of the nominal value plus the premium of the preference shares held by it bears to the aggregate amount of the nominal value and premium paid on all shares issued by the company at the relevant time."

- 55.8 "No further securities ranking in priority to, or pari passu with the preference shares, shall be created or issued without the consent in writing of the holders of 75% of the preference shares or the sanction of a resolution of the holders of the preference shares ("holders"), passed at a separate general meeting of holders, at which the holders holding in aggregate not less than one quarter of the total votes of all the holders entitled to vote at that meeting are present in person or by proxy, and the resolution has been passed by not less than three quarters of the total votes to which the holders present in person or by proxy, are entitled".

The reason and effect of Special Resolution Number 3

To amend the articles of association to provide for the rights and privileges attaching to the various classes of preference shares as set out .

Special Resolution Number 6

Amendments to memorandum of association

"Resolved that upon Special Resolutions Numbers 2 to 5 becoming effective, paragraph 8(a) of the memorandum of association of the company be deleted in its entirety and replaced with the following new paragraph 8(a)":

- (a) Par value: The share capital of the company is R65 000 000 (sixty five million rand) divided into:
- (i) 5 928 000 000 (five billion nine hundred and twenty eight million) ordinary shares with a par value of R0,01 (one cent) each;
- (ii) 272 000 000 (two hundred and seventy two million) "A" variable rate, convertible, redeemable cumulative preference shares of R0,01 (one cent) each;
- (iii) 100 000 000 (one hundred million) "B" variable rate non-cumulative non-redeemable preference shares of R0,01 (one cent) each;
- (iv) 100 000 000 (one hundred million) "C" variable rate convertible, non-cumulative redeemable preference shares of R0,01 (one cent) each;
- (v) 100 000 000 (one hundred million) "D" variable rate cumulative redeemable preference shares of R0,01 (one cent) each.

Reason and effect of Special Resolution Number 6

To amend the memorandum of association of the company to reflect the new preference shares.

Ordinary Resolution Number 3

"Resolved that subject to the passing and registration of the Resolutions to be passed as Special Resolutions Numbers 2, 3

Notice of annual general meeting continued

and 4, the “B”, “C” and “D” preference shares created in terms of Special Resolutions Numbers 2, 3 and 4 be and are hereby placed under the power of the directors of the company, as a general authority in terms of section 221 (2) of the Act, with the authority to allot and issue all or part thereof upon such terms as they may determine in their discretion.”

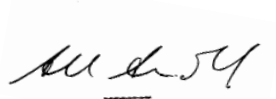
Ordinary Resolution Number 4

“Resolved that the directors of the company be and are hereby authorised, instructed and empowered to do all such things, sign all such documents and procure the doing of all such things and the signature of all such documents as may be necessary or incidental to give effect to the resolutions contained in this notice of general meeting.”

Members who have not dematerialised their shares or who have dematerialised their shares with “own name” registration are entitled to attend and vote at the meeting and are entitled to appoint a proxy or proxies to attend, speak and vote in their stead. The person so appointed need not be a member. Proxy forms should be forwarded to reach the registered office of the company/company’s transfer secretaries by 09:30 on Friday, 28 November 2003.

Members who have dematerialised their shares, other than those members who have dematerialised their shares with “own name” registration, should contact their Central Securities Depository Participant (CSDP) or broker in the manner and time stipulated in their agreement:

- to furnish them with their voting instructions ;and
- in the event that they wish to attend the meeting, to obtain the necessary authority to do so.



AH Arnott
BCom, CA(SA)
Company secretary

15 September 2003

Proxy form

FirstRand Limited

(Incorporated in the Republic of South Africa)
(Registration number: 1966/010753/06)
Share code: FSR
ISIN: ZAE000014973
("the company")

For use by shareholders, who have not dematerialised their shares or who have dematerialised their shares but with own name registration at the general meeting to be held at 09:30 on Tuesday, 2 December 2003, in the auditorium, 18th floor, 1 Merchant Place, Corner Fredman Drive and Rivonia Road, Sandton, and at any adjournment thereof.

Shareholders who have dematerialised their shares must inform their CSDP or broker of their intention to attend the annual general meeting and request their CSDP or broker to issue them with the necessary authorisation to attend or provide their CSDP or broker with their voting instructions should they not wish to attend the general meeting in person.

I/We, the undersigned

of

being the registered holder of

ordinary shares in FirstRand Limited, hereby appoint (see note 2 overleaf)

1. _____, of _____ or failing him

2. _____, of _____ or failing him

3. the chairperson of the meeting, as my/our proxy to be present and act on my/our behalf, speak and, on a poll, vote on my/our behalf as indicated below at the annual general meeting of shareholders of the company to be held at 09:30 on Tuesday, 2 December 2003 and at any adjournment thereof as follows (see note 3 overleaf).

	Number of votes (one vote per ordinary share)		
	In favour of	Against	Abstain
1. Resolution to adopt the annual financial statements for the year ended 30 June 2003			
2. Resolution to re-elect retiring director VW Bartlett who is available for re-election			
3. Resolution to re-elect retiring director DJA Craig who is available for re-election			
4. Resolution to re-elect retiring director PM Goss who is available for re-election			
5. Resolution to confirm the directors' remuneration for 2003			
6. Resolution to agree directors' fees for 2004			
7. Resolution to reappoint the auditors			
8. Resolution to authorise the directors to fix and pay the auditors remuneration			
Ordinary Resolution Number 1 To place unissued shares under the control of the directors			
Ordinary Resolution Number 2 To give a general authority to directors to issue ordinary shares for cash			
Special Resolution Number 1 To give a general authority to the directors to repurchase its own shares.			
Special Resolution Number 2 Creation of "B" variable rate non-cumulative non-redeemable preference shares			
Special Resolution Number 3 Creation of "C" variable rate convertible non-cumulative redeemable preference shares			
Special Resolution Number 4 Creation of "D" variable rate cumulative redeemable preference shares			
Special Resolution Number 5 To amend the articles of association – articles 53, 54 and 55			
Special Resolution Number 6 Amendments to memorandum of association			
Ordinary Resolution Number 3 To place any issued preference shares under the control of the directors			
Ordinary Resolution Number 4 To give authority to directors to give effect to the resolutions			

Instructions to my/our proxy are indicated by a cross in the space provided above or by the number of shares in the appropriate boxes where all shares held are not being voted.

2003

Signature of registered shareholder (assisted by me as applicable)

Date

Please see notes on reverse side of the form

Explanatory notes to the notice of annual general meeting

Shareholders holding certificated shares or dematerialised shares registered with own name registration

1. Only shareholders who hold certificated shares and shareholders who have their shares in “own name” registrations may make use of this proxy form.
2. Each ordinary shareholder is entitled to appoint one or more proxies (none or whom need to be a member of the company) to attend, speak, and in a poll, vote in place of that ordinary shareholder at the general meeting, by inserting the name of a proxy or the names of two alternate proxies of the ordinary shareholder's choice in the space provided, with or without deleting “the chairman of the meeting”. The person whose name stands first on the form of proxy and who is present at the meeting will be entitled to act as proxy to the exclusion of those whose names follow.
3. An ordinary shareholder's instructions to the proxy must be indicated by the insertion of the relevant number of votes exercisable by that ordinary shareholder in the appropriate box/es provided. Failure to comply with the above will be deemed to authorise the chairman of the meeting, if he is the authorised proxy, to vote in favour of the resolutions at the general meeting, or any other proxy to vote or to abstain from voting at the general meeting, as he deems fit, in respect of all the ordinary shareholder's votes exercisable thereat.
4. An ordinary shareholder or his proxy is not obliged to vote in respect of all the ordinary shares held or represented by him but the total number of votes for or against the resolutions in respect of which any abstention is recorded may not exceed the total number of votes to which the ordinary shareholder or his proxy is entitled.
5. Any power of attorney and any instrument appointing a proxy or other authority (if any) under which it is signed, or a notarially certified copy of such power of attorney shall be deposited at the office of the company, or of the transfer secretaries not less than 48 (forty eight) hours (excluding Saturdays, Sundays and public holidays) before the time appointed for holding the meeting.

6. The completion and lodging of this form of proxy will not preclude the relevant ordinary shareholder from attending the meeting and speaking and voting in person thereat to the exclusion of any proxy appointed in terms hereof should such ordinary shareholder wish to do so.
7. Where there are joint holders of ordinary shares any one holder may sign the proxy form. The vote of only one holder in order of seniority (determined by sequence of names on the company register) will be accepted, whether in person or by proxy, to the exclusion of the vote(s) of other joint holders.
8. Shareholders must lodge, post or fax their completed proxy forms in South Africa to Computershare Limited, 70 Marshall Street Johannesburg, 2001 (PO Box 61051, Marshalltown, 2107), fax number (011) 688-7721 or in Namibia to Transfer Secretaries (Pty) Limited, Shop No 12, Kaiserkrone Centre, Post Street Mall, Windhoek (PO Box 2401, Windhoek, Namibia), fax number +264 61 24-8531 to be received by not later than 09:30 on Friday 28 November 2003. Proxies not deposited timeously shall be treated as invalid.

Shareholders holding dematerialised shares

9. Shareholders who have dematerialised their shares through a CSDP or broker (except those shareholders who have elected to dematerialise their shares in “own name” registration) and all beneficial shareholders holding their shares (dematerialised or certificated) through a nominee should provide such CSDP, broker or nominee with their voting instructions in sufficient time to allow them to advise the transfer secretaries of the company of their voting instructions before the closing time per 8 above.
10. All such shareholders wishing to attend the meeting in person may do so **only** by requesting their CSDP, broker or nominee to issue the shareholder with a letter of representation in terms of the custody agreement. Such letter of representation must also be lodged with the transfer secretaries before the closing time per 8 above

Triple bottom line reporting

Compliance with Global Reporting Initiative

The schedule below references the GRI indices to this annual report and the accompanying abridged sustainability report.

GRI indicator	Topic	Page	Section in these reports
<i>Vision and strategy</i>			
1.1	Vision and strategy	10	CEOs' report
1.2	Key elements of report	ifc	Index
<i>Profile</i>			
2.1	Name of organisation	–	Front cover
2.2	Major products and services	28	Operational review
2.3	Operating structure	15	Group structure
2.4	Description of major divisions	28	Operational review
2.5	Countries in which the organisation is located	28	Operational review
2.6	Nature of ownership	269	Analysis of shareholders
2.7	Nature of markets served	28	Operational review
2.8	Scale of organisation	16	CFO's report
2.9	List of stakeholders	–	Sustainability report
2.10	Contact details	270	Administration
2.11	Reporting period	–	Year to 30/6/2003
2.12	Date of previous report	–	2002 Annual Report
2.13	Scope of report	–	Mainly South African
2.14	Significant changes to group	–	Not applicable
2.15	Basis for reporting	76	Accounting policies
2.16	Restatement of information	76	Accounting policies
2.17	Decisions not to apply GRI principles	–	Not applicable
2.18	Definitions	194 & 265	Glossary of terms
2.19	Significant changes in measurement methods	–	Not applicable
2.20	Practices to enhance quality reporting	–	Not commissioned
2.21	Independent assurance	–	Not commissioned
2.22	Access to additional information	ibc	Website – www.firststrand.co.za

Triple bottom line reporting *continued*

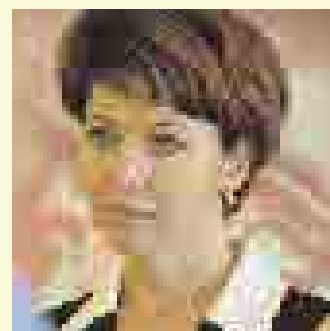
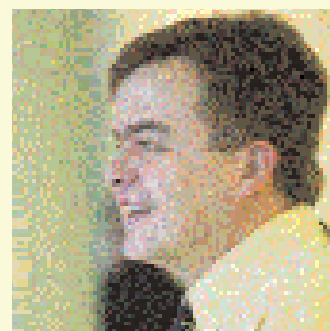
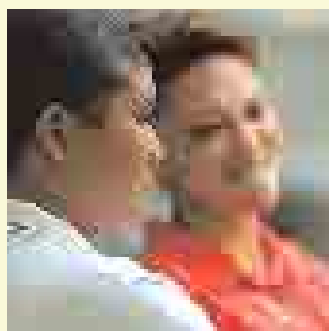
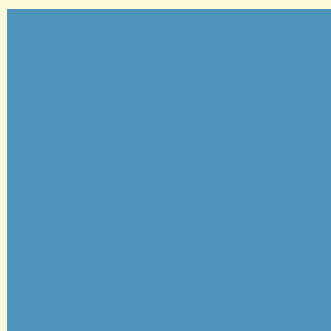
GRI indicator	Topic	Page	Section in these reports
Governance structure and management systems			
3.1	Governance structures	62	Governance report
3.2	Independence of directors	62	Governance report
3.3	Expertise of board members	56	Director profiles
3.4	Board processes	62	Governance reports
3.5	Executive compensation	105	Directorate
3.6	Organisational structure and key responsible individuals	15 60 62	Group structure Executive committee Governance reports
3.7	Value statements	10	CEOs' report
3.8	Communication with shareholders	270	Shareholders' diary
3.9	Identification of major shareholders	269	Shareholder information
3.10	Stakeholder consultation	12	Sustainability report
3.11	Information from stakeholder consultations	–	Not available
3.12	Use of stakeholder consultation information	28	Operational review
3.13	Precautionary principle		Not applicable
3.14	Charters and principles	62	Governance reports
3.15	Membership of industry and business association	62	Governance reports
3.16	Procurement	7	Sustainability report
3.17	Approach to managing indirect impacts of activities	7	Sustainability report
3.18	Decisions regarding location and change	62	Operational review
3.19	Performance improvement	62	Operational review
3.20	Certification status	–	Not applicable
3.21			
Economic performance indicators			
EC1	Net sales/income	16	CFO's report
EC2	Geographic breakdown of markets	13 27	Sustainability report Sources of profits
EC3	Costs of all goods and material purchased	–	Not applicable
EC4	Percentage of contract paid in accordance with terms	–	Not available
EC5	Payroll and benefits	134	Value added statement – Bank
EC6	Distribution to providers of capital	78	Income statement
EC7	Increase/decrease in retained earnings	81	Statement of changes in equity
EC8	Total taxes	78	Income statement
EC9	Subsidies received	–	Not available
EC10	Donations to community and other groups	8	Sustainability report
EC12	Total spend on non-core business infrastructure	–	Not available
EC13	Indirect economic impacts	–	Not available

GRI indicator	Topic	Page	Section in these reports
Environmental performance indicators			
E1 – E16		–	Not material
Labour practices			
LA1	Breakdown of workforce	68	Workforce analysis
LA2	Net employment creation	68	Workforce analysis
LA3	Union representation	5	Sustainability report
LA4	Consultation with employees	4	Sustainability report
LA5	Notification of accidents and diseases	–	Not available
LA6	Health and safety committees	4	Sustainability report
LA7	Work days lost	–	Not available
LA8	Policies and programmes on Aids	4	Sustainability report
LA9	Training per employee	–	Not available
LA10	Employment equity	5	Sustainability report
LA11	Categorisation of staff	68	Workforce analysis
LA12	Employee benefits	66	Remuneration policies
LA13	Worker representation	5	Sustainability report
LA14	Compliance with ILO	–	Not available
LA15	Formal agreement with trade unions	5	Sustainability report
LA16	Ongoing employment	–	Not available
LA17	Skills management	4	Sustainability report
Society			
SO1	Policies to manage impacts on communities	2	Sustainability report
SO2	Bribery and corruption	–	Sustainability report
SO3	Political contributions	6	Sustainability report
SO4	Awards received	2	Sustainability report
SO5	Contributions to political parties	6	Sustainability report
SO6	Anti-trust and monopoly regulations	122	Risk report
SO7	Anti-competitive behaviour	122	Compliance report
Product responsibility			
PR1	Customer health and safety	–	Limited relevance
PR2	Product information	3	Sustainability report
PR3	Consumer privacy	3	Sustainability report



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