



IMPERIAL BANK



IMPERIAL BANK

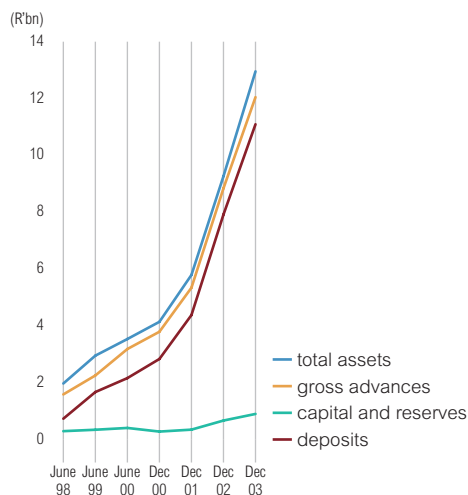
ANNUAL REPORT 2003

financial solutions

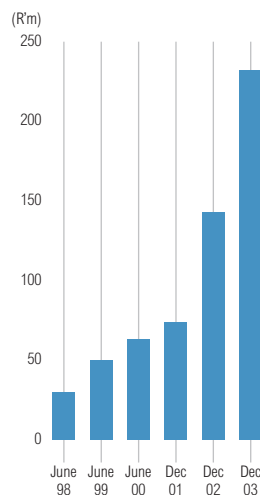
Introduction • Strategy • Market • Assets • Liabilities • Capital • Risk • Governance • Financial Performance • Outlook • Appendix

A MEMBER OF THE NEDCOR GROUP

Imperial Bank Annual Report 2003 / Seven Year History



Balance Sheet



Headline Earnings

	June 1998	June 1999	June 2000	Dec 2000	Dec 2001	Dec 2002	Dec 2003	% increase over Dec 2002
	R'000	R'000	R'000	R'000	R'000	R'000	R'000	

Balance sheet

Total assets	1 980 813	2 960 459	3 544 858	4 149 606	5 797 716	9 269 697	12 955 040	40%
Gross advances	1 596 858	2 263 228	3 193 269	3 800 229	5 348 467	8 843 480	12 049 020	36%
Capital and reserves	304 580	354 485	417 356	289 897	358 017	677 832	909 815	34%
Deposits	743 087	1 680 311	2 170 201	2 843 241	4 386 858	7 922 067	11 095 269	40%

Income statement

(6 months)

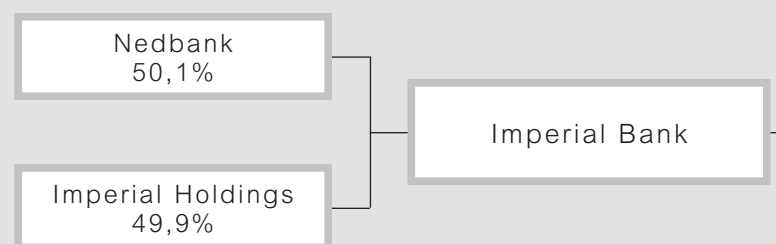
Net interest income	75 417	113 309	110 101	66 719	169 605	342 315	527 848	54%
Income before exceptional items and tax	43 704	66 377	64 868	44 873	100 601	190 813	226 448	19%
Headline earnings*	29 862	49 760	62 871	32 541	73 609	142 933	232 114	62%
Number of employees	135	170	217	232	320	440	566	29%

Ratios (%)

After tax return on average assets	1,9%	2,0%	2,0%	1,7%	1,5%	2,00%	2,13%
After tax return on average shareholders' equity	10,3%	15,2%	15,0%	15,0%	22,8%	20,2%	29,4%
Other income as percentage of income	4,3%	10,7%	41,0%	39,1%	34,3%	28,4%	27,5%
Cost to income ratio	26,9%	30,4%	26,7%	35,9%	36,4%	31,8%	37,0%
Provisions as a percentage of total advances pre AC133	1,2%	1,9%	2,1%	2,3%	2,7%	5,6%	5,8%
Provisions as a percentage of total advances post AC133**	N/A	N/A	N/A	N/A	N/A	N/A	4,6%
Charge for bad and doubtful advances as percentage of average advances pre AC133	1,0%	1,3%	3,0%	1,5%	1,4%	2,0%	1,18%
Charge for bad and doubtful advances as percentage of average advances post AC133**	N/A	N/A	N/A	N/A	N/A	N/A	2,26%
Capital adequacy (group basis)	33,2%	29,3%	26,6%	14,9%	13,5%	12,1%	12,0%

* Headline earnings are reported net of exceptional items.

** In accordance with AC133 prior year numbers have not been restated.





Motor Finance

Dealer-based motor finance for the retail sector.



Property Finance

Commercial and residential mortgage and development finance.



Aviation Finance

Finance for the general aviation market for private individuals, charter and contract operators.



Specialised Finance

Asset finance structuring through debt capital markets, specialised finance, transport infrastructure, treasury and administration.



Corporate Asset Finance

Asset finance for the corporate sector.



Medical Finance

Asset finance for medical professionals.



NRB Risk Solutions

Specialist debt collection services for internal and external clients.

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FINANCIAL HIGHLIGHTS

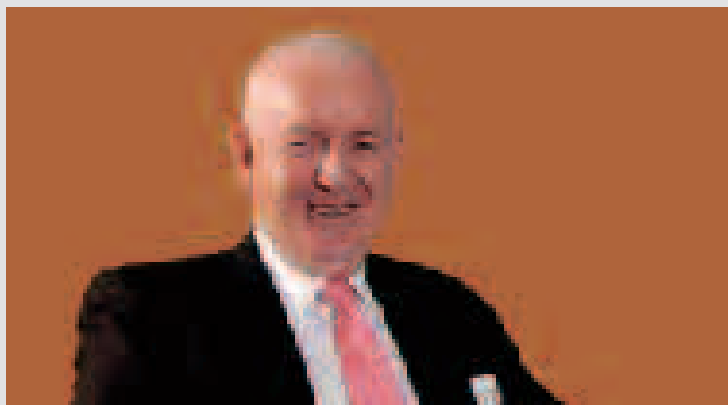
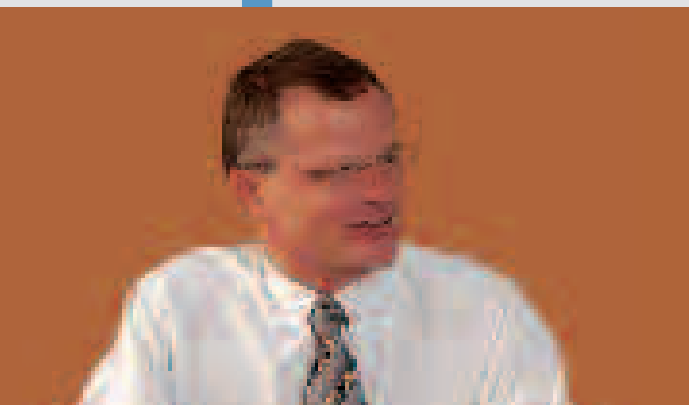
R'm	2003	2002	% increase
Headline earnings	232,1	142,9	62
Total assets	12 955,0	9 269,7	40
Income before exceptional items and tax	226,4	190,8	19
Return on equity	29,4%	20,2%	
Return on assets	2,13%	2,0%	

As an asset-based lender, Imperial Bank has developed expertise and knowledge of the major commonly financed durable and semi-durable asset types.

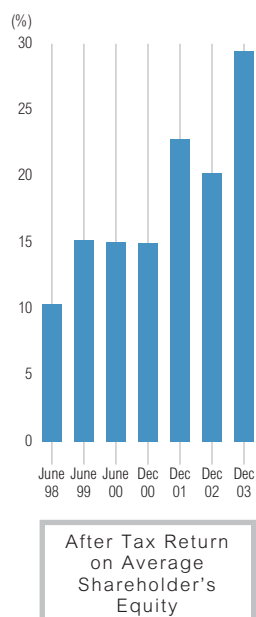
Knowledge of the values of these assets and the ability to trade in them are vital elements of a successful asset finance operation. Through the Imperial group, the bank is an integral part of the largest motor dealership and distribution group in South Africa, as well as the largest dealer in general aviation assets.

The Specialised Finance division structures innovative finance packages for big ticket transportation assets and has developed the ability to access the capital markets for the funding of these assets.

The bank has further developed expertise in the fixed property market, particularly residential and commercial properties, as a major component of bank finance.



In pursuit of its vision, Imperial Bank, this year, extended its uninterrupted record of strong earnings growth since its inception in 1996.



REVIEW OF OPERATIONS

Imperial Bank is an independently managed and regulated bank with two major shareholders, namely Nedbank with 50,1% and Imperial Holdings with 49,9%. It is the vision of management and shareholders alike to determinedly grow and expand the bank's activities, which are primarily centred around asset based finance.

In pursuit of this vision, Imperial Bank, this year, extended its uninterrupted record of strong earnings growth since its inception in 1996. Results for the year were particularly pleasing with headline earnings increasing by 62% to

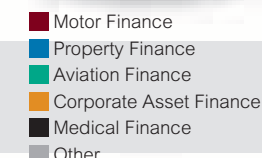
R232 million and advances growing by 30% to R12 billion while a return on equity of 29,4% was achieved.

These results were recorded amidst serious challenges to profitability, which included a sharp erosion of lending margins because of higher funding costs, and an unusually large charge to the bad debt line in the aviation finance division.

The main contributor to profit was the bank's wholly owned subsidiary, New Republic Bank Limited where a high yield was achieved on a parcel of assets acquired from Saambou Bank, which is under receivership.

The prime overdraft rate remained high during the first half of the year, but began a sharp decline in June and by December it had fallen from 17% to 11,5%. During this period, funding costs did not decline as rapidly as lending rates, which are predominantly prime linked.

	Dec 2003	Dec 2002	% increase
Motor Finance	5 533	3 361	65
Property Finance	3 651	2 565	42
Aviation Finance	1 352	1 503	(10)
Corporate Asset Finance	570	231	147
Medical Finance	307	0	
Other	636	1 183	(46)
	12 049	8 843	36

2002
Advances by Division2003
Advances by Division

motor finance • property finance • aviation finance • corporate asset finance • medical finance

The bank's funding base contained a relatively large component of expensive term funding that caused the margin to shrink significantly during the period. Whilst the margin squeeze had a substantial impact on profitability, it is a temporary situation and is expected to be at least partly alleviated during the first half of the new financial year.

More than 95% of Imperial Bank's funding base is sourced from Nedcor at a rate that represents a blend of wholesale deposits with various maturities.

The recent strength of the Rand had a significant negative impact on the South African general aviation industry. Imperial Bank has since its inception been active in this market and by the start of 2003 it had built an aviation finance book of R1,5 billion, or 17% of total advances. Most of the asset base of the industry, as well as a major portion of its income is measured in US\$

while its debt is Rand denominated. The stronger Rand, coupled with high interest rates, forced several aviation clients into insolvency as their equity was wiped out by declining asset values while their debt levels remained unchanged. This necessitated the raising of bad debt provisions in excess of R100 million against the aviation book during the year. It is not certain that the losses will be ultimately realised, but we considered it prudent to make significant provisions. Relief to the industry through a weaker Rand does not seem imminent, and the balance sheets of our distressed clients remain under severe pressure.

In spite of this, we still regard finance to the general aviation industry as core to our strategy, and while the aviation book has declined during the past financial year, we aim to grow this book during the year ahead. We believe that at the Rand's present levels, as well as US\$ values of aircraft, the industry offers

attractive opportunities to buy and operate light aircraft. We have built a valuable customer base and knowledge of the industry over the years to enable us to grow a high quality aviation book.

The main urban areas of South Africa have experienced an almost unprecedented demand for new residential units across the price spectrum from entry-level homes to luxury high priced dwellings. The bank identified this as an opportunity early in the present cycle and positioned itself as the lender of choice to a selected number of experienced residential developers. Strict credit criteria were applied, which limited our exposure to high growth urban areas in Gauteng, the Western Cape and KwaZulu-Natal. Emphasis is placed on the contribution and success record of developers, and strong evidence of market demand for the product is obtained prior to the bank committing funds to developments. Lending into the property development market requires a high degree of operational control. Regular interaction with clients is required, as well as physical inspection and control over progress on the developments. The bank has aligned its processes and control check points to those of the developers and becomes an integral member of the development team.

The property finance division delivered excellent profits from interest and fee income, and financed developments valued in excess of R3 billion during 2003.

The motor finance division, operating under the brand name, The Motor Finance Corporation (MFC), vastly increased its capacity during the year. It maintained its market share in the Imperial group at around 30% of financeable

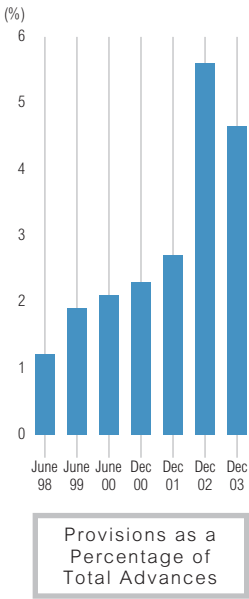
business, but expanded its representation into a large number of independent franchised and used car dealerships. MFC also built relationships with larger dealer groups with whom significant business in new and used cars is being conducted.

Despite high interest rates during the first six months of the year and fairly modest car sales, MFC received almost double the number of applications of the previous year. However, as a result of strict credit scoring and the generally poorer credit quality of applications, the number of transactions booked only increased by 44% over the previous year. While it is a priority to convert a larger portion of applications to payouts, the broader market penetration enjoyed by the division at this stage in its development is to be welcomed.

Processes in the division are systems and people intensive, and we have a large investment in MFC's infrastructure. We believe that MFC is close to reaching levels of good profitability that would have been evident this past year if the high cost of funding hadn't impacted heavily on the division's results.

We formed a new division at the beginning of 2003 to cater for the asset based finance needs of the medium to large corporate sector. We have a small team dedicated to delivering an exceptional service. This market is rate sensitive, but with a low cost base, good credit quality and innovative structuring, a profitable business can be built. The corporate asset finance division achieved advances of R500 million by year-end.

In pursuit of our strategy of expanding our product range to other asset based finance offerings in selected markets, the bank recruited a team of experts in the medical finance field.



It is our intention to offer a comprehensive and convenient suite of banking products to our medical clients and to extend our services to selected successful corporate players in the health care industry.

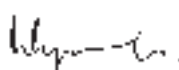
Thanks to the flexibility of our decision making process, our systems and our credit policy, we were able to establish six branches with well-trained staff in a short time. The initial results in terms of advances growth have been very satisfactory. In the last four months of the financial year, we advanced money to more than 2 000 medical practitioners.

It is our intention to offer a comprehensive and convenient suite of banking products to our medical clients and to extend our services to selected successful corporate players in the health care industry.


The transaction concluded in late 2002 with the Receiver of Saambou Bank for the acquisition of a selection of loans originated by the Planet Finance division of Saambou has contributed well to the operations of the bank. In addition to the book of approximately R800 million in asset finance loans, we acquired the shares and operations of New Republic Bank Limited (NRB), which, at the time of our acquisition, was engaged in debt collection activities. NRB contracted with the Receiver to collect the balance of the advances of Planet Finance for a fee. The unit has now expanded its activities to include the collection of delinquent accounts in Imperial Bank, as well as in certain areas of Nedcor.

To the extent that the capital portion of loans that were acquired with bad debt provisions have been collected, the relevant provisions have been released to income. This revenue is recognised in the interest line in terms of accounting policies relating to financial instruments and has boosted the interest margin. It also masks the serious diminution of margins that occurred during the year.

We have been delighted with NRB's ability to collect the debts acquired from Saambou, and as a result we have agreed to acquire the balance of the Planet Finance book in respect of which NRB previously had a contract to collect on behalf of the Receiver of Saambou.

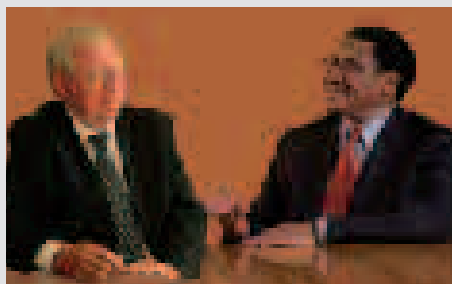
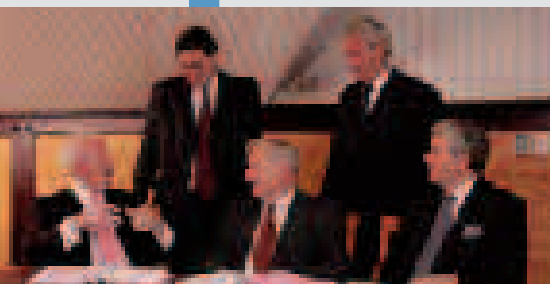


W G LYNCH
Chairman



R L HIEMSTRA
Chief Executive Officer

Board of Directors



FROM LEFT: W G LYNCH, R VAN WYK, R G COTTRELL, M J CROUCAMP, S G MORRIS, G S VAN NIEKERK, E MOLOBI, H R BRODY, R L HIEMSTRA, E KOTZE, Z E E BANCHETTI AND D M VAN DER LINDE

W G LYNCH (60) (Irish)
Non-executive chairman of Imperial Bank. Member of the remuneration and risk committees. Chief Executive Officer of Imperial Holdings.

R L HIEMSTRA (48)
BCompt (Hons), CA(SA)
Chief Executive Officer and member of the executive, risk and ALCO committees. Director of Imperial Holdings Limited.

Z E E BANCHETTI (30)
LLB, BA (Wits)
Partner in a leading law firm. Non-executive director and member of the audit committee.

H R BRODY (39)
BAcc (Hons), CA(SA)
Non-executive director. Member of the risk committee and member of the executive board of Imperial Holdings.

R G COTTRELL (68)
CA(SA)
Non-executive director and chairman of the audit committee. Member of the risk committee. Director of various companies.

M J CROUCAMP (49)
FIAC, AEP, AMP
Independent non-executive director. Member of the risk committee.

E KOTZE (43)
B Comm (Hons) (Strat Management),
Dip Insol Law
Head: Property Finance. Executive director and member of the executive committee.

E MOLOBI (58)
BA
Non-executive director. Chairman of Kagiso Trust Investment Company and director of several listed companies.

S G MORRIS (58)
BCom, CA(SA)
Executive director of Nedcor Limited and member of the audit, remuneration and ALCO committees of Imperial Bank.

D M VAN DER LINDE (47)
BComm (Acc), MBA
Managing Director of MFC. Executive director and member of the executive committee.

G S VAN NIEKERK (60)
BCom (Hons), Hons (B&A), MA (Econ),
DPhil (hc)
Non-executive director and member of the audit committee. Director of various financial services companies.

R VAN WYK (47)
BCom (Hons), BCompt, CA(SA)
Divisional Director, Group Risk – Nedcor. Chairman of the risk committee and member of the remuneration committee.

Executive Committee



FROM LEFT: J VENTER, G CLOETE, P SWANEPOEL, J A VETTER, R S DU PLESSIS, H R DE W WRIGHT, D VHERU-VELA, (BACK) A MILLARD, E KOTZE, D M VAN DER LINDE, (FRONT) R L HIEMSTRA AND A J WILLCOX

R L HIEMSTRA (48)
BComm (Hons), CA(SA)

Chief Executive Officer and member of the risk and ALCO committees. Director of Imperial Holdings Limited. 22-year experience in banking and finance.

G CLOETE (55)

Head of Medical Finance. 25 years in banking and 1 year with Imperial Bank

H R DE W WRIGHT (61)
BComm, MBA, AIV

Head: Enterprise Wide Risk. Former executive director of ABSA Bank. 34 years experience in banking.

R S DU PLESSIS (52)
FCIS

Head: Corporate Asset Finance. 23 years banking experience.

E KOTZÉ (43)
BComm (Hons) (Strat Management),
Dip Insol Law

Head: Property Finance. 19 years banking experience.

A H MILLARD (38)
BA, CAIB (SA), FIFM, MBA

Head: Specialised Finance and Treasury and member of the ALCO committee. 13 years banking and merchant banking experience.

P SWANEPOEL (42)
BComm, AMP

Head: Special Projects. 20 years in banking and 1 year with Imperial Bank.

D M VAN DER LINDE (47)
BComm (Acc), MBA

Managing Director of MFC. 15 years banking and insurance experience.

J VENTER (45)
BComm (Hons), MComm, CA(SA)

Managing director of NRB. 22 years experience in banking and finance.

J A VETTER (35)
HRM DIP

Head: Human Resources. 10 years human resources experience in a banking environment.

D VHERU-VELA (33)
BSc (Information Systems), MBA (Finance)

Head of Information Systems. 8 years in banking and information technology and 1 year with Imperial Bank.

A J WILLCOX (32)
BComm, BAcc, CA(SA)

Chief Financial Officer. 7 years banking and financial experience and 2 years with Imperial Bank.



Motor Finance Corporation

The growth rates achieved in 2003 followed on two years of 50% plus growth. While capacity building was the main growth driver during the past three years, favourable market conditions also played an important part this year.

MFC achieved growth in all areas of the business during the past year – dealerships partnered, applications processed, turnover written, advances, client base and with it, staff numbers.

The extent of quantifiable growth in MFC is illustrated by the following statistics:

Measurement	2003	Y-o-y growth
Processing volumes (applications received)	227 678	91%
Turnover (new business written – R'm)	3 926	71%
Total advances (R'm)	5 489	62%

Our national market share in terms of new business written more than doubled during the year under review. Although Imperial Bank was started within the Imperial Group and the bulk of historical business was written within that group, presently less than 40% of turnover originates in the group. MFC is now welcomed as a viable alternative by several large dealer groups as well as by independent new and used car dealers.

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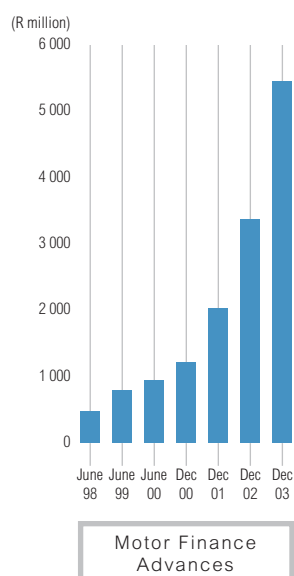
Passenger vehicle sales increased by 6,7%; interest rates fell by 5,5 percentage points and there were virtually no new car price increases.

As an entrant in a complex and highly demanding market which has been dominated by two well-established players, it has been gratifying to see the overwhelming acceptance of MFC in the dealer based vehicle market.

MFC's growth has been in the new and used vehicle markets in spite of a low key marketing strategy. Both the new and used market segments hold attractive opportunities for financiers. New car sales dominate in terms of finance value, and used cars carry more attractive margins.

Business quality has improved despite the demands placed on operational risk management by the high level of growth. This can be seen from:

- An average margin improvement in new business from 1,1% above prime to 1,8% above prime
- A decrease in the bad debt charge to average advances from 2,15% to 2,00%
- Arrear accounts (as measured from 1 day arrears) increasing marginally from 5,5% to 5,7%





The narrow focus of the division on the retail market – financing the single vehicle for the man in the street – has enabled MFC to develop a specialised, efficient and competitive process.

FROM LEFT TO RIGHT: ELISE MARAIS, IZAK BADENHORST, DOUW LEADLEY, LYNETTE KAMPMAN, DAAN VAN DER LINDE AND CHRISTO OTTO

It is clear that our strategy of total focus on motor dealerships as the source of business has paid dividends. We acknowledge the dealerships' role as the direct interface with the client and their power to influence the end user in terms of financing. We also recognise the motor retail industry's dependence on non-margin income by rewarding dealerships for generating finance opportunities. The narrow focus of the division on the retail market – financing the single vehicle for the man in the street – has enabled MFC to develop a specialised, efficient and competitive process.

We have increased processing capacity by more than 100% while maintaining a cost effective centralised structure and a virtual environment.

The marketing of MFC through targeted brand building will be a priority for 2004. We believe this is essential to achieve our medium term goal of becoming a significant and profitable player in vehicle finance. This is a departure from the past when marketing activities were "below the radar" and rather inconsistent. From a marketing perspective, MFC acknowledges that the dealer will continue to be the major player and will therefore remain our key customer.

Our technology base is strong in that we operate a paperless and efficient workflow from the front-end application system to payout, after care customer service and collections. Technology remains our ultimate enabler to ensure top class service levels, capacity, connectivity, costs and superior processing. However, we believe that we are moving from a technology and information era to a relationship era. Accordingly, all strategies, systems and operational activities will be geared to supporting a positive customer (dealer and end-user) experience. This implies an internal culture of exceptional service, which we are inculcating at all levels in MFC.

We know that major challenges lie ahead in terms of our market penetration in the franchises, given the strategies of manufacturers to engage in end product financing. Manufacturers' finance products capture a reasonable portion of available finance business, but there are ample opportunities for MFC and other banks alongside them. We plan to increase our market share significantly through our dealer management system and by unlocking the synergies inherent in our shareholder relationship.



Property Finance

The financial performance of the past financial year demonstrated the viability of the property business with excellent growth in profits, book size and the customer base.

This division entered the property market with clearly defined financing models and developed a successful niche as a financier of choice with the major players in the commercial and residential development segments.

The financial performance of the past financial year demonstrated the viability of the property business with excellent growth in profits, book size and the customer base.

The strategy for the past year focused activities to three areas of business:

COMMERCIAL PROPERTY

We employed and developed staff and systems to penetrate the retail and office building market segments. Albeit from a low base, these efforts have resulted in growth of 41%. Although market

conditions, especially in the office accommodation segment, appear to be oversupplied at present, our exposure to this market is limited and confined to well-tenanted properties.

RESIDENTIAL DEVELOPMENT

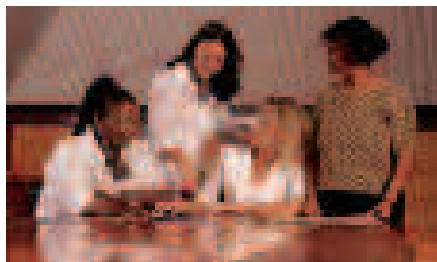
As is evident from the bank's results, a great deal of activity centred on this business during 2003. We regard our entry into this market as opportune, as conditions were buoyant, especially in our predominant areas of activity, namely Gauteng, Western Cape, Garden Route and the North Coast of KwaZulu-Natal. We took full advantage of the opportunities to grow the portfolio.

Loans in this market are typically of short duration and require considerable operational controls.

Market demand currently outstrips supply as it is fuelled by demographic shifts in the country and

The following is the composition of the property book and its progress over three years:

R million	2001	2002	2003	Contribution %	Increase
Commercial mortgages	925	1 342	1 896	49%	41%
Residential mortgages	201	185	296	8%	60%
Development properties	233	966	1 683	43%	74%
	1 359	2 493	3 875		55%



Market demand currently outstrips supply as it is fuelled by demographic shifts in the country and investment demand.

FROM LEFT TO RIGHT: MARYNA WARDHAUGH, NIZETTE OLIVIER, LEON DE SMIDT, EDDIE MCDONALD, DEREK ELLERBECK, RYNO NEL, NICO VILJOEN, BRENDA SITHOLE, LINDA VAN DER WESTHUIZEN, BARBARA GINDER, AZALEA FOSTER

investment demand. The large numbers of black people who were previously barred from living in former "white" neighbourhoods represent a steady flow of new buyers in our target areas. Rapidly rising prices have also attracted opportunistic property investors or speculators to acquire units for the rental market. Despite little or no evidence of demand beginning to wane, especially in the middle price bracket where we are active, we have become more selective in our pursuit of lending opportunities in anticipation of a correction in the market.

On the supply side, limited land zoned for township development is available within the designated urban boundaries.

These conditions have caused prices and developers' profit margins to escalate. We believe that the majority of our clients have built up significant equity in their businesses to withstand

possibly more difficult trading conditions in the future.

The unique business model that entails an extensive involvement with the full professional team consisting of the developer, estate agent, attorney, architect, quantity surveyor and project engineer, has proved to be both sound and profitable. The credit approval process takes account of all technical, marketing, legal and statutory matters and the actions of all parties are co-ordinated to ensure that appropriate controls and protections are built into the transaction.

HOME LOANS

Activity in the home loan market was limited to the bank's existing clients, but growth in this market segment will be accelerated in the next financial year.



IMPERIAL BANK
SPECIALISED FINANCE

Specialised Finance

During the year the division's strategy was refocused into three key product areas, being debt capital markets, specialised finance, and treasury and administration.

The division did not meet its targets for the year but has built significantly on its skills base as an investment for future years.

Traditional debt merchant banking products went through dramatic change with the tax authorities' heightened focus on structured finance products. The corporate debt capital markets matured and bank-administered conduits were launched into the market.

During the year, the division's strategy was refocused into three key product areas, being debt capital markets, specialised finance and treasury and administration.

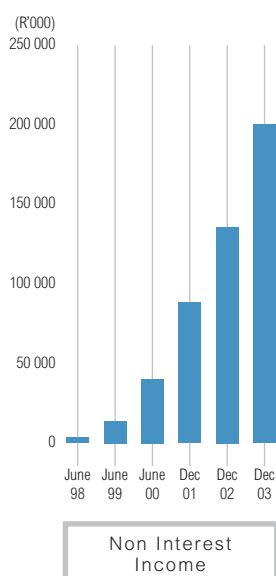
DEBT CAPITAL MARKETS

This area has responsibility for the debt origination and distribution activities of the bank. It is well placed in its market, having in the past three years established two DMTN (domestic medium term note) programmes and issued over R4 billion of listed paper as well as having established the programme for, and management of, R2,25 billion of unlisted short term commercial paper.

During 2003 the division's debt origination activities generated some R9,2 million of fee income, essentially utilising two resources. Highlights included:

- ❑ The successful arranging of the Eagle Bonds DMTN programme and the launch of the R930 million EGL01 bond thereunder. Guaranteed by the US Ex-Im Bank, this is the first export credit agency (ECA)-guaranteed bond to be issued in South Africa.
- ❑ The completion of the updating supplement to the Imperial DMTN programme and the successful launch of the R1 billion IPL3 bond thereunder. This is the first non-bank corporate bond with a maturity of seven years and it completes Imperial Holdings' credit curve.
- ❑ The tapping of the Imperial Bank IPB1 subordinated bond in early December by a further R165 million, ensuring that the bank will have sufficient secondary capital to see it through to 2005.
- ❑ The increasing of the amount of commercial paper, managed and distributed on behalf of third parties, to some R2,25 billion, at narrowing spreads.

It is expected that the current low absolute level of interest rates, lower levels of Government funding being sourced from the domestic capital markets, and continuing institutional appetite for quality corporate credit will facilitate growth in corporate debt issuances. The bank is well positioned to continue to leverage off its unique strengths, as well as its reputation for innovation





During 2004 we expect fees to remain under pressure on “vanilla”, franchise-based products, supporting the bank’s decision to differentiate itself by focusing on structured, innovation-based products, such as Export Credit Agency bonds.

FROM LEFT TO RIGHT: ANDREW MILLARD, JULIUS MAKOVAH, MARCIA VILAKAZI, DELIA PATTERSON, NATASCHA ENGELBRECHT

and will develop its presence in the debt capital market origination and distribution markets.

During 2004 we expect fees to remain under pressure on “vanilla” franchise-based products, supporting the bank’s decision to differentiate itself by focusing on structured, innovation-based products, such as Export Credit Agency bonds.


Specialised finance

The specialised finance area comprises our ECA arranging, securitisation and structured finance. The decline in traditional structured finance products as a result of changes in tax law meant that fee income was below target, and led to the refining of our strategy during the year and we now concentrate on credit arbitrage, accounting efficiency and capital efficiency solutions.

Given that the bank’s limited balance sheet precludes involvement in large ticket asset financing mandates as a lender, this section’s main focus has been to present the debt capital markets business with distribution deal flow.

Examples include:

-  Arranging the aircraft financing transaction underpinning the issuance of the EGL01 bond. This was the first Rand-based guarantee issued by a major export credit agency and the first export credit transaction where all of the underlying documentation was subject to South African law;
-  Financing a new ATR72 aircraft to be operated by FedEx International, on behalf of a local aircraft lessor;

-  Financing two new Cessna 208 Grand Caravans on behalf of a local tourism company.

The bank’s ability to develop its specialised finance strategy effectively will be contingent on the development of suitable capital market funding vehicles, such as the Eagle Bonds conduit launched in April for US Ex-Im Bank guaranteed transactions. Much work was done during the year on expanding the use of structured conduits to support our asset based finance activities.

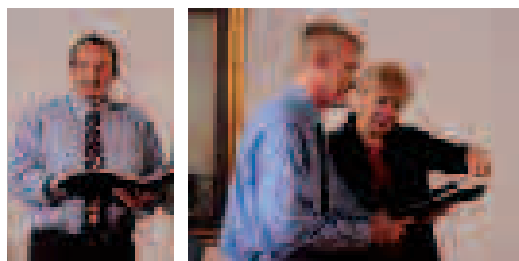
Treasury

The treasury area, which comprises the derivative activities, management of the bank’s liquid asset and capital market investment portfolios, and management of the bank’s funding book, did not fare well during 2003. In particular, an open indexed exposure to the Rand:Dollar exchange rate resulted in a pre-tax loss of R9.4 million. In addition, the bank’s higher funding cost rendered the yield on capital market instruments, including those in the liquid asset portfolio, negative.

The year ahead should offer far greater opportunity for the bank’s treasury activities. The bottoming of the interest rate cycle, an improvement in our funding rates, new swap lines and the repricing of the exchange rate-indexed exposure to year end levels should create a platform for a stronger performance during 2004.

Aviation Finance

From 2001 to 2002, investment in aircraft appeared to be an outstanding financial hedge for South Africans. Subsequent Rand strength proved this premise wrong.



FROM LEFT TO RIGHT: NEIL DELPORT, ROBIN DU PLESSIS AND LYNN DEVINE

AVIATION FINANCE

The aviation finance division suffered a loss of R60 million in 2003 with bad debt provisions of just over R100 million. This had a negative impact on the bank's results and placed exacting demands on the debt collection department. The effects of extremely depressed conditions for aircraft values and charter rates permeated through the industry and caused a large number of our clients to suffer serious cash flow difficulties.

Reviewing developments in this industry we see that when the Rand lost 44% of its value between January 2001 and January 2002, and remained weaker than R10/US\$ for a further nine months, investment in aircraft, which tend to be valued in US\$ terms, appeared to be an outstanding financial hedge for South Africans. Our clients borrowed Rands to finance US\$ valued assets which earned predominantly US\$ valued income. This currency driven demand for aircraft caused an over-supply in the market, and the financial fundamentals of aircraft acquisition and financing were strongly influenced by the expectation that the Rand would at least remain weak, if not deteriorate further.

The September 11 terrorist attacks in 2001 precipitated a reversal of these favourable conditions for aircraft ownership. US\$ values of light aircraft declined due to a drop off in

United States demand, and an era of Dollar weakness set in, coinciding with the United States recession and rock bottom interest rates in that country.

As a result of this our aviation clients saw a rapid decline in their asset values and Dollar denominated incomes as the Rand strengthened by 60% between January 2002 and January 2004. These clients were generally highly geared, which seemed justified by the sound industry fundamentals prevailing at the time that they borrowed. Interest rates rose sharply during 2002 and remained high for most of 2003.

Consequently bad debts soared and the division was inundated by requests for restructuring of accounts. We endeavoured to strike a balance between minimising losses when repossessing aircraft and providing further financial assistance to distressed clients. When uncertainty existed about the sustainability of clients' businesses, we made provisions at conservative asset values.

At this point we are cautiously optimistic that those clients who have been granted assistance are gradually trading out of their difficulties and further provisions are unlikely. At best, a portion of the provisions raised can be reversed in the new year. We are conducting regular reviews and assessments of existing customers' ability to pay. The credit process will place emphasis on balance sheet strength and cash flows.



IMPERIAL BANK
CORPORATE ASSET FINANCE

Corporate Asset Finance

At the end of its first full financial year, the division's advances exceeded R550 million, having comfortably beaten the targets set.



FROM LEFT TO RIGHT: MARK EGERTON
AND CHRIS SMITH

We are a major player in the charter, contract, freight and flight school sectors, all of which are likely to see increased activity in the future with demand coming from the oil and mining industries as well as aid agencies. Demand for flight training in South Africa is currently supported by the reluctance of the United States, for security reasons, to train foreign pilots.

Under normal credit conditions, the aviation finance division is highly profitable, as its cost base is low and lending rates are attractive. Whilst we do not plan to grow the book aggressively in the year ahead, we can see interest in the industry returning and finance applications are picking up. With the Rand strong at present, the acquisition of aircraft offers good opportunities for capital growth, provided that a sustainable income stream can be earned from the investment.

The division is now under new management, and we plan to remain active in this area of our business. We are optimistic that good profitability will return as we and our clients benefit from the lessons of the past two years.

CORPORATE ASSET FINANCE

This division was formed towards the end of the 2003 financial year to provide fast, effective asset backed finance solutions to chosen customers in the medium to large corporate market. The division offers finance on transport equipment, earthmoving and construction equipment and other durable income producing assets.

At the end of its first full financial year, the division's advances exceeded R570 million, having comfortably beaten the targets set. The credit quality of the book is excellent and the cost base of the division is low, which combine to ensure the long-term profitability of the division. However, due to a temporary hike in the funding rate, profitability suffered in the latter part of the financial year.

Balance sheet strength and cash flow will remain the main lending criteria of the division.

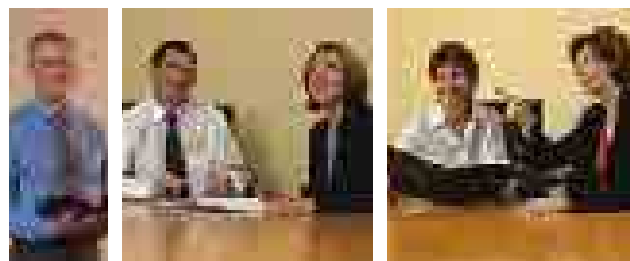
Marketing is done directly with chosen customers with the emphasis on building long term relationships. In addition, relationships are currently being built with selected suppliers to develop mutually beneficial joint venture finance arrangements where the supplier sources finance opportunities and provides ongoing product support, and the bank provides customer finance.

Business opportunities exist in the industries in which Imperial Holdings operates such as transport and logistics, fleet management, tourism and travel and motor retailing, as well as in the former customer base of Planet Finance.



Medical Finance

The division plans to become profitable during 2004, a goal which can only be obtained through rapid and responsible book growth, a focus on client service, and low costs.



FROM LEFT TO RIGHT: GERARD CLOETE, VERNON MARINCOWITZ, LOUISA DE WEERDT, DIANNE ROSSOUW AND ESMÉ ELOFF

MEDICAL FINANCE

The formation of the bank's medical finance division was prompted by the need to add a niche segment which would complement the operating model of the bank and augment its performance.

The medical finance division seeks to provide asset based financial products to the medical and dental markets in South Africa.

Employing 52 staff, the division operates with a head office and six branches, allowing for the provision of service to the profession on a countrywide basis.

The division was established during the second half of the financial year, and has commenced writing quality business in its target market.

Operationally, the single most important development was the appointment of Imperial Bank as specialist banker to the private placement of shares in Netpartner Investments Limited, an investment company which attracted subscription for shares from some 4500 medical

and dental practitioners. Through this initiative, the division established a client base of some 2 100 practitioners, which substantially increased the bank's medical client base.

The division is now well placed to respond to the challenges of the new financial year and to grow rapidly.

Both the medical and dental markets are likely to be besieged with problems of both a commercial and legislative nature as there are many uncertainties and discussions arising from new legislation and regulations. The final outcomes of these deliberations will have a meaningful impact on practices going forward.

The division can play a dynamic and constructive role in the growth of the markets given the knowledge and expertise of its people.

The division plans to become profitable during 2004, a goal which can only be obtained through rapid and responsible book growth, a focus on client service, and low costs.

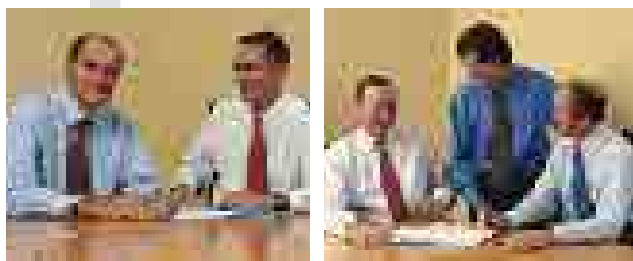


IMPERIAL BANK

NRB Risk SOLUTIONS

NRB Risk Solutions

The specialist skills of the division have since been deployed to collect the debts of other divisions within Imperial Bank (excluding MFC), where the collections team has achieved considerable success.



FROM LEFT TO RIGHT: JAN VENTER, STEPHAN GROBLER, FANIE KRIEL, JOHAN ZULCH AND ALLAN GRANT-SMITH

SPECIALIST DEBT COLLECTION

This division, housed in New Republic Bank Limited (NRB) has been engaged in specialist debt collection since 1999 when it was acquired by Saambou Bank. When Imperial Bank acquired a parcel of assets with a face value of R917 million from the Receiver of Saambou in 2002, it also acquired the shares in NRB which is collecting these debts and has contracted to administer and collect a further tranche of R948 million of collectable debts. This parcel of assets was acquired by NRB with effect from 1 April 2003.

The collection operation is being carried out with a great degree of focus, rigorous care and diligence as a result of which a far greater portion of the book has been collected than was initially anticipated with higher profitability.

At December 2003, 16 months after the first tranche of the book was acquired, 64% of the outstanding capital had been collected. On 1 April, 25% of the administered book had been collected and a further 34% was collected by December 2003.

The specialist skills of the division have since been deployed to collect the debts of other divisions within Imperial Bank (excluding MFC), where the collections team has achieved considerable success.

The division has also since embarked on an expansion of its debt collection activities by contracting with external parties for the collection of portfolios of post-legal advances of other banking institutions.

Human Resources

The transformation of Imperial Bank to a truly representative South African financial institution is viewed as of paramount importance in the interests of the bank and of the country as a whole.

INTRODUCTION

Our human resources department plays an integral role in each area of the business by providing a cost-effective comprehensive Human Resource service. Its key focus is to support employees and business in meeting their objectives, by consistently attracting, developing, measuring and retaining the best banking talent available for our requirements.

Each business unit has dedicated human resources support, which focuses on performance management, remuneration, recruitment, identifying potential, staff developments and employee relations.

In order to promote efficiency, consistency and cost-effectiveness, we employ a strong technology-driven workflow and decision-making system.

PERFORMANCE MANAGEMENT

Ongoing performance appraisals are conducted with all staff. This process forms the basis for our performance-driven remuneration process and needs driven training programme.

FINANCIAL SERVICES CHARTER

Imperial Bank embraces the objectives of the charter and is committed to achieving the goals

set for the financial services sector regarding all aspects of Black Economic Empowerment.

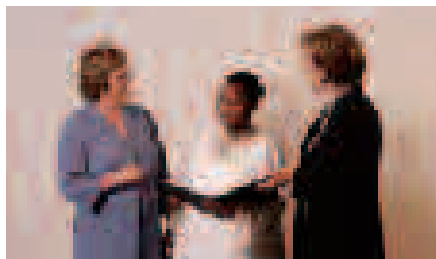
As a subsidiary of another banking group, the bank has to elect to "opt in" to the charter, meaning that we have to comply with the Charter's requirements in our own right, or to "opt out", in which case we will derive our BEE status from that of our holding company. Imperial Bank has not yet made its election.

The transformation of Imperial Bank to be a truly representative South African financial institution is viewed as of paramount importance in the interests of the bank and of the country as a whole.

TRAINING AND STAFF DEVELOPMENT

The bank has achieved its accreditation status as a training provider through the BankSeta Education Training Quality Assurer and is committed to the skills development of its employees.

Our training department is key in supporting the achievement of the bank's goals through the active development of the core competencies required to ensure success. In addition, we make use of training facilities offered by both our shareholder groups, namely Nedcor and Imperial Holdings. During the financial year 1 101 people were trained at a cost of R1,4 million.



In keeping with our policy of fair and equitable practices, Imperial Bank affirms its commitment to comply fully with the spirit and requirements of the Employment Equity Act.

FROM LEFT TO RIGHT: GERTIE MCLEOD, BONGI TSHABALALA, LOUISA DE WEERDT, JULIE VETTER AND SANDY ADAMS

During 2004, special attention will be paid to the development of management and leadership competencies through our management development programmes and our bursary scheme.

EMPLOYMENT EQUITY

In keeping with our policy of fair and equitable practices, Imperial Bank affirms its commitment to comply fully with the spirit and requirements of the Employment Equity Act.

The bank has achieved an overall improvement in the number of black generic staff at all the occupational levels. We have experienced a considerable growth in staff numbers in the last year. Accordingly, skills shortages have been an ongoing challenge. We have achieved considerable success in the engagement and development of historically disadvantaged employees, and will continue to identify people from designated groups for specific advancement.

Staff numbers grew from 440 (average age: 33.9) in December 2002 to 566, having an average of 33, in December 2003. Our staff composition at 31 December 2003 was 35% black generic, of which 13% were management. Females make up 39% of management.

Ongoing diversity programmes positively enforce the richness and the value added contribution of diversity.

EMPLOYEE WELL-BEING

We are committed to maintaining a healthy work environment by protecting the physical and

emotional health and well-being of all employees in the workplace through our Employee Assistance Programmes.

This policy also protects the legal right of employees, who are diagnosed with AIDS virus-related conditions to continue working and provides guidelines for situations where infection with AIDS virus is suspected. Our policy is to encourage sensitivity to and understanding for employees affected with a condition of the AIDS virus. The impact of AIDS virus on the group is managed through AIDS awareness programmes.

All legislative committees required by The "Occupational Health and Safety Act" (OHSA) have been established. The group's increasing level of compliance with The OHSA is frequently measured using methods developed by industry experts.

THE YEAR AHEAD

A new training centre will be commissioned in the year ahead. The key focus will be to address shortcomings revealed in the performance management process, including the attainment of industry best practices in terms of productivity.

We do not expect a repeat of the active recruitment programme of the past year, but to further develop the skills of existing staff, including the deployment of staff to different divisions in order to achieve better matching of people's abilities to available positions.

Corporate Governance

Imperial Bank fully subscribes to the principles of sound corporate governance and is committed to the principles of transparency, integrity and accountability as set out in the King II Report on Corporate Governance and Conduct.

PROCESS AND STRUCTURE OF CORPORATE GOVERNANCE

Imperial Bank fully subscribes to the principles of sound corporate governance and is committed to the principles of transparency, integrity and accountability as set out in the King II Report on Corporate Governance and Conduct except where otherwise noted.

ORGANISATIONAL INTEGRITY

The group is committed to the highest levels of business ethics and organisational integrity in the conduct of its business. The group communicates its values and behaviour standards to employees and process exist to ensure the suitability of potential new employees.

The group has procedures to ensure that business is being conducted according to its code of conduct. The prime responsibility for compliance with regulations and codes of business practice rests with the board, who to the best of their knowledge believe this has been achieved.

BOARD OF DIRECTORS

The directors are responsible for ensuring that an adequate and effective process of corporate governance exists and is maintained, which is consistent with the nature, complexity and risk inherent in the bank's on- and off-balance sheet activities and which responds to changes in the bank's environment and conditions.

The board meets at least quarterly to evaluate performance, assess risks and review the strategic direction of the bank.

Feedback received by the board includes management information, divisional reports and reports on progress against strategies.

All directors have access to management, including the company secretary and the compliance officer, and to such information as is needed to carry out their duties and responsibilities fully and effectively.

The board approves the strategy and budgets for the bank as well as the risk management policies, framework and mandates.

The board is supported by various sub-committees (all meetings are properly minuted) as listed below, which help it to execute its responsibilities.

The board of directors have no formal charter setting out their responsibilities but all board subcommittees have charters. It is a requirement of the King code of corporate governance that the board of directors has a charter.

Non-executive members

W G Lynch (Chairperson); Z E E Banchetti; H R Brody; R G Cottrell; M J Croucamp; E Molobi, S G Morris, G S an Niekerk and R van Wyk.

Executive members

R L Hiemstra; E Kotze and D M van der Linde.

The attendance at board and committee meetings during the year was as follows:

	Board	Audit Committee	Board Risk Committee	Remuneration Committee
W G Lynch	4/4		4/5	1/1
Z E E Banchetti	4/4	4/4		
H R Brody	4/4		4/4	
R G Cottrell	4/4	4/4	5/5	
R L Hiemstra	4/4		5/5	
S G Morris	4/4	2/4		1/1
G S van Niekerk	4/4	3/4		
R van Wyk	4/4		5/5	1/1
E Molobi	2/4			

Messrs Morris and Van Wyk are executives of the bank's holding company and as such are deemed to be executives of Imperial Bank in terms of the Bank's Act Regulations.

EXECUTIVE COMMITTEE

This committee meets on a monthly basis or *ad hoc*, for urgent matters of business.

The function of the executive committee is to develop the bank's strategy, business plan, policies and procedures, for presentation to the board for approval, as well as monitor the implementation of tasks delegated to it. The responsibilities of the bank's executive committee includes the following:

- implementation of strategies and policies of the bank;
- managing the business and affairs of the bank;
- prioritising the allocation of capital, technical and human resources;
- establishing the best management practices and functional standards; and
- monitoring the performance and appointments of senior management.

Support mechanisms

- Finance committee
- IT steering committee
- Specialised finance committee

- Employment Equity committee
- Marketing and divisional executive committees
- Operational Risk Committee (ORCO).

Members

R L Hiemstra (Chairperson); G Cloete; R S du Plessis; E Kotze; A H Millard; P H Swanepoel; D M van der Linde; D Vheru-Vela; J G Venter; J A Vetter, A J Willcox and H R de W Wright.

DIVISIONAL EXECUTIVE COMMITTEES

Business units enjoy a large degree of autonomy and accountability. Divisional executive committees are responsible for the full spectrum of activities in each business unit.

AUDIT COMMITTEE

The audit committee meets at least four times a year with the internal and external auditors and members of the bank's executive management, to review accounting, auditing, financial reporting and internal control matters.

The terms of reference were revised and approved by the board on 20 November 2002. A self-assessment tool was developed during 2002 whereby the audit committee was able to conduct a self-assessment in terms of its effectiveness, which will be done annually.

The internal audit function is independently performed by Nedcor Group Internal Audit. Internal audit operates to a charter formulated by Nedcor's audit committee and functions under the Imperial Bank Audit Committee's supervision. The responsibility, of internal audit, for evaluating the effectiveness of the processes by which risks are identified, managed and controlled is set out in this charter.

Internal audit reports directly to the audit committee and the chief financial officer on their activities which include, reviews of reliability and integrity of financial and operating information, effectiveness of systems of internal control and the effectiveness of operational activities in conducting business.

Support mechanisms

- Internal and external audit
- Compliance officer
- Board risk committee on all matters of risk management, particularly credit risk.

Members

R G Cottrell (Chairperson); Z E E Banchetti; S G Morris and G S van Niekerk.

REMUNERATION COMMITTEE

The remuneration committee is responsible for monitoring the Human Resources function of the bank and determining the guidelines for remuneration and terms of employment. The committee meets at least once a year and from time to time on an *ad hoc* basis.

The performance of executive management and directors is measured against predetermined objectives (both financial and non-financial). The policy for executive directors is consistent with executive management while non-executive directors receive fees for their services provided as directors and as members of board committees. Salaries are reviewed annually and where appropriate performance related bonuses are made to employees, in view of the business unit's performance. In certain instances bonus payments are deferred over one to three years

depending on the individual. Should the employee resign or be dismissed, unpaid bonus payments are forfeited.

Support mechanism

- Human Resources department and policies.

Members

S G Morris (Chairperson); W G Lynch and R van Wyk.

RISK COMMITTEE

The committee evaluates and monitors risks identified by management and monitors compliance with policies and procedures. The risk committee also sets prudential limits for particular categories of business. The committee meets at least four times a year.

Support mechanisms

- An executive risk management committee chaired by the chief executive officer, reports to the risk committee and focuses on operational risks of the business.
- Detailed management reports are provided on a quarterly basis.

Members

R van Wyk (Chairperson); H R Brody; R G Cottrell; M J Croucamp; R L Hiemstra and W G Lynch.

ALCO COMMITTEE

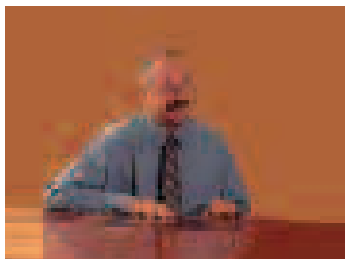
This committee takes responsibility for the liquidity position of the bank, funding strategies and monitoring thereof.

Support mechanism

- Management information and growth projections.

Members

M S Parker (Chairperson); R L Hiemstra; A H Millard; S G Morris (Alternate R van Wyk) and A J Willcox.



The board of directors has assessed the effectiveness of the abovementioned corporate governance structures and has found them to represent an adequate framework for corporate governance in Imperial Bank.

FROM LEFT TO RIGHT: JAN DELPORT, JOHAN BREEDT AND CELESTE DIXON

DIRECTORS' AFFAIRS COMMITTEE

This committee was established during 2003 and will assist the board in its determination and evaluation of the adequacy, efficiency and appropriateness of the corporate governance structure and practices of the bank. It also establishes and maintains a board directorship continuity programme. The committee will meet at least once a year.

Members

R G Cottrell (Chairperson); Z E E Banchetti and W G Lynch.

SECTION 73 COMMITTEE

This committee oversees all credit granting in excess of 10% of our net qualifying capital and reserve funds.

Members

R G Cottrell (Chairperson); R L Hiemstra; W G Lynch; G S van Niekerk; R van Wyk; A J Willcox and H R de W Wright.

The board of directors has assessed the effectiveness of the above mentioned corporate governance structures and has found them to represent an adequate framework for corporate governance in Imperial Bank.

ENVIRONMENTAL CORPORATE GOVERNANCE

The group applies and monitors the "Best Practicable Environmental Option" standard, being that option which has the most benefit or causes the least damage to the environment at a cost acceptable to society.

SECRETARY'S REPORT

In terms of Section 268G(d) of the Companies Act, 1973, as amended, I certify that, to the best of my knowledge and belief, the company has lodged with the Registrar of Companies for the year ended 31 December 2003 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.

J DELPORT

Company Secretary

9 March 2004

COMPLIANCE

The compliance function operates independently as part of the Enterprise Wide Risk Management framework of the bank, in order to ensure that the bank continuously manages its regulatory risk, that is, the risk that the bank does not comply with applicable laws and regulations or supervisory requirements. The compliance officer reports directly to the chief executive officer with an additional reporting line to the Nedbank Limited group compliance officer. The compliance officer of the bank attends audit committee, operational risk committee, bank and divisional executive committee meetings and board meetings *ex officio* and has access to the chairman of the audit committee.

Risk Management

Imperial Bank has set up a project team to align its enterprise wide risk management process with the requirements of the Basel II Capital Accord.

RISK MANAGEMENT REVIEW

The bank manages a variety of risks in the ordinary course of its business. The major risks are credit and counterparty risk, interest rate risks, operational risk and solvency risk. Liquidity risk of the bank is low due to an undertaking by Nedbank Limited, the holding company of Imperial Bank, to fund its operations.

Risks are identified, measured and monitored through various control mechanisms across the bank and in particular by the board risk committee. The board risk committee was established by the board of directors to carry out the expert monitoring of overall risk within the business of the bank.

Imperial Bank has set up a project team to align its enterprise wide risk management process with the requirements of the Basel II Capital Accord. Due to the high reliance which we place on early estimates of the probability of default and expected resultant losses, as well as the integration of these estimates to provisioning, we are optimistic that we are able to harness the maximum capital adequacy advantages from the implementation of the accord from January 2007.

CREDIT AND COUNTERPARTY RISK

Credit and counterparty risk is the possibility that customers may default on their future cash flow obligations to the bank.

The board approves the policies and procedures to measure and manage credit risk exposure and monitors the performance of credit risk management particularly relating to approval statistics and delinquency statistics on a quarterly basis. The executive committee with management perform a more detailed monitoring function on a monthly basis.

The primary business of the bank is asset-based finance. Loans are therefore secured by assets of which the bank has a thorough knowledge and an ability to realise through established outlets and associates. The bank's exposure to unsecured loans is less than 1% of total advances.

Credit risk is managed by setting prudent credit exposure limits, constant measurement taking account of individual, sectoral and geographic exposures, estimation of maximum potential exposures that may arise over the duration of a transaction and responding quickly when



The risk of unforeseen cash flow volatility has substantially decreased over the past three years due to the funding support provided to the bank by its holding company Nedbank Limited.

FROM LEFT TO RIGHT: REUBEN SMITH AND DOLF WRIGHT

corrective action needs to be taken. The management of problem loans is a particular area of focus.

Credit risk is managed by two distinct methods in the bank, namely credit scoring and credit committees. Credit scoring is employed in appropriate circumstances where finance applications are of a standard repetitive nature. The scoring model used is assessed continuously by the board risk committee according to economic and industry circumstances and the results produced by the model. Credit committees, which also include non-executive representation, have been established by the board, with the task of managing credit risk in instances where applications need to be individually assessed by virtue of their size and nature. Delegated levels of authority have been established in respect of the different types and duration of exposures. All credit or counterparty risk exposure requires written authority at the appropriate level. Compliance with limits is measured daily and monitored both internally and independently by the board on a quarterly basis.

The quality of exposures is reviewed on a monthly basis and, where appropriate, a specific provision is raised. It is the bank's policy to establish, through charges against profit, a sufficient specific provision to cover the estimated loss as soon as the recovery of an exposure is identified as doubtful. General

provisions are raised monthly to cover losses which are judged to be present in loans and advances which have not been specifically identified as such.

LIQUIDITY RISK

Liquidity risk is defined as the risk of not being able to generate sufficient cash to meet the bank's commitments to lenders, depositors and other creditors at any point in time.

The management of liquidity is primarily designed to ensure that depositors' funding requirements can be met. These include, for example, the replacement of existing funds as they mature or are withdrawn, or to fund the anticipated growth of the advances book.

The responsibility for liquidity rests with the Asset and Liability Committee (ALCO) which includes two non-executive directors of the bank. The funding strategies, which include determination of the funding required, maintenance of a spread of depositors and a liquidity buffer to counter unexpected and short-term outflows, are monitored at quarterly ALCO meetings. A sufficient reserve of liquid assets is maintained to protect the bank against unforeseen cash flow volatility.

The risk of unforeseen cash flow volatility has substantially decreased over the past three years due to the funding support provided to the bank by its holding company Nedbank Limited.

INTEREST RATE RISK

Interest rate risk is the impact which the repricing of the bank's assets and liabilities may have on our future cash flows and earnings. The ALCO sets and monitors the parameters within which interest rate risk and the mismatch between the bank's lending and borrowing activities are to be managed. The flexibility of the bank's assets and liabilities allows the bank to quickly adapt to changing market conditions and the majority of assets and funding are at floating rates.

Hedging techniques, using interest rate swaps and forward rate agreements, are used to manage interest rate risk.

OPERATIONAL RISK

Operational risk refers to potential losses resulting from inadequate systems, management failure, faulty controls, fraud or human error, including execution risk and any problems in back-office operations. An executive management committee has been established to identify and address operational risks and reports to the board risk committee. The operational risk management framework is currently being formalised for improved risk management purposes as well as in anticipation of the implementation of the Basel II Capital Accord.

Comprehensive systems of internal administrative controls and sound accounting methods and a code of conduct have been implemented to ensure that operational risk is minimised.

The bank is in the process of improving its disaster recovery procedures that aim to ensure that essential business functions continue and normal operations are restored speedily in the event of business disruption. These procedures are tested and documented as they are developed. An information technology steering committee determines and implements information technology strategy and standards within the bank.

It is policy of the bank to insure all appropriate risks and to set insurance excesses at levels at which any occurrence would not significantly impact on profitability.

SOLVENCY RISK – CAPITAL ADEQUACY

Capital adequacy is measured by expressing capital as a percentage of risk-weighted assets, including both on- and off-balance-sheet transactions to reflect their relative risk. The Banks Act, 94 of 1990, specifies the minimum capital holding required in relation to risk-weighted assets.

The bank's capital adequacy ratio as at 31 December 2003 was 12,34% (including unappropriated profits) compared to the regulatory requirement of 10%. The bank issued additional secondary capital during the year under review in order to optimise the use of shareholders' capital and to maintain the capital adequacy. The bank is, therefore, well placed for the anticipated growth in the years ahead.

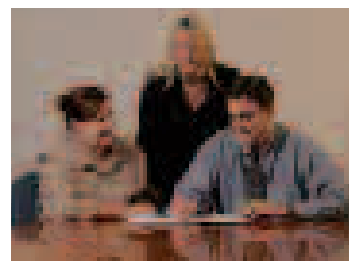
OTHER RISK

The bank's operations at this stage do not include dealing in foreign currencies or in marketable securities. The bank holds government stock as part of its statutory liquid asset requirements from time to time. The limited degree of market risk that is assumed as a result of such holdings is managed through the ALCO process.

BASEL CAPITAL ACCORD (BASEL II)

The final version of the new capital accord will be published in 2004 for implementation in 2007. The new accord sets capital requirements for credit risk, market risk and operational risk. Quantification of credit risk capital will be more risk-sensitive than the existing accord.

Motor Finance Corporation currently makes use of a sophisticated internal credit rating model which will be enhanced to be Basel II compliant. The other divisions, with the assistance of Nedcor, will develop models, methodologies, systems and processes for market, credit and operational risk management to satisfy the criteria to be met for Basel II compliance.



FROM LEFT TO RIGHT: SANDRA COETZEE, TONI MAREE AND ANDREW WILLCOX

	Group	
	December 2003 R'000	December 2002 R'000
Value added		
Net interest income	527 848	342 315
Other income	200 163	135 799
Other operating expenditure	(332 665)	(194 914)
	395 346	283 200
Value allocated		
<i>To employees</i>		
– Staff costs	131 733	72 032
<i>To government</i>		
– Company tax	(18 918)	43 341
– Value added tax	10 100	3 237
– Other taxes	2 878	1 302
– Employees' tax deducted from remuneration	29 336	16 189
<i>Retentions for expansion and growth</i>		
– Depreciation	7 829	4 166
– Attributable income for the year	232 388	142 933
	395 346	283 200

RESPONSIBILITY FOR THE ANNUAL FINANCIAL STATEMENTS

The directors are responsible for the maintenance of adequate accounting records and the preparation and integrity of the annual financial statements and the related information. The auditors are responsible for reporting on the fair presentation of the annual financial statements. The annual financial statements have been prepared in accordance with South African Statements of Generally Accepted Accounting Practice and in the manner required by the Companies Act, 1973.

The directors are also responsible for the company and group's systems of internal and financial control. These are designed to provide reasonable, but not absolute assurance as to the reliability of the annual financial statements, and to adequately safeguard, verify and maintain accountability of the assets, and to prevent and detect misstatement and loss.

To enable the directors to meet these responsibilities:

- The Board and management set standards, and management implements systems of internal control and accounting and information systems aimed at providing reasonable, but not absolute, assurance that assets are safeguarded and that risks of error, fraud or loss are reduced in a cost-effective manner. These controls, contained in policies and procedures, include the proper delegation of responsibilities and authorities within a clearly defined framework, effective accounting procedures and adequate segregation of duties.
- The Imperial Bank Audit Committee plays an integral role in monitoring compliance with controls and procedures, applicable legislation and appropriate reporting practices. The internal audit function, responsible to the Audit Committee, conducts operational, financial and specific ad-hoc audits in consultation with the external auditors.

- The Board Risk Committee uses various mechanisms to identify, measure and monitor all categories of risk throughout the bank and reports its findings to the Board.

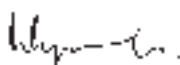
To the best of our knowledge and belief, based on the above, the directors are satisfied that no material breakdown in the operation of the systems of internal control and procedures has occurred during the year under review.

The annual financial statements have been prepared on the going concern basis, since the directors have every reason to believe that the company has adequate resources in place to continue in operation for the foreseeable future.

The annual financial statements have been audited by the joint independent auditing firms. Their report is presented on page 29 of these financial statements.

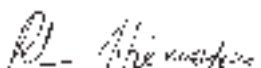
APPROVAL OF ANNUAL FINANCIAL STATEMENTS

The annual financial statements which appear on pages 30 to 63 were approved by the board of directors on 17 February 2004 and are signed on its behalf by:



W G LYNCH

Chairman



R L HIEMSTRA

Chief Executive Officer

**TO THE MEMBERS OF IMPERIAL BANK
LIMITED**

We have audited the annual financial statements and group annual financial statements of Imperial Bank Limited set out on pages 30 to 63 for the year ended 31 December 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

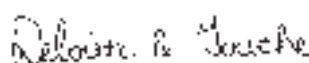
We conducted our audit in accordance with statements of South African Auditing Standards. Those standards require that we plan and perform the audit to obtain reasonable assurance that the financial statements are free of material misstatement. An audit includes:

- 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 company and group at 31 December 2003 and the results of their operations and cash flows for the year then ended in accordance with the South African Statements of Generally Accepted Accounting Practice, and in the manner required by the Companies Act in South Africa.



DELOITTE & TOUCHE

Registered Accountants and Auditors

Chartered Accountants (SA)



KPMG INC

Registered Accountants and Auditors

Chartered Accountants (SA)

Johannesburg

17 February 2004

The directors present their report which forms part of the audited financial statements of the company and group for the year ended 31 December 2003.

NATURE OF BUSINESS

Imperial Bank Limited is a registered bank that offers a range of banking and financial services focusing primarily on asset-based finance to consumer and corporate markets.

HOLDING COMPANY

Previously Imperial Bank Limited was a wholly owned subsidiary of Imperial Bank Holdings Limited, which is controlled by Imperial Holdings Limited. On 1 January 2001 Nedbank Limited acquired 50,1% of the issued share capital of Imperial Bank Limited. The ultimate holding company is Old Mutual plc, which is incorporated in the United Kingdom.

FINANCIAL RESULTS

The results of the company and group are set out in the financial statements and accompanying notes. The group adopted "AC133 – Financial Instruments: Recognition and Measurement" with effect from 1 January 2003.

SHARE CAPITAL

The authorised and issued share capital of the bank is detailed in note 17 to the financial statements.

SUBSIDIARY COMPANIES

The company's interest in subsidiary companies is set out in note 10 to the financial statements. The Motor Finance Corporation (Proprietary) Limited commenced operations during October 2001. It recorded an after-tax profit of R86 057 (2002: R1 957 969) for the year.

With effect from 1 September 2002 Imperial Bank purchased the entire share capital and loan account held by Saambou Bank Limited in New Republic Bank Limited (NRB) for a consideration of R669 877 089. This subsidiary recorded an after tax profit of R207 745 674 (2002: R34 290 343) for the year. The other subsidiary companies detailed in note 10 are currently dormant.

On 1 April 2003 NRB purchased certain assets from the Receiver of Saambou Bank Limited and Invescor Limited. The assets, with a face value of R692 365 929, were purchased for R479 500 000.

INTEREST OF DIRECTORS

No director holds a beneficial interest in the ordinary shares of the company.

DIVIDENDS

No dividend was declared during the year. (2002: R10 992 423).

DIRECTORS AND SECRETARY

Details of the directors and secretary of the company during the year and at the date of this report are as follows:

DIRECTORS

W G Lynch (Irish)	<i>Chairman</i>
R L Hiemstra*	<i>Chief Executive Officer</i>
H R Brody**	
Z E E Banchetti	
R G Cottrell	
E Molobi	
S G Morris	
G S van Niekerk	
R van Wyk	

Changes in the

Board of Directors:

Effective date

New appointments

M Croucamp	1 January 2004
E Kotze*	1 January 2004
D van der Linde*	1 January 2004

*Executive director of Imperial Bank Limited

**Turned non-executive director on 1 July 2003

The Company Secretary is J Delport whose addresses are:

<i>Business address</i>	<i>Postal address</i>
140 Boeing Road East	P O Box 3567
Elma Park	Edenvale
Edenvale	1610
1609	

DIRECTORS' INTEREST IN CONTRACTS

At no time during the year under review were any contracts of significance entered into relative to the company and group's business in which a director had a personal interest.

POST-BALANCE SHEET EVENTS

The directors are not aware of any matter or event which is material to the financial affairs of the

company and group that has occurred between the balance sheet date and the date of the approval of the financial statements.

AUDITORS

A resolution to re-appoint KPMG Inc. and Deloitte & Touche as auditors will be presented at the annual general meeting of the company.

IMPERIAL BANK LIMITED

Secretary's report

In terms of Section 268G(d) of the Companies Act, 1973, as amended, I certify that, to the best of my knowledge and belief, the company has lodged with the Registrar of Companies for the year ended 31 December 2003 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.



J DELPORT

Company Secretary

17 February 2004

1 BASIS OF PREPARATION

The financial statements are prepared in accordance with and comply with South African Statements of Generally Accepted Accounting Practice. They are prepared on a going concern basis utilising the historical cost concept, except for certain financial assets and liabilities where the fair value basis of accounting is adopted. These financial assets and liabilities include:

- financial assets held for trading;
- derivative financial instruments;
- financial instruments elected to be carried at fair value; and
- short-term trading positions

The principal accounting policies, which are consistent with those of the previous year, except where noted otherwise, are set out below.

The effect of the adoption of AC 133 – “Financial Instruments: Recognition and Measurement” with effect from 1 January 2003, is set out in note 16.3 of the accounting policies.

2 CONSOLIDATED FINANCIAL STATEMENTS

The group financial statements incorporate the assets, liabilities and results of the company and its subsidiaries. Subsidiary companies are companies over which control is exercised at either equity or board level. The results of consolidated subsidiaries are dealt with from the effective dates of acquisition until the effective dates of disposal. All inter-company transactions and balances between group companies are eliminated on consolidation.

Special purpose entities (“SPE’s”) are consolidated when the substance of the relationship between the SPE and the group is such that the group controls or assumes the majority of the risk in the SPE.

3 JOINT VENTURES

Joint ventures are those operations over which the group exercises joint control in terms of a contractual agreement. Joint ventures are proportionately consolidated, whereby the group's share of the joint venture assets, liabilities, income and expenses are combined

with similar items, on a line-by-line basis, in the group financial statements.

4 PROPERTY AND EQUIPMENT

Property and equipment are stated at cost less depreciation less accumulated impairment losses and are depreciated on the straight line basis over their estimated useful lives.

The expected useful lives are as follows:

Computer equipment:	3 to 5 years
Motor vehicles:	5 years
Furniture and equipment:	8 years
Property:	40 years

The group impairs an asset to its estimated recoverable amount where there is permanent diminution in the carrying value of the asset. The gain or loss arising on disposal or retirement of an asset is determined as the difference between sales proceeds and the carrying amount of the asset and is recognised in the income statement.

5 REVENUE RECOGNITION

Income earned on instalment credit, leases and rentals is computed using the effective rate of interest inherent in the contracts and is credited to revenue in proportion to the capital balances outstanding. In the case of such advances residing in NRB at the date of purchase (1 September 2002), the income earned is computed using the internal rate of return as estimated at the date of purchase. This rate is significantly higher than the contractual rate as the book was purchased at a discount.

Costs incurred in concluding finance agreements are amortised over the period of the related advances in proportion to the related interest income, and debited to interest received to decrease the effective yield on the related advances. Income from other asset-based finance is recognised on the accrual basis.

Revenue arising from the rendering of advisory services is recognised on the accrual basis when the relevant fees are due and payable to the company in accordance with the substance of the agreement.

Profits, losses and fair value adjustments on trading financial instruments, both realised and unrealised, are recognised in income as incurred.

6 TAXATION

The current tax charge is based on net profit for the year and adjusted for non-taxable and disallowed items. Taxation is calculated using tax rates that have been enacted at balance sheet date.

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

Deferred tax is provided using the liability method for all temporary differences arising between the tax bases of assets and liabilities and their carrying values for financial reporting purposes. Deferred tax is calculated at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled. Deferred tax is charged or credited in the income statement, except when it relates to items credited or charged directly to equity, in which case the deferred tax is also dealt with in equity.

The principal temporary differences arise from wear and tear on lease and rental assets, portfolio and general risk reserves, prepayments, revaluations of financial assets and liabilities and expected delays in the determination of tax obligations.

7 RETIREMENT BENEFITS

It is the policy of the group to provide for the employees' retirement benefits through a defined contribution plan. The contributions are charged to the income statement in the year in which they are incurred.

8 CONTINGENCIES AND COMMITMENTS

Transactions are classified as contingencies where the company's obligations depend on uncertain future events and principally comprise third party obligations irrevocably underwritten by the company. Commitments comprise transactions where the company has committed itself to a future transaction that will normally result in the acquisition of an asset.

9 FINANCIAL INSTRUMENTS

Financial instruments carried on the balance sheet include cash and balances with the central bank, treasury and other eligible bills,

government stocks, amounts due from other banks and fellow subsidiaries, loans and advances to customers, investments, other assets, balances due to other banks, other deposits and other liabilities. The particular recognition methods are disclosed in the individual policy statements associated with each item.

9.1 Advances and impairments

Originated advances

Advances provided directly to a borrower are classified as "assets originated by the enterprise" and are carried at amortised cost. Advances acquired through the acquisition of a business combination are classified as originated loans and also carried at amortised cost. The costs associated with concluding finance agreements are amortised over the period of the related advances.

Purchased advances

Purchased advances relate to those advances acquired after the original loan was provided and where the advances were acquired through the acquisition of an asset not qualifying as a business combination. These advances are classified as "held for trading" and are carried at fair value. Unrealised gains and losses arising as a result of changes in fair value are recognised in the income statement.

Impairments

Financial assets are impaired if their carrying amount exceeds their estimated recoverable value.

A specific impairment will be created if there is evidence that amounts due are not recoverable. The recoverable amount is calculated as the present value of expected future cash flows, including collateral held, discounted at the effective interest rate.

Portfolio impairments are created when components of a specific portfolio or the economy in which it operates indicates there may be probable losses which will only be identified in the future.

Advances are written off when they are identified as irrecoverable. Write-offs are set off against the impairment and recoveries are credited thereto.

Properties in possession

Unsold properties are included under advances and are valued at amortised cost.

9.2 Other financial assets

Investment securities may be held for investment or hedging purposes.

Investment securities held for investing purposes are stated at fair value. Unrealised profit or losses on these securities are recognised directly in income.

Short-term money market assets purchased on the primary market are designated as originated loans and receivables.

Dated securities designated as held for trading are reflected at fair value. Unrealised profits or losses on such securities are included in other income.

Undated securities held for investment purposes are carried at fair value, based on quoted prices.

Valuation represents quoted market value in the case of listed securities, the Public Investment Commissioner's valuation in the case of fixed dated unlisted securities and directors' valuation in the case of other unlisted securities. Unlisted securities are valued based on discounted cash flows.

9.3 Derivatives and hedging

The group is party to financial instruments that reduce exposure to fluctuations in interest rate risk. These instruments include interest rate swaps, index swaps, currency swaps and other derivative instruments. These are initially recognised at cost in the balance sheet and re-measured to fair value.

Interest rate swap agreements protect the company from movements in interest rates. Any differential to be paid or received on an interest rate swap agreement is recognised as a

component of interest revenue or expense over the period of the agreement. Gains and losses on early termination of interest swaps or on the repayment of the borrowings are taken to the income statement.

The fair values of publicly traded derivatives are based on quoted prices and non-traded derivatives based on discounted cash flows. Derivatives are recognised as assets when the fair value is positive and liabilities when the fair value is negative.

Fair value changes of derivatives that meet the criteria for hedge accounting are recognised in the income statement along with the fair value change of the hedged asset or liability.

Hedge accounting is only applied when there is formal documentation identifying the hedging instrument, hedged asset, hedging strategy and hedging relationship. The documentation shows that the hedge is expected to be highly effective in setting off risk and that the hedge is effective.

10 OFFSETTING FINANCIAL INSTRUMENTS

Financial assets and liabilities are offset, and the net balance reported, when there is a legal right to set-off, there is an intention to settle on a net basis, the maturity dates of the asset and liability are the same and the asset and liability are denominated in the same currency.

11 CASH AND CASH EQUIVALENTS

For the purposes of the cash flow statement, cash and cash equivalents comprise cash in hand, deposits held on call with banks, and investment of three months or less in money market instruments, net of bank overdrafts. In the balance sheet, bank overdrafts are included in borrowings in current liabilities.

12 OTHER ASSETS

Other assets are carried at anticipated net realisable value. An estimate is made for impairment based on a review of all outstanding amounts at year end and expected cash flows. Bad debts are written off during the year in which they are identified.

13 OTHER LIABILITIES, INCLUDING CREDITORS AND ACCRUED EXPENSES

Other liabilities, including creditors and accrued expenses, are recognised when there is an obligation to make future payments resulting from the purchase of goods or services.

14 PROVISIONS (AC 130)

Provisions are recognised when there is a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made.

15 COMPARATIVES

Where necessary, comparative figures have been restated and reclassified to deal with a prior year adjustment and to conform with changes in presentation in the current year.

16 CHANGES IN ACCOUNTING POLICY

16.1 Adoption of AC133 – Financial Instruments: Recognition and Measurement (“AC133”)

The group adopted AC133 on 1 January 2003.

The statement requires fair value accounting of certain classes of financial assets and liabilities. Depending on the classification used, fair value changes are recognised in the income statement or directly in equity. The four asset classification categories are:

- Loans and receivables originated by the enterprise. These assets, created by providing money, goods or services directly to a debtor, are carried at amortised cost.
- Held to maturity assets, these financial assets, with fixed or determinable payments and fixed maturity that the group intends and is able to hold to maturity, are carried at amortised cost.
- Assets or liabilities held for trading. These are acquired principally for the purpose of generating a profit from short-term fluctuations in price or dealer's margin, and are carried at fair value.
- Available for sale assets. These assets are those that do not fall into any of the categories mentioned above and are carried at fair value. Unrealised fair value changes are reflected in equity.

The statement requires the designation of all financial instruments into the above categories on initial recognition and the designation is final.

AC133 allows for any financial instruments to be classified as held for trading regardless of the classification categories above, with fair value changes being recognised through the income statement.

The statement does not require the restatement of prior year financial statements and provides for a transitional adjustment to opening equity.

Prior to the implementation of AC133, a general provision for bad debts was calculated on the performing advances book in accordance with the group's policy. The statement requires that provisions be calculated based on all expected future cash flows and thus the general provision of the group has been released. The statement is unclear on the treatment of this adjustment. An interpretation issued by the South African Institute of Chartered Accountants, ED168, prescribes that the correct transitional treatment for this once-off release should be the same as the other transitional adjustments and therefore be transferred to retained income. The bank has complied with this interpretation and transferred an amount of R62,5 million to opening equity.

The credit risk premium applied in charging interest to clients offsets future losses to the extent that risk pricing has been correctly applied. The group's credit risk model includes risk pricing and therefore to the extent that it appears that the credit risk premium is not enough to compensate for future losses inherent in the performing advances portfolio, or insufficient data exists to reliably determine whether such losses exist, a portfolio provision is created. A portfolio provision of R9,5 million was created at 1 January 2003.

A general credit risk reserve of R41,1 million has been created at 1 January 2003 in compliance with the requirements of the Banks Act's regulations.

16.2 Equity accounting for investments in subsidiary companies

During the current year the company changed its policy regarding the method of accounting for investments in subsidiary companies. In the accounts of the company investments in subsidiaries, which were previously accounted for at cost, are equity accounted.

16.3 Impact of adoption of change in accounting policy on opening equity

The table below depicts the adjustment made to opening equity as a result of the change in accounting policies:

	Accumulated funds R'000	Group General credit risk reserve R'000	Total R'000
Closing balance at 31 December 2002	240 607	—	240 607
Opening equity adjusted for:			
Present value adjustment for specific loan impairments*	(59 721)	—	(59 721)
Revaluation of held for trading portfolios	348	—	348
Release of general provision**	62 493	—	62 493
Transfer to general credit risk reserve	(52 979)	52 979	—
Creation of portfolio impairment	(9 514)	—	(9 514)
Tax effect of above	17 909	(11 920)	5 989
Restated opening balance at 1 January 2003	199 143	41 059	240 202

Increase in current income as a result of change in accounting policy

The table below depicts the effect on current income as a result of the change in accounting policies:

	Bad debts expense R'000	Group Other income R'000	Interest income R'000	Total R'000
Present value adjustment for specific loan impairments*	(2 059)	—	—	(2 059)
Revaluation of held for trading portfolios	—	6 877	—	6 877
Release of general provision**	18 875	—	—	18 875
Portfolio impairment	2 517	—	—	2 517
Additional yield earned on NRB assets***	(130 737)	—	130 737	—
Effect on current income	(111 404)	6 877	130 737	26 210
Tax effect	(4 196)	(2 063)	—	(6 259)
Net effect on current income	(115 600)	4 814	130 737	19 951

*AC133 requires that the impairment of advances be calculated based on the present value of expected future cash flows. This results in an increase in the specific impairments provided for previously in order to account for the delay in the collection of the recoverable amount.

**As a result of the risk pricing model implemented through the application of AC133, the general provision, which previously took into account the inherent risk within a portfolio, is no longer required from an accounting perspective. These inherent losses have now been taken into account in the form of portfolio impairments.

*** There is no tax effect on the transfer of the additional yield earned on the NRB assets.

16.3 Impact of adoption of change in accounting policy on opening equity (continued)

The table below depicts the adjustment made to opening equity as a result of the change in accounting policies:

	Accumulated funds R'000	Company General credit risk reserve R'000	Total R'000
Closing balance at 31 December 2002	204 203	—	204 203
Opening equity adjusted for:			
Present value adjustment for specific loan impairments*	(60 041)	—	(60 041)
Revaluation of held for trading portfolios	349	—	349
Release of general provision**	62 493	—	62 493
Transfer to general credit risk reserve	(52 979)	52 979	—
Creation of portfolio impairment	(9 514)	—	(9 514)
Equity accounting of investment in subsidiaries	36 248	—	36 248
Tax effect of above	17 907	(11 920)	5 987
Restated opening balance at 1 January 2003	198 666	41 059	239 725

Increase in current income as a result of change in accounting policy

The table below depicts the effect on current income as a result of the change in accounting policies:

	Bad debts expense R'000	Company Other income R'000	Total R'000
Present value adjustments for specific loan impairments*	(1 964)	—	(1 964)
Revaluation of held for trading portfolios	—	6 877	6 877
Equity accounting of investment in subsidiaries	—	207 716	207 716
Release of general provision**	21 392	—	21 392
Portfolio impairment	2 517	—	2 517
Effect on current income	21 945	214 593	236 538
Tax effect	(6 584)	(2 063)	(8 647)
Net effect on current income	15 361	212 530	227 891

*AC133 requires that the impairment of advances be calculated based on the present value of expected future cash flows. This results in an increase in the specific impairments provided for previously in order to account for the delay in the collection of the recoverable amount.

**As a result of the risk pricing model implemented through the application of AC133, the general provision, which previously took into account the inherent risk within a portfolio, is no longer required from an accounting perspective. These inherent losses have now been taken into account in the form of portfolio impairments.

	Notes	Group 2003 R'000	Group 2002 R'000	Company 2003 R'000	Restated Company 2002 R'000
Interest income	1	2 173 552	1 436 931	1 937 902	1 418 593
Interest expense	1	(1 645 704)	(1 094 616)	(1 619 015)	(1 096 187)
Net interest income		527 848	342 315	318 887	322 406
Other operating income	1	183 678	121 787	136 514	105 313
Income from investment activities	1	16 485	14 012	16 485	14 012
Income from operations		728 011	478 114	471 886	441 731
Operating expenditure	1	(269 105)	(152 037)	(221 252)	(144 177)
Impairment of advances	8	(232 458)	(135 264)	(217 710)	(158 812)
Net income before equity accounted earnings		226 448	190 813	32 924	138 742
Equity accounted earnings of subsidiaries	1	—	—	207 716	36 248
Net income before indirect taxation		226 448	190 813	240 640	174 990
Indirect taxation	2	(12 978)	(4 539)	(12 502)	(4 426)
Net income before taxation		213 470	186 274	228 138	170 564
Taxation	2	18 918	(43 341)	4 250	(27 631)
Net income attributable to shareholders		232 388	142 933	232 388	142 933
Reconciliation between net income attributable to shareholders and headline earnings					
Net income attributable to ordinary shareholders		232 388	142 933	232 388	142 933
Less: profit on sale of fixed assets		274	99	274	99
Headline earnings		232 114	142 834	232 114	142 834

	Notes	Group 2003 R'000	Group 2002 R'000	Company 2003 R'000	Restated Company 2002 R'000
ASSETS					
Cash and balances with central bank	3	275 097	195 168	275 082	195 160
Investment securities	4	520 707	415 553	520 707	415 553
– originated		50 096		50 096	
– held for trading		470 611		470 611	
Derivative financial instruments	5	163 465	1 497	163 465	1 497
– held for trading		163 465		163 465	
Due from other banks	6	41 921	31 766	251 673	71 711
Loans and advances to customers	7	11 500 379	8 348 343	10 919 350	7 781 244
– originated		11 254 426		10 919 350	
– held for trading		245 953		—	
Investments		170 212	93 312	170 212	93 312
– held for trading	9	170 212		170 212	
Investment in subsidiary companies	10	—	—	344 720	706 126
Fixed assets	11	46 960	24 287	44 619	22 541
Deferred tax asset	16	16 464	—	16 464	—
Other assets	12	219 835	159 771	216 330	161 195
Total assets		12 955 040	9 269 697	12 922 622	9 448 339
LIABILITIES					
Subordinated debt instrument		574 811	348 420	574 811	348 420
– held for trading	19	574 811		574 811	
Due to other banks	13	10 766 881	7 773 059	10 766 879	8 035 252
Derivative financial instruments	5	145 641	—	145 641	—
– held for trading		145 641		145 641	
Other deposits	14	328 388	149 008	328 388	149 008
Deferred tax liability	16	—	15 337	—	466
Other liabilities	15	229 504	306 041	197 565	237 517
Total liabilities		12 045 225	8 591 865	12 013 284	8 770 663
SHAREHOLDERS' FUNDS					
Ordinary shares	17	3 020	3 020	3 020	3 020
Share premium	18	434 205	434 205	434 205	434 205
General credit risk reserve		57 638	—	57 638	—
Accumulated funds		414 952	240 607	414 475	240 451
Shareholders' equity		909 815	677 832	909 338	677 676
Total shareholders' funds		909 815	677 832	909 338	677 676
Total equity and liabilities		12 955 040	9 269 697	12 922 622	9 448 339

Group	Share capital (R'000)	Share premium (R'000)	General credit risk reserve (R'000)	Accumulated funds (R'000)	Total (R'000)
Balance at 31 December 2001	2 500	246 850	—	108 666	358 016
Net income for the year	—	—	—	142 933	142 933
Shares issued	2 335	847 665	—	—	850 000
Stamp duty written off	—	(2 125)	—	—	(2 125)
Shares repurchased	(1 815)	(658 185)	—	—	(660 000)
Dividends paid	—	—	—	(10 992)	(10 992)
Balance at 31 December 2002	3 020	434 205	—	240 607	677 832
<i>Effect of adoption of AC133:</i>					
Present value adjustment for specific loan impairments	—	—	—	(41 708)	(41 708)
Revaluation of held for trading portfolio	—	—	—	244	244
Release of general provision	—	—	—	48 432	48 432
Creation of portfolio impairment	—	—	—	(7 373)	(7 373)
Transfer to general credit risk reserve	—	—	41 059	(41 059)	—
Restated balance at 1 January 2003	3 020	434 205	41 059	199 143	677 427
Net Income for the year	—	—	—	232 388	232 388
Transfer to general credit risk reserve	—	—	16 579	(16 579)	—
Dividends paid	—	—	—	—	—
Balance at 31 December 2003	3 020	434 205	57 638	414 952	909 815

Company	Share capital (R'000)	Share premium (R'000)	General credit risk reserve (R'000)	Accumulated funds (R'000)	Total (R'000)
Balance at 31 December 2001	2 500	246 850	—	108 510	357 860
Net income for the year	—	—	—	106 685	106 685
Shares issued	2 335	847 665	—	—	850 000
Stamp duty written off	—	(2 125)	—	—	(2 125)
Shares repurchased	(1 815)	(658 185)	—	—	(660 000)
Dividends paid	—	—	—	(10 992)	(10 992)
Balance at 31 December 2002	3 020	434 205	—	204 203	641 428
<i>Effect of change in accounting policy:</i>					
Equity accounted earnings of subsidiaries	—	—	—	36 248	36 248
Restated balance at 31 December 2002 before AC133	3 020	434 205	—	240 451	677 676
<i>Effect of adoption of AC133:</i>					
Present value adjustment for specific loan impairments	—	—	—	(42 029)	(42 029)
Revaluation held for trading portfolios	—	—	—	244	244
Release of general provision	—	—	—	48 432	48 432
Creation of portfolio impairment	—	—	—	(7 373)	(7 373)
Transfer to general credit risk reserve	—	—	41 059	(41 059)	—
Restated balance at 1 January 2003	3 020	434 205	41 059	198 666	676 950
Net income for the year	—	—	—	232 388	232 388
Transfer to general credit risk reserve	—	—	16 579	(16 579)	—
Dividends paid	—	—	—	—	—
Balance at 31 December 2003	3 020	434 205	57 638	414 475	909 338

Details relating to the implementation of AC133 and the prior year adjustment are contained in the accounting policies on page 35.

	Notes	Group 2003 R'000	Group 2002 R'000	Company 2003 R'000	Restated Company 2002 R'000
Operating activities					
Cash generated from operations	21	476 250	317 968	267 291	291 628
Changes in operating funds		(846 374)	1 129 295	(468 787)	1 186 951
Net increase in income-earning and other assets	22	(4 019 994)	(2 456 736)	(4 466 206)	(2 592 037)
Increase in deposits and other liabilities	23	3 219 060	3 617 539	4 041 844	3 807 306
Taxation (paid)/recovered	24	(45 440)	(20 516)	(44 425)	(17 326)
Dividends paid	25	—	(10 992)	—	(10 992)
Cash (outflow)/inflow from operating activities		(370 124)	1 447 263	(201 496)	1 478 579
Investing activities					
Purchase of subsidiary	26	—	(669 877)	—	(669 877)
Capital expenditure on equipment, furniture and vehicles		(32 612)	(17 538)	(31 404)	(17 538)
– to expand operations		—	—	—	—
– to maintain operations		(32 612)	(17 538)	(31 404)	(17 538)
Proceeds on disposal of fixed assets		2 384	1 564	2 348	1 564
Cash (utilised)/generated from investing activities		(30 228)	(685 851)	(29 056)	(685 851)
Financing activities					
Stamp duty written off against share premium		—	(2 125)	—	(2 125)
Proceeds from issue of share capital		—	850 000	—	850 000
Repurchase of shares		—	(660 000)	—	(660 000)
(Decrease)/increase in long-term borrowings		185 255	(501 709)	185 255	(501 709)
Cash (utilised)/generated from financing activities		185 255	(313 834)	185 255	(313 834)
Net (decrease)/increase in cash and cash equivalents		(215 097)	447 578	(45 297)	478 894
Cash and cash equivalents at the beginning of the year		582 211	134 633	622 148	143 254
Cash and cash equivalents at the end of the year	27	367 114	582 211	576 851	622 148

	Group 2003 R'000	Group 2002 R'000	Company 2003 R'000	Restated Company 2002 R'000
1. NET INCOME BEFORE TAXATION				
<i>is stated after crediting:</i>				
Interest income				
<i>Income from advances</i>				
Interest received on advances	1 593 923	988 118	1 328 554	972 169
Originated loans	1 545 898		1 328 554	
Held for trading	48 025		—	
Dividends on preference shares	7 295	8 294	7 295	8 294
	1 601 218	996 412	1 335 849	980 463
<i>Included in income from advances:</i>				
Additional yield earned on NRB assets	130 737	—	—	—
<i>Other interest income</i>				
Money on call and with central bank	7 382	7 351	5 990	5 512
Investment securities	54 071	32 812	54 071	32 812
Originated				
Short-term money market assets	45 314		45 314	
Held for trading				
Government stock	8 757		8 757	
Interest received on derivative instruments	524 767	398 752	524 767	398 752
Other	(13 886)	1 604	17 225	1 054
	572 334	440 519	602 053	438 130
Total interest income	2 173 552	1 436 931	1 937 902	1 418 593
Interest received on advances has been debited with discount premiums of R46 235 669 (2002: R28 669 000). This premium is paid in respect of motor finance advances discounted by motor dealers and is written off over the life of instalment contracts.				
Other operating income				
Commissions and fees	186 788	109 290	130 382	92 626
Profit on disposal of fixed assets	274	99	274	99
(Loss)/profit on securities and derivative transactions	(10 621)	8 083	(10 621)	8 083
Mark-to-market gains/Fair value gains	6 877	—	6 877	—
Other income	360	4 315	9 602	4 505
Total	183 678	121 787	136 514	105 313

	Group 2003 R'000	Group 2002 R'000	Company 2003 R'000	Restated Company 2002 R'000
1. NET INCOME BEFORE TAXATION <i>(continued)</i>				
<i>is stated after crediting:</i>				
Other operating income includes the following amounts received from related companies:				
– commissions and fees	9 789	12 134	9 789	12 134
Income from investment activities				
Income from investments	16 485	14 012	16 485	14 012
Income from investment in subsidiaries				
Equity accounted earnings of subsidiaries	—	—	207 716	36 248
<i>and charging:</i>				
Interest expense				
Call deposits	996 416	604 334	996 416	604 334
Negotiable certificates of deposit	—	55	—	55
Fixed and notice deposits	36 928	32 807	36 928	32 807
Unsecured loans	48 906	44 473	48 906	44 473
Interest paid on derivative instruments	536 235	393 055	536 235	393 056
Other	27 219	19 892	530	21 462
Total	1 645 704	1 094 616	1 619 015	1 096 187
Net interest income includes the following amounts received from and paid to related companies:				
– interest received on advances/deposits with related companies	2 470	10 378	2 470	10 378
– interest paid on deposits/overdrafts with related companies	(992 663)	(605 549)	(992 663)	(605 549)
– interest paid on subordinated debt	(23 492)	(18 259)	(23 492)	(18 259)
– interest paid on swap agreements	(1 223)	(3 100)	(1 223)	(3 100)
Net interest paid to related parties	(1 014 908)	(616 530)	(1 014 908)	(616 530)
Operating expenditure				
<i>includes:</i>				
Auditors' remuneration				
Audit fees				
– overprovision in respect of prior year	(671)	(113)	(671)	(113)
– for services in current year	3 017	807	2 783	637
Fees for other services	266	908	209	518
Total	2 612	1 602	2 321	1 042
Depreciation of fixed assets	7 829	4 166	7 251	3 994

	Group 2003 R'000	Group 2002 R'000	Company 2003 R'000	Restated Company 2002 R'000
1. NET INCOME BEFORE TAXATION <i>(continued)</i>				
<i>is stated after charging:</i>				
Staff costs				
Salaries and wages	135 710	77 925	96 306	72 212
Contributions to pension, medical and other staff funds	18 770	6 244	17 091	6 069
Training and other costs	6 589	4 052	6 155	4 002
Total	161 069	88 221	119 552	82 283
Operating lease charges				
Computer equipment	15 569	10 775	15 569	10 775
Other equipment	27	13	12	11
Office premises	7 290	3 715	5 549	3 207
Total	22 886	14 503	21 130	13 993
Other professional fees	5 578	3 885	4 561	3 870
Directors' emoluments				
Executive directors	3 060	2 400	3 060	2 400
Salaries, allowances and contributions: R L Hiemstra	2 171	1 654	2 171	1 654
H R Brody	889	746	889	746
Other benefits	—	—	—	—
Non-executive directors	520	200	520	200
Fees: Zoe Banchetti	75	—	75	—
Rick Cottrell	125	125	125	125
Bill Lynch	95	—	95	—
Eric Molobi	40	—	40	—
Stuart Morris	75	—	75	—
Rene van Wyk	80	—	80	—
Gerhard van Niekerk	75	15	75	15
Timothy Thahane	—	60	—	60
Martin Croukamp	45	—	45	—
Reversal out prior year accrual	(90)	—	(90)	—
Total	3 580	2 600	3 580	2 600

	Group 2003 R'000	Group 2002 R'000	Company 2003 R'000	Restated Company 2002 R'000
1. NET INCOME BEFORE TAXATION <i>(continued)</i>				
Other operating expenditure	65 551	37 060	62 857	36 395
Total operating expenditure	269 105	152 037	221 252	144 177
Operating expenditure includes the following amounts from transactions with related parties:				
– operating lease charges: computer equipment	15 472	10 775	15 472	10 775
– operating lease charges: office premises	1 411	2 023	1 411	2 023
– administration fees	1 058	473	1 058	473
2. TAXATION				
Taxation on income				
South African normal tax:				
– current	6 958	32 531	6 808	31 692
– deferred current	(10 773)	11 537	(10 804)	(3 334)
– prior year overprovision				
current tax	(64)	(173)	(117)	(173)
deferred tax	(168)	(554)	(137)	(554)
Reversal of NRB tax provision raised	(14 871)	—	—	—
Total normal tax	(18 918)	43 341	(4 250)	27 631

Normal tax includes amounts refundable to partnerships in respect of taxation.

Based on the provisional tax assessments of New Republic Bank Limited for the years of assessment up to and including March 2001, NRB has an assessable tax loss of R810 809 234. Until the provisional tax assessments are confirmed, NRB has neither raised a deferred tax asset nor a normal tax liability and has accounted for no income tax other than that of its joint venture, SA Axle Finance (Pty) Limited.

	Group 2003 R'000	Group 2002 R'000	Company 2003 R'000	Restated Company 2002 R'000
2. TAXATION (continued)				
Other taxation				
Unclaimable value added tax	10 100	3 237	9 941	3 218
Other indirect taxes	2 878	1 302	2 561	1 208
Total other taxation	12 978	4 539	12 502	4 426
Total taxation	(5 940)	47 880	8 252	32 057
<i>Reconciliation of tax rate</i>				
Statutory rate of taxation on income	30,0%	30,0%	30,0%	30,0%
Effect of prior year overprovision	(0,1%)	(0,4%)	(0,1%)	(0,5%)
Effect of prior year NRB tax reversal	(7,0%)	—	—	—
Effect of no NRB tax provision	(27,1%)	—	—	—
Effect of revaluation of investment in subsidiaries	—	—	(27,3%)	—
Effect of other permanent differences	(3,2%)	(13,0%)	(3,0%)	(18,1%)
Contribution to partnerships	(1,5%)	6,7%	(1,5%)	9,3%
Effective rate of normal taxation on income net of other taxation	(8,9%)	23,3%	(1,9%)	20,7%
Effective rate of total taxation	(2,6%)	25,1%	3,4%	23,1%
3. CASH AND BALANCES WITH CENTRAL BANK				
Coins and bank notes	24	16	9	8
Balances with central bank	275 073	195 152	275 073	195 152
Total	275 097	195 168	275 082	195 160
4. INVESTMENT SECURITIES				
Originated:				
Treasury bills	50 096	355 277	50 096	355 277
Held for trading:				
Government stock	470 611	60 276	470 611	60 276
	520 707	415 553	520 707	415 553
<i>Maturity analysis</i>				
Maturing in under one year	50 096	355 277	50 096	355 277
Maturing between one and three years	130 261	5 302	130 261	5 302
Maturing after three years	340 350	54 974	340 350	54 974
Total	520 707	415 553	520 707	415 553
The maturity analysis is based on the residual period to contractual maturity. A register of treasury bills and government stocks is available for inspection at the registered office of the company.				

	Group 2003		Company 2003	
	Notional R'000	Fair value R'000	Notional R'000	Fair value R'000
5. DERIVATIVE FINANCIAL INSTRUMENTS				
The group has entered into interest rate swap agreements with an aggregate notional capital amount of R5 816 million (December 2002: R4 478 million).				
The majority of swap commitments entered into are of a back-to-back nature with no net open position. Certain swap agreements are, however, entered into as part of the interest rate risk management strategies of the group. The group enters into interest rate swap agreements for hedging purposes in order to reduce the risk faced due to fluctuations in interest rates. Hedge accounting is not currently applied to these instruments.				
The following derivatives are used for trading or hedging purposes:				
ASSETS				
<i>Held for trading</i>				
Interest rate swaps	3 431 829	163 465	3 431 829	163 465
LIABILITIES				
<i>Held for trading</i>				
Interest rate swaps	2 384 819	(145 641)	2 384 819	(145 641)
	5 816 648	17 824	5 816 648	17 824
	Group 2002		Restated Company 2002	
	Notional R'000	Fair value R'000	Notional R'000	Fair value R'000
ASSETS AND LIABILITIES				
Interest rate swaps	4 478 000	1 497	4 478 000	1 497
	4 478 000	1 497	4 478 000	1 497
Note: In accordance with AC133, financial instruments at 31 December 2002 have not been reclassified.				
Related party agreements consist of an aggregate notional value of R2 146 million (December 2002: R1 599 million).				

	Group 2003 R'000	Group 2002 R'000	Company 2003 R'000	Restated Company 2002 R'000
6. DUE FROM OTHER BANKS				
Money on call				
– interbank	41 921	31 766	251 673	71 711
Deposits with other banks include the following deposits with related companies:				
– treasury accounts	—	4 248	—	4 248
	Group 2003			Company 2003
	Originated	Trading	Total	Originated
7. LOANS AND ADVANCES TO CUSTOMERS				
<i>Category analysis</i>				
Instalment finance	7 592 202	193 235	7 785 437	7 368 127
Mortgages	3 730 443	11 352	3 741 795	3 495 500
Other	480 422	41 366	521 788	498 713
Total advances	11 803 067	245 953	12 049 020	11 362 340
Less: Impairment provisions	(548 641)	—	(548 641)	(442 990)
Net advances	11 254 426	245 953	11 500 379	10 919 350
	Group			Restated Company
	2002			2002
	Total			Total
<i>Category analysis</i>				
Instalment finance	5 505 245			5 118 910
Mortgages	2 859 995			2 504 549
Other	478 240			433 354
Total advances	8 843 480			8 056 813
Less: Provision for doubtful advances	(495 137)			(275 569)
Net advances	8 348 343			7 781 244

	Group 2003 R'000	Group 2002 R'000	Company 2003 R'000	Restated Company 2002 R'000
7. LOANS AND ADVANCES TO CUSTOMERS <i>(continued)</i>				
<i>Sectoral analysis</i>				
Individuals	5 966 783	3 855 602	5 842 214	3 739 302
Manufacturing	135 876	123 424	72 811	87 965
Wholesale and trade	48 915	54 727	5 930	8 152
Retailers, catering and accommodation	74 467	43 541	62 639	32 465
Agriculture, hunting, forestry and fishing	16 930	15 543	4 969	3 976
Mining and quarrying	9 478	45 610	4 665	41 500
Banks	—	—	—	—
Financial services, insurance and real estate	328 718	1 630 845	75 982	1 354 220
Government and public sector	75 117	22 437	74 421	22 437
Building and property development	2 140 860	1 014 404	2 037 929	982 334
Transport, storage and communication	2 355 292	1 659 782	2 257 323	1 476 012
Other services	896 584	377 565	923 457	308 450
Total advances	12 049 020	8 843 480	11 362 340	8 056 813
<i>Maturity analysis</i>				
Up to one month	638 001	324 565	637 407	317 115
one to three months	297 203	543 207	1 148 756	503 818
three to 12 months	2 503 268	1 566 794	1 560 934	1 521 323
Maturing within one and five years	6 767 544	5 048 791	6 420 994	4 520 642
Maturing after five years	1 843 004	1 360 123	1 594 249	1 193 915
Total advances	12 049 020	8 843 480	11 362 340	8 056 813
The maturity analysis of advances is based on the residual period to contractual maturity, comprising of only South African advances. Advances are mostly repriced with changes in the prime overdraft rate.				
Non-performing loans and advances	636 271	395 937	493 828	345 374
Loans and advances to customers include the following balances with related companies:				
– instalment sale, mortgage and other advances	20 805	57 193	20 805	57 193

	Group 2003 R'000	Group 2002 R'000	Company 2003 R'000	Restated Company 2002 R'000
8. IMPAIRMENT OF ADVANCES				
Balance at beginning of the year	495 137	144 557	275 569	144 557
Amounts written off during the year	(51 379)	(27 233)	(51 379)	(30 160)
	443 758	117 324	224 190	114 397
Present value adjustments relating to AC133	59 721	—	60 041	—
Impairments raised during the year	232 458	135 264	217 710	158 812
Additional yield earned on NRB assets credited to interest income	(130 737)	—	—	—
Acquisition of subsidiary	—	242 645	—	—
Creation of portfolio impairment	9 514	—	9 514	—
Other (decreases)/increases in impairments	(3 580)	(96)	(5 972)	2 360
Release of general provision	(62 493)	—	(62 493)	—
Balance at end of the year	548 641	495 137	442 990	275 569
<i>Comprising</i>				
Specific loan impairment	541 645	—	435 994	—
Portfolio impairment	6 996	—	6 996	—
Total	548 641	—	442 990	—
<i>Comparatives have not been restated for AC133:</i>				
Specific provision	—	428 175	—	213 076
General provision	—	66 962	—	62 493
	—	495 137	—	275 569
9. INVESTMENTS				
<i>Held for trading:</i>				
Endowment policy	109 796	93 312	109 796	93 312
Investment in Imperial Holdings bonds	50 537	—	50 537	—
Investment in Eagle bonds	9 879	—	9 879	—
Total investments	170 212	93 312	170 212	93 312

The investment in the endowment policy is linked to the value and performance of a facility granted to Safair (Proprietary) Limited and is yielding a return of approximately 16,6% per annum. The amount in the balance sheet represents the fair value of the investment.

The Eagle bonds were issued on 10 June 2003 at a nominal value of R10 million bearing a coupon rate of 9,956%. Interest payments and instalments are received on a quarterly basis. The Imperial Holdings bond was issued on 2 December 2003 at a nominal value of R50 million bearing a coupon rate of 10%.

	Group 2003 R'000	Group 2002 R'000	Company 2003 R'000	Restated Company 2002 R'000
10. INVESTMENT IN SUBSIDIARY COMPANIES				
Unlisted shares, at cost	—	—	43 019	43 019
Equity accounted earnings of subsidiary companies	—	—	243 964	36 248
Loans from subsidiaries	—	—	(1 048 623)	—
Loans to subsidiaries	—	—	1 106 360	626 859
Total investment in subsidiaries	—	—	344 720	706 126
Directors' valuation (excluding loans)	—	—	286 983	79 267
<p>All subsidiary companies are wholly owned and are used mainly for the provision of financing facilities to clients of the bank.</p> <p>New Republic Bank Limited is also active in the rendering of collection services within the financial industry. Net other receivables and payables from subsidiaries amounting to R209,7 million (December 2002: R5,4 million) are included in notes 6, 12 and 15.</p> <p>The following subsidiaries are held directly by the company:</p>				
	% held	No of shares	Cost of shares (R)	
The Motor Finance Corporation (Pty) Limited	100	100	100	
SMS Leasing and Finance Company (Pty) Limited	100	1 000	1 000	
Imperial Equity Finance (Pty) Limited	100	100	100	
New Republic Bank Limited	100	32 856 964	43 017 864	

	Group 2003 R'000	Group 2002 R'000	Company 2003 R'000	Restated Company 2002 R'000
11. FIXED ASSETS				
Computer equipment				
Book value at beginning of the year	10 277	1 644	9 245	1 644
– cost	15 059	5 084	13 899	5 084
– accumulated depreciation	(4 782)	(3 440)	(4 654)	(3 440)
Additions	6 166	10 527	6 059	9 366
Disposals	—	(542)	—	(542)
Depreciation for the year	(3 390)	(1 352)	(2 978)	(1 223)
Book value at end of the year	13 053	10 277	12 326	9 245
– cost	21 220	15 059	19 952	13 899
– accumulated depreciation	(8 167)	(4 782)	(7 626)	(4 654)
Motor vehicles				
Book value at beginning of the year	9 298	5 897	9 253	5 897
– cost	11 579	6 541	11 530	6 541
– accumulated depreciation	(2 281)	(644)	(2 277)	(644)
Additions	9 959	6 186	8 912	6 137
Disposals	(2 105)	(915)	(2 070)	(915)
Depreciation for the year	(2 896)	(1 870)	(2 849)	(1 866)
Book value at end of the year	14 256	9 298	13 246	9 253
– cost	18 345	11 579	17 216	11 530
– accumulated depreciation	(4 089)	(2 281)	(3 970)	(2 277)
Furniture and equipment				
Book value at beginning of the year	4 712	2 921	4 043	2 921
– cost	7 811	5 082	7 103	5 082
– accumulated depreciation	(3 099)	(2 161)	(3 060)	(2 161)
Additions	6 487	2 743	6 433	2 035
Disposals	(5)	(8)	(5)	(8)
Depreciation for the year	(1 397)	(944)	(1 278)	(905)
Book value at end of the year	9 797	4 712	9 193	4 043
– cost	14 286	7 811	13 524	7 103
– accumulated depreciation	(4 489)	(3 099)	(4 331)	(3 060)
Owned buildings				
Book value at beginning of the year	—	—	—	—
– cost	—	—	—	—
– accumulated depreciation	—	—	—	—
Additions	10 000	—	10 000	—
Disposals	—	—	—	—
Depreciation for the year	(146)	—	(146)	—
Book value at end of the year	9 854	—	9 854	—
– cost	10 000	—	10 000	—
– accumulated depreciation	(146)	—	(146)	—

	Group 2003 R'000	Group 2002 R'000	Company 2003 R'000	Restated Company 2002 R'000
11. FIXED ASSETS <i>(continued)</i>				
Total fixed assets				
Book value at beginning of the year	24 287	10 462	22 541	10 462
– cost	34 449	16 707	32 532	16 707
– accumulated depreciation	(10 162)	(6 245)	(9 991)	(6 245)
Additions	32 612	19 456	31 404	17 538
Disposals	(2 110)	(1 465)	(2 075)	(1 465)
Depreciation for the year	(7 829)	(4 166)	(7 251)	(3 994)
Book value at end of the year	46 960	24 287	44 619	22 541
– cost	63 851	34 449	60 692	32 532
– accumulated depreciation	(16 891)	(10 162)	(16 073)	(9 991)
Information regarding land and buildings as required in terms of Schedule 4 of the Companies Act is kept at the companies' registered offices and is available for inspection.				
12. OTHER ASSETS				
Debtors and prepayments	219 835	159 771	216 330	161 195
Included in the above items are the following balances with related parties:				
– included in other assets	112 892	93 891	112 892	93 891
13. DUE TO OTHER BANKS				
Repayable on demand	5 308 229	2 292 652	5 308 229	2 554 845
three months or less but not repayable on demand	5 308 293	4 967 371	5 308 291	4 967 371
one year or less but over three months	130 989	382 105	130 989	382 105
five years or less but over one year	19 370	130 931	19 370	130 931
Total	10 766 881	7 773 059	10 766 879	8 035 252
Deposits from other banks include the following deposits from related companies:				
– call deposits	10 541 000	7 642 109	10 541 000	7 642 109

	Group 2003 R'000	Group 2002 R'000	Company 2003 R'000	Restated Company 2002 R'000
14. OTHER DEPOSITS				
Call deposits	164 185	58 682	164 185	58 682
Fixed and notice deposits	164 203	90 326	164 203	90 326
Total	328 388	149 008	328 388	149 008
<i>Maturity analysis</i>				
Repayable on demand	164 185	58 682	164 185	58 682
three months or less but not repayable on demand	103 910	37 861	103 910	37 861
one year or less but over three months	60 293	—	60 293	—
five years or less but over one year	—	52 465	—	52 465
Total	328 388	149 008	328 388	149 008
Other deposits include the following deposits from related companies: – call and fixed notice deposits	102 362	46 311	102 362	46 311
15. OTHER LIABILITIES				
Creditors and other provisions	232 265	283 234	201 359	216 081
Current taxation	(680)	24 183	(37)	19 639
Other indirect taxes	(2 081)	(1 376)	(3 757)	1 797
Total	229 504	306 041	197 565	237 517
Included in creditors and other provisions are the following amounts related and due to related parties:	3 664	4 725	3 664	4 725

	Group 2003 R'000	Group 2002 R'000	Company 2003 R'000	Restated Company 2002 R'000
16. DEFERRED INCOME TAX LIABILITY/(ASSET)				
At the beginning of the period	15 337	4 354	466	4 354
Income statement charge	(10 773)	11 537	(10 804)	(3 334)
Effect of adopting AC133 (transitional adjustment)	(5 989)	—	(5 989)	—
Reversal of NRB tax provision raised	(14 871)	—	—	—
Prior year (over)/under provision	(168)	(554)	(137)	(554)
At the end of the period	(16 464)	15 337	(16 464)	466
<i>Deferred taxation analysis</i>				
Deferred taxation balance is made up of the following:				
– provisions and prepayments	2 466	26 099	2 466	9 887
– unrelieved tax losses	(20 773)	—	(20 773)	—
– fair value and impairments	(2 167)	—	(2 167)	—
– fixed assets, leases and other assets	(2 563)	4 625	(2 563)	4 625
– other timing differences	6 573	(15 387)	6 573	(14 046)
Deferred tax	(16 464)	15 337	(16 464)	466
17. ORDINARY SHARES				
<i>Authorised</i>				
500 000 000 ordinary shares of R0,01 each	5 000	5 000	5 000	5 000
<i>Issued</i>				
301 998 332 (2002: 301 998 332) ordinary shares of R0,01 each	3 020	3 020	3 020	3 020
<i>Unissued shares</i>				
The unissued shares are under the control of the directors until the forthcoming annual general meeting.				
18. SHARE PREMIUM				
Balance at end of the year	434 205	434 205	434 205	434 205

	Group 2003 R'000	Group 2002 R'000	Company 2003 R'000	Restated Company 2002 R'000
19. SUBORDINATED DEBT INSTRUMENT				
Balance at end of the year	574 811	348 420	574 811	348 420
<p>The first tap of the debentures were issued on 4 June 2002 and are redeemable on 4 December 2008. The nominal value of the first tap is R350 000 000. The coupon is paid twice annually and accrues at the rate of 13,5% per annum. The debentures are unsecured. A second tap was concluded on 3 December 2003 at a nominal value of R165 000 000. The debentures were issued under the same terms and conditions as the first issue. Interest rate risk has been hedged through the use of derivative instruments. R160 million of the first tap and R50 million of the second tap are held by related parties to the group. The issued debentures are designated as held for trading. An interest rate swap agreement has been entered into to reduce the effect of fluctuations in the fair value of the issued debentures.</p>				
20. JOINT VENTURE				
<p>The group has a 66% interest in SA Axle (Pty) Limited, which is engaged in providing finance to the trucking industry. There are no contingencies or capital commitments resulting from the group's participation in the joint venture at the year end.</p> <p>The summarised financial information relating to the group's share in the joint venture which is included in the group financial statements is as follows:</p>				
Current assets	764	23	—	—
Interest-bearing assets	22 414	35 810	—	—
Current liabilities	—	(1 300)	—	—
Interest-bearing debt: long term	(24 062)	(34 434)	—	—
	(884)	99	—	—
Profit after tax	(1 034)	99	—	—
21. RECONCILIATION OF NET INCOME BEFORE TAXATION TO CASH GENERATED FROM OPERATIONS				
Net income before taxation	226 448	190 813	240 640	174 990
Adjusted for:				
– depreciation	7 829	4 166	7 251	3 994
– income from investments	(16 485)	(14 012)	(16 485)	(14 012)
– equity accounted earnings of subsidiaries	—	—	(207 716)	(36 248)
– amortisation of bond issue costs, discount on issue and fair value adjustment	25 738	129	25 738	129
– loss/(profit) on disposal of fixed assets	(274)	(99)	(274)	(99)
– movement in leave pay provisions	536	1 803	427	1 702
– charge for bad and doubtful debts	232 458	135 168	217 710	161 172
Total	476 250	317 968	267 291	291 628

	Group 2003 R'000	Group 2002 R'000	Company 2003 R'000	Restated Company 2002 R'000
22. NET INCREASE IN INCOME-EARNING AND OTHER ASSETS				
Advances	(3 391 236)	(2 605 134)	(3 362 877)	(2 738 506)
Government stocks	(411 036)	183 658	(411 036)	183 658
Loan to subsidiary	—	—	(479 500)	—
Acquisition of investment	(60 416)	—	(60 416)	—
Movement in derivative assets	(97 242)	—	(97 242)	—
Other assets	(60 064)	(35 791)	(55 135)	(37 189)
Acquisition of subsidiary's current assets	—	531	—	—
Total	(4 019 994)	(2 456 736)	(4 466 206)	(2 592 037)
23. INCREASE IN DEPOSITS AND OTHER LIABILITIES				
Due to other banks	2 993 822	3 535 209	2 731 627	3 797 402
Movement in other deposits	179 380	—	179 380	—
Movement in derivative liabilities	97 363	—	97 363	—
Loan from subsidiary	—	—	1 048 623	—
Other liabilities excluding taxation due	(51 505)	85 825	(15 149)	9 904
Acquisition of subsidiary's current liabilities	—	(3 495)	—	—
Total	3 219 060	3 617 539	4 041 844	3 807 306
24. TAXATION PAID				
Amount unpaid at beginning of the year	22 807	2 883	21 436	2 817
– taxation	24 183	424	19 639	302
– net balance in respect of value added tax and other taxes	(1 376)	2 459	1 797	2 515
Taxation charged to the income statement	(5 940)	47 880	8 252	32 057
Tax effect of AC133 transitional adjustment	(5 989)	—	(5 987)	—
Reverse: change in deferred tax	31 801	(10 983)	16 930	3 888
Acquisition of subsidiary's tax liabilities	—	3 543	—	—
Amount recoverable/(unpaid) at end of the period	42 679	43 323	40 631	38 762
– taxation	2 761	(22 807)	3 794	(21 436)
– net balance in respect of value added tax and other taxes	680	(24 183)	37	(19 639)
– net balance in respect of value added tax and other taxes	2 081	1 376	3 757	(1 797)
Total (paid)/recovered	(45 440)	(20 516)	(44 425)	(17 326)

	Group 2003 R'000	Group 2002 R'000	Company 2003 R'000	Restated Company 2002 R'000
25. DIVIDENDS PAID				
Amount unpaid at beginning of the year	—	—	—	—
As per Statement of Changes in Equity	—	(10 992)	—	(10 992)
	—	(10 992)	—	(10 992)
Amount unpaid at end of the year	—	—	—	—
Cash flow	—	(10 992)	—	(10 992)
26. ACQUISITION OF SUBSIDIARY				
In the previous year the company purchased 100% of the shares in New Republic Bank Limited. The fair value of the assets and liabilities assumed are as follows:				
Loans and advances	—	917 112		
Provisions on loans and advances	—	(242 645)		
Fixed assets	—	1 917		
Current assets	—	531		
Current liabilities (excluding taxation liabilities)	—	(3 495)		
Taxation liabilities	—	(3 543)		
Cash flow effect (purchase consideration)	—	669 877		
Consisting of:				
Loan account	—	(626 859)		
Equity	—	(43 018)		
	—	(669 877)		
27. CASH AND CASH EQUIVALENTS				
For the purposes of the cash flow statement, cash and cash equivalents comprise the following balances with a residual to maturity of 90 days:				
– cash and balances with central banks	275 097	195 168	275 082	195 160
– treasury bills and other eligible bills	50 096	355 277	50 096	355 277
– due from other banks	41 921	31 766	251 673	71 711
	367 114	582 211	576 851	622 148

	Group 2003 R'000	Group 2002 R'000	Company 2003 R'000	Restated Company 2002 R'000
28. CONTINGENCIES AND COMMITMENTS				
Guarantees	143 191	161 236	143 191	161 236
Contingent legal claims	7 500	1 805	7 500	1 805
Unutilised facilities	683 472	761 215	683 472	761 215
	834 163	924 256	834 163	924 256
No material losses, other than those for which provision has been made in the financial statements, are anticipated as a result of these transactions.				
Included in contingencies and commitments are the following amounts in respect of related parties:				
– guarantees	54 067	15 535	54 067	15 535
29. OTHER COMMITMENTS				
<i>Capital expenditure</i>				
Authorised but not contracted for	1 920	1 078	—	1 078
<i>Operating lease commitments</i>				
Less than one year	13 012	12 772	13 012	11 349
More than one year but less than five	26 846	19 453	26 846	16 714
More than five years	—	2 867	—	2 867
	39 858	35 092	39 858	30 930
30. RETIREMENT BENEFIT INFORMATION				
All employees are members of the Imperial Group Pension Fund or the Imperial Bank Provident Fund. These funds are defined contribution plans and are subject to the Pension Funds Act, 1956.				
Pension fund contributions expensed	11 630	4 064	10 360	3 895

31. RELATED PARTY TRANSACTIONS

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions. The bank is controlled by Nedbank Limited which owns 50,1% of the bank's ordinary shares. Imperial Holdings Limited and its subsidiaries and Old Mutual plc are also related parties. Imperial Holdings Limited through Imperial Financial Holdings holds 49,9% of the ordinary shares of the bank.

A number of banking transactions are entered into with related parties in the normal course of business, including deposits. These transactions were carried out on commercial terms and conditions and at market related rates. The volumes of related party transactions, outstanding balances at the year end, and related expenses for the year are detailed in notes 1, 5, 6, 7, 9, 12, 13, 14, 15, 19, 28 and 31.

32. INTEREST RATE MISMATCH EXPOSURE (31 December 2003)

The table below summarises the exposure to interest rate risks of the group. It includes the assets and liabilities at carrying amounts, categorised by the earlier of contractual repricing or maturity dates.

	Demand (R'000)	1 to 3 months (R'000)	4 to 12 months (R'000)	1 to 5 years (R'000)	Over 5 years (R'000)	Non- interest bearing (R'000)	Total (R'000)
Assets							
Cash and balances with the central bank	—	—	—	—	—	275 097	275 097
Treasury bills and other eligible bills	—	50 096	—	—	—	—	50 096
Government stocks	—	—	—	130 261	340 350	—	470 611
Derivative financial instruments	—	—	3 132	119 463	40 870	—	163 465
Due from other banks	41 921	—	—	—	—	—	41 921
Loans and advances to customers	—	10 939 615	60 479	445 715	54 570	—	11 500 379
Investments	—	—	—	9 879	50 537	109 796	170 212
Fixed assets	—	—	—	—	—	46 960	46 960
Other assets	—	—	—	—	—	236 299	236 299
Total assets	41 921	10 989 711	63 611	705 318	486 327	668 152	12 955 040
Liabilities							
Due to other banks	5 308 229	5 308 293	130 989	19 370	—	—	10 766 881
Other deposits	164 185	103 910	60 293	—	—	—	328 388
Subordinated debt	—	—	—	—	574 811	—	574 811
Derivative financial instruments	—	—	3 394	103 091	39 156	—	145 641
Other liabilities	—	—	—	—	—	1 139 319	1 139 319
Total liabilities	5 472 414	5 412 203	194 676	122 461	613 967	1 139 319	12 955 040
On balance sheet interest sensitivity gap	(5 430 493)	5 577 508	(131 065)	582 857	(127 640)	(471 167)	—
Cumulative interest rate gap	(5 430 493)	147 015	15 950	598 807	471 167	—	—

32. INTEREST RATE MISMATCH EXPOSURE *(continued)***Interest rate mismatch exposure (31 December 2002)**

	Demand (R'000)	1 to 3 months (R'000)	4 to 12 months (R'000)	1 to 5 years (R'000)	Over 5 years (R'000)	Non- interest bearing (R'000)	Total (R'000)
Assets							
Cash and balances with the central bank	—	—	—	—	—	195 168	195 168
Treasury bills and other eligible bills	—	355 277	—	—	—	—	355 277
Government stocks	—	—	—	31 859	28 417	—	60 276
Derivative financial instruments	—	—	—	—	—	1 497	1 497
Due from other banks	31 766	—	—	—	—	—	31 766
Loans and advances to customers	—	7 964 936	—	383 407	—	—	8 348 343
Investments	—	—	—	—	—	93 312	93 312
Fixed assets	—	—	—	—	—	24 287	24 287
Other assets	—	—	—	—	—	159 771	159 771
Total assets	31 766	8 320 213	—	415 266	28 417	474 035	9 269 697
Liabilities							
Due to other banks	2 292 652	4 967 371	382 105	130 931	—	—	7 773 059
Other deposits	58 682	37 861	—	52 465	—	—	149 008
Subordinated debt	—	—	—	—	348 420	—	348 420
Other liabilities	—	—	—	—	—	999 210	999 210
Total liabilities	2 351 334	5 005 232	382 105	183 396	348 420	999 210	9 269 697
On balance sheet interest sensitivity gap	(2 319 568)	3 314 981	(382 105)	231 870	(320 003)	(525 175)	—
Hedging instruments	—	(218 613)	—	2 315	216 298	—	—
Interest sensitivity gap after derivatives	(2 319 568)	3 096 368	(382 105)	234 185	(103 705)	(525 175)	—
Cumulative interest rate gap	(2 319 568)	776 800	394 695	628 880	525 175	—	—

33. LIQUIDITY RISK (31 December 2003)

The table below summarises the assets and liabilities of the group into relevant maturity groupings based on the remaining period at balance sheet date to contractual maturity or repayment date.

	Demand (R'000)	1 to 3 months (R'000)	4 to 12 months (R'000)	1 to 5 years (R'000)	Over 5 years (R'000)	Other (R'000)	Total (R'000)
Assets							
Cash and balances with the central bank	275 097	—	—	—	—	—	275 097
Treasury bills and other eligible bills	—	50 096	—	—	—	—	50 096
Government stocks	—	—	—	130 261	340 350	—	470 611
Due from other banks	41 921	—	—	—	—	—	41 921
Loans and advances to customers	776 864	936 122	2 626 627	5 297 709	1 863 057	—	11 500 379
Investments	—	—	—	119 675	50 537	—	170 212
Fixed assets	—	—	—	—	—	46 960	46 960
Derivative financial instruments	—	—	3 132	119 463	40 870	—	163 465
Other assets	—	18 129	91 797	126 373	—	—	236 299
Total assets	1 093 882	1 004 347	2 721 556	5 793 481	2 294 814	46 960	12 955 040
Liabilities							
Due to other banks	—	—	130 989	19 370	10 616 522	—	10 766 881
Other deposits	114 185	153 910	60 293	—	—	—	328 388
Subordinated debt	—	—	—	—	574 811	—	574 811
Derivative financial instruments	—	—	3 394	103 091	39 156	—	145 641
Other liabilities	—	154 886	109 159	—	—	875 274	1 139 319
Total liabilities	114 185	308 796	303 835	122 461	11 230 489	875 274	12 955 040
Net liquidity gap (contractual)	979 697	695 551	2 417 721	5 671 020	(8 935 675)	(828 314)	—
Cumulative contractual liquidity gap	979 697	1 675 248	4 092 969	9 763 989	828 314	—	—

33. LIQUIDITY RISK *(continued)***Liquidity risk (31 December 2002)**

	Demand (R'000)	1 to 3 months (R'000)	4 to 12 months (R'000)	1 to 5 years (R'000)	Over 5 years (R'000)	Other (R'000)	Total (R'000)
Assets							
Cash and balances with the central bank	195 168	—	—	—	—	—	195 168
Treasury bills and other eligible bills	—	355 277	—	—	—	—	355 277
Government stocks	—	—	—	31 859	28 417	—	60 276
Derivative financial instruments	—	—	1 497	—	—	—	1 497
Due from other banks	31 766	—	—	—	—	—	31 766
Loans and advances to customers	49 003	534 158	1 539 649	4 957 223	1 268 310	—	8 348 343
Investments	—	—	—	93 312	—	—	93 312
Fixed assets	—	—	—	—	—	24 287	24 287
Other assets	—	15 758	50 494	93 519	—	—	159 771
Total assets	275 937	905 193	1 591 640	5 175 913	1 296 727	24 287	9 269 697
Liabilities							
Due to other banks	—	—	—	130 931	7 642 128	—	7 773 059
Other deposits	58 682	37 861	—	52 465	—	—	149 008
Subordinated debt	—	—	—	—	348 420	—	348 420
Other liabilities	—	213 617	14 991	92 772	—	677 830	999 210
Total liabilities	58 682	251 478	14 991	276 168	7 990 548	677 830	9 269 697
Net liquidity gap (contractual)	217 255	653 715	1 576 649	4 899 745	(6 693 821)	(653 543)	—
Cumulative contractual liquidity gap	217 255	870 970	2 447 619	7 347 364	653 543	—	—

The matching and controlled mismatching of the maturities and the interest rates of assets and liabilities is fundamental to the management of the Bank. It is unusual for banks ever to be completely matched since business transacted is often of uncertain term and of different types. An unmatched position potentially enhances profitability, but can also increase the risk of losses.

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

		Actual R'000
Assets per risk weighted categories as classified in statutory returns		12 754 256
	0%	1 071 835
	20%	171 899
	50%	231 468
	100%	11 279 054
Contingent liabilities per risk weighted categories and counterparty – risk exposure		829 812
	0%	—
	50%	829 812
Counterparty – risk exposure		91 281
	100%	
Risk weighted assets, contingent liabilities and counterparty – risk exposure		11 935 354
Required capital ratio		10,00%
Minimum required share capital and unimpaired funds		1 193 535
Net qualifying capital and unimpaired funds		1 431 876
Tier 1		836 568
	Issued share capital	3 020
	Share premium	434 205
	Non-distributable reserves	—
	Accumulated funds	399 343
Tier 2		601 059
	Secondary unimpaired reserve funds	67 285
	Secondary capital: qualifying capital	533 774
	– Secondary capital: debt instrument	533 774
	– Less: non-qualifying capital	—
Less: Impairments against capital		5 751
Surplus share capital and unimpaired reserve funds		238 341
Capital adequacy: risk asset ratio		12,00%
Unappropriated profits		40 606
Capital adequacy: risk asset ratio (Including 2003 unappropriated profits)		12,34%

IMPERIAL BANK LIMITED

Registration number 1995/012641/06

Directors

W G Lynch (Irish)^{(3), (4)} *Chairman*

R L Hiemstra^{(1), (4), (5)} *Chief Executive Officer*

H R Brody^{(4), (5)}

R van Wyk^{(3), (4)}

S G Morris^{(2), (3), (5), (6)}

R G Cottrell^{(2), (4), (6)}

E Molobi⁽⁶⁾

Z E E Banchetti⁽²⁾

G S van Niekerk⁽²⁾

M J Croucamp⁽⁴⁾ (appointed 1 January 2004)

E Kotze⁽¹⁾ (appointed 1 January 2004)

D van der Linde⁽¹⁾ (appointed 1 January 2004)

Secretary

J Delport

⁽¹⁾ *Executive director of Imperial Bank Limited*

⁽²⁾ *Member of the audit committee*

⁽³⁾ *Member of the remuneration committee*

⁽⁴⁾ *Member of the risk committee*

⁽⁵⁾ *Member of ALCO*

⁽⁶⁾ *Director of Nedbank Limited*

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